IMPORTANT NOTICE

NOT FOR DISTRIBUTION WITHIN THE UNITED STATES

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

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

Confirmation and your Representation: In order to be eligible to view the attached Offering Circular or make an investment decision with respect to the securities, investors must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to have represented to The Hongkong and Shanghai Banking Corporation Limited (the "**Arranger**") and Barclays Bank PLC, CCB International Capital Limited, Citigroup Global Markets Limited, CLSA Limited, Crédit Agricole Corporate and Investment Bank, DBS Bank Ltd., Deutsche Bank AG, Hong Kong Branch, Goldman Sachs (Asia) L.L.C, J.P. Morgan Securities plc, Merrill Lynch (Asia Pacific) Limited, Mizuho Securities Asia Limited, Morgan Stanley & Co. International plc, Nomura International plc, Shinkin International Ltd., SMBC Nikko Capital Markets Limited, Société Générale, Standard Chartered Bank, Standard Chartered Bank (Hong Kong) Limited, The Bank of East Asia Limited, The Hongkong and Shanghai Banking Corporation Limited, UBS AG Hong Kong Branch, United Overseas Bank Limited, Hong Kong Branch and Wells Fargo Securities International Limited (the "**Dealers**") and us (1) that you and any customers you represent are and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

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

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

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

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

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

(incorporated with limited liability in Hong Kong)

U.S.$6,000,000,000
Medium Term Note Programme

Under the Medium Term Note Programme described in this Offering Circular (the "**Programme**"), The Bank of East Asia, Limited 東亞銀行有限公司 ("**BEA**" or the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**") and undated capital securities (the "**Undated Capital Securities**"). The Notes may include Senior (Preferred) Notes, Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes (each as defined under "*Terms and Conditions of the Notes other than the Undated Capital Securities*") and Undated Capital Securities (as defined under "*Terms and Conditions of the Undated Capital Securities*") issued by the Issuer, which may qualify as regulatory capital of the Issuer. The aggregate principal amount of Notes and Undated Capital Securities outstanding will not at any time exceed U.S.$6,000,000,000 (or the equivalent in other currencies).

An investment in Notes or Undated Capital Securities issued under the Programme involves certain risks. For a discussion of these risks see "*Investment Considerations*". The Notes and the Undated Capital Securities are complex and high risk financial instruments. There are risks inherent in the holding of any Notes or Undated Capital Securities, including for example in respect of the Non-Preferred Loss Absorbing Notes, the Dated Subordinated Notes and the Undated Capital Securities including the risks in relation to their subordination and the circumstances in which Noteholders or Securityholders may suffer loss as a result of holding any Notes or Undated Capital Securities. Prospective investors should have regard to the factors described under the section headed "*Investment Considerations*" in this Offering Circular for a discussion of certain considerations to be taken into account in connection with an investment in the Notes or the Undated Capital Securities. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and the relevant Pricing Supplement (as defined in "*Summary of the Programme*") and the merits and risks of investing in the Notes or the Undated Capital Securities in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Notes or the Undated Capital Securities. Investors must not purchase the Notes or the Undated Capital Securities unless they understand and are able to bear risks associated with the Notes or the Undated Capital Securities.

The Notes or the Undated Capital Securities may be issued on a continuing basis to one or more of the dealers appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "**relevant Dealer**" shall, in the case of an issue of Notes or Undated Capital Securities being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes or Undated Capital Securities.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**HKSE**") for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") (together, "**Professional Investors**")) only during the 12-month period from the date of this Offering Circular on the HKSE. This document is for distribution to Professional Investors only. **Investors must not purchase the Notes or the Undated Capital Securities in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes and the Undated Capital Securities are only suitable for Professional Investors.**

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

Notice of the aggregate principal amount of Notes or Undated Capital Securities, interest (if any) or distribution (if any) payable in respect of Notes or Undated Capital Securities (as applicable), the issue price of Notes or Undated Capital Securities and any other terms and conditions not contained herein which are applicable to each Tranche (as defined in "*Summary of the Programme*") of Notes or Undated Capital Securities will be set out in a Pricing Supplement which, with respect to Notes or Undated Capital Securities to be listed on the HKSE, will be delivered to the HKSE, on or before the date of issue of the Notes or the Undated Capital Securities of such Tranche.

Each Series (as defined in "*Summary of the Programme*") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**" and, together with the temporary Global Notes, the "**Global Notes**"). Notes or Undated Capital Securities in registered form ("**Registered Notes**") will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. The Notes or the Undated Capital Securities of each Series in registered form will initially be represented by a permanent global certificate (each a "**Global Certificate**") without interest coupons. The Global Notes and Global Certificates may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear and/or Clearstream, with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**") or with a sub-custodian for the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the "**Monetary Authority**") (the "**CMU**") and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream and/or the CMU, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer. The provisions governing the exchange of interests in Global Notes for other Global Notes and Definitive Notes (as defined in "*Summary of Provisions Relating to the Notes and the Undated Capital Securities while in Global Form*") or Global Certificates for Certificates are described in "*Summary of Provisions Relating to the Notes and the Undated Capital Securities while in Global Form*".

The Notes and the Undated Capital Securities have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes and the Undated Capital Securities may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States. Registered Notes are subject to certain restrictions on transfer, see "*Subscription and Sale*".

MiFID II product governance/target market —The Pricing Supplement in respect of any Notes or Undated Capital Securities may include a legend entitled "MiFID II Product Governance" which will outline the target market in respect of the Notes and which channels for distribution of the Notes or the Undated Capital Securities are appropriate. Any person subsequently offering, selling or recommending the Notes or the Undated Capital Securities (a "**distributor**") should take into consideration such target market; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes or the Undated Capital Securities and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes or Undated Capital Securities is a manufacturer in respect of such Notes or Undated Capital Securities, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

IMPORTANT — EEA RETAIL INVESTORS — If the Pricing Supplement in respect of any Notes or Undated Capital Securities includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes or the Undated Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or the Undated Capital Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or Undated Capital Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Singapore Securities and Futures Act Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes or Undated Capital Securities, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes or the Undated Capital Securities are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The Issuer may agree with any Dealer and the Trustee (as defined herein) that Notes or Undated Capital Securities may be issued in a form not contemplated by the terms and conditions of the Notes other than the Undated Capital Securities herein (the "**Note Conditions**") and the terms and conditions of the Undated Capital Securities (the "**Undated Capital Securities Conditions**"), in which event a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes or Undated Capital Securities.

Moody's Investors Service, Inc. ("**Moody's**") is expected to rate Dated Subordinated Notes to be issued under the Programme "Baa3" and Undated Capital Securities to be issued under the Programme "Ba2". S&P Global Ratings ("**S&P**") is expected to rate Dated Subordinated Notes to be issued under the Programme "BBB-" and Undated Capital Securities to be issued under the Programme "BB". A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Sole Arranger

HSBC

Dealers

Bank of America Merrill Lynch **Barclays** **The Bank of East Asia, Limited** **CCB International**
Citigroup **CLSA** **Crédit Agricole CIB** **DBS Bank Ltd.**
Deutsche Bank **Goldman Sachs (Asia) L.L.C.** **HSBC** **J.P. Morgan**
Mizuho Securities **Morgan Stanley** **Nomura** **Shinkin International Ltd.**
SMBC Nikko **Société Générale Corporate & Investment Banking** **Standard Chartered Bank** **Standard Chartered Bank (Hong Kong) Limited**
UBS **UOB** **Wells Fargo Securities**

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

This Offering Circular is to be read in conjunction with all documents which are incorporated herein by reference (see "Documents Incorporated by Reference").

MiFID II product governance/target market — The Pricing Supplement in respect of any Notes or Undated Capital Securities may include a legend entitled "MiFID II Product Governance" which will outline the target market in respect of the Notes or the Undated Capital Securities and which channels for distribution of the Notes or the Undated Capital Securities are appropriate. A distributor should take into consideration such target market; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes or the Undated Capital Securities and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules, any Arranger or Dealers subscribing for any Notes or Undated Capital Securities is a manufacturer in respect of such Notes or Undated Capital Securities, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

Important — EEA Retail Investors — The Notes and the Undated Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Notes or the Undated Capital Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or the Undated Capital Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

This Offering Circular includes particulars given in compliance with the Listing Rules for the purposes of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Admission to the HKSE and quotation of any Notes or Undated Capital Securities on the HKSE is not to be taken as an indication of the merits of the Programme, the Notes or the Undated Capital Securities or the Issuer or the Group (as defined below). In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the offering, including the merits and risks involved. See *"Investment Considerations"* for a discussion of certain factors to be considered in connection with an investment in the Notes or the Undated Capital Securities.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes or the Undated Capital Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Arranger or the Dealers (as defined in "*Summary*

of the Programme") or the Trustee or the Agents (each as defined in "*Terms and Conditions of the Notes other than the Undated Capital Securities*" and "*Terms and Conditions of the Undated Capital Securities*"). Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes or Undated Capital Securities constitutes an offer or invitation by or on behalf of the Issuer, any Dealer, any Arranger or the Trustee or the Agents to any person to subscribe for or to purchase any Notes or Undated Capital Securities.

Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Group since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Group since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offering or sale of the Notes or the Undated Capital Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Arranger and the Dealers to inform themselves about and to observe any such restriction.

Singapore SFA Product Classification — In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes or Undated Capital Securities, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes or the Undated Capital Securities are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The Notes or the Undated Capital Securities are being offered and sold outside the United States in reliance on Regulation S ("**Regulation S**") under the Securities Act. For a description of these and certain further restrictions on offers, sales and transfers of Notes or Undated Capital Securities and distribution of this Offering Circular, see "*Subscription and Sale*".

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes or Undated Capital Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Issuer, any Dealer, the Arranger, the Trustee or the Agents makes any representation to any investor in the Notes or the Undated Capital Securities regarding the legality of its investment under any applicable law. The distribution of this Offering Circular and the offer or sale of Notes or Undated Capital Securities may be restricted by law in certain jurisdictions.

None of the Issuer, the Arranger, the Dealers, the Trustee or the Agents represents that this Offering Circular may be lawfully distributed, or that any Notes or Undated Capital Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Pricing Supplement, no action has been taken by the Issuer, the Dealers, the Arranger, the Trustee or the Agents which is intended to permit a public offering of any Notes or Undated Capital Securities or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes or Undated Capital Securities may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any

Notes or Undated Capital Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes or Undated Capital Securities. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes or Undated Capital Securities in the United States, the European Economic Area including the United Kingdom, Hong Kong and Singapore. See "*Subscription and Sale*".

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

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

The Dealers or certain of their respective affiliates may purchase the Notes or the Undated Capital Securities and be allocated Notes or Undated Capital Securities for asset management and/or proprietary purposes but not with a view to distribution. References herein to the Notes or the Undated Capital Securities being offered should be read as including any offering of the Notes or the Undated Capital Securities to the Dealers and/or their respective affiliates acting in such capacity. In the ordinary course of their various business activities, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In making an investment decision, each potential investor must rely on its own examination of the Group and the terms of the Notes or the Undated Capital Securities being offered, including the merits and risks involved. The Issuer does not and the Arranger, the Dealers, the Trustee and the Agents do not make any representation regarding the legality of investment under any applicable laws.

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

WARNING

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

STABILISATION

In connection with any Tranche of Notes or Undated Capital Securities, one or more of the Dealers (or persons acting on their behalf) may act as the stabilisation manager(s) (the "**Stabilisation Manager(s)**"). The identity of the Stabilisation Manager(s) (if any) will be disclosed in the applicable Pricing Supplement.

In connection with the issue of any Tranche of Notes or Undated Capital Securities, one or more of the Dealers named as Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may, subject to applicable laws and regulations, over-allot Notes or Undated Capital Securities or effect transactions with a view to supporting the market price of the Notes or the Undated Capital Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes or Undated Capital Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes or Undated Capital Securities and 60 days after the date of the allotment of the relevant Tranche of Notes or Undated Capital Securities.

PRESENTATION OF INFORMATION

In this Offering Circular, unless the context otherwise requires, (i) references to "**BEA**" or the "**Issuer**" mean The Bank of East Asia, Limited 東亞銀行有限公司 and, as the context may require, its subsidiaries; (ii) references to "**BEA (China)**" mean The Bank of East Asia (China) Limited; and (iii) references to the "**Group**" mean The Bank of East Asia, Limited 東亞銀行有限公司 and its subsidiaries.

Unless otherwise specified or the context otherwise requires, references to "**U.S.$**" and to "**U.S. dollars**" are to lawful currency of the United States of America (the "**United States**"), references to "**HK$**", "**Hong Kong dollars**" and "**HK dollars**" are to the lawful currency of Hong Kong Special Administrative Region of the PRC ("**Hong Kong**" **or** "**HKSAR**"), references to "**RMB**" and "**Renminbi**" are to the lawful currency of the PRC, references to "**sterling**", "**GBP**" and "**£**" are to the lawful currency of the United Kingdom, references to "**€**", "**EUR**" and "**Euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended from time to time, references to "**Australian dollars**" are to lawful currency of the Commonwealth of Australia, references to the "**PRC**" and "**Mainland China**" are to the People's Republic of China and, for the purpose of this Offering Circular, except where the context requires, do not include Hong Kong, Macau Special Administrative Region of the PRC ("**Macau**"), or Taiwan, the Republic of China ("**Taiwan**"), and references to "**PRC government**" means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, or, where the context requires, any of them.

The English names of PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purpose only. In the event of any inconsistency, the Chinese name prevails.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down especially when rounding into another currency. Certain monetary amounts in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

The Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to U.S.$1.00 since 17 October 1983 (the "**Linked Exchange Rate System**"). In May 2005, the Monetary Authority broadened the 22-year old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar.

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

INDUSTRY AND MARKET DATA

Market data and certain industry forecasts and statistics used throughout this Offering Circular have been obtained from, among other sources, internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Issuer, the Dealers, the Arranger, the Trustee or the Agents or their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them makes any representation as to the correctness, accuracy or completeness of that information. Such information may not be consistent with other information compiled. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes statements that are, or may be deemed to be, "*forward-looking statements*". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Offering Circular and include statements regarding the intentions, beliefs or current expectations of the Issuer concerning, among other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which the Group operates. By their nature, forward-looking statements are subject to numerous assumptions, risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition and liquidity, and the development of the industries in which the Group operates, may differ materially from those made in or suggested by the forward-looking statements contained in this Offering Circular. In addition, even if the results of operations, financial condition and liquidity and the development of the industries in which the Group operates are consistent with the forward-looking statements contained in this Offering Circular, those results or developments may not be indicative of results or developments in subsequent periods.

The cautionary statements set forth above should be considered in connection with any subsequent written or oral forward-looking statements that the Issuer or persons acting on its behalf may issue. The Issuer does not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Offering Circular.

The following list includes some, but not necessarily all, of the factors that may cause actual results to differ from those anticipated or predicted:

- changes in the general operating environment of the Hong Kong or Mainland China banking industry;
- changes in general economic, market, business and regulatory conditions in Hong Kong, Mainland China, the United States and other countries;
- changes in the monetary and credit policies of the United States, Hong Kong and Mainland China;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- changes in Hong Kong or Mainland China governmental policies, laws or regulations, in particular those affecting the banking industry in Hong Kong or Mainland China;
- the effects of intensifying competition in the banking industry in Hong Kong and Mainland China; and
- the performance of the real property and financial markets in Hong Kong and Mainland China.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Investment Considerations*".

Any forward-looking statements that the Issuer makes in this Offering Circular speak only as at the date of such statements, and the Issuer undertakes no obligation to update such statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, and should only be viewed as historical data.

DOCUMENTS INCORPORATED BY REFERENCE

The Issuer hereby incorporates by reference (i) each relevant Pricing Supplement, (ii) the most recently published audited or reviewed consolidated financial statements of the Issuer and/or the Group published from time to time after the date of this Offering Circular, in each case together with any audit or review reports prepared in connection therewith, and (iii) all amendments and supplements from time to time to this Offering Circular, each of which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with the contents of this Offering Circular.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Any statement contained in this Offering Circular or in a document incorporated by reference into this Offering Circular will be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained in any such subsequent document modifies or supersedes that statement. Any statement that is modified or superseded in this manner will no longer be a part of this Offering Circular, except as modified or superseded.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available for inspection free of charge at all reasonable times (upon prior written request and satisfactory proof of holding and identity) during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the office of the Issuer and the specified offices of the Paying Agents set out at the end of this Offering Circular, in the case of any inspection at the specified office of any Paying Agent, subject to such Paying Agent having first been provided with copies of all such documents by the Issuer.

Save for the Issuer's audited consolidated financial statements as at and for the years ended 31 December 2017 and 2018, the financial information contained in this Offering Circular does not constitute BEA's specified financial statements (as defined in the Companies Ordinance (Cap. 622) of Hong Kong) for the financial years ended 31 December 2017 or 2018 but, in respect of financial information relating to a full financial year, is derived from those specified financial statements. BEA has delivered the specified financial statements for the financial years ended 31 December 2017 and 2018 to the Registrar of Companies of Hong Kong. BEA's auditor has issued unqualified reports on the specified financial statements for both years.

SUPPLEMENTAL OFFERING CIRCULAR

The Issuer has given an undertaking to the Arranger and the Dealers that, unless it has notified the Permanent Dealers (as defined in "*Summary of the Programme*") in writing that it does not intend to issue Notes or Undated Capital Securities under the Programme for the time being, if at any time during the duration of the Programme a significant new factor, material mistake or inaccuracy arises or is noted relating to the information included in this Offering Circular which is capable of affecting an assessment by investors of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and/or of the rights attaching to the Notes or the Undated Capital Securities, it shall (i) prepare and publish an amendment or supplement to this Offering Circular, (ii) advise the Arranger and the Dealers promptly of any proposal to amend or replace this Offering Circular, (iii) advise the Arranger and Dealers promptly of any proposal to supplement this Offering Circular and (iv) provide the Arranger and the Permanent Dealers with a copy of any such proposed amendment, supplement or replacement immediately prior to its publication.

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SUMMARY

The following summary is qualified in its entirety by, and is subject to, the detailed information contained or referred to elsewhere in this Offering Circular. For a discussion of certain considerations that should be made in connection with an investment in the Notes or the Undated Capital Securities, see "Investment Considerations".

OVERVIEW

Incorporated in 1918, BEA is a leading Hong Kong-based financial services group listed on the HKSE.

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

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

STRATEGY

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

- Further expansion in Mainland China and other overseas countries;
- Diversification of non-interest income;
- Enhancement of profitability via active capital management;
- Transformation of its branch network;
- Organic growth and partnership; and
- Focus on enhancing operational efficiency.

SUMMARY OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in "Terms and Conditions of the Notes other than the Undated Capital Securities" and "Terms and Conditions of the Undated Capital Securities" below shall have the same meaning in this summary.

The Issuer	The Bank of East Asia, Limited 東亞銀行有限公司.
Description	Medium Term Note Programme.
Size	Up to U.S.$6,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time.
Risk Factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes or Undated Capital Securities issued under the Programme. These are set out under "*Investment Considerations*" below. In addition, there are certain factors, including for example in respect of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities (each as defined herein) including certain risks in relation to their subordination and the circumstances in which Noteholders or Securityholders may suffer loss as a result of holding any Notes or Undated Capital Securities, which are material for the purpose of assessing the market risks associated with Notes or Undated Capital Securities issued under the Programme. These are set out under "*Investment Considerations*" and include the fact that the Notes or Undated Capital Securities may not be a suitable investment for all investors, certain risks relating to the structure of particular Series (as defined below) of Notes or Undated Capital Securities and certain market risks.
Arranger	The Hongkong and Shanghai Banking Corporation Limited.
Dealers	Barclays Bank PLC CCB International Capital Limited Citigroup Global Markets Limited CLSA Limited 中信里昂證券有限公司 Crédit Agricole Corporate and Investment Bank DBS Bank Ltd. Deutsche Bank AG, Hong Kong Branch Goldman Sachs (Asia) L.L.C 高盛(亞洲)有限責任公司 The Hongkong and Shanghai Banking Corporation Limited J.P. Morgan Securities plc Merrill Lynch (Asia Pacific) Limited Mizuho Securities Asia Limited 瑞穗證券亞洲有限公司 Morgan Stanley & Co. International plc Nomura International plc Shinkin International Ltd. SMBC Nikko Capital Markets Limited Société Générale Standard Chartered Bank Standard Chartered Bank (Hong Kong) Limited 渣打銀行(香港)有限公司 The Bank of East Asia, Limited 東亞銀行有限公司 UBS AG Hong Kong Branch United Overseas Bank Limited, Hong Kong Branch 大華銀行有限公司,香港分行 Wells Fargo Securities International Limited

	The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to "**Permanent Dealers**" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee	DB Trustees (Hong Kong) Limited.
Issuing and Paying Agent	Deutsche Bank AG, Hong Kong Branch.
Transfer Agents	Deutsche Bank AG, Hong Kong Branch. Deutsche Bank Luxembourg S.A.
Registrars	Deutsche Bank AG, Hong Kong Branch. Deutsche Bank Luxembourg S.A.
CMU Lodging and Paying Agent	Deutsche Bank AG, Hong Kong Branch.
Method of Issue	The Notes or the Undated Capital Securities may be issued on a syndicated or non-syndicated basis. The Notes or the Undated Capital Securities may be issued in series (each a "**Series**") having one or more issue dates (each tranche within such Series a "**Tranche**") and on terms otherwise identical (or identical other than in respect of the first payment of interest (in respect of Notes other than Undated Capital Securities) or Distributions (in respect of Undated Capital Securities only), as applicable), the Notes or the Undated Capital Securities of each Series being intended to be interchangeable with all other Notes or Undated Capital Securities of that Series. Each Series may be issued in tranches on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest (in respect of Notes other than Undated Capital Securities) or Distributions (in respect of Undated Capital Securities only), as applicable), and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a pricing supplement (a "**Pricing Supplement**").
Issue Price	The Notes or the Undated Capital Securities may be issued at their principal amount or at a discount or premium to their principal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.

Form of Notes	The Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"). The Undated Capital Securities may be issued in registered form ("**Registered Certificates**"). Registered Notes will not be exchangeable for Bearer Notes and *vice versa*. Any Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities shall be issued in registered form only. Each Tranche of Bearer Notes will initially be in the form of either a temporary Global Note or a permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary for Euroclear and Clearstream or, as the case may be, a sub-custodian for the CMU and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. See "*Summary of Provisions Relating to the Notes while in Global Form*". Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "**Global Certificates**". Registered Notes sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by a Global Certificate.
Clearing Systems	The CMU, Clearstream, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream or deposited with a sub-custodian for the Monetary Authority as operator of the CMU or deposited with a depositary or sub-custodian for any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Trustee, the Issuing and Paying Agent and the relevant Dealers. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.

Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes and Undated Capital Securities may be issued in any currency agreed between the Issuer and the relevant Dealers.
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity, including for the avoidance of doubt, Undated Capital Securities with no fixed maturity.
Specified Denomination	Definitive Notes or Undated Capital Securities will be in such denominations as may be specified in the relevant Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).
Fixed Rate Notes or Fixed Rate Undated Capital Securities	Fixed interest will be payable (in respect of Notes other than Undated Capital Securities) or confer the right to receive Distributions (in respect of Undated Capital Securities only), as applicable, in arrear on the date or dates in each year specified in the relevant Pricing Supplement.
Floating Rate Notes or Floating Rate Undated Capital Securities	Floating Rate Notes or Floating Rate Undated Capital Securities will bear interest (in respect of Notes other than Undated Capital Securities) or confer the right to receive Distributions (in respect of Undated Capital Securities only), as applicable, determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., as amended, supplemented or replaced; or (ii) by reference to LIBOR or EURIBOR or HIBOR or CNH HIBOR or SHIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin. Interest periods (in respect of Notes other than Undated Capital Securities) or Distribution Periods (in respect of Undated Capital Securities only), as applicable, will be specified in the relevant Pricing Supplement.
Zero Coupon Notes	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest (in respect of Notes other than Undated Capital Securities).

Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Pricing Supplement.
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.
Other Notes	Terms applicable to instalment Notes, Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes, Undated Capital Securities, dual currency Notes, partly paid Notes and any other type of Note that the Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.
Interest Periods/Distribution Periods and Interest Rates/Distribution Rates	The length of the interest periods for the Notes or the distribution periods for the Undated Capital Securities and the applicable interest rate or distribution rate or its method of calculation may differ from time to time or be constant for any Series. Notes or Undated Capital Securities may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes or Undated Capital Securities to bear interest or distribution at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.
Redemption and Redemption Amounts	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes or Undated Capital Securities (including Notes or Undated Capital Securities denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Redemption of Senior (Preferred) Notes	The relevant Pricing Supplement will indicate either that the Senior (Preferred) Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Senior (Preferred) Notes will be redeemable at the option of the Issuer and/or the holders of any such Senior (Preferred) Note upon giving notice to the holder of any such Senior (Preferred) Note or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the relevant Pricing Supplement.

Redemption of Dated Subordinated Notes.	The relevant Pricing Supplement issued in respect of each issue of Dated Subordinated Notes will indicate that the Dated Subordinated Notes cannot be redeemed prior to their stated maturity other than, with the prior approval of the Monetary Authority, at the option of the Issuer: (i) for taxation reasons; (ii) following a Capital Event; or (iii) on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Pricing Supplement; or (iv) on such other terms as may be indicated in the applicable Pricing Supplement. The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable.
Redemption of Non-Preferred Loss Absorbing Notes.	The relevant Pricing Supplement issued in respect of each issue of Non-Preferred Loss Absorbing Notes will indicate that the Non-Preferred Loss Absorbing Notes cannot be redeemed prior to their stated maturity other than, with the prior approval of the Monetary Authority, at the option of the Issuer: (i) for taxation reasons; (ii) following a Loss Absorption Disqualification Event; or (iii) on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Pricing Supplement; or (iv) on such other terms as may be indicated in the applicable Pricing Supplement. The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable.
Redemption of Undated Capital Securities	The relevant Pricing Supplement issued in respect of each issue of Undated Capital Securities will indicate that the Undated Capital Securities cannot be redeemed other than, with the prior approval of the Monetary Authority, at the option of the Issuer: (i) for taxation reasons; (ii) following a Capital Event; or (iii) on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Pricing Supplement; or

(iv) on such other terms as may be indicated in the applicable Pricing Supplement.

The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable.

Redemption by Instalments	The Pricing Supplement issued in respect of each issue of Notes or Undated Capital Securities that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes or Undated Capital Securities may be redeemed.
Notes or Undated Capital Securities that can be issued under the Programme	The Issuer may issue Senior (Preferred) Notes and/or Non-Preferred Loss Absorbing Notes and/or Dated Subordinated Notes and/or Undated Capital Securities.
Status of the Senior (Preferred) Notes	The Senior (Preferred) Notes issued by the Issuer and the Receipts and the Coupons relating to them will constitute direct, unconditional, unsubordinated and (subject to Note Condition 4) unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer other than any such obligations as are preferred by law, all as further described in Note Condition 3(a).
Status of the Non-Preferred Loss Absorbing Notes.	The Non-Preferred Loss Absorbing Notes issued by the Issuer will constitute direct and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves, all as further described in Note Condition 3(b)(i).
Status of the Dated Subordinated Notes	The Dated Subordinated Notes issued by the Issuer will constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* without any preference among themselves. The rights of the holders of the Dated Subordinated Notes will, in the event of the Winding-Up of the Issuer, be subordinated in right of payment in the manner provided in Note Condition 3 and the Trust Deed, all as further described in Note Condition 3(e).
Subordination of the Dated Subordinated Notes.	Applicable to Dated Subordinated Notes only. See "*Terms and Conditions of the Notes other than the Undated Capital Securities — Subordination of Dated Subordinated Notes*".
Negative Pledge in respect of Senior (Preferred) Notes.	Applicable to Senior (Preferred) Notes only. See "*Terms and Conditions of the Notes other than the Undated Capital Securities — Negative Pledge in respect of Senior (Preferred) Notes only*".
Set-off in respect of Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes	Applicable to Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes only. See "*Terms and Conditions of the Notes other than the Undated Capital Securities — Set-off and Payment Void in respect of Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes*".

Ranking in respect of Non-Preferred Loss Absorbing Notes	Applicable to Non-Preferred Loss Absorbing Notes only. See "*Terms and Conditions of the Notes other than the Undated Capital Securities — Ranking of Non-Preferred Loss Absorbing Notes*".
Non-Viability Loss Absorption upon a Non-Viability Event in respect of Dated Subordinated Notes	The applicable Pricing Supplement issued in respect of each issue of Dated Subordinated Notes may provide that the Loss Absorption Option shall be a Write-off in accordance with Note Condition 7(a)(i) for Dated Subordinated Notes issued by the Issuer. "**Non-Viability Event**" means the earlier of (a) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; and (b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.
Consequence of Non-Viability Loss Absorption	Once the principal amount of, and any accrued but unpaid interest in respect of, the Dated Subordinated Notes has been Written-off, it will not be restored in any circumstances, including where the relevant Non-Viability Event ceases to continue. Any Write-off pursuant to Note Condition 7(a) shall not constitute an Event of Default under the Dated Subordinated Notes. Concurrently with the giving of the notice of a Non-Viability Event, the Issuer shall undertake to, unless otherwise directed by the Monetary Authority, (i) issue a similar notice of Write-off in respect of other Dated Subordinated Capital Instruments in accordance with their terms and (ii) procure a Write-off concurrently and rateably with the Write-off of the Dated Subordinated Notes in respect of the aggregate principal amount of such other Parity Capital Instruments on a pro rata basis with the Dated Subordinated Notes. No holder of the Dated Subordinated Notes may exercise, claim or plead any right to any Non-Viability Event Write-off Amount, and each holder of the Dated Subordinated Notes shall, by virtue of its holding of any Dated Subordinated Notes, be deemed to have waived all such rights to such Non-Viability Event Write-off Amount.

Hong Kong Resolution Authority Power in respect of Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes . . . . . .

Notwithstanding any other term of the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes or any other agreement or arrangement, including without limitation Note Condition 7(a), or any other agreement or arrangement, each holder of Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes and the Trustee shall be subject, and shall be deemed to agree, be bound by and acknowledge that they are each subject, to having the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes held by each being written off, cancelled, converted or modified, or to having its form changed, in the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:

(a) the reduction or cancellation of all or a part of the principal amount of, or interest on, the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes;

(b) the conversion of all or a part of the principal amount of, or interest on, the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes; and

(c) the amendment or alteration of the maturity of the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes or amendment or alteration of the amount of interest payable on the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes, or the date on which the interest becomes payable, including by suspending payment for a temporary period, or any other amendment or alteration of the Note Conditions.

With respect to (a), (b) and (c) above, references to principal and interest shall include payments of principal and interest that have become due and payable (including principal that has become due and payable at the Maturity Date), but which have not been paid, prior to the exercise of any Hong Kong Resolution Authority Power. The rights of the holders of the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes and the Trustee under the Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes and the Note Conditions are subject to, and will be amended and varied, if necessary, solely to give effect to, the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority.

No repayment of the principal amount of the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes or payment of interest on the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes shall become due and payable or be paid after the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by the Issuer under the laws and regulations applicable to the Issuer and the Group.

Upon the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes, the Issuer shall provide a written notice not more than two Business Days after the occurrence of such exercise of the Hong Kong Resolution Authority Power to the holders of Dated Subordinated Notes in accordance with Note Condition 17 and to the Trustee and the Principal Paying Agent in writing.

Neither the reduction or cancellation, in part or in full, of the principal amount of, or interest on the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes, the conversion thereof into another security or obligation of the Issuer or another person, or any other amendment or alteration of the Note Conditions or any other modification or change in the form of the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes as a result of the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Issuer nor the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Dated Subordinated Notes shall constitute a Default under Note Condition 11.

Hong Kong Resolution Authority Power in respect of Undated Capital Securities . . . . . .

Notwithstanding any other term of the Undated Capital Securities, including without limitation Undated Capital Securities Condition 7(a), or any other agreement or arrangement, each Securityholder and the Trustee shall be subject, and shall be deemed to agree, be bound by and acknowledge that they are each subject, to having the Undated Capital Securities being written off, cancelled, converted or modified, or to having the form of the Undated Capital Securities changed, in the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:

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

(b) the conversion of all or a part of the principal amount of, or Distributions on, the Undated Capital Securities into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Undated Capital Securities; and

(c) the amendment or alteration of the maturity of the Undated Capital Securities or amendment or alteration of the amount of Distributions payable on the Undated Capital Securities, or the date on which the Distributions become payable, including by suspending payment for a temporary period, or any other amendment or alteration of the Undated Capital Securities Conditions.

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

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

Upon the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Undated Capital Securities, the Issuer shall provide a written notice not more than two Business Days after the occurrence of such exercise of the Hong Kong Resolution Authority Power to the Securityholders in accordance with Undated Capital Securities Condition 15 and to the Trustee and the Principal Paying Agent in writing.

Neither the reduction or cancellation, in part or in full, of the principal amount of, or Distributions on the Undated Capital Securities, the conversion thereof into another security or obligation of the Issuer or another person, or any other amendment or alteration of these Conditions or any other modification or change in form of the Undated Capital Securities as a result of the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Issuer nor the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Undated Capital Securities shall constitute a Default under Undated Capital Securities Condition 11.

Events of Default and Default . . . Applicable to Senior (Preferred) Notes, Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes. See "*Terms and Conditions of the Notes other than the Undated Capital Securities — Events of Default and Default*" and "*Terms and Condition of the Undated Capital Securities — Default and Enforcement*".

Cross Default . . . . . Applicable to Senior (Preferred) Notes only. See the relevant sub-condition under "*Terms and Conditions of the Notes other than the Undated Capital Securities — Events of Default and Default*".

Ratings . . . . . Moody's is expected to rate Dated Subordinated Notes to be issued under the Programme "Baa3" and Undated Capital Securities to be issued under the Programme "Ba2". S&P is expected to rate Dated Subordinated Notes to be issued under the Programme "BBB-" and Undated Capital Securities to be issued under the Programme "BB". Where a Tranche of Notes or Undated Capital Securities is to be rated, such rating will be specified in the relevant Pricing Supplement.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Withholding Tax . . . . . All payments of principal and interest (in respect of the Notes other than Undated Capital Securities) or Distributions (in respect of Undated Capital Securities only), as applicable and the Receipts and the Coupons (in respect of the Notes) will be made free and clear of withholding taxes of Hong Kong, subject to customary exceptions, all as described in "*Terms and Conditions of the Notes other than the Undated Capital Securities — Taxation*" and "*Terms and Conditions of the Undated Capital Securities — Taxation*".

Governing Law	English law, except that the provisions of the Notes or the Undated Capital Securities relating to subordination shall be governed by Hong Kong law.
Listing	Application has been made to the HKSE for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular on the HKSE.
Legal Entity Identifier	CO6GC26LCGGRTUESIP55.
Capital Treatment of Dated Subordinated Notes, Non-Preferred Loss Absorbing Notes and Undated Capital Securities	The applicable Pricing Supplement issued in respect of each issue of Dated Subordinated Notes or Non-Preferred Loss Absorbing Notes or Undated Capital Securities, as applicable, may provide that the Dated Subordinated Notes will qualify in full as Tier 2 capital of the Issuer and/or a Loss Absorbing Instrument or that the Non-Preferred Loss Absorbing Notes will qualify as a Loss Absorbing Instrument or that the Undated Capital Securities will qualify as Additional Tier 1 capital of the Issuer, as applicable, in accordance with the requirements of the Banking (Capital) Rules (Cap. 155L) of Hong Kong and as amended by the Banking (Capital)(Amendment) Rules 2018.
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes or Undated Capital Securities and on the distribution of offering material in the United States, the European Economic Area, the United Kingdom, Hong Kong, Singapore and Japan, See "*Subscription and Sale*" below.
Transfer Restrictions	In relation to Notes or Undated Capital Securities in respect of which the relevant Pricing Supplement specifies Regulation S Category 2 as being applicable, there are restrictions on the transfer of such Notes or Undated Capital Securities prior to the expiration of the relevant distribution compliance period. See "*Subscription and Sale*".

SUMMARY FINANCIAL INFORMATION

*The summary audited consolidated financial information of the Issuer as at and for the years ended 31 December 2016, 2017 and 2018 set forth below is derived from the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2017 and 2018. The audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2017 and 2018 were prepared and presented in accordance with the Hong Kong Financial Reporting Standards ("**HKFRS**") and have been audited by KPMG.*

The summary unaudited consolidated interim financial information of the Issuer as at and for the six months ended 30 June 2018 and 2019 set forth below is derived from the unaudited consolidated interim financial statements of the Issuer as at 30 June 2019 and for the six months ended 30 June 2018 and 2019. The unaudited consolidated interim financial statements of the Issuer as at 30 June 2019 and for the six months ended 30 June 2018 and 2019 were prepared and presented in accordance with HKFRS and have been reviewed by KPMG. Consequently such financial statements should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit by an independent auditor or accountant. None of the Arrangers or the Dealers or any of their respective affiliates, directors, officers or advisers makes any representation or warranty, express or implied, regarding the accuracy or sufficiency of such unaudited financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate the Issuer's financial condition and results of operations. Such financial statements as at 30 June 2019 and for the six months ended 30 June 2018 and 2019 should not be taken as an indication of the expected financial condition or results of operations of the Issuer for the full financial year ended 31 December 2019.

The Issuer adopted HKFRS 9 — Financial Instruments on 1 January 2018. The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated. The adjustments arising from the adoption of HKFRS 9 are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Issuer, including the notes thereto, included elsewhere in this Offering Circular.

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	Restated (in HK$ million)	**(in HK$ million)**	**(in HK$ million)**	**(in HK$ million)**	**(in HK$ million)**
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(unaudited)*
CONTINUING OPERATIONS					
Interest income	20,363	21,629	25,598	12,183	14,556
Interest income calculated using the effective interest method	20,396	21,509	25,058	11,943	14,259
Other interest income	(33)	120	540	240	297
Interest expense	(9,265)	(9,797)	(12,639)	(5,933)	(7,150)
Net interest income	11,098	11,832	12,959	6,250	7,406
Fee and commission income	3,485	3,557	3,813	1,935	1,895
Fee and commission expense	(1,028)	(1,064)	(1,160)	(573)	(524)

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	Restated (in HK$ million)	(in HK$ million)	(in HK$ million)	(in HK$ million)	(in HK$ million)
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(unaudited)*
Net fee and commission income	2,457	2,493	2,653	1,362	1,371
Net trading profits	480	526	994	556	416
Net result from other financial instruments at FVTPL[1]	(92)	35	(286)	(142)	129
Net hedging profit/(loss)	(22)	(2)	43	16	17
Net insurance revenue	415	687	295	264	574
Other operating income	378	382	414	220	189
Non-interest income	3,616	4,121	4,113	2,276	2,696
Operating income	14,714	15,953	17,072	8,526	10,102
Operating expenses	(8,206)	(8,067)	(8,563)	(4,186)	(4,918)
Operating profit before impairment losses	6,508	7,886	8,509	4,340	5,184
Impairment losses on loans and receivables	(3,462)	—	—	—	—
Impairment losses on available-for-sale financial assets	(1)	—	—	—	—
Impairment losses on financial instruments	—	(1,744)	(1,188)	(282)	(5,063)
Impairment losses on assets held for sale	—	(63)	—	—	—
Impairment losses on intangible assets	—	(650)	(5)	(1)	—
Impairment losses on associate	—	—	(397)	—	—
Impairment losses	(3,463)	(2,457)	(1,590)	(283)	(5,063)
Operating profit after impairment losses	3,045	5,429	6,919	4,057	121
Net profit on sale of held-to-maturity investments	10	6	—	—	—
Net profit on sale of available-for-sale financial assets	92	1,057	—	—	—
Net loss on repurchase of debt issued	(6)	—	—	—	—
Net loss on sale of investments measured at amortised cost	—	—	—	—	(5)
Net profit on sale of financial assets at FVOCI[2]	—	—	62	49	104
Net profit on sale of disposal groups and assets held for sale	99	183	56	10	82
Net profit on disposal of subsidiaries/associates	—	2	1	—	(6)
Net loss on disposal of fixed assets	859	(22)	(9)	(10)	(6)
Valuation gains on investment properties	62	522	465	394	18

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	Restated (in HK$ million)	(in HK$ million)	(in HK$ million)	(in HK$ million)	(in HK$ million)
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(unaudited)*
Share of profits less losses of associates	431	388	566	281	328
Profit for the year before taxation	4,592	7,565	8,060	4,781	636
Income tax	(1,067)	(1,195)	(1,506)	(762)	402
Profit for the year from continuing operations	3,525	6,370	6,554	4,019	1,038
DISCONTINUED OPERATIONS					
Profit from discontinued operations	304	4,145	—	—	—
Profit for the year	3,829	10,515	6,554	4,019	1,038
Attributable to:					
Owners of the parent					
- from continuing operations	3,505	6,298	6,509	3,992	1,000
- from discontinued operations	218	3,049	—	—	—
	3,723	9,347	6,509	3,992	1,000
Non-controlling interests	106	1,168	45	27	38
Profit for the year	3,829	10,515	6,554	4,019	1,038
Earnings per share					
Basic					
- profit for the year	HK$1.21	HK$3.21	HK$2.07	HK$1.30	HK$0.22
- profit from continuing operations	HK$1.12	HK$2.09	HK$2.07	HK$1.30	HK$0.22
Diluted					
- profit for the year	HK$1.21	HK$3.20	HK$2.07	HK$1.30	HK$0.22
- profit from continuing operations	HK$1.12	HK$2.09	HK$2.07	HK$1.30	HK$0.22

Notes:

(1) Fair value through profit or loss ("**FVTPL**").

(2) Fair value through other comprehensive income ("**FVOCI**").

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	(Restated) (in HK$ million)	(Restated) (in HK$ million)	(in HK$ million)	(in HK$ million)
	(audited)	*(audited)*	*(audited)*	*(unaudited)*
ASSETS				
Cash and balances with banks and other financial institutions	65,720	55,696	48,106	52,823
Placements with and advances to banks and other financial institutions	44,052	58,583	60,373	69,720
Trade bills	11,939	13,909	14,646	12,826
Trading assets	4,404	6,956	3,483	4,131
Financial assets designated at fair value through profit or loss	3,554	—	—	—
Positive fair value of derivatives	8,938	—	—	—
Derivative assets	—	11,335	10,211	6,141
Loans and advances to customers	450,445	470,339	498,284	506,099
Available-for-sale financial assets	110,491	—	—	—
Held-to-maturity investments	5,663	—	—	—
Investment securities	—	134,425	144,729	157,212
Investments in associates	6,011	9,429	9,129	9,675
Fixed assets	11,990	12,750	13,165	14,222
- Investment properties	4,467	5,107	5,249	5,266
- Other properties and equipment	7,523	7,643	7,916	7,873
- Right-of-use assets	—	—	—	1,083
Goodwill and intangible assets	2,639	1,959	1,940	1,933
Deferred tax assets	785	602	481	1,565
Other assets	39,075	32,959	34,904	40,431
Total Assets	765,706	808,942	839,451	876,778
EQUITY AND LIABILITIES				
Deposits and balances of banks and other financial institutions	26,475	26,981	27,490	36,057
- Designated at fair value through profit or loss	—	3,110	1,335	3,535
- At amortised cost	26,475	23,871	26,155	32,522
Deposits from customers	535,789	571,684	574,114	582,105
Trading liabilities	50	11	—	38
Negative fair value of derivatives	7,982	—	—	—
Derivative liabilities	—	12,077	9,496	8,139
Certificates of deposit issued	28,857	36,466	58,490	63,903
- Designated at fair value through profit or loss	18,106	11,655	9,462	20,275
- At amortised cost	10,751	24,811	49,028	43,628
Current taxation	1,605	1,160	1,437	1,682
Debt securities issued	7,154	1,007	564	3,106
- Designated at fair value through profit or loss	418	851	407	109
- At amortised cost	6,736	156	157	2,997
Deferred tax liabilities	462	551	483	583
Other liabilities	50,088	45,378	51,444	61,984
Loan capital — at amortised cost	20,608	12,413	12,358	14,193
Total Liabilities	679,070	707,728	735,876	771,790
Share capital	35,490	37,527	39,925	41,194
Reserves	42,941	51,955	51,901	52,061
Total equity attributable to owners of the parent	78,431	89,482	91,826	93,255
Additional equity instruments	5,016	8,894	8,894	8,894
Non-controlling interests	3,189	2,838	2,855	2,839
Total Equity	86,636	101,214	103,575	104,988
Total Equity and Liabilities	765,706	808,942	839,451	876,778

INVESTMENT CONSIDERATIONS

Prospective investors should carefully take into account the following considerations, in addition to the other information contained this Offering Circular, before investing in the Notes or the Undated Capital Securities. The occurrence of one or more events described below could have an adverse effect on the Group's business, financial condition, or results of operations, and could affect its ability to make payments of principal, premium and/or interest or distribution (as the case may be) (if any) under the Notes or the Undated Capital Securities. The following considerations and uncertainties may not be exhaustive. Additional considerations and uncertainties not currently known to BEA, or which BEA currently deems immaterial, may also have an adverse effect on an investment in the Notes or the Undated Capital Securities.

CONSIDERATIONS RELATING TO THE GROUP

Hong Kong Economy

The Group conducts most of its operations[(1)] and generates most of its revenue in Hong Kong. The Group's performance and the quality and growth of its assets are necessarily dependent on the overall economy and the local social and political stability in Hong Kong. As a result, any downturn in the Hong Kong economy or any instability in the local social and political landscape of Hong Kong may adversely affect the Group's business, financial condition and the results of its operations. Further, civil unrest and an uncertain political environment may impact the Hong Kong economy and result in an economic slowdown. Protests, demonstrations or rioting causing disruption to businesses, commercial activities and transportation systems, such as the recent anti-extradition bill protests, may adversely impact consumer confidence, dampen consumer spending and affect inbound tourism to Hong Kong, which in turn may have a negative impact on the local economy. Any significant or sudden economic slowdown, recession or other adverse changes or developments in the local social and economic environment or political arrangements in Hong Kong may result in declines in the Group's profitability and materially affect its business and expansion strategy and financial results.

The Hong Kong economy is sensitive to global economic conditions, and it is impossible to predict how the Hong Kong economy will develop in the future and whether it may slow down due to a global crisis or experience a financial crisis. For example, the economy of Hong Kong has been adversely affected by the worsening of the global economy resulting from, among others, the subprime mortgage crisis in the United States, the global credit crunch in 2007 and the collapse of Lehman Brothers Inc. in September 2008, which adversely affected global financial markets and the liquidity in global credit markets. These developments resulted in an economic slowdown in the United States and most economies around the world, substantial volatility in equity securities markets globally, fluctuations in foreign currency exchange rates and volatility and tightening of liquidity in global credit markets. BEA expects the continued growth in the Hong Kong economy to depend in part upon the economic performance of the United States and the PRC, as well as certain other developed countries. The start of the formal Brexit process has resulted in volatility in global financial markets and economic uncertainty to not only the economies of the United Kingdom and the European Union but also globally. In addition, sustained tension between the United States and the PRC over trade policies could significantly undermine the stability of the global economies. If there is any renewed economic downturn or if the market volatilities persist, there can be no assurance that the Hong Kong economy or the Group's business, financial condition and results of operations will not be adversely affected.

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(1) Operations based on size of total assets.

Competition

The banking industry in Hong Kong is a mature market, and the Group is subject to significant and increasing competition from many other Hong Kong-incorporated banks and Hong Kong branches of international and PRC banks, including competitors that have significantly more financial and other capital resources, higher market share and stronger brand recognition than the Group. The international and local banks and niche players operating in Hong Kong compete for substantially the same customers as the Group. There is a limited market, especially for retail banking products such as investment and insurance products, home mortgage loans, credit cards, personal loans and transport lending businesses. There can be no assurance that the Group will be able to compete effectively in the face of such competition. Intense competition may make it difficult for the Group to increase the size of its loan portfolio and deposit base and may cause intense pricing competition. There can be no assurance that increased competition will not have a material adverse effect on the Group's business, financial condition or results of operations.

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

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

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

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

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

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

Expansion in Hong Kong and Mainland China Markets

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

Further expansion into Mainland China may present the Group with new risks and challenges, such as interest rate liberalisation, slowdown in credit growth, margin compression, asset quality deterioration, more stringent and changing regulatory requirements, and new competition from internet finance players and online money market funds. Expansion and integration of new M&A and alliances in the Hong Kong and Mainland China markets may also require significant financial, operational, administrative and management resources. The success of any M&A and alliances will depend in part on the ability of BEA's management to integrate the operations of newly acquired businesses with its existing operations and, where applicable, to integrate various departments, systems and processes. Consequently, the Group's ability to implement its business strategy may be constrained and the timing of such implementation may be affected due to the demand placed on existing resources by the process. There can be no assurance that the acquired entities will achieve the level of performance that BEA anticipates or that the projected demand for and margins of the Group's products and services will be realised. The failure to manage expansion effectively could have an adverse effect on the Group's business, financial condition and results of operations.

Changes in Regulations in the Mainland China Market

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

BEA (China)'s business and operations are directly affected by the changes in laws, rules, regulations or policies relating to the PRC banking industry. As some of the banking laws, rules, regulations or policies are relatively new, there is uncertainty regarding their interpretation and application. If BEA (China) fails to comply with any of these laws, rules, regulations or policies, it may result in enforcement actions, which may include fines to be imposed on BEA (China), restrictions on its business activities, or in extreme cases, suspension or revocation of its business licences, which would materially and adversely affect BEA (China)'s operations, reputation, business and financial position.

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

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

In addition, CBIRC issues regulations and guidelines governing the capital management of all commercial banks in the PRC from time to time. If the regulatory capital requirements, liquidity restrictions or ratios applicable to BEA (China) increase in the future, any failure of BEA (China) to comply with the relevant requirements, restrictions or ratios could result in administrative actions or sanctions, which may have a material adverse impact on the Group's business, financial condition and results of operations. A shortage of available capital might also restrict the Group's opportunities for expansion.

Dependence on Key Personnel and Recruitment

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

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

Expanding Range of Products and Services Offered in Mainland China

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

- the Group may not be able to obtain regulatory approval for new products or services;
- the Group's new products and services may not be accepted by customers or are not able to generate the Group's expected return;
- the Group may have difficulties in recruiting experienced professionals or qualified personnel to offer new products and services, due to keen competition in the labour market; and
- the Group may not be able to enhance its risk management capabilities and information technology systems to support a broader range of products and services.

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

Exposure to Mainland China Market

As at 30 June 2019, BEA's wholly-owned subsidiary, BEA (China), headquartered in Shanghai, operated 31 branches in Shanghai, Beijing, Tianjin, Harbin, Dalian, Shenyang, Qingdao, Shijiazhuang, Zhengzhou, Urumqi, Hangzhou, Nanjing, Suzhou, Chengdu, Chongqing, Wuhan, Hefei, Xi'an, Shenzhen, Shenzhen Qianhai, Guangzhou, Zhuhai, Xiamen, Changsha, Kunming, Ningbo, Jinan, Wuxi, Fuzhou, Nanning and Nanchang as well as 68 sub-branches (including 15 cross-location sub-branches in Guangdong province established under the liberalisation measures of Supplement VI to the CEPA).

As at 31 December 2016, 2017 and 2018 and 30 June 2019, advances to customers made by the Group's operations in Mainland China collectively amounted to approximately HK$141,967 million, HK$151,828 million, HK$149,689 million and HK$146,235 million, respectively, representing approximately 31.3%, 32.0%, 29.9% and 28.6%, respectively, of the Group's total advances to customers. The value of the Group's advances in Mainland China, as well as its advances to companies that have business interests in Mainland China, may be influenced by the general state of the PRC economy and may be affected by significant political, social or legal uncertainties or changes in Mainland China (including changes in political leadership, inflation rate, exchange controls and exchange rate, and the impact on the changes in regulations governing banking and other businesses). As at 31 December 2016, 2017 and 2018 and 30 June 2019, impaired loan ratio of the Group's advances in Mainland China was approximately 2.9%, 1.8%, 1.7% and 4.9%, respectively. The high impaired loan ratio of the Group's advances in Mainland China from 31 December 2016 to 30 June 2019 was as a result of, among other factors, the economic slowdown in the PRC resulting in deterioration of the asset quality in Mainland China. While the Group has tightened its credit policies such as remaining cautious on extending credit and continuing to actively manage the impaired loan portfolio and has put more focus on lending to state-owned enterprises and large-scale enterprises, there can be no assurance that the impaired loan ratio of the Group's advances in Mainland China will not increase in the future, nor can there be any assurance that the Group's continued exposure to Mainland China or its strategy to grow its business in Mainland China will not have a negative impact on the Group's earnings or an adverse effect on the Group's business, financial condition or results of operations or that the economic and political environment in Mainland China will remain favourable to the Group's business in Mainland China in the future.

Concentration Risk — Exposure to the Property Market

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

As at 30 June 2019, the Group's property related loans amounted to approximately HK$76,193 million, representing approximately 14.9% of the Group's total loan portfolio.

The Hong Kong and the PRC property markets are highly cyclical and property prices in general have been volatile. For example, Hong Kong residential property prices, after reaching record highs in 1997, fell significantly as a result of the Asian economic downturn. In addition, while the Hong Kong property market showed improvement during the period from 2004 to the first half of 2008, property prices in Hong Kong declined in the second half of 2008 and early 2009, and have generally increased since the second half of 2009 despite a slight fall in the second half of 2018 and early 2019. Despite the introduction by the Monetary Authority of prudential measures for mortgage lending and the implementation by the Hong Kong government of cooling measures from time to time as means to address the increasing risk of property price bubble, property prices in Hong Kong continued to follow an upward trend in recent years.

Property prices in Hong Kong are affected by a number of factors, including, among other things, the supply of, and demand for, comparable properties, the rate of economic growth in Hong Kong, the policies of the Hong Kong Government, Hong Kong interest rate movements which are largely dependent on the timing and pace of the U.S. rate hikes, political and economic developments in the PRC, and the relationship between the PRC, Hong Kong and other countries. In Hong Kong, the Monetary Authority has implemented regulatory measures in recent years to mitigate risks in residential mortgage lending in the banking sector. This has included prudential measures to reduce loan-to-value ratio caps for mortgages of high end properties with a value of at least HK$10 million to 50%. In addition, the financial secretary of the Hong Kong Government has been increasing the amount of stamp duty payable on various real estate purchases. The Hong Kong Government has also tried to increase land supply and the supply of real estate. As the introduction of these measures are subject to policy changes reflecting domestic political or economic circumstances, there is no assurance that the Hong Kong Government will not introduce further measures in the future that may have a significant impact on the Hong Kong property market, which may in turn affect have a negative impact on the Group's asset quality or an adverse effect on the Group's business.

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

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

Liquidity and Funding Sources

The Group endeavours to diversify its funding sources in order to maintain the stability of its liquidity. However, the majority of the Group's funding requirements are met in the form of customer deposits. In particular, as at 31 December 2016, 2017 and 2018 and 30 June 2019, approximately 77.7%, 80.9%, 81.6% and 78.9%, respectively, of the Group's customer deposits had a remaining maturity of three months or less. Historically, a substantial portion of such customer deposits has been rolled over upon maturity and these deposits have been, in essence, a stable source of long-term funding. However, there can be no assurance that this pattern will continue. If a substantial number of depositors do not roll over deposited funds upon maturity, the Group's liquidity position would be adversely affected and the Group may need to seek alternative sources of short-term or long-term funding to finance its operations, which may be more expensive than existing deposits.

Although the Group has issued debt securities to diversify its funding sources, customer deposits remain its primary funding source in Hong Kong. In Mainland China, the Group's strategy is to increase the growth of customer RMB deposits in order to maintain stability in its source of funds and to minimise costs associated with interbank borrowing. From 31 December 2016 to 30 June 2019, the Group's total deposit funds increased from approximately HK$564,646 million to approximately HK$646,008 million, and the Group's customer deposits increased from approximately HK$535,789 million to approximately HK$582,105 million. There are many factors affecting the growth of the Group's deposits, some of which are beyond the Group's control, such as economic and political conditions, the availability of alternative investment choices (including but not limited to securities issued by governmental or corporate entities, unit trusts and mutual funds, investment-linked assurance schemes and structured investment products), change of government monetary policy and retail customers' changing perceptions toward savings. There can be no assurance that the Group will be able to maintain or grow its customer deposits to support its business.

As part of its measures to maintain the liquidity of, and confidence in, the Hong Kong financial markets, the Hong Kong Deposit Protection Board enhanced the Deposit Protection Scheme with an increased protection limit of HK$500,000 and expanded coverage including deposits pledged as security, came into effect on 1 January 2011. On 24 March 2016, the Deposit Protection Scheme (Amendment) Ordinance 2016 (the "**2016 Amendment Ordinance**") came into effect. Amongst other things, a gross payout approach is adopted for the determination of compensation under the Deposit Protection Scheme in case the scheme is triggered. Under this approach, any compensation paid to depositors is determined on the basis of their aggregate protected deposits held with a failed bank (up to HK$500,000 per depositor) without deducting the amount of liabilities owed by those depositors to the same bank. The gross payout approach enables the affected depositors to have faster access to their deposits. There can be no assurance that the level of customer deposits, and therefore of the Group's liquidity, will not be adversely affected by the withdrawal of, or any changes to, the Deposit Protection Scheme in the future.

In addition, the statutory LCR and NSFR requirements came into effect on 1 January 2015 and 1 January 2018, respectively. The Group endeavours to comply with the regulatory requirements including these ratios at all times. The Group holds sufficient high quality liquidity assets ("**HQLA**"), which consist of cash, exchange fund bills and notes, high quality government debt securities and other equivalent liquid marketable assets to fulfill the LCR and NSFR requirements. In times of liquidity stress, the stock of HQLA can be easily and immediately converted into cash to meet unexpected and material cash outflows.

The Monetary Authority acts as the lender of last resort to all authorised institutions in Hong Kong to provide liquidity support in the banking system generally as well as to specific institutions. As at 30 June 2019, approximately 19.3% of BEA's interest-earning assets are acceptable to the Monetary Authority for such emergency funding support, and such asset figures are subject to review by the Monetary Authority twice a month. Although the Hong Kong government has in the past taken measures on a case-by-case basis to maintain or restore public confidence in individual banks with an isolated liquidity crisis, there can be no assurance that the Monetary Authority will provide such assistance in the future or that it would elect to provide such assistance in the future to BEA in the event of a liquidity crisis.

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

Interest Rate Risk

As with most banks, the Group's net interest income is a significant factor in determining its overall financial performance. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019 , the Group's net interest income from continuing operations represented approximately 74.7%, 74.2%, 75.9%, 73.3% and 73.3%, respectively, of its operating income from

continuing operations. Interest rates in Hong Kong have remained relatively low in recent years. However, there can be no assurance that interest rates will not rise or fall or become volatile or that changes in interest rates will not be frequent. Changes in market interest rates affect the interest to be received on the Group's interest-earning assets and the interest to be paid on the Group's interest-bearing liabilities. The Group realises income from the margin between income earned on its assets and interest paid on its liabilities. The Group's net interest rate margins, as the weighted average of the difference between interest rates on the loan advances made by, and the cost of debt funding for BEA, for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019 were approximately 1.6%, 1.7%, 1.7%, 1.7% and 1.9%, respectively. As some of its assets and liabilities are repriced at different times, the Group is vulnerable to fluctuations in market interest rates. As a result, volatility in interest rates could have an adverse effect on the Group's business, financial condition, liquidity and results of operations.

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

Classification of Advances and Adequacy of Allowance for Advance Losses

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

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

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

The laws, regulations and guidelines governing the banking industry in Hong Kong differ from those applicable in certain other countries in certain respects and may result in particular advances being classified as impaired loan advances at a different time or being classified in a category reflecting a different degree of risk than would be required in certain other countries. While BEA straightly follows the spirit of statutory compliance in different aspects when formulating and executing its credit policies and control guidelines, the Group is not required to maintain such policies at levels above those generally applicable to banks in Hong Kong.

Currency Risks

The majority of the Group's revenue is generated spot in Hong Kong dollars. Nonetheless, as at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group held a substantial part of its spot assets in U.S. dollars amounting to approximately HK$186,600 million, HK$200,302 million, HK$212,810

million and HK$226,908 million, respectively, and Renminbi amounting to approximately HK$273,715 million, HK$273,874 million, HK$258,066 million and HK$270,382 million, respectively. Although the Hong Kong dollar has been linked to the U.S. dollar since 1983, there can be no assurance that such linkage will be maintained in the future. In order to ensure continued liquidity of the Hong Kong dollar, the Monetary Authority has entered into bilateral repurchase agreements with the central banks of Australia, Mainland China, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand. In addition, the Hong Kong government has in the past expressed its commitment to maintaining exchange rate stability under the Linked Exchange Rate System, an automatic interest rate adjustment mechanism. However, there can be no assurance that the Hong Kong dollar will continue to be linked to the U.S. dollar or that, in the event of a liquidity problem affecting the Hong Kong dollar, such bilateral repurchase agreements or automatic interest rate adjustment mechanism will help to maintain adequate liquidity of the Hong Kong dollar. The Group's business, financial condition and results of operations could be adversely affected by the impact on the Hong Kong economy of the discontinuation of the link of the Hong Kong dollar to the U.S. dollar or any revaluation of the Hong Kong dollar.

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

The Group's Unsecured Lending Portfolio

A part of the Group's corporate loan portfolio comprises unsecured loans, the repayment of which is largely dependent on the cashflow of the borrower and adherence to the financial covenants contained in the loans. The majority of the Group's personal banking loan portfolio comprises loans secured by properties while the remaining portion comprises mainly unsecured personal loans and credit card receivables, which generally carry higher rates of interest. As at 31 December 2016, 2017 and 2018 and 30 June 2019, approximately 69.7%, 65.7%, 62.0% and 60.4%, respectively, of the Group's total advances to customers were secured. Although the Group carefully assesses the repayment ability of such borrowers, loan products which are not secured by any collateral entail a higher degree of credit risk than secured loan products. If there is a downturn in the economy, the credit quality and charge-off rates experienced by the Group may deteriorate.

Quality of the Group's Loan Portfolio or Investment Securities, or Other Assets

The Group's business could be materially and adversely affected by any deterioration in the quality of its loan portfolio or investment securities, or other assets. Risks from changes in credit quality and the recoverability of loans and amounts due from counterparties as well as risks from the Group's investment activities are inherent in a wide range of the Group's businesses. The Group's impaired loans represented approximately 1.63% of its total loans and advances to customers as at 30 June 2019. The Group may not be able to control effectively the level of impaired loans in its current loan portfolio or the level of new loans that may become impaired in the future. In particular, the amount of the Group's impaired loans may increase in the future due to a deterioration in the quality of its loan portfolio or a substantial increase in the amount of its new loans.

Deterioration in the quality of the Group's loan portfolio, investment securities or other assets may occur for a variety of reasons, including factors which are beyond the Group's control, such as a slowdown in growth of the Hong Kong, the PRC or global economies, a relapse of a global credit crisis, volatility in interest rates and market liquidity, and other adverse macroeconomic trends and

financial conditions in Hong Kong, the PRC, Europe and other parts of the world. These factors may cause operational, financial and liquidity problems for the Group's borrowers and the issuers of the Group's investment securities which, in turn, may materially and adversely affect their ability to service their outstanding debt and fulfil their payment obligations under the securities issued.

Other factors may also cause the asset quality of the Group's loan portfolio to deteriorate and the market value of its securities investment to decrease, including actual or perceived failure or worsening credit of counterparties (in particular, those counterparties to which the Group has substantial exposure), declines in residential and commercial property prices, higher unemployment rates and reduced profitability of corporate borrowers. Moreover, to the extent that a material portion of the Group's loans has been extended to a relatively small number of counterparties, the overall quality of its loan portfolio could be adversely affected by a decline in the credit quality of such borrowers. In addition, the Group's expansion in the PRC and overseas markets may potentially impact the quality of its loan portfolio, where the Group is less able to control its loan portfolio quality and where uncertainties in economic and monetary policies are likely to severely affect its borrowers. Additionally, in connection with its periodic examinations of BEA's operations, the Monetary Authority may in the future require BEA to change the classification of some of its loans which may increase the level of the Group's impaired loans. If the level of the Group's impaired loans or write-offs in its investment securities and other assets increases, its business, financial condition and results of operations may be materially and adversely affected.

The Group may not be able to realise the full value of its collateral as a result of a downturn in the real estate markets, delays in bankruptcy and foreclosure proceedings, fraudulent transfers by borrowers and other factors beyond its control. Any decline in the value of the collateral securing the Group's loans may result in an increase in its impairment allowances and a reduction in the recovery from collateral realisation, which may adversely affect its business, financial condition and results of operations.

Different Loan Classification and Provisioning System

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

The laws, regulations and guidelines governing banking business in Hong Kong differ from those applicable in certain other countries in certain respects and may result in particular loans being classified at a different time or being classified in a category reflecting a different degree of risk than would be required in certain other countries. In addition, the typical procedures for writing off loans in Hong Kong may result in loans being written-off later than would be the case for banks in certain other countries. Banks in Hong Kong may accrue interest on "sub-standard" loans in situations where such interest would not be accrued by banks in certain other countries. Whilst BEA believes that its loan provisioning policies are more prudent than those which are required under Hong Kong laws and regulations, the Group is not required to maintain such policies at levels above those generally applicable to banks in Hong Kong.

Investments in Debt Securities

The Group holds a portfolio of debt securities with different investment grades. The Group has analysed its investments in debt securities according to the designation of external credit institutions such as Moody's. As at 30 June 2019, the Group had a total investment in debt securities of approximately HK$156,629 million, of which approximately 4% were rated Aaa, approximately 17% were rated between Aa1 to Aa3, approximately 37% were rated between A1 to A3, approximately 32% were rated lower than A3 and approximately 10% were unrated.

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

Operational Risks Associated with the Group's Industry

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

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

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

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

Legal, Litigation and Regulatory Proceedings

The Group is involved, from time to time, in legal proceedings arising in the ordinary course of its operations. Please see "*Business of the Group — Litigation*" for further information. Litigation arising from any failure, injury or damage from the Group's operations may result in the relevant member of the Group being named as defendant in lawsuits asserting large claims against such member of the Group or subject such member of the Group to significant regulatory penalties. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for

substantial periods of time. Actions brought or investigations against the Group or the Issuer's directors, officers or employees may result in settlements, injunctions, fines, penalties or other results adverse to the Group's reputation, financial condition and results of operations. Even if the Group is successful in defending against these actions or investigations, the costs of such defence may be significant. In market downturns, the number of legal claims and amount of damages sought in litigations and regulatory proceedings may increase. A significant judgment, arbitration award or regulatory action against the Group, or a disruption in the Group's business arising from investigations or adverse adjudications in proceedings against the Issuer's directors, senior management or key employees, would materially and adversely affect the Group's liquidity, business, financial condition, results of operations and prospects.

In addition, the Group may have disagreements with regulatory bodies in the course of its operations, which may subject it to administrative proceedings and unfavourable decrees that may result in liabilities. Also, in the event that the Group makes any other investments or acquisitions in the future, there can be no assurance that the Group would not have any exposure to any litigation or arbitration proceedings or other liabilities relating to the acquired businesses or entities.

The Implementation of HKFRS 9

With effect from 1 January 2018, HKFRS 9 has replaced HKAS 39. Following the adoption of HKFRS 9, BEA is required to re-classify and re-measure (including impairment measurement) certain of its financial instruments from 1 January 2018 without requiring any restatement of the corresponding figures of the prior period. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 were recognised in retained earnings and reserves as at 1 January 2018. Accordingly, BEA's historical financial information as at and for the years ended 31 December 2016 and 2017 may not be directly comparable against BEA's financial information after 1 January 2018. As permitted by HKFRS 9, BEA has elected to continue to apply the hedge accounting requirements of HKAS 39. Investors must therefore exercise caution when making comparisons of any financial figures after 1 January 2018 against BEA's historical financial figures prior to 1 January 2018 and when evaluating BEA's financial condition and results of operations.

Information Technology Systems

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

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

Internet Banking Services

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

Different Corporate Disclosure and Regulatory Requirements

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

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

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

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

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

Regarding the Basel III liquidity standards, the Monetary Authority has publicly announced its plan to implement the standards in full following the Basel schedule and transitional arrangement. The Banking (Liquidity) Rules (Cap. 155Q) of Hong Kong have been enacted into local regulations in October 2014 and these rules have commenced operation since 1 January 2015. The Group has fully complied with the Basel III liquidity standards in accordance with the legislation. The Group's liquidity position and required disclosures have been discussed in the 2018 annual report of the Issuer and/or the Banking Disclosure Statement of the Issuer for the period ended 31 December 2018.

Certain products and services provided by the Group are regulated by other regulators including the Securities and Futures Commission (the "**SFC**") in Hong Kong. The Group carefully manages legal and compliance risks, including in relation to the sale of financial products and compliance with anti-money laundering and anti-terrorist financing regulations. From time to time, the regulators in Hong Kong have introduced recommendations which are intended to provide tighter control and more transparency in the Hong Kong banking sector, in particular, in relation to the selling of investment and insurance products to retail customers.

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

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

Separately, the SFC has revised their Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the "**SFC Code**") for meriting greater protection to investors, including the reform of Professional Investor Regime in March 2016 dis-applying most of the previous exemptions under the SFC Code to the Individual Professional Investors, to add a new clause into client agreement for making the intermediary's suitability obligation towards its customers as a contractual term and to further enhance disclosure of transaction related information to customers in August 2018.

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

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

In 2003, there was an outbreak of SARS, a highly contagious and potentially deadly disease in Hong Kong, along with many other countries in Asia. The SARS outbreak had a significant adverse impact on the economies of the affected countries. Since the latter half of 2005, there have been media reports regarding the spread of the H5N1 virus or "Avian Influenza A" among birds and poultry and, in some isolated cases, transmission of Avian Influenza A virus from animals to human beings. Similarly, since early 2009, there have been reports regarding the spread of the H1N1 virus or "Swine Influenza A" from animals to humans and, in some isolated cases, of human-to-human transmission of Swine

Influenza A. In 2014, a number of cases of the H7N9 and H10N8 viruses, different strands of Avian Influenza A, were reported in the PRC, while a few cases of the H7N9 virus were reported in Hong Kong. In 2015, a number of cases of Middle East respiratory syndrome occurred in Korea. In 2016, a number of cases of the Zika virus were reported in Singapore.

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

Further Issuance of Securities

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

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

OECD's Common Reporting Standard

The Organisation for Economic Co-operation and Development (the "**OECD**") has developed a common reporting standard (the "**CRS**") and model competent authority agreement to enable the multilateral and automatic exchange of financial account information. The CRS does not include a potential withholding element. Under the CRS, financial institutions are required to identify and report the tax residence status of customers in all the countries that have endorsed the CRS.

The adoption of the CRS in the PRC and Hong Kong became effective on 1 January 2017. PRC and Hong Kong financial institutions have begun collecting tax residency information from their account holders from 1 January 2017 for submission of information on reportable account holders in 2018. The increased due diligence of customer information and the reporting of information to the tax authorities will continue to increase operational and compliance costs for banks, including the Group.

CONSIDERATIONS RELATING TO THE NOTES AND THE UNDATED CAPITAL SECURITIES

The establishment of a resolution regime in Hong Kong may override the contractual terms of the Notes

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong as may be designated by the relevant resolution authorities, which includes the Issuer as the issuer of the Notes and the Undated Capital Securities. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, and subject to certain safeguards, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes and the Undated Capital Securities or the principal amount of, or interest on, the Notes and the Undated Capital Securities, and powers to amend or alter the contractual provisions of the Notes and the Undated Capital Securities, all of which may adversely affect the value of the Notes and the Undated Capital Securities, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes and the Undated Capital Securities (whether senior or subordinated) will be subject to and bound by the FIRO. The implementation of the FIRO remains untested and certain details relating to the FIRO will be set out through secondary legislation and supporting rules. Therefore, the Issuer is unable to assess the full impact of the FIRO on the financial system generally, the Issuer's counterparties, the Issuer, any of its consolidated subsidiaries, its operations and/or its financial position.

The Notes and Undated Capital Securities may not be a suitable investment for all investors

The Notes and the Undated Capital Securities are complex and high risk. Each potential investor in the Notes and the Undated Capital Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of Notes and the Undated Capital Securities, the merits and risks of investing in the Notes and the Undated Capital Securities and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the Undated Capital Securities and the impact such investment will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes and the Undated Capital Securities, including where the currency for principal or interest payments is different from the potential investor's currency;

(d) understand thoroughly the terms of the Notes and the Undated Capital Securities and be familiar with the behaviour of any relevant financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes and the Undated Capital Securities are complex financial instruments. A potential investor must not invest in the Notes and the Undated Capital Securities unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes and the Undated Capital Securities will perform under changing conditions, including the effects of inflation, the resulting effects on the value of the Notes and the Undated Capital Securities and the impact this investment will have on the potential investor's overall investment portfolio.

Investors should pay attention to any modification

The Note Conditions and the Undated Capital Securities Conditions contain provisions for calling meetings of Noteholders and Securityholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders and Securityholders including Noteholders and Securityholders who did not attend and vote at the relevant meeting and Noteholders and Securityholders who voted in a manner contrary to the majority. In addition, the Note Conditions and the Undated Capital Securities Conditions may be amended, modified, or varied in relation to any Series of Notes and the Undated Capital Securities by the terms of the relevant Pricing Supplement in relation to such Series.

Change of Law

The Note Conditions and the Undated Capital Securities Conditions, and any non-contractual obligations arising out of or in connection with them, are governed by English law (except for the provisions relating to subordination which are governed by Hong Kong law). No assurance can be given as to the impact of any possible judicial decision or change to English or Hong Kong law or administrative practice after the date of issue of the relevant Notes and the Undated Capital Securities Conditions.

Secondary Market

The Notes and the Undated Capital Securities may have no established trading market when issued and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes and the Undated Capital Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market value of Notes and the Undated Capital Securities.

The Trustee may request Noteholders or Securityholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances (including without limitation the giving of notice to the Issuer pursuant to Condition 11 and the taking of actions and/or enforcement steps under Condition 13 of the Note Conditions and the Undated Capital Securities Conditions), the Trustee may (at its sole discretion) request Noteholders or Securityholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Noteholders or Securityholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed (as defined in the Note Conditions and the Undated Capital Securities Conditions) and in such circumstances, or where there is uncertainty or dispute as to applicable laws or regulations and/or its rights to do so under the Trust Deed and/or the Note Conditions and the Undated Capital Securities Conditions and, to the extent permitted by the Trust Deed and the Note Conditions and the Undated Capital Securities Conditions and applicable law and regulations, it will be for the Noteholders and Securityholders to take such actions directly.

Exchange rate risks and exchange controls may result in a potential investor receiving less interest or principal than expected

The Issuer will pay principal and interest on the Notes and Principal and Distribution on the Undated Capital Securities in the currency specified. This presents certain risks relating to currency conversions if a potential investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the currency in which the Notes and the Undated Capital Securities are denominated. These include the risk that exchange rates may significantly change (including changes due to devaluation of the currency in which the Notes or the Undated Capital Securities are denominated or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the currency in which the Notes and the Undated Capital Securities are denominated would decrease (i) the Investor's Currency equivalent yield on the Notes and the Undated Capital Securities, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and the Undated Capital Securities and (iii) the Investor's Currency equivalent market value of the Notes and the Undated Capital Securities.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, a potential investor may receive less interest or principal than expected, or no interest or principal.

Lack of Public Market for the Notes and the Undated Capital Securities

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

Inability to comply with the restrictions and covenants contained in the Group's debt agreements

If the Group is unable to comply with the restrictions and covenants in its current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Group, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, whichever the case may be.

Majority interests in Noteholder meetings

The Note Conditions and the Undated Capital Securities Conditions contain provisions for calling meetings of Noteholders and Securityholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders and Securityholders including Noteholders and Securityholders who did not attend and vote at the relevant meeting and Noteholders and Securityholders who voted in a manner contrary to the majority.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes and the Undated Capital Securities. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes and the Undated Capital Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Rating agencies may also revise or replace entirely the methodology applied to derive credit ratings.

The value of, and return on, Floating Rate Notes or Floating Rate Undated Capital Securities linked to or referencing LIBOR may be adversely affected in the event of a permanent discontinuation of LIBOR.

Where Screen Rate Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes or Floating Rate Undated Capital Securities is to be determined, and LIBOR has been selected as the Reference Rate, the Note Conditions and the Undated Capital Securities Conditions provide that the Rate of Interest shall be determined by reference to the Relevant Screen Page (or its successor or replacement). In circumstances where LIBOR is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available.

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Note Conditions and the Undated Capital Securities Conditions provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of LIBOR), the Rate of Interest may revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before LIBOR was discontinued, and if LIBOR is discontinued permanently, the same Rate of Interest will continue to be the Rate of Interest for each successive Interest Period until the maturity of the Floating Rate Notes and Floating Rate Undated Capital Securities, so that the Floating Rate Notes and Floating Rate Undated Capital Securities will, in effect, become fixed rate notes or fixed rate undated capital securities utilising the last available LIBOR rate. Uncertainty as to the continuation of LIBOR, the availability of quotes from reference banks, and the rate that would be applicable if LIBOR is discontinued may adversely affect the value of, and return on, the Floating Rate Notes and Floating Rate Undated Capital Securities.

Where ISDA Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes and Floating Rate Undated Capital Securities is to be determined, the Note Conditions and Undated Capital Securities Conditions provide that the Rate of Interest in respect of the Notes and the Undated Capital Securities shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions. Where the Floating Rate Option specified is a "**LIBOR**" Floating Rate Option, the Rate of Interest may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If LIBOR is permanently discontinued and the relevant screen rate or, failing that, quotations from banks are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may, adversely affect the value of, and return on, the Floating Rate Notes and the Floating Rate Undated Capital Securities.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes and the Undated Capital Securities are legal investments for it, (ii) Notes and the Undated Capital Securities can be used as collateral for various types of borrowing, and (iii) other restrictions apply to its purchase or pledge of any Note or Undated Capital Security. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes and the Undated Capital Securities under any applicable risk-based capital or similar rules.

CONSIDERATIONS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES OR UNDATED CAPITAL SECURITIES

A wide range of Notes and Undated Capital Securities may be issued under the Programme. A number of these Notes or Undated Capital Securities may have features which contain particular risks for potential investors. Set out below is a description of certain of such features:

Notes or Undated Capital Securities subject to optional redemption by the Issuer may have a lower market value than Notes or Undated Capital Securities that cannot be redeemed

An optional redemption feature is likely to limit the market value of Notes or Undated Capital Securities. During any period when the Issuer may elect to redeem Notes or Undated Capital Securities, the market value of those Notes or Undated Capital Securities generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes or Undated Capital Securities when its cost of borrowing is lower than the interest rate on the Notes or the Undated Capital Securities. At those times, a potential investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes or the Undated Capital Securities being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Dual Currency Notes or Undated Capital Securities have features which are different from single currency issues

The Issuer may issue Notes or Undated Capital Securities with principal or interest payable in one or more currencies which may be different from the currency in which the Notes or the Undated Capital Securities are denominated. Each potential investor should be aware that:

(i) the market price of such Notes or Undated Capital Securities may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or Undated Capital Securities or even zero;

(v) a Relevant Factor (as defined below) may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Failure by a potential investor to pay a subsequent instalment of partly-paid Notes may result in it losing all of its investment

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in a potential investor losing all of its investment.

The market price of floating rate Notes and floating rate Undated Capital Securities with a multiplier or other leverage factor may be volatile

Notes and Undated Capital Securities with floating interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Notes or Undated Capital Securities, the interest rate of which may be converted from fixed to floating interest rates, and vice-versa, may have lower market values than other Notes or Undated Capital Securities

Fixed or Floating Rate Notes or Undated Capital Securities may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes or Undated Capital Securities since it may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing.

If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed or Floating Rate Notes Undated Capital Securities may be less favourable than then prevailing spreads on comparable Floating Rate Notes or Floating Rate Undated Capital Securities tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes and Undated Capital Securities. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes and Undated Capital Securities.

The market prices of Notes and the Undated Capital Securities issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks associated with Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) the payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Notes and the Undated Capital Securities with a multiplier or other leverage factor

Notes and the Undated Capital Securities with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Bearer Notes where denominations involve integral multiples: Definitive Notes

In relation to any issue of Bearer Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If Definitive Notes are issued, each potential investor should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

CONSIDERATIONS RELATING TO NON-PREFERRED LOSS ABSORBING NOTES, DATED SUBORDINATED NOTES AND UNDATED CAPITAL SECURITIES

Certain considerations relating to enforcement

In most circumstances, the sole remedy against the Issuer available to the Trustee (on behalf of the holders of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities) to recover any amounts owing in respect of the principal of or interest on the Non-Preferred Loss Absorbing Notes, the Dated Subordinated Notes or the Undated Capital Securities will be to institute proceedings for the winding-up of the Issuer in Hong Kong. See "*Terms and Conditions of the Notes other than the Undated Capital Securities— Events of Default and Default" and "Terms and Conditions of the Undated Capital Securities—Default and Enforcement"*.

If the Issuer defaults on the payment of principal or interest on the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes, or any amount of principal or Distributions on the Undated Capital Securities, the Trustee will only institute a proceeding in Hong Kong for the winding-up of

the Issuer if it is so contractually obliged. The Trustee will have no right to accelerate payment of the Non-Preferred Loss Absorbing Notes, the Dated Subordinated Notes or the Undated Capital Securities in the case of default in payment or failure to perform a covenant except as they may be so permitted in the Trust Deed.

To the extent that the Trustee or the holders of the Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities are entitled to any recovery with respect to the Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities in any Hong Kong proceedings, the Trustee and such holders of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities might not be entitled in such proceedings to a recovery in U.S. dollars and might be entitled only to a recovery in Hong Kong dollars.

In Hong Kong proceedings, if the Issuer's assets become subject to the control of a court-appointed receiver, interest on the Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities would cease to accrue on the date of the court order and the relevant U.S. dollar amounts would be converted to Hong Kong dollars as at such date for purpose of claims.

Subordination of the Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities could impair an investor's ability to enforce its rights or realise any claims on the Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities

The Non-Preferred Loss Absorbing Notes will be direct and unsecured obligations of the Issuer and shall rank subsequent in priority to all unsubordinated creditors of the Issuer. The Dated Subordinated Notes will be direct, unsecured and subordinated obligations of the Issuer and shall rank subordinate and junior in priority to the claims of all unsubordinated creditors of the Issuer and the holders of Non-Preferred Loss Absorbing Instruments.

Upon the occurrence of any winding-up proceeding, the rights of the holders of the relevant Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities to payments on such Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities will be subordinated in right of payment to the prior payment in full of all deposits and other liabilities of the Issuer except those liabilities which rank equally with or junior to the relevant Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities. In a winding-up proceeding, the holders of the relevant Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities may recover less than the holders of deposit liabilities or the holders of other unsubordinated liabilities of the Issuer. As there is no precedent for a winding-up of a major financial institution in Hong Kong, there is uncertainty as to the manner in which such a proceeding would occur and the results thereof. Although Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities may pay a higher rate of interest than comparable Notes which are not subordinated, there is a risk that an investor in Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities will lose all or some of its investment should the Issuer become insolvent.

In addition, payments of principal and interest in respect of the Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities are conditional upon the Issuer being solvent. No such principal or interest will be payable in respect of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities except to the extent that the Issuer could make such payment in whole or in part and still be solvent immediately thereafter. See Condition 3 of "*Terms and Conditions of the Notes other than the Undated Capital Securities*" for a full description of subordination and the payment obligations of the Issuer under the Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes and see Condition 3 of "*Terms and Conditions of the Undated Capital Securities*".

The terms of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities may contain non-viability loss absorption and Hong Kong Resolution Authority Power provisions

To the extent that a series of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities contains provisions relating to loss absorption and Hong Kong Resolution Authority Power upon the occurrence of a Non-Viability Event of the Issuer as determined by the Relevant Authority, the Issuer may be required, subject to the terms of the relevant series of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities, irrevocably (without the need for the consent of the holders of such Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities) to effect either a full write-off of the outstanding principal and accrued and unpaid interest in respect of such Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities, or a conversion of such Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities into the ordinary shares of the Issuer. To the extent relevant in the event that Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities are written off, any written-off amount shall be irrevocably lost and holders of such Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities will cease to have any claims for any principal amount and accrued but unpaid interest which has been subject to write-off. In the event that Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities feature a conversion to the ordinary shares of the Issuer upon the occurrence of a Non-Viability Event, holders would not be entitled to any reconversion of ordinary shares to Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities.

The occurrence of a Non-Viability Event and the exercise of Hong Kong Resolution Authority Power may be inherently unpredictable and may depend on a number of factors which may be outside of the Group's control

The occurrence of a Non-Viability Event and the exercise of Hong Kong Resolution Authority Power are dependent on a determination by the Relevant Authority (a) that a write-off, without which the Issuer would become non-viable, is necessary; or (b) a decision has been made to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable. As a result, the Relevant Authority may require or may cause a write-off in circumstances that are beyond the control of the Issuer and the Group and with which neither the Issuer nor the Group agree. Because of the inherent uncertainty regarding the determination of whether a Non-Viability Event exists, it will be difficult to predict when, if at all, a write-off will occur. Accordingly, the trading behaviour in respect of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities which have the non-viability loss absorption feature is not necessarily expected to follow trading behaviour associated with other types of securities. Any indication that the Issuer is trending towards a Non-Viability Event could have a material adverse effect on the market price of the relevant Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities.

Potential investors should consider the risk that a holder of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities which have the non-viability loss absorption feature may lose all of their investment in such Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities, including the principal amount plus any accrued but unpaid interest, in the event that a Non-Viability Event occurs.

There is no assurance that any contractual provisions with non-viability loss absorption or Hong Kong Resolution Authority Power features, to the extent applicable, will be sufficient to satisfy the Basel III-compliant requirements that the Relevant Authorities may implement in the future. There is a risk that any Relevant Authority may deviate from the Basel III proposals by implementing reforms which differ from those envisaged by the Basel Committee.

The Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities may be subject to a full or partial Write-off

Investors may lose the entire amount of their investment in any Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities in which Write-off (as defined in the Note Conditions and the Undated Capital Securities Conditions) upon the occurrence of a Non-Viability Event or the exercise of Hong Kong Resolution Authority Power is specified, which will lead to a full or partial Write-off. Upon the occurrence of a Write-off, the principal amount and any accrued but unpaid interest of such Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities will automatically be written down and if there is a full Write-off, the principal amount and any accrued but unpaid interest may be written down completely and such Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities will be automatically cancelled.

In addition, the subordination and set off provisions set out in Condition 3 of the Note Conditions and the Undated Capital Securities Conditions are effective only upon the occurrence of any winding-up proceedings of the Issuer. In the event that a Non-Viability Event occurs or the Hong Kong Resolution Authority Power is exercised, the rights of holders of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities and the Receipts and Coupons relating to the Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes shall be subject to Condition 7. This may not result in the same outcome for Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities as would otherwise occur under Condition 3 upon the occurrence of any winding-up proceedings of the Issuer.

Furthermore, upon the occurrence of a Write-off of any Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities, interest will cease to accrue and all interest amounts that were not due and payable prior to the Write-off shall become null and void. Consequently, Noteholders will not be entitled to receive any interest that has accrued on such Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities from (and including) the last Interest Payment Date falling on or prior to the Non-Viability Event Notice.

Any such Write-off will be irrevocable and the Noteholders will, upon the occurrence of a Write-off, not receive any shares or other participation rights of the Issuer or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Issuer or any other member of the Group, or be entitled to any subsequent write-up or any other compensation in the event of a potential recovery of the Issuer or the Group.

Upon the occurrence of a Non-Viability Event, clearance and settlement of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities will be suspended and there may be a delay in updating the records of the relevant clearing system to reflect the amount written-off

Following the receipt of a Non-Viability Event Notice, all clearance and settlement of the Non-Preferred Loss Absorbing Notes, the Dated Subordinated Notes and the Undated Capital Securities will be suspended. As a result, Noteholders will not be able to settle the transfer of any Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities from the commencement of the Suspension Period (as defined herein), and any sale or other transfer of the Non-Preferred Loss Absorbing Notes, the Dated Subordinated Notes and the Undated Capital Securities that a holder may have initiated prior to the commencement of the Suspension Period that is scheduled to settle during the Suspension Period will be rejected by the relevant clearing system and will not be settled within the relevant clearing systems.

While a Tranche of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities that contains non-viability loss absorption or Hong Kong Resolution Authority Power provisions is represented by one or more Global Notes or Global Certificates (as applicable) and a Non-Viability Event occurs, the records of Euroclear and Clearstream or any other clearing system (other than the CMU) in respect of their respective participants' position held in such Tranche of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities may not be immediately updated to reflect the amount to be written-off (where applicable) and may continue to reflect the nominal amount of such Non-Preferred Loss Absorbing Notes, Dated

Subordinated Notes or Undated Capital Securities prior to the Write-off as being outstanding, for a period of time. The update process of the relevant clearing system may only be completed after the date on which the Write-off is scheduled. Notwithstanding such delay, holders of such Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities may lose the entire value of their investment in Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities on the date on which the Write-off occurs. No assurance can be given as to the period of time required by the relevant clearing system to complete the update of their records.

Further, the conveyance of notices and other communications by the relevant clearing system to their respective participants, by those participants to their respective indirect participants, and by the participants and indirect participants to beneficial owners of interests in the Global Bond or Global Certificate (as applicable) will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The operation of the resolution regime in Hong Kong may override the contractual terms of the Notes and the Undated Capital Securities.

In Hong Kong, the FIRO became effective on 7 July 2017. The Monetary Authority is the relevant Hong Kong Resolution Authority in relation to banking sector entities in Hong Kong, such as the Issuer. The Monetary Authority's powers under FIRO include, but are not limited to, powers to write off or convert all or a part of the principal amount of, or interest on, the Notes or the Undated Capital Securities, and powers to amend or alter the contractual provisions of the Notes or the Undated Capital Securities. Whilst the FIRO sets out a framework of the resolution regime in Hong Kong, much of the detail is to be legislated through secondary legislation and supporting rules, and as such the impact of it on the Notes and the Undated Capital Securities cannot currently be fully accurately assessed.

The operation of the resolution regime in Hong Kong may affect the rights of the Noteholders and Securityholders and could result in the Noteholders and Securityholders losing their rights in relation to accrued and future interest without compensation. See "— *The terms of Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities may contain non-viability loss absorption and Hong Kong Resolution Authority Power provisions*".

Regulations on non-viability loss absorption and Hong Kong Resolution Authority Power are new, untested and subject to interpretation and application by regulations in Hong Kong

The regulations on non-viability loss absorption and Hong Kong Resolution Authority Power are new and untested, and will be subject to the interpretation and application by the Relevant Authority. It is uncertain how the Relevant Authority would determine the occurrence of a Non-Viability Event and the exercise of the Hong Kong Resolution Authority Power, and it is possible that the grounds that constitute Non-Viability Events may change (including that additional grounds are introduced).

Accordingly, the operation of any such future legislation may have an adverse effect on the position of holders of any Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities.

A potential investor must not invest in any Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes or Undated Capital Securities unless it has the knowledge and expertise to evaluate how the Non-Preferred Loss Absorbing Notes, the Dated Subordinated Notes and the Undated Capital Securities will perform under changing conditions, the resulting effects on the likelihood of a Write-off and the value of the Non-Preferred Loss Absorbing Notes, the Dated Subordinated Notes and the Undated Capital Securities, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Offering Circular.

CONSIDERATIONS RELATING TO RENMINBI-DENOMINATED NOTES AND UNDATED CAPITAL SECURITIES

Notes and the Undated Capital Securities denominated in Renminbi ("**Renminbi Notes and Undated Capital Securities**") may be issued under the Programme. Renminbi Notes and the Undated Capital Securities contain particular risks for potential investors.

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outside the PRC

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar. However, there has been significant reduction in control by the PRC government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi by foreign investors into the PRC for the settlement of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually.

Although the Renminbi was added to the Special Drawing Rights basket created by the International Monetary Fund in 2016, there is no assurance that the PRC government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that the schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Notes or Undated Capital Securities denominated in Renminbi.

Holders of beneficial interests in Renminbi Notes and the Undated Capital Securities may be required to provide certifications and other information (including Renminbi account information) in order to allow such holder to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of Renminbi Notes and the Undated Capital Securities and the Issuer's ability to source Renminbi outside the PRC to service such Renminbi Notes and the Undated Capital Securities

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside of the PRC is limited. While the PBOC has entered into agreements on the clearing of Renminbi business with financial institutions in a number of financial centres and cities (the "**Renminbi Clearing Banks**"), including but not limited to Hong Kong and are in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions (the "**Settlement Arrangements**"), the current size of Renminbi denominated financial assets outside the PRC remains limited.

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes and the Undated Capital Securities. To the extent the Issuer is required to source Renminbi in the offshore market to service its Renminbi Notes and the Undated Capital Securities, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in Renminbi Notes and the Undated Capital Securities is subject to exchange rate risks

The value of Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. In August 2015, the PBOC implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made with respect to Renminbi Notes and the Undated Capital Securities in Renminbi. As a result, the value of these Renminbi payments in U.S. dollar terms may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other foreign currencies, the value of investments in U.S. dollars or such other foreign currencies will decline.

Investment in Renminbi Notes and the Undated Capital Securities is subject to interest rate risks

The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC laws and regulations and prevailing market conditions.

As Renminbi Notes and the Undated Capital Securities may carry a fixed interest rate or distribution rate, the trading price of Renminbi Notes and the Undated Capital Securities will consequently vary with the fluctuations in the Renminbi interest rates. If holders of Renminbi Notes and the Undated Capital Securities propose to sell their Renminbi Notes and the Undated Capital Securities before their maturity, they may receive an offer lower than the amount they have invested.

Payments in respect of Renminbi Notes and the Undated Capital Securities will only be made to investors in the manner specified in such Renminbi Notes and the Undated Capital Securities

All payments to investors in respect of Renminbi Notes and the Undated Capital Securities will be made solely by (i) when Renminbi Notes and the Undated Capital Securities are represented by global certificates deposited with a sub-custodian for CMU, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures, (ii) when Renminbi Notes and the Undated Capital Securities are represented by global certificates held with the common depositary, for Euroclear and Clearstream or any alternative clearing system, transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, in accordance with prevailing Euroclear and Clearstream rules and procedures, (iii) when Renminbi Notes and the Undated Capital Securities are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, in accordance with prevailing rules and regulations or (iv) by transfer through the Cross-Border Interbank Payment System in accordance with relevant rules and regulations, if so specified in the Pricing Supplement. The Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by check or draft or by transfer to a bank account in the PRC).

USE OF PROCEEDS

The Issuer intends to use the net proceeds from each issue of Notes or Undated Capital Securities for its general corporate purposes.

CAPITALISATION AND INDEBTEDNESS

As at 30 June 2019, BEA had an issued and fully paid up share capital of approximately HK$41,194 million consisting of approximately 2,897 million ordinary shares.

The following table sets out the Group's consolidated capitalisation and indebtedness as at 30 June 2019.

	As at 30 June 2019	
	Actual	**Actual**
	HK$ (in millions)	**U.S.$ (in millions)[5]**
	(unaudited)	*(unaudited)*
Short-term borrowings[1]		
Customer deposit accounts	570,648	73,160
Certificates of deposits in issue	63,903	8,193
Deposits from banks	36,045	4,621
Debt securities issue	265	34
Loan capital	3,897	500
Total short-term borrowings	674,758	86,508
Medium-term borrowings[2]		
Customer deposit accounts	10,316	1,323
Debt securities issue	2,841	364
Deposits from banks	12	2
Loan capital	10,296	1,320
Total medium-term borrowings	23,465	3,009
Long-term borrowings[3]		
Customer deposit accounts	1,138	146
Total long-term borrowings	1,138	146
Capital resources		
Share capital	41,194	5,281
Reserves	52,061	6,674
Shareholders' funds	93,255	11,955
Additional equity instruments	8,894	1,140
Non-controlling interests	2,839	364
	11,733	1,504
Total capital resources	104,988	13,459
Total capitalisation[4]	129,591	16,614
Short-term borrowings and total capitalisation	804,349	103,122

Notes:

(1) Short-term borrowings represent the remaining maturity not more than one year.

(2) Medium-term borrowings represent the remaining maturity between one year to five years.

(3) Long-term borrowings represent the remaining maturity more than five years.

(4) Total capitalisation comprises total medium-term borrowings, total long-term borrowings and total capital resources.

(5) This amount has been translated into U.S.$ for convenience purpose at a rate of U.S.$1.00 to HK$7.80.

Save as disclosed in this Offering Circular, there has been no material adverse change in the Group's total capitalisation and indebtedness since 30 June 2019.

BUSINESS OF THE GROUP

INTRODUCTION

Overview

Incorporated in 1918, BEA is a leading Hong Kong-based financial services group listed on the HKSE.

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

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

History

Since its founding in 1918, BEA has dedicated itself to delivering professional banking services to the local community in Hong Kong, particularly small and medium enterprises. BEA set up its first branch in Mainland China in Shanghai in 1920 and has operated in Mainland China ever since. BEA's shares started trading on the local stock exchanges in Hong Kong in the early 1920s.

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

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

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

In June 2009, BEA entered into a number of strategic cooperation agreements with Criteria CaixaCorp, S.A. (which changed its name to CaixaBank S.A. on 30 June 2011) ("**CaixaBank**"), a Spanish listed holding company controlled by "la Caixa". The agreements enable BEA to leverage the

extensive resources of CaixaBank to further develop its business, including cross-border referrals, training and knowledge transfer as well as funding. The alliance with "la Caixa" group also enhances BEA's access to the financial industry in Spain, Europe and Latin America, and creates opportunities for potential joint business development in the Asia-Pacific region.

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

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

In December 2017, East Asia Qianhai Securities Company Limited ("**EA Qianhai Securities**") received licence from the China Securities Regulatory Commission for commencement of operation. BEA is the largest shareholder of EA Qianhai Securities with a 49% interest. EA Qianhai Securities is incorporated in Qianhai, Shenzhen with issued capital of RMB1.5 billion. EA Qianhai Securities is one of the few fully licensed securities companies established under Supplement X of CEPA.

As the first foreign bank to enter Qianhai, BEA (China) took the lead in setting up its Qianhai Sub-branch in early 2013, focusing on supporting and serving the development of the zone. In July 2018, BEA (China) became the first foreign bank to receive approval to open a full branch in Qianhai.

STRATEGY

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

Further Expansion in Mainland China and Other Overseas Countries

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

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

In view of the internationalisation of RMB, the Group continues to further strengthen collaboration among its business units in Hong Kong, Mainland China and overseas. To capture opportunities arising from increasing business flows to and from Mainland China, BEA (China) provides integrated cross-border financial services for both trade and non-trade transactions, so as to meet clients' growing needs in overseas acquisitions and business expansion. Furthermore, BEA (China) is working closely with other business units of the Group to capture opportunities arising from the Belt and Road and Greater Bay Area initiatives in particular.

BEA (China) is also placing greater emphasis on retail banking as a source of higher yields. In 2018, BEA (China)'s retail banking transformed its growth path by deepening cooperation with strategic partners in certain areas such as consumer finance and internet finance. It also utilises partnerships to offset risks and leverage its operation expertise as it seeks new business opportunities. In 2018, BEA (China)'s retail lending increased and its customer base for consumer finance increased by five times as compared to 2017. Also, BEA (China) plans to target high net-worth customers with tailored wealth management solutions. It will further strengthen cross-selling synergies between corporate and personal banking in Mainland China.

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

In addition, the BEA intends to continue to expand the Group's business in other overseas markets as and when opportunities arise. Overseas branches will continue to enhance their local portfolios and expand collaboration with the head office and BEA (China) to further develop cross-border financing business, particularly for Chinese corporations' business expansion and overseas investments.

Diversification of non-interest income

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

Enhancement of profitability via active capital management

BEA intends to continue to optimise the Group's asset mix through active capital management and allocation in order to enhance its profitability and net worth, with the special emphasis on the "Return on Risk-weighted Assets". The Bank will also absorb low-cost deposits across all business units and implement multi-pronged strategy to reduce funding costs.

Transformation of its branch network

Through repositioning and rationalising its branch network and re-distributing resources, the Group seeks to transform its Hong Kong branches into deposit taking centres and sales centres to provide banking products and services to its customers and in particular, to target high net worth customers. The Group will endeavour to enhance its appeal to further penetrate affluent as well as young and professional segments.

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

Organic growth and partnerships

The Group maintains a close focus on creating value for customers and investors, providing high quality financial services and seeking investment opportunities that generate favourable returns. In particular, BEA's corporate banking has been repositioned as a total solution service provider and has set up capacity to serve small-to-medium-sized enterprises and mid-market segments. BEA aims to grow organically, by providing one-stop financial services to customers, and through partnerships, by establishing partnerships to generate new business across the Group. BEA will continue to take a disciplined approach to partnerships and investments, as well as capture new business opportunities and enhance service quality by tapping into the strength and expertise of its shareholders and strategic partners.

BEA will continue to conduct periodic reviews on its business portfolio, business lines and investments in order to ensure optimal allocation of its resources.

Focus on enhancing operational efficiency

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

BUSINESS OVERVIEW

BEA has long been known for the comprehensive range of corporate banking, personal banking, financial services and insurance services that it provides to its diverse customer base. BEA's products and services include syndicated loans, trade finance, deposit-taking, foreign currency savings, remittances, mortgage loans, consumer loans, credit cards, Cyberbanking, retail investment and wealth management services, private banking, Renminbi services, foreign exchange margin trading, brokerage services, MPF services and general and life insurance.

As at 30 June 2019, BEA had 69 branches, 54 SupremeGold Centres and 11 i-Financial Centres in Hong Kong. BEA is a founding member of JETCO, which provided over 3,000 ATMs throughout Hong Kong, Macau and major cities in Mainland China as at 30 June 2019. BEA is also one of the founding members of EPSCO, which currently processes debit card transactions at more than 30,000 acceptance locations in Hong Kong and Macau.

As at 30 June 2019, headquartered in Shanghai, BEA (China) operated 31 branches and 68 sub-branches in Mainland China. BEA (China) provides comprehensive RMB and foreign currency banking services to all customers. Services include but are not limited to personal banking and wealth management, loans and advances, debit cards and credit cards, Cyberbanking and cash management, private banking, investment and derivative products, agency services for life and general insurance, remittance and settlement, RMB cross-border business, trade finance facilities, supply chain financing, standby letters of credit, bank guarantees and distribution of local mutual funds.

As at 30 June 2019, BEA also operated two outlets in Taiwan (including a Taiwan Offshore Banking Branch in Taipei) to provide corporate banking services. The Taiwan Offshore Banking Branch provides a wide range of foreign currency services to offshore clients. In addition, BEA has also established a presence overseas such as in Southeast Asia, the United Kingdom and the United States.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, the Group's operating income from continuing operations and profit before taxation from continuing operations by business segment were as follows:

	Operating income from continuing operations				
	Year ended 31 December			**Six months ended 30 June**	
	2016	**2017**	**2018**	**2018**	**2019**
	(in HK$ millions)				
Hong Kong Region					
Personal Banking [1]	3,580	4,168	4,894	1,954	2,187
Corporate Banking [2]	2,448	2,310	2,367	1,295	1,328
Treasury Markets [3]	(153)	39	(162)	327	462
Wealth Management [4]	791	832	774	457	407
Financial Institutions [5]	34	40	41	24	22
Others [6]	1,982	2,575	2,686	1,369	1,820
Mainland China Operations [7]	4,657	4,576	4,938	2,315	3,163
Overseas Operations [8]	1,730	1,761	1,874	960	903
Inter-segment elimination	(355)	(348)	(340)	(175)	(190)
Total	**14,714**	**15,953**	**17,072**	**8,526**	**10,102**

	Profit/(Loss) before taxation from continuing operations				
	Year ended 31 December			**Six months ended 30 June**	
	2016	**2017**	**2018**	**2018**	**2019**
	(in HK$ millions)				
Hong Kong Region					
Personal Banking [1]	1,597	2,393	3,140	1,101	1,254
Corporate Banking [2]	1,961	1,729	2,036	1,094	1,192
Treasury Markets [3]	(218)	845	(303)	292	455
Wealth Management [4]	593	630	572	358	297
Financial Institutions [5]	22	29	28	17	14
Others [6]	(293)	752	531	428	478
Mainland China Operations [7]	(387)	(248)	636	414	(3,936)
Overseas Operations [8]	1,317	1,435	1,420	1,077	882
Inter-segment elimination	—	—	—	—	—
Total	**4,592**	**7,565**	**8,060**	**4,781**	**636**

Notes:

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

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

(3) Treasury markets includes treasury operations and securities dealing in Hong Kong.

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

(5) Financial institutions includes trade financing activities with correspondent banks in Hong Kong.

(6) Other Hong Kong operations primarily include insurance business, trust business, securities & futures broking, money lender activities and corporate financial advisory, other subsidiaries in Hong Kong and supporting units of Hong Kong operations.

(7) Mainland China operations include the back office unit for Mainland China operations in Hong Kong, all subsidiaries and associates operated in Mainland China, except those subsidiaries carrying out data processing and other back office operations in Mainland China.

(8) Overseas operations include the back office unit for overseas banking operations in Hong Kong, Macau branch, Taiwan branch and all branches, subsidiaries and associates operated in overseas.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, the Group's operating income from continuing operations and profit before taxation from continuing operations by geographical location were as follows:

	Operating income from continuing operations				
	Year ended 31 December			**Six months ended 30 June**	
	2016	**2017**	**2018**	**2018**	**2019**
	(in HK$ millions)				
Hong Kong	8,410	9,672	10,145	5,236	6,011
Mainland China[1]	4,876	4,798	5,296	2,468	3,323
Other Asian Countries	765	747	783	403	351
Others	1,018	1,084	1,188	594	607
Inter-segment elimination	(355)	(348)	(340)	(175)	(190)
Total	**14,714**	**15,953**	**17,072**	**8,526**	**10,102**

	Profit/(Loss) before taxation from continuing operations				
	Year ended 31 December			**Six months ended 30 June**	
	2016	**2017**	**2018**	**2018**	**2019**
	(in HK$ millions)				
Hong Kong	3,438	6,095	5,122	3,087	3,420
Mainland China[1]	(231)	(64)	993	565	(3,742)
Other Asian Countries	637	643	876	552	440
Others	748	891	1,069	577	518
Inter-segment elimination	—	—	—	—	—
Total	**4,592**	**7,565**	**8,060**	**4,781**	**636**

Note:

(1) This excludes Hong Kong, Macau and Taiwan.

The table below sets forth certain financial data and related ratios as at the dates indicated or for the periods indicated:

	As at or for the year ended 31 December			As at or for the six months ended 30 June	
	2016	2017	2018	2018	2019
	(in HK$ millions, except percentages)				
Total assets	765,706	808,942	839,451	826,834	876,778
Total deposits	564,646	608,150	632,604	619,497	646,008
Total loans and advances to customers and trade bills	466,182	487,686	515,281	507,531	524,107
Total operating income from continuing operations	14,714	15,953	17,072	8,526	10,102
Profit attributable to owners of the parent	3,723	9,347	6,509	3,992	1,000
Return on average assets	0.4%	1.1%	0.7%	0.9%	0.1%
Return on average equity	4.1%	10.3%	6.3%	8.0%	1.4%
Loan to deposit ratio	80.4%	77.9%	79.1%	79.3%	79.1%
Common Equity Tier 1 capital ratio	12.1%	13.2%	15.7%	15.3%	15.3%
Total capital ratio	17.4%	17.8%	20.8%	20.5%	20.3%

HONG KONG

Home Mortgages

As at 31 December 2016, 2017 and 2018 and 30 June 2019, home mortgages (including but not limited to loans for the purchase of flats in the Government Home Ownership Scheme ("**GHOS**"), Private Sector Participation Scheme ("**PSPS**") and Tenants Purchase Scheme ("**TPS**") in Hong Kong represented one of the most significant segments of the Group's total advances to customers, accounting for approximately HK$41,738 million, HK$43,867 million, HK$56,340 million and HK$57,624 million, respectively, or approximately 9.2%, 9.3%, 11.3% and 11.3%, respectively, of the Group's total advances to customers. As at 31 December 2016, 2017 and 2018 and 30 June 2019, loans for the purchase of flats in GHOS, PSPS and TPS accounted for approximately HK$988 million, HK$1,064 million, HK$1,048 million and HK$1,062 million, respectively, or approximately 0.2%, 0.2%, 0.2% and 0.2%, respectively, of the Group's total advances to customers.

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

All home mortgage advances are secured by a first legal charge on the property and, in certain circumstances, the Group may also require personal guarantee as additional security. The Group provides various different mortgage plans, including floating Prime-based rate and floating HIBOR-based rate mortgage plans which are repayable by instalments. For a discussion of the Group's loan-to-value lending limits applicable to home mortgage advances, see "*Selected Statistical and Other Information — Risk Management and Credit Policies*". For a discussion of the Group's lending rates applicable to home mortgage advances, see "*Selected Statistical and Other Information — Advance Portfolio — Advance Analysis*". The Group maintains close relationships with most property developers in Hong Kong, which has enabled the Group to source a significant amount of home mortgage and commercial mortgage advance business.

Commercial Mortgages and Trade Finance

Commercial mortgages comprise advances to companies to purchase retail shops, office space, factories and residential properties, whereas trade finance comprises loans to companies to accommodate their working capital requirements through overdraft facilities, short-term advances, trust receipts, invoice financing loans, corporate tax loans, export credit, packing loans, shipping guarantees, issuance of all types of documentary credits and factoring facilities. The Group also provides treasury products to its customers.

Commercial mortgage advances are generally secured by a first legal charge over the property. The Group has guidelines in place for assessing mortgage credit, based on asset criteria (including price, appraised value of the property, location, current market conditions and liquidity of the property) and customer criteria (including income source and debt servicing ability). For a discussion of commercial mortgage advances, see "*Selected Statistical and Other Information — Advance Portfolio — Advance Analysis*".

The customers of the Group's trade finance services range from small-to-medium-sized enterprises to multinational corporations. Trade finance advances are made on either a fully or partially secured basis by way of a mortgage of property or cash collateral or on an unsecured basis. Factoring facilities are offered to exporters to provide financing through purchase of receivables as well as offering credit protection and receivables collection services. The receivables managed under factoring are assigned to the Group, and credit protection is supported by back-to-back credit insurance issued by accredited insurance agencies or covered by inter-factoring arrangements. BEA intends to increase income contribution and market share from trade finance by providing the Group's customers with more market-oriented products. For example, in October 2018, BEA, together with six other banks, jointly launched a digital trade finance platform, eTradeConnect, being the first trade finance platform leveraging blockchain technology in Hong Kong.

The trade finance sector in Hong Kong is well developed and, consequently, the Group is seeking to capitalise on its network in Mainland China to market its trade finance services to the increasing number of customers with operations in Mainland China.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, trade finance and commercial mortgage advances amounted to approximately HK$67,466 million, HK$68,034 million, HK$78,885 million and HK$79,544 million, respectively, which accounted for approximately 14.9%, 14.4%, 15.8% and 15.6% of the Group's total advances to customers, respectively.

Consumer Finance

Consumer advances include unsecured or secured advances to individuals for fulfilling different needs and purposes, and also include overdrafts. In addition, the Group has developed a mobile platform to acquire new customers. With such platform, customers are able to know the approval result instantly upon application submission.

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

As at 31 December 2016, 2017 and 2018 and 30 June 2019, total outstanding consumer advances amounted to approximately HK$6,136 million, HK$7,956 million, HK$7,886 million and HK$8,287 million, respectively, which accounted for approximately 1.4%, 1.7%, 1.6% and 1.6% of the Group's total advances to customers, respectively.

Credit Cards

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

The Group has continuously focused on the key areas of competitive mileage, overseas, dining and entertainment rewards to acquire new customers in its credit card business. High ticket size spending categories such as travel and online purchases are also key areas which the Group continues to invest in, in order to solicit new customers.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, credit card advances amounted to approximately HK$4,575 million, HK$4,676 million, HK$4,528 million and HK$4,516 million, respectively, which accounted for approximately 1.0%, 1.0%, 0.9% and 0.9% of the Group's total advances to customers, respectively.

Insurance Products and Services

Blue Cross, fully acquired by BEA in December 1999, is a wholly-owned subsidiary of BEA and a part of BEA's bancassurance services. With over 50 years of solid operational experience in the insurance industry, Blue Cross provides a comprehensive range of non-life products and services, including medical, travel, and general insurance, to cater for the needs of both individual and corporate customers. Blue Cross is one of the leading insurers in the medical and travel insurance industry.

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

Blue Cross has received a number of awards in recognition of its contributions in the spheres of insurance provision, product innovation and online usability. Blue Cross has transformed the traditional medical insurance system with the launch of the new "Blue Cross HK" mobile application in April 2019. By offering Hong Kong's first blockchain-enabled medical claim service, the application provides customers with a one-stop service platform featuring innovative medical insurance services that can greatly enhance customer experience in a fast, secure and reliable manner and has enabled medical insurance to be digital, paperless and cashless.

BEA Life commenced business in January 2008. BEA Life is a wholly-owned subsidiary of BEA and serves as BEA's life insurance arm. It underwrites and distributes a wide range of life insurance products and services including whole life, endowment, annuity, and term plans. In addition, BEA Life offers critical illness, education, retirement and medical savings solutions with all-rounded coverage and benefits to meet the diverse needs of its customers. BEA Life is committed to serving customers round the clock through a secure and user-friendly online application platform and to bring ease and convenience to its customers. A series of life insurance products including e-Select Mortgage Life Insurance, the first mortgage life insurance plan in Hong Kong to offer online pre-approval, and e-Select Savings Insurance Plan, the first endowment product that can be purchased instantly via the BEA website, were launched in August 2017 and November 2018, respectively.

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

For the years ended 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, the total premium income of Blue Cross and BEA Life was approximately HK$3,491 million, HK$4,459 million, HK$5,052 million, HK$3,063 million and HK$3,892 million, respectively, while the non-life insurance premium income of Blue Cross was approximately HK$1,290 million, HK$1,242 million, HK$1,350 million, HK$798 million and HK$805 million, respectively. For the years ended 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, the life insurance premium income of BEA Life as calculated by the New Business Index (an index defined as the total amount of all regular premium plus 10% of single premiums (life insurance policies which require one lump sum payment)) was approximately HK$1,112 million, HK$1,447 million, HK$1,615 million, HK$771 million and HK$1,837 million, respectively.

MPF Services and Other Trustee Services

In October 1999, BEAT, a wholly-owned subsidiary of BEA, was granted the status of an approved trustee under the Mandatory Provident Fund Schemes Ordinance (Cap. 485) of Hong Kong (the "**MPF Schemes Ordinance**"). Through this subsidiary, the Group offers a full-range of MPF services, including trustee, scheme administration, investment management and custody services, to employers, employees and the self-employed persons. BEAT is one of two approved trustees under the MPF Schemes Ordinance licensed to offer both the Master Trust Schemes and the Industry Scheme in Hong Kong.

In addition to MPF services, BEAT also offers a complete range of trustee services to both individual and corporate clients. BEAT acts as executor and trustee of wills, an administrator of estates, attorney administrator for overseas estates having assets in Hong Kong and as escrow agent for commercial transactions. BEAT also acts as trustee for family or other trusts and settlement, investment funds, unit trusts, charities, public funds and capital market issues.

Internet Banking Services

BEA's internet banking platform provides a comprehensive range of e-banking services, such as balance enquiry, e-statement & e-advice, rate enquiry, change of address, funds transfer, remittance, electronic cheque, placement and renewal of time deposit, bill payment, credit card transactions and redemption of bonus points for gifts, an online application for mortgages services, stock and gold trading, foreign exchange margin and option margin trading, unit trust subscription and redemption, linked deposits, electronic initial public offering and other investment products, purchase of TravelSafe insurance and MPF account enquiry and deposit.

Bilateral Advances and Syndicated Advances

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

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

The majority of the project financing in which the Group participates is extended on a recourse basis and is secured by the underlying project. Typically, the average maturity of BEA's corporate advances is up to five years and that for construction loans is extended up to completion of the construction project. Loan-to-value ratios are determined on a case-by-case basis in compliance with the regulatory

requirement. For project financing, the advance is generally secured by first legal charge over the underlying property and charge over all receivables derived from the property projects. The Group has been targeting at medium-sized to large-sized borrowers to pursue better risk-justified return from these borrowers.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, bilateral and syndicated advances outstanding totalled approximately HK$83,338 million, HK$91,630 million, HK$99,838 million and HK$100,997 million, respectively, which accounted for approximately 18.4%, 19.3%, 19.9% and 19.8% of the Group's total advances to customers, respectively.

Wealth Management

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

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

BEA's private banking service ("**BEA Private Banking**") places particular emphasis in the Greater China region, capitalising on the Group's major network established in Mainland China. BEA believes that Hong Kong continues to be most important bridge as well as being the investment destination of choice for wealthy Mainland Chinese. As at 30 June 2019, Mainland Chinese customers accounted for approximately 31% of BEA's private banking client base in terms of assets under management, and approximately 47% in terms of revenue contribution. BEA believes that such proportion will continue to increase given the strong and leading position of the Group's business and know-how in Mainland China. The Group will continue to explore new avenues to leverage its extensive network in Mainland China to drive business, and add value to customers of the Group.

As at 30 June 2019, the assets under management of BEA Private Banking amounted to approximately HK$80 billion. The net profit of the department for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019 amounted to approximately HK$551 million, HK$550 million, HK$525 million, HK$300 million and HK$252 million, respectively.

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

Stock Broking

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

Debt Capital Market

In October 2018, the Group commenced its fixed income capital market business that involves origination, execution and distribution of offshore public and private bond transactions for, mainly, corporations in Mainland China and Hong Kong.

MAINLAND CHINA

As at 30 June 2019, BEA's wholly-owned subsidiary, BEA (China), headquartered in Shanghai, operated 31 branches in Shanghai, Beijing, Tianjin, Harbin, Dalian, Shenyang, Qingdao, Shijiazhuang, Zhengzhou, Urumqi, Hangzhou, Nanjing, Suzhou, Chengdu, Chongqing, Wuhan, Hefei, Xi'an, Shenzhen, Shenzhen Qianhai, Guangzhou, Zhuhai, Xiamen, Changsha, Kunming, Ningbo, Jinan, Wuxi, Fuzhou, Nanning and Nanchang as well as 68 sub-branches (including 15 cross-location sub-branches in Guangdong province established under the liberalisation measures of Supplement VI to the CEPA).

In order to expand its presence in the Mainland China market, the Group has been expanding the range of products and services it provides in Mainland China and will seek to capitalise on the opportunities arising from the liberalisation of the banking sector and from the CEPA between Hong Kong and Mainland China. BEA (China)'s strategy is to increase the growth of RMB deposits in order to maintain stability in its source of funds and to minimise costs associated with interbank lending. However, there are many factors affecting the growth of deposits such as economic and political conditions, the availability of alternative investment choices (including but not limited to securities issued by governmental or corporate entities, unit trusts and mutual funds, investment-linked assurance schemes and structured investment products) and retail customers' changing perceptions towards savings.

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

As at 31 December 2016, 2017 and 2018 and 30 June 2019, BEA (China)'s RMB-denominated lending amounted to approximately HK$126,913 million, HK$140,087 million, HK$134,291 million and HK$131,423 million, respectively, accounting for approximately 91.0%, 92.7%, 90.0% and 90.2% of the total customer advances of BEA (China), respectively. Borrowers comprise companies registered to do business in Mainland China and individual customers including local residents. BEA (China) expects to further expand its RMB-denominated lending business with a prudent approach and has more appetite for loan growth in selected industries such as public utilities, storage and logistics, pharmaceuticals and health, energy-saving and environmental protection, food safety as well as education and training.

INTERNATIONAL, MACAU AND TAIWAN

The Group's international operations were commenced to serve the needs of its core customers as their business and investment expanded overseas from Hong Kong. The Group seeks to establish a presence in cities with large concentrations of overseas Chinese. The following table sets out BEA's outlets outside Hong Kong as at 30 June 2019.

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

GROUP STRUCTURE

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

For the six months ended and as at 30 June 2019, except for BEA (China), none of BEA's subsidiaries accounted for more than 10% of the consolidated net profit and loss of the Group or had a book value in excess of 10% of the Group's consolidated total assets.

As at 30 June 2019, the Group's principal subsidiaries were as follows:

Name of subsidiary of the Issuer	Place of incorporation and operation of the Group	Issued and paid-up capital	% held by		Nature of business
			The Issuer	The Group	
Ample Delight Limited	Hong Kong	HK$450,000,000		100%	Investment holding
Bank of East Asia (Trustees) Limited	Hong Kong	HK$150,000,000	100%		Trustee service
BEA Life Limited	Hong Kong	HK$500,000,000	100%		Life insurance
BEA Union Investment Management Limited	Hong Kong	HK$374,580,000	51%		Asset management
Blue Care JV (BVI) Holdings Limited	British Virgin Islands	HK$20,000,000		80%	Investment holding
Blue Cross (Asia-Pacific) Insurance Limited	Hong Kong	HK$625,000,000	100%		Insurance
Central Town Limited	Hong Kong	HK$2	100%		Property investment
Century Able Limited	Hong Kong	HK$929,752,849		100%	Investment holding
Chongqing Liangjiang New Area Credit Gain Finance Company Limited	PRC	U.S.$50,000,000	100%		Micro-finance loan
Corona Light Limited	British Virgin Islands	HK$929,752,849		100%	Investment holding
Credit Gain Finance Company Limited	Hong Kong	HK$640,000,000	100%		Money lenders
Crystal Gleaming Limited	British Virgin Islands	HK$929,752,849	100%		Investment holding
Dragon Jade Holdings Company Limited	Hong Kong	HK$1,127,510,000	100%		Investment holding
East Asia Digital Information Services (Guangdong) Limited(1)	PRC	U.S.$3,000,000		100%	Servicing
East Asia Facility Management Limited	Hong Kong	HK$10,000		100%	Facility management
East Asia Holding Company, Inc.	U.S.A.	U.S.$5	100%		Bank holding company
East Asia International Trustees Limited	British Virgin Islands	US$1,301,000		100%	Trustee services
East Asia Property Agency Company Limited	Hong Kong	HK$1,000,000	100%		Property agency
East Asia Securities Company Limited	Hong Kong	HK$25,000,000	100%		Securities broking
Innovate Holdings Limited	British Virgin Islands	U.S.$1 (Ordinary) U.S.$318,345,000 (with a liquidation preference of U.S.$1,000 per share)	100%		Special purpose vehicle company specially set up for BEA's Hybrid Tier 1 issue
Skyray Holdings Limited	British Virgin Islands	HK$450,000,000	100%		Investment holding
Speedfull Limited	British Virgin Islands	HK$450,000,000		100%	Investment holding
The Bank of East Asia (China) Limited(1)	PRC	RMB12,160,000,000	100%		Banking and related financial services

Notes:

(1) Represents a wholly foreign owned enterprise registered under PRC law.

(2) The above subsidiaries have no non-controlling interests material to the Group except for Innovate Holdings Limited.

ORGANISATION

The Board of Directors of BEA is collectively responsible for the long-term success of the Group and assumes responsibility for its leadership within a framework of effective controls.

Under the framework, the Board of Directors has set up five Board Committees and seven Management Committees to assist it in carrying out its responsibilities. The Board Committees include Audit Committee, Nomination Committee, Remuneration Committee, Risk Committee and Sealing Committee. The Management Committees include Executive Committee, Investment Committee, Crisis Management Committee, Risk Management Committee, Asset and Liability Management Committee, Credit Committee and Operational Risk Management Committee.

The Audit Committee is responsible for reviewing corporate governance functions, financial controls, risk management and internal control systems, annual report and accounts, and half-year interim report. The Nomination Committee is responsible for recommending to the Board of Directors on relevant matters relating to appointments, reappointment, removal and succession planning of Directors, Senior Management, Division Heads, Group Chief Compliance Officer, Group Chief Auditor, Group Chief Financial Officer and Group Chief Risk Officer; defining succession planning and diversity of the Board of Directors and performing evaluation of the Board of Directors' performance and Directors' contribution to the effectiveness of the Board of Directors. The Remuneration Committee is responsible for making recommendations to the Board of Directors regarding BEA's remuneration policy, and for the formulation and review of the remuneration packages of the Directors, Senior Management and Key Personnel of the Group. The Risk Committee is assisted by the Management Committees, namely, the Risk Management Committee, Credit Committee, Asset and Liability Management Committee and Operational Risk Management Committee, to deal with daily management of risk-related issues; and by the Crisis Management Committee to deal with crisis management. The Sealing Committee is responsible for directing the usage and custody of BEA's common seal.

The Management Committees are established to deal with matters as sufficiently prescribed in respective terms of reference, each of which has specific roles and responsibilities delegated by the Board of Directors or the Board Committees. The Executive Committee is responsible for assisting and supporting the Co-Chief Executives to manage the businesses and operations of the Group at a strategic level, and discussing any significant matters relating to the daily management as determined by the Co-Chief Executives. The Risk Management Committee is responsible for assisting the Risk Committee in the daily management of issues related to all major risks (in particular strategic and new product and business risks) faced by the Group including risk appetites, risk profiles, regulatory updates and stress-testing. The Credit Committee is responsible for dealing with all credit risk-related issues of the Group. The Operational Risk Management Committee is responsible for dealing with issues related to operational, legal, reputation, compliance, technology and business continuity risks of the Group. The Asset and Liability Management Committee is responsible for dealing with all issues related to market, interest rate and liquidity risks of the Group. The Crisis Management Committee is responsible for dealing with the Group's management of crisis scenarios which jeopardise or have the potential to jeopardise the Group in its reputation, liquidity/financial position and business continuity. The Investment Committee is responsible for reviewing and formulating investment strategies as well as making investment decisions in respect of fixed income instruments, equity and equity related investments for BEA, and The Bank of East Asia, Limited Employees' Provident Fund.

BEA has 16 divisions, each of which is responsible for a specific operational function. The divisions are Personal Banking Division, Corporate Banking Division, Wealth Management Division, Insurance & Retirement Benefits Division, Treasury Markets Division, China Division, International Division,

Strategic Planning & Control Division, Operations Support & Services Division, the Technology & Productivity Division, the Human Resources & Corporate Communications Division, the Risk Management Division and the Legal, Secretarial & Tax Division, Compliance Division, Internal Audit Division and Strategic Partnerships and Financial Institutions Division.

PROPERTIES

As at 30 June 2019, BEA owned properties with aggregate floor areas of approximately 396,900 square feet, 465,734 square feet and 32,822 square feet on Hong Kong Island, in Kowloon and in the New Territories, respectively. Most of BEA's properties are used as banking offices, as branches or for storage, and the remainder are leased to third parties. In addition, as at 30 June 2019, BEA also leased properties with aggregate floor areas of approximately 46,496 square feet, 115,147 square feet and 56,595 square feet on Hong Kong Island, in Kowloon and in the New Territories, respectively. These leased properties are used as banking offices, as branches or for storage. As at 30 June 2019, the fair value for BEA's investment properties and bank premises amounted to approximately HK$5,266 million and HK$21,101 million, respectively.

INTELLECTUAL PROPERTY

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

INSURANCE

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

COMPETITION

The banking industries in Hong Kong and Mainland China are highly competitive. Please see "*Investment Considerations — Considerations Relating to the Group — Competition*" for further information.

LITIGATION

The Group is involved, from time to time, in legal proceedings arising in the ordinary course of its operations. See "*Investment Considerations — Considerations Relating to the Group — Legal, Litigation and Regulatory Proceedings*".

Disputes with Elliott International, L.P. ("Elliott"), The Liverpool Limited Partnership ("Liverpool") and Others

On 18 July 2016, BEA was served with a sealed copy of an unfair prejudice petition presented by Elliott, Liverpool and certain other entities affiliated with Elliott and Liverpool (together, the "**Petitioners**") to the Court of First Instance of the High Court of Hong Kong pursuant to section 724 of the Companies Ordinance (Cap. 622) of Hong Kong (the "**Petition**"). BEA and the relevant directors were named as respondents in the Petition.

In the Petition, the relief sought by the Petitioner include, among others:

- a declaration that certain board resolutions passed for the purposes of effecting a placement to Sumitomo Mitsui Banking Corporation were passed for, among others, an improper purpose, without due regard to the interests of all shareholders of BEA, and without critical appraisal of the merits and competing arguments in respect of the same and alternative means for raising capital;

- a declaration that certain board resolutions passed for the purposes of facilitating the reorganisation of the means by which CaixaBank, S.A. invests in BEA were made for, among others, an improper purpose, without due regard to the interests of all shareholders of BEA and without critical appraisal of the merits and competing arguments in respect of the same; and

- an order that BEA takes steps to release Criteria Caixa, S.A., Sociedad Unipersonal and/or its affiliates and Sumitomo Mitsui Banking Corporation from the relevant undertakings and that BEA may not re-enter into similar agreements in the future without leave of the court.

BEA and the relevant directors will vigorously oppose the Petition. Based on currently available information, BEA considers that the Petition will not have any material adverse impact on the normal business and operations of BEA.

Please refer to BEA's announcement on HKSE entitled "Legal Proceedings" and dated 18 July 2016 for further information.

Disputes with China Medical Technologies, Inc ("China Medical Technologies")

In February 2017, BEA was served with a statement of claim (the "**China Medical Technologies Statement of Claim**") filed by China Medical Technologies (which has been liquidated and delisted in the United States) at the Court of First Instance of the High Court of Hong Kong.

China Medical Technologies' claims arose from the payment of funds: (i) to the bank accounts of Supreme Well Investments Limited maintained with BEA (among others) between November 2006 and December 2009 purportedly for the acquisition of technology that allegedly did not exist or was purchased by China Medical Technologies at a gross overvalue; and (ii) to other accounts maintained with BEA between March 2007 and June 2011.

China Medical Technologies alleged that payments of over U.S.$180 million were made from the accounts of Supreme Well Investments Limited and other related entities maintained with BEA to parties connected with and/or controlled by directors and/or executives of China Medical Technologies, with the aim of misappropriating the funds for their personal benefit and in breach of trust and/or fiduciary duties.

BEA subsequently filed a set aside application. Based on currently available information, BEA considers that the China Medical Technologies Statement of Claim will not have any material adverse impact on the normal business and operations of BEA.

Please refer to BEA's announcement on HKSE entitled "Legal Proceedings" and dated 6 March 2017 for further information.

Investigation in Relation to CaixaBank, S.A.

On 3 October 2018, the National Court in Madrid opened a criminal investigation in relation to certain transactions undertaken by CaixaBank, S.A., including, among others, the transfer by CaixaBank, S.A. to Criteria Caixa, S.A. Sociedad Unipersonal of its stake of approximately 17.2% in BEA and its stake of approximately 9.0% in Grupo Financiero Inbursa, S.A.B. de C.V. (the "**Investigation**").

The Investigation arose out of a petition by two individual shareholders of CaixaBank, S.A. and the allegations include alleged market abuse, insider trading, misrepresentation of financial statements, mismanagement of the firms and unfair treatment of shareholders. The Investigation is not directed at BEA and has been brought against CaixaBank, S.A., Criteria Caixa, S.A. Sociedad Unipersonal, Dr. Isidro Fainé Casas, five other executives/directors of CaixaBank, S.A. and Dr. the Hon. Sir David Li Kwok-po.

Dr. Isidro Fainé Casas and Dr. the Hon. Sir David Li Kwok-po resigned as directors of CaixaBank, S.A. on 30 June 2016 and 23 October 2014, respectively.

Please refer to BEA's announcement on HKSE entitled "Announcement pursuant to Rule 13.51B(2) of the Listing Rules" and dated 16 October 2018 for further information.

Save as otherwise disclosed in this Offering Circular, neither BEA nor any of its subsidiaries is involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Notes or the Undated Capital Securities, and BEA is not aware of any such litigation or arbitration proceedings pending or threatened against it or any of its subsidiaries.

EMPLOYEES

As at 30 June 2019, the Group had a total of 9,879 employees as set forth in the following table:

	No. of employees
Hong Kong	5,497
Mainland China	3,782
Macau and Taiwan	161
Overseas	439
Total	9,879

Management believes that BEA maintains a good relationship with its employees and has not experienced any material employment disputes. Other than all local employees of BEA (China) and other Mainland China subsidiaries and certain local employees at its Singapore branch, none of BEA's employees are members of a trade union. BEA provides attractive remuneration and benefits packages to its employees including medical health care plans, group life insurance, various paid leave, staff housing loan with preferential interest rate, staff account with preferential deposit interest rate and retirement benefits under either the Mandatory Provident Fund Scheme or the MPF exempted ORSO Scheme. In addition, BEA operates share option schemes under which options to purchase ordinary shares of BEA have been granted to members of senior management and executive directors. As at 30 June 2019, approximately 34,143,246 shares, representing approximately 1.16% of BEA's issued capital on a fully diluted basis, were issuable upon the exercise of options (including vested and unvested options) granted under BEA's staff share option schemes adopted in 2011 and 2016.

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

PROTECTION OF DEPOSITORS

BEA is a member of the Deposit Protection Scheme, which was launched in September 2006. Accordingly, all eligible depositors of BEA are automatically protected under the Deposit Protection Scheme. As part of its measures to maintain the liquidity of, and confidence in, the Hong Kong financial markets, the Hong Kong government introduced in 2006 a Deposit Protection Scheme to provide a level of protection to depositors with deposits held with authorised institutions in Hong Kong. An enhanced Deposit Protection Scheme with an increased protection limit of HK$500,000 and expanded coverage including deposits pledged as security for banking services, came into effect on 1 January 2011. On 24 March 2016, the 2016 Amendment Ordinance came into effect. Amongst other things, a gross payout approach is adopted for the determination of compensation under the Deposit Protection Scheme in case the scheme is triggered. Under this approach, any compensation paid to depositors is determined on the basis of their aggregate protected deposits held with a failed bank (up to HK$500,000 per depositor) without deducting the amount of liabilities owed by those depositors to the same bank. The gross payout approach enables the affected depositors to have faster access to their deposits.

SELECTED STATISTICAL AND OTHER INFORMATION

The selected statistical and other information set forth below is derived from and should be read in conjunction with the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2017 and 2018 and the unaudited consolidated interim financial statements of the Issuer as at 30 June 2019 and for the six months ended 30 June 2018 and 2019. Such information relates only to the Group and has, except where otherwise indicated, been compiled as at and for each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, and should be read in conjunction with the information contained elsewhere in this Offering Circular, including "*Business of the Group*".

ADVANCE PORTFOLIO

Overview

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group's total outstanding advances to customers were approximately HK$454,242 million, HK$473,776 million, HK$500,631 million and HK$511,281 million, respectively, which represented approximately 59.3%, 58.6%, 59.6% and 58.3%, respectively, of its total assets.

The majority of the Group's advances are in respect of home mortgages and advances for property investment and development (excluding loans for the purchase of flats in GHOS, PSPS and TPS), which together, as at 31 December 2016, 2017 and 2018 and 30 June 2019, represented approximately 22.2%, 21.2%, 24.4% and 25.4%, respectively, of the Group's total advances to customers.

Industry Sectors

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

	As at 31 December						As at 30 June	
	2016	Percentage of total	2017	Percentage of total	2018	Percentage of total	2019	Percentage of total
	(in HK$ millions, except percentages)							
Loans for use in Hong Kong								
Industrial, commercial and financial								
- Property development	21,934	4.8%	20,280	4.3%	26,427	5.3%	29,615	5.8%
- Property investment	38,224	8.4%	37,359	7.9%	40,218	8.0%	43,926	8.6%
- Financial concerns	10,296	2.3%	12,489	2.6%	14,944	3.0%	14,266	2.8%
- Stockbrokers	2,988	0.7%	6,899	1.5%	1,928	0.4%	1,335	0.3%
- Wholesale and retail trade	14,821	3.3%	8,831	1.9%	6,839	1.4%	5,793	1.1%
- Manufacturing	2,925	0.6%	2,123	0.4%	1,903	0.4%	2,948	0.6%
- Transport and transport equipment	5,633	1.2%	4,976	1.1%	5,111	1.0%	4,352	0.8%
- Recreational activities	171	—	176	—	35	—	36	—
- Information technology	2,596	0.6%	2,747	0.6%	668	0.1%	658	0.1%
- Others[(1)]	18,720	4.1%	25,876	5.5%	20,196	4.1%	23,952	4.7%
- Sub-total	118,308	26.0%	121,756	25.8%	118,269	23.7%	126,881	24.8%

	As at 31 December						As at 30 June	
	2016	Percentage of total	2017	Percentage of total	2018	Percentage of total	2019	Percentage of total
	(in HK$ millions, except percentages)							
Individuals								
- Loans for the purchase of flats in GHOS, PSPS and TPS	988	0.2%	1,064	0.2%	1,048	0.2%	1,062	0.2%
- Loans for the purchase of other residential properties	40,750	9.0%	42,803	9.0%	55,292	11.0%	56,562	11.0%
- Credit card advances	4,540	1.0%	4,644	1.0%	4,496	0.9%	4,485	0.9%
- Others[2]	27,301	6.0%	34,034	7.2%	39,909	8.0%	43,098	8.4%
- Sub-total	73,579	16.2%	82,545	17.4%	100,745	20.1%	105,207	20.5%
Total loans for use in Hong Kong	191,887	42.2%	204,301	43.2%	219,014	43.8%	232,088	45.3%
Trade finance	5,390	1.2%	3,934	0.8%	3,733	0.7%	3,352	0.7%
Loans for use outside Hong Kong[3]	256,965	56.6%	265,541	56.0%	277,884	55.5%	275,841	54.0%
Total advances to customers	**454,242**	**100%**	**473,776**	**100%**	**500,631**	**100%**	**511,281**	**100%**

Notes:

(1) "Others" includes the industry sectors of civil engineering works, electricity and gas, hotels, boarding houses and catering, non-stockbroking companies and individuals for the purchase of shares, professional and private individuals for other business purposes and all others not specified.

(2) "Others" includes professional and private individuals for other private purposes.

(3) Loans for use outside Hong Kong include the certain loans for use in Mainland China.

Geographical Concentration

The table below sets forth a summary of the Group's gross advances to customers by geographical location as at the dates indicated.[1]

	As at 31 December						As at 30 June	
	2016	Percentage of total	2017	Percentage of total	2018	Percentage of total	2019	Percentage of total
	(in HK$ millions, except percentages)							
Hong Kong	194,181	42.8%	207,523	43.8%	225,656	45.1%	241,678	47.3%
Mainland China	192,550	42.4%	203,128	42.9%	203,377	40.6%	198,151	38.7%
Other Asian Countries and Regions[2]	30,146	6.6%	27,456	5.8%	27,634	5.5%	26,898	5.3%
Others[3]	37,365	8.2%	35,669	7.5%	43,964	8.8%	44,554	8.7%
Total	**454,242**	**100%**	**473,776**	**100%**	**500,631**	**100%**	**511,281**	**100%**

Notes:

(1) The above geographical analysis has been classified by the location of the counterparties, after taking into account any transfer of risk.

(2) This includes all Asian countries other than Mainland China.

(3) This includes North America, Western Europe and other countries.

Customer Advance Concentration

As at 30 June 2019, the Group's exposure to its 20 largest borrowers (including groups of individuals and companies) amounted to approximately HK$122,391 million, or approximately 23.9% of the Groups gross advances, with the largest representing approximately HK$11,477 million, or approximately 2.24% of the Group's gross advances. As at 31 December 2018, the Group's exposure to its 20 largest borrowers (including groups of individuals and companies) amounted to approximately HK$122,041 million, or approximately 24.4% of the Group's gross advances, with the largest representing approximately HK$12,627 million, or approximately 2.5% of the Group's gross advances. As at 31 December 2017, the Group's exposure to its 20 largest borrowers (including groups of individuals and companies) amounted to approximately HK$112,630 million, or approximately 23.8% of the Group's gross advances, with the largest representing approximately HK$8,757 million, or approximately 1.8% of the Group's gross advances. As at 31 December 2016, the Group's exposure to its 20 largest borrowers (including groups of individuals and companies) amounted to approximately HK$111,778 million, or approximately 24.6% of the Group's gross advances, with the largest representing approximately HK$12,591 million, or approximately 2.8% of the Group's gross advances.

Advance Analysis

As a significant proportion of the Group's gross advances are made for the purchase of residential property, as at 31 December 2016, 2017 and 2018 and 30 June 2019, approximately 21.1%, 20.5%, 23.1% and 22.7% of advances had a remaining maturity of more than five years, respectively.

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

	As at 31 December						As at 30 June	
	2016	Percentage of total	2017	Percentage of total	2018	Percentage of total	2019	Percentage of total
	(in HK$ millions, except percentages)							
Repayable on demand[1]	5,156	1.1%	3,681	0.8%	2,967	0.6%	4,024	0.8%
3 months or less	75,452	16.6%	85,528	18.1%	86,881	17.4%	95,602	18.7%
1 year or less but over 3 months	93,146	20.5%	94,413	19.9%	100,124	20.0%	95,059	18.6%
5 years or less but over 1 year	178,930	39.4%	188,640	39.8%	192,017	38.4%	197,115	38.6%
After 5 years	95,809	21.1%	97,146	20.5%	115,883	23.1%	116,286	22.7%
Undated	5,749	1.3%	4,368	0.9%	2,759	0.5%	3,195	0.6%
Gross advances to customers	**454,242**	**100%**	**473,776**	**100%**	**500,631**	**100%**	**511,281**	**100%**

Note:

(1) Includes overdrafts.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, approximately 79.2%, 80.9%, 81.7% and 79.4% of advances made by the Group were at floating rates of interest, respectively. See "— *Asset and Liability Management*". The current rate offered by the Group for home mortgage advances in Hong Kong generally ranges from 1.24% to 1.4% above the 1-month HIBOR. The interest rate for Hong Kong dollar consumer finance advances offered by the Group is typically calculated on the initial principal amounts of such advances and typically ranges from 0.11% to 1.35% per month flat for fixed rate products and from 5.75% (P+0.5%) to 8.75% (P+3.5%) per annum for prime based products. Trade finance advances typically have a relatively short maturity. The interest rate for Hong Kong dollar trade finance advances made by the Group is typically a margin over the interbank offer rate or on prime rate basis. The interest rate for project finance lending and syndicated lending is typically a margin over HIBOR. As at 31 December 2016, 2017 and 2018 and 30 June 2019, approximately 40.5%, 43.1%, 47.5% and 49.8%, respectively, of advances made by the Group were

denominated in Hong Kong dollars, approximately 19.6%, 17.6%, 16.5% and 15.5%, respectively, were denominated in U.S. dollars and approximately 31.9%, 31.2%, 27.5% and 26.2%, respectively, were denominated in RMB. Rates which are lower than the above rates may be offered by the Group under appropriate circumstances subject to internal approvals.

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

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

	Advances outstanding as at 31 December 2016					
	HK dollar advances		Foreign currency advances		Total	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
	(in HK$ millions, except percentages)					
Fixed rate	32,844	17.8%	61,762	22.9%	94,606	20.8%
Floating rate	151,288	82.2%	208,348	77.1%	359,636	79.2%
Total	**184,132**	**100%**	**270,110**	**100%**	**454,242**	**100%**

As at 31 December 2017, the amounts, in Hong Kong dollars, and percentages represented by fixed and floating-rate advances denominated in Hong Kong dollars and foreign currencies, respectively, were as follows:

	Advances outstanding as at 31 December 2017					
	HK dollar advances		Foreign currency advances		Total	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
	(in HK$ millions, except percentages)					
Fixed rate	40,403	19.8%	50,311	18.7%	90,714	19.1%
Floating rate	163,823	80.2%	219,239	81.3%	383,062	80.9%
Total	**204,226**	**100%**	**269,550**	**100%**	**473,776**	**100%**

As at 31 December 2018, the amounts, in Hong Kong dollars, and percentages represented by fixed and floating-rate advances denominated in Hong Kong dollars and foreign currencies, respectively, were as follows:

	Advances outstanding as at 31 December 2018					
	HK dollar advances		Foreign currency advances		Total	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
	(in HK$ millions, except percentages)					
Fixed rate	37,622	15.8%	53,989	20.5%	91,611	18.3%
Floating rate	199,824	84.2%	209,196	79.5%	409,020	81.7%
Total	**237,446**	**100%**	**263,185**	**100%**	**500,631**	**100%**

As at 30 June 2019, the amounts, in Hong Kong dollars, and percentages represented by fixed and floating-rate advances denominated in Hong Kong dollars and foreign currencies, respectively, were as follows:

	Advances outstanding as at 30 June 2019					
	HK dollar advances		Foreign currency advances		Total	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
	(in HK$ millions, except percentages)					
Fixed rate	43,123	16.9%	62,314	24.3%	105,437	20.6%
Floating rate	211,294	83.1%	194,550	75.7%	405,844	79.4%
Total	**254,417**	**100%**	**256,864**	**100%**	**511,281**	**100%**

As at 31 December 2016, 2017 and 2018 and 30 June 2019, at least 60.4% of the Group's total advances to customers were secured by collateral.

The extent of collateral coverage over the Group's loans and advances to customers depends on the type of customers and the product offered. Types of collateral include residential properties (in the form of mortgages over property), other properties, other registered securities over assets, cash deposits, standby letters of credit and guarantees. All forms of security taken as collateral against credit facilities are monitored by the respective departments which extended the advances. In general, the collateral is periodically valued by an independent valuer to determine whether any additional collateral is required.

RISK MANAGEMENT AND CREDIT POLICIES

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

Risk Management

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

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

The Risk Committee also ensures that the Group's risk appetite is reflected in the policies and procedures that BEA's management adopts to execute its business functions. Through the Group's management committees at executive level including the 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.

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

(i) formulating risk management policies and guidelines and performing regular reviews in order to ensure that such policies and guidelines are kept up to date;

(ii) monitoring risk exposure and compliance with the risk management framework using a risk-based approach that incorporates independent risk assessment, independent review of regular reports, independent review of new products/specific issues, and coordination of risk-related projects; and

(iii) reporting at pre-determined schedule the monitoring results and significant risk related issues to the specialised risk management committees, and/or the Risk Management Committee, and/or the Risk Committee and/or the Board, where appropriate, so as to assist them to discharge their duty of oversight of risk management activities. The scope of BEA's risk management framework covers major types of risk, including credit risk, interest rate risk, legal risk, liquidity risk, market risk, money laundering and terrorist financing risk, operational risk, reputation risk, strategic risk and technology risk.

The Asset and Liability Management Committee ("**ALCO**") sets the strategy and policy for managing interest rate risk and the means for ensuring that such strategy and policy are implemented. Interest rate risk is managed daily by the Treasury Markets Division, while the Risk Management Division is responsible for monitoring interest rate related activities to ensure compliance with the related bank policies, rules and regulations. The Banking Audit Department performs periodic review, to make sure the interest rate risk management functions are effectively carried out.

For the interest rate risk in the banking book, gap analysis is carried out on the maturity and repricing characteristics of the Group's both on and off balance sheet positions. From 1 July 2019, optionality and behavioural assumptions of certain products would also be considered in the exposure measurement per requirement of the Monetary Authority. Repricing gap position controls and sensitivity limits from both earnings and economic value perspectives are set to control the Group's interest rate risk exposure in the banking book. The ALCO monitors the results thereof and decides remedial action if required.

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

The Group monitors its liquidity position on a daily basis to ensure the Group's funding needs can be met and the statutory ratios for monitoring and managing liquidity risk are complied with. The Group's consolidated average LCR was approximately 171.7% for the second quarter of 2019, which is above the statutory minimum requirement of 90%. For the quarter ended 30 June 2019, the Group's consolidated NSFR was approximately 114.9%, which is above the statutory minimum requirement of 100%.

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

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

Credit Policies

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

	Hong Kong
	(in HK$ millions)
Credit Committee	Any amount
Approval Centre	600
Division Head	100 (25)[1]
Department Head	60 (10)[1]
Manager (Levels M4 to SM2)	Ranging from 1.5 (0.5)[1] to 10 (3.5)[1] for corporate lending/card and consumer finance

Note:

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

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

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

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

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

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

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

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

ASSET QUALITY

Overview

The performance of the Hong Kong economy is heavily dependent on the property sector, and, as at 31 December 2016, 2017 and 2018 and 30 June 2019, home mortgages and advances for property investment and development (excluding loans for the purchase of flats in GHOS, PSPS and TPS) in Hong Kong together accounted for approximately 22.2%, 21.2%, 24.4% and 25.4%, respectively, of the Group's total advances to customers. As a result, the Group's asset quality is vulnerable to deflation in property prices. The ability of borrowers, including homeowners, to make timely repayment of their advances may be adversely affected by rising interest rates or a slowdown in economic growth. See "*Investment Considerations — Considerations Relating to the Group — Hong Kong Economy*" and "*Investment Considerations — Considerations Relating to the Group — Interest Rate Risk*". As at 31 December 2016, 2017 and 2018 and 30 June 2019, home mortgage advances (including but not limited to loans for the purchase of flats in GHOS, PSPS and TPS) in Hong Kong amounted to approximately HK$41,738 million, HK$43,867 million, HK$56,340 million and HK$57,624 million, respectively, or approximately 9.2%, 9.3%, 11.3% and 11.3%, respectively, of the Group's total advances to customers and was one of the most significant segments of the Group's total advances to customers. See "*Investment Considerations — Considerations Relating to the Group — Concentration Risk — Exposure to the Property Market*".

The Group is committed to expanding its business and operations in the PRC and remains susceptible to risks associated with lending in the PRC, which could lead to an increase in the Group's classified advances. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group's PRC exposure was approximately 31.3%, 32.0%, 29.9% and 28.6%, respectively, of the Group's total advances and its PRC impaired advances accounted for approximately 2.9%, 1.8%, 1.7% and 4.9%, respectively, of its total PRC exposure. See "*Investment Considerations — Considerations Relating to the Group — Exposure to Mainland China Market*".

Advance Classification

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

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

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

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

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

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

Recognition of Impaired Loans

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

Impairment of Loans and Receivables

Before 2018, the Group adopted the collective assessment approach and the individual assessment approach in accordance with HKAS 39 to ascertain the impairment amounts of its non-impaired and impaired credit exposures.

The table below sets forth a summary of the Group's impairment allowance from continuing operations for the years ended 31 December 2016 and 2017.

	Year ended 31 December	
	2016	2017
	(in HK$ millions, except percentages)	
Beginning balance	2,420	3,883
Provision during the period	3,943	2,187
Bad debts charges recovered	(481)	(445)
Loans written off	(1,793)	(2,569)
Other movements	(206)	397
Closing balance	3,883	3,453
Impairment allowance as a percentage of:		
Total loans at period/year end	0.9%	0.7%
Total impaired loans at period/year end	57.4%	66.7%
Write-offs as a percentage of:		
Average total loans during the period/year	0.4%	0.6%
Total loans at period/year end	0.4%	0.5%
Total impaired loans at period/year end	26.5%	49.6%
Impaired loan	6,767	5,177
Total loan	454,242	473,776

Commencing 1 January 2018, HKFRS 9 has been adopted for impairment assessment. Stage 1 or stage 2 impairment assessment is applied to non-impaired credit exposures while stage 3 assessment is applied to impaired credit exposures.

Stage 1 financial assets are comprised of all non-impaired financial assets which have not experienced a significant increase in credit risk ("**SICR**") since initial recognition. The Group recognises 12-month expected credit losses ("**ECL**") for stage 1 financial assets. In assessing whether credit risk has increased significantly, the Group compares the default risk as at the reporting date, with the default risk as at the date of its initial recognition.

Stage 2 financial assets are comprised of all non-impaired financial assets which have experienced a SICR since initial recognition. The Group recognises lifetime ECL for stage 2 financial assets. In subsequent reporting periods, if the credit risk of the financial assets improves such that there is no longer a SICR since initial recognition, the financial assets will be transferred back to stage 1 and the Group will recognise 12-month ECL.

Stage 3 financial assets are those that the Group has classified as credit-impaired. The Group recognises lifetime ECL for all stage 3 financial assets. The Group classifies financial assets as impaired when one or more events, which have a detrimental impact on the estimated future cash flows of the financial assets have occurred after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred.

The table below sets forth a summary of the Group's reconciliations of the impairment allowance by class of financial instrument for the year ended 31 December 2018.

	Year ended 31 December 2018[1]			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	(in HK$ millions)			
Loans and advances to customers				
Balance at 1st January	839	1,028	1,177	3,044
Transfer to 12-month ECL	151	(151)	—	—
Transfer to lifetime ECL not credit-impaired	(8)	23	(15)	—
Transfer to lifetime ECL credit-impaired	(98)	(203)	301	—
New financial assets originated or purchased, assets derecognised, repayments and further lending	(88)	(230)	376	58
Write-offs	—	—	(1,649)	(1,649)
Changes in models	(229)	287	17	75
Net remeasurement of impairment allowances (including exchange adjustments)	(135)	105	1,045	1,015
Balance at 31st December	432	859	1,252	2,543
Of which:				
For advance to customers at amortised cost	431	855	1,061	2,347
For related accrued interest receivable	1	4	191	196
	432	859	1,252	2,543
Debt securities				
Balance at 1st January	277	13	—	290
Transfer to 12-month ECL	—	—	—	—
Transfer to lifetime ECL not credit-impaired	—	—	—	—
Transfer to lifetime ECL credit-impaired	—	—	—	—
New financial assets originated or purchased, assets derecognised, repayments and further lending	52	(2)	—	50
Write-offs	—	—	—	—
Changes in models	61	(1)	—	60
Net remeasurement of impairment allowances (including exchange adjustments)	(36)	(3)	—	(39)
Balance at 31st December	354	7	—	361
Of which:				
For debt securities at amortised cost	93	1	—	94
For related accrued interest receivable	1	—	—	1
	94	1	—	95
For debt securities at FVOCI	257	6	—	263
For related accrued interest receivable	3	—	—	3
	260	6	—	266

	Year ended 31 December 2018[1]			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	(in HK$ millions)			
Others				
Balance at 1st January	220	54	1	275
Transfer to 12-month ECL	5	(5)	—	—
Transfer to lifetime ECL not credit-impaired	(3)	3	—	—
Transfer to lifetime ECL credit-impaired	—	—	—	—
New financial assets originated or purchased, assets derecognised, repayments and further lending	1	(30)	—	(29)
Write-offs	—	—	—	—
Changes in models	(76)	(2)	—	(78)
Net remeasurement of impairment allowances (including exchange adjustments)	(33)	27	67	61
Balance at 31st December	114	47	68	229
Of which:				
For trade bills at FVOCI	5	—	—	5
For related accrued interest receivable	—	—	—	—
	5	—	—	5
For trade bills at amortised cost	3	—	1	4
For related accrued interest receivable	—	—	—	—
	3	—	1	4
For placements with banks and financial institutions	10	—	—	10
For related accrued interest receivable	—	—	—	—
	10	—	—	10
For cash and balances with banks and financial institutions	5	—	—	5
For related accrued interest receivable	—	—	—	—
	5	—	—	5
For loan commitments and financial guarantee contracts	66	45	—	111
For account receivables and other accounts	25	2	67	94

Note:

(1) This information has been extracted from the audited consolidated financial statements of the Issuer as at and for the year ended 31 December 2018.

The table below sets forth a summary of the Group's reconciliations of the impairment allowance by class of financial instrument for the six months ended 30 June 2018 and 30 June 2019.

	Six months ended 30 June 2018[1]				Six months ended 30 June 2019[1]			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	(in HK$ millions)				(in HK$ millions)			
Loans and advances to customers								
Balance at 1st January	839	1,028	1,177	3,044	432	859	1,252	2,543
Transfer to 12-month ECL	238	(238)	—	—	94	(94)	—	—
Transfer to lifetime ECL not credit-impaired	(7)	32	(25)	—	(20)	36	(16)	—
Transfer to lifetime ECL credit-impaired	(33)	(40)	73	—	(770)	(711)	1,481	—
New financial assets originated or purchased, assets derecognised, repayments and further lending	(68)	(132)	19	(181)	55	14	321	390
Write-offs	—	—	(841)	(841)	—	—	(2,139)	(2,139)
Changes in models	—	—	—	—	—	—	—	—
Net remeasurement of impairment allowances (including exchange adjustments)	(307)	(72)	878	499	597	749	3,255	4,601
Balance at 30th June	662	578	1,281	2,521	388	853	4,154	5,395
Of which:								
For advance to customers at amortised cost	660	575	1,058	2,293	387	849	3,946	5,182
For related accrued interest receivable	2	3	223	228	1	4	208	213
	662	578	1,281	2,521	388	853	4,154	5,395
Debt securities								
Balance at 1st January	277	13	—	290	354	7	—	361
Transfer to 12-month ECL	—	—	—	—	—	—	—	—
Transfer to lifetime ECL not credit-impaired	—	—	—	—	—	—	—	—
Transfer to lifetime ECL credit-impaired	—	—	—	—	—	—	—	—
New financial assets originated or purchased, assets derecognised, repayments and further lending	31	(2)	—	29	27	1	—	28
Write-offs	—	—	—	—	—	—	—	—
Changes in models	—	—	—	—	—	—	—	—
Net remeasurement of impairment allowances (including exchange adjustments)	(40)	(1)	—	(41)	(70)	(2)	—	(72)
Balance at 30th June	268	10	—	278	311	6	—	317

	Six months ended 30 June 2018[1]				Six months ended 30 June 2019[1]			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	(in HK$ millions)				(in HK$ millions)			
Of which:								
For debt securities at amortised cost	73	1	—	74	74	2	—	76
For related accrued interest receivable	1	—	—	1	—	—	—	—
	74	1	—	75	74	2	—	76
For debt securities at FVOCI	192	9	—	201	235	4	—	239
For related accrued interest receivable	2	—	—	2	2	—	—	2
	194	9	—	203	237	4	—	241
Others								
Balance at 1st January	220	54	1	275	114	47	68	229
Transfer to 12-month ECL	25	(25)	—	—	3	(3)	—	—
Transfer to lifetime ECL not credit-impaired	(5)	5	—	—	(1)	1	—	—
Transfer to lifetime ECL credit-impaired	—	—	—	—	(1)	—	1	—
New financial assets originated or purchased, assets derecognised, repayments and further lending	7	(12)	53	48	18	3	83	104
Write-offs	—	—	—	—	—	—	(1)	(1)
Changes in models	—	—	—	—	—	—	—	—
Net remeasurement of impairment allowances (including exchange adjustments)	(69)	13	1	(55)	(21)	5	4	(12)
Balance at 30th June	178	35	55	268	112	53	155	320
Of which:								
For trade bills at FVOCI	9	2	—	11	4	3	—	7
For related accrued interest receivable	—	—	—	—	—	—	—	—
	9	2	—	11	4	3	—	7
For trade bills at amortised cost	3	1	1	5	—	—	—	—
For related accrued interest receivable	—	—	—	—	—	—	—	—
	3	1	1	5	—	—	—	—
For placements with banks and financial institutions	10	—	—	10	8	—	—	8
For related accrued interest receivable	—	—	—	—	—	—	—	—
	10	—	—	10	8	—	—	8
For cash and balances with banks and financial institutions	9	—	—	9	8	—	—	8
For related accrued interest receivable	—	—	—	—	—	—	—	—
	9	—	—	9	8	—	—	8

	Six months ended 30 June 2018[1]				Six months ended 30 June 2019[1]			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	(in HK$ millions)				(in HK$ millions)			
For loan commitments and financial guarantee contracts	111	31	—	142	55	45	—	100
For account receivables and other accounts	36	1	54	91	37	5	155	197

Note:

(1) This information has been extracted from the unaudited consolidated interim financial statements of the Issuer as at 30 June 2019 and for the six months ended 30 June 2018 and 2019.

Top Ten Impaired Loans

As at 30 June 2019, the Group's ten largest impaired loans accounted for approximately 1.26% of its total advances and approximately 77.41% of its gross impaired loan portfolio. The majority of the borrowers of such ten largest impaired loans were engaged in property development business and accounted for approximately 40.57% of the aggregate exposure relating to such ten largest impaired loans as at 30 June 2019. As at 30 June 2019, the Group's exposure under its ten largest impaired loans ranged from approximately HK$164 million to approximately HK$3,268 million per impaired loan, and amounted to approximately HK$6,452 million in the aggregate. As at 31 December 2018, the Group's exposure under its ten largest impaired loans ranged from approximately HK$73 million to approximately HK$491 million per impaired loan, and amounted to approximately HK$1,998 million in the aggregate. As at 31 December 2017, the Group's exposure under its ten largest impaired loans ranged from approximately HK$68 million to approximately HK$1,165 million per impaired loan, and amounted to approximately HK$3,202 million in the aggregate. As at 31 December 2016, the Group's exposure under its ten largest impaired loans ranged from approximately HK$67 million to approximately HK$1,163 million per impaired loan, and amounted to approximately HK$2,324 million in the aggregate.

Impaired Loans That Have Been Restructured

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

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group's impaired loans including those that have been restructured through the rescheduling of principal repayments and deferral or waiver of interest were as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	(in HK$ millions, except percentages)			
Gross impaired loans	6,767	5,177	3,491	8,335
Specific provisions/ Individual impairment loss allowance	1,715	1,059	1,061	3,946
Net impaired loans	5,052	4,118	2,430	4,389
Gross impaired loans as a percentage of total loan portfolio	1.5%	1.1%	0.7%	1.6%
Net impaired loans as a percentage of total loan portfolio	1.1%	0.9%	0.5%	0.9%

In addition, there may be circumstances when a rescheduled loan is taken up by a new obligor. Under BEA's credit policy, if a rescheduled loan is taken up by a new obligor, BEA may regard it as a new loan (i.e. no longer a rescheduled loan) provided that (a) it is restructured with the new obligor on commercial terms; (b) the agreed haircut, if any, has been fully written off upon completion of restructuring; and (c) it is a genuine restructuring and not merely a transfer of an overdue loan among the borrower's group or related companies. Before entering into the restructuring, BEA must be satisfied with the creditworthiness and repayment ability of the new obligor. For example, the new obligor must have sufficient assets that can generate adequate funds to repay the outstanding debt.

Measured-at-amortised-cost/Held-to-maturity Debt Securities

The Group's measured-at-amortised-cost/held-to-maturity debt securities included listed and unlisted debt securities. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the book value of these securities were approximately HK$5,663 million, HK$9,798 million, HK$19,021 million and HK$19,089 million, respectively, which represented approximately 4.6%, 6.9%, 12.8% and 11.8% of the Group's total investments in securities, respectively. These debt securities included both Hong Kong dollar and U.S. dollar denominated bonds and notes. See "— *Asset and Liability Management*".

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

	As at 31 December						As at 30 June	
	2016	Percentage of total	2017	Percentage of total	2018	Percentage of total	2019	Percentage of total
	(in HK$ millions, except percentages)							
Measured-at-amortised-cost/Held-to-maturity securities issued by:								
Central governments and central banks	2,993	52.9%	2,489	25.4%	2,684	14.1%	3,519	18.4%
Public sector entities	9	0.2%	9	0.1%	46	0.2%	136	0.7%
Banks and other financial institutions	172	3.0%	5,348	54.6%	5,031	26.5%	4,112	21.6%
Corporate entities	2,489	43.9%	1,952	19.9%	11,260	59.2%	11,322	59.3%
Total	**5,663**	**100%**	**9,798**	**100%**	**19,021**	**100%**	**19,089**	**100%**

ASSET AND LIABILITY MANAGEMENT

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

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

Interest rate risk primarily results from the timing differences in the repricing of interest rate sensitive assets, liabilities, and off balance sheet items in the banking book. In determining the level of interest rate risk, assessments are made for the gap risk, basis risk and options risk. The Group manages the interest rate risk on the banking book primarily by focusing on repricing mismatches. Gap analysis provides a static view of the maturity and repricing characteristics of the Group's interest rate sensitive assets, liabilities, and off balance sheet positions. Repricing gap position limits are set to control the Group's interest rate risk.

From 1 July 2019, in line with the new requirements set by the Monetary Authority, optionality and behavioural assumptions of certain products will also be estimated in the exposure measurement.

Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed regularly through a number of hypothetical interest rate shock scenarios prescribed by the Monetary Authority. Sensitivity limits are set to control the Group's interest rate risk exposure under both earnings and economic value perspectives. The results are reported to ALCO on a regular basis.

The table below sets forth the interest rate shock impact to the Group according to the Monetary Authority predefined scenarios as at 30 June 2019:

	Adverse impacts from the Monetary Authority interest rate shock scenarios	Economic Value of Equity	Net Interest Income
		(in HK$ millions)	
1	Parallel up	56	0
2	Parallel down	2,059	2,561
3	Steepener	373	—
4	Flattener	14	—
5	Short rate up	34	—
6	Short rate down	1,539	—

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

The Group monitors its liquidity position on a daily basis to ensure the Group's funding needs can be met and the statutory ratios for monitoring and managing liquidity risk are complied with. The Group's consolidated average LCR was approximately 171.7% for the second quarter of 2019, which is above the statutory minimum requirement of 90%. For the quarter ended 30 June 2019, the Group's consolidated NSFR was approximately 114.9%, which is above the statutory minimum requirement of 100%.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, approximately 79.2%, 80.9%, 81.7% and 79.4%, respectively, of the Group's advances were made at floating rates of interest. The Group's interest-earning assets have floating interest rates fixed by reference to BEA's BLR, prime rate and interbank rates, and the Group's interest-bearing liabilities have floating interest rates by reference to interbank rates and savings deposit rates. ALCO continuously monitors the gap between HIBOR and the prime rate and, consequently, the impact on Group's net interest income. If the Group's net interest income declines due to the squeeze of the spread between BEA's prime rate and HIBOR, ALCO may recommend the adjustment of BEA's prime rate charged on advances and/or the expansion of higher-yield lending business.

The following table sets out the Group's average balances of interest-earning assets and interest-bearing liabilities, interest and related average interest rates for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019. Average balances of interest-earning assets and interest-bearing liabilities for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019 are based on the arithmetic mean of the respective balances at the beginning and the end of such period.

	Years ended 31 December									Six months ended 30 June					
	2016			2017			2018			2018			2019		
	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
	(in HK$ millions, except percentages)														
ASSETS															
Interest-earning assets															
Customers loans and credit															
Advances to customers	443,180			461,925			484,429			479,702			510,524		
Trade bills less provision	14,407			13,623			14,107			13,657			14,552		
Total	457,587	15,764	3.4	475,548	16,607	3.5	498,536	19,437	3.9	493,359	18,714	3.8	525,076	22,518	4.3
Interbank placements and loans															
Cash and balances with banks	53,946			54,834			50,372			52,674			46,927		
Cash in hand	(1,281)			(1,264)			(1,268)			(1,350)			(1,294)		
Money at call and short notice	48,038			52,033			51,593			50,402			55,087		
Placements	19,262			6,248			11,193			9,779			11,638		
Advances to banks	14			—			—			—			—		
Total	119,979	1,722	1.4	111,851	1,637	1.5	111,890	2,002	1.8	111,505	1,939	1.7	112,358	2,074	1.8
Securities															
Treasury bills	21,769			24,864			29,055			28,916			30,428		
Certificates of deposit	3,891			4,473			2,648			2,807			3,315		
Debt securities	90,986			100,059			106,360			103,784			117,189		
Total	116,646	2,866	2.5	129,396	3,363	2.6	138,063	4,125	3.0	135,507	3,872	2.9	150,932	4,714	3.1
Total interest-earning assets	694,212	20,352	2.9	716,795	21,607	3.0	748,489	25,564	3.4	740,371	24,525	3.3	788,366	29,306	3.7
Allowance for possible loan losses	(2,651)			(3,699)			(2,415)			(2,517)			(2,874)		
Non-interest earning assets	69,863			77,128			79,798			79,625			82,930		
Total assets	761,424			790,224			825,872			817,479			868,422		
LIABILITIES															
Interest-bearing liabilities															
Deposits															
Deposits from customers	528,037	7,486	1.4	548,009	7,817	1.4	563,181	9,973	1.8	565,676	9,729	1.7	579,005	11,053	1.9
Deposits and balances of banks	30,377	401	1.3	28,431	527	1.9	33,877	774	2.3	32,310	711	2.2	35,117	849	2.4
Total	558,414	7,887	1.4	576,440	8,344	1.4	597,058	10,747	1.8	597,986	10,440	1.7	614,122	11,902	1.9
Other liabilities															
Certificates of deposits	32,951			37,352			47,727			39,094			61,591		
Debt securities issued	9,137			3,025			760			906			2,166		
Loan capital	18,130			17,078			12,316			12,331			13,173		
Total	60,218	1,140	1.9	57,455	1,264	2.2	60,803	1,589	2.6	52,331	1,256	2.4	76,930	2,426	3.2
Total interest-bearing liabilities	618,632	9,027	1.5	633,895	9,608	1.5	657,861	12,336	1.9	650,317	11,696	1.8	691,052	14,328	2.1
Non interest-bearing liabilities	55,753			60,685			64,793			63,923			71,707		
Total liabilities	674,385			694,580			722,654			714,240			762,759		
NET INTEREST INCOME		11,325			11,999			13,228			12,829			14,978	
NET INTEREST SPREAD(1)			1.4			1.5			1.5			1.5			1.6

Note:

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

INTERNAL AUDIT

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

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

COMPLIANCE

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

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

As at 23 August 2019, the Board of Directors of BEA comprised the following individuals:

Name	Age	Title
Dr. the Hon. Sir David LI Kwok-po	80	Executive Chairman
Professor Arthur LI Kwok-cheung	74	Non-executive Director (Deputy Chairman)
Dr. Allan WONG Chi-yun	68	Independent Non-executive Director (Deputy Chairman)
Mr. Aubrey LI Kwok-sing	69	Non-executive Director
Mr. Winston LO Yau-lai	78	Non-executive Director
Mr. Stephen Charles LI Kwok-sze	59	Non-executive Director
Dr. Isidro FAINÉ CASAS	77	Non-executive Director
Mr. Adrian David LI Man-kiu	45	Co-Chief Executive
Mr. Brian David LI Man-bun	44	Co-Chief Executive
Dr. Daryl NG Win-kong	41	Non-executive Director
Mr. Masayuki OKU	74	Non-executive Director
Dr. the Hon. Rita FAN HSU Lai-tai	73	Independent Non-executive Director
Mr. Meocre LI Kwok-wing	64	Independent Non-executive Director
Dr. the Hon. Henry TANG Ying-yen	66	Independent Non-executive Director
Dr. Delman LEE	52	Independent Non-executive Director

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

Sir David, aged 80, joined BEA in 1969. He was appointed a Director in 1977, Chief Executive in 1981, Deputy Chairman in 1995 and Chairman in 1997. On 1 July 2019, Sir David stepped down as Chief Executive and was re-designated as Executive Chairman of the Bank. Sir David is also the Chairman of BEA China and The Bank of East Asia Charitable Foundation Limited.

Sir David is an Independent Non-executive Director of Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, San Miguel Brewery Hong Kong Limited and Vitasoy International Holdings Limited. He was an Independent Non-executive Director of PCCW Limited.

Sir David is a Member of the Council of the Treasury Markets Association. He is Founding Chairman of The Friends of Cambridge University in Hong Kong Limited, Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command, Chairman of the Executive Committee of St. James' Settlement and a Fellow of the Hong Kong Academy of Finance. He was a Member of the Executive Council of HKSAR from 2005 to 2008 and a Member of the Legislative Council of Hong Kong from 1985 to 2012.

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

Professor Li, aged 74, was a Director of BEA (1995-2002) and was re-appointed a Director in 2008 and was appointed a Deputy Chairman in 2009.

Professor Li is a Member of the Executive Council of HKSAR (he was also a Member during 2002 to June 2007 and from July 2012 to June 2017). Professor Li is also the Chairman of the Council for Sustainable Development of the Government of HKSAR ("**HKSARG**") and the Chairman of the Council of the University of Hong Kong. Professor Li was a Member of the National Committee of the Chinese People's Political Consultative Conference ("**CPPCC**") (1998-2018).

Professor Li is an Independent Non-executive Director of Shangri-La Asia Limited and Nature Home Holding Company Limited, and a Non-executive Director (from May 2010 to December 2014, and was re-appointed on 20 January 2016) of BioDiem Ltd.

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

Professor Li had held many important positions in various social service organisations, medical associations, and educational bodies, including the Education Commission, Committee on Science and Technology, the Hospital Authority, the Hong Kong Medical Council, the University Grants Committee, the College of Surgeons of Hong Kong, and the United Christian Medical Services Board.

He was a Member of the Board of Directors of the Hong Kong Science and Technology Parks Corporation and the Hong Kong Applied Science and Technology Research Institute, and Vice President of the Association of University Presidents of China. He was a Hong Kong Affairs Adviser to China.

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

Dr. Wong, aged 68, was appointed a Director in 1995 and a Deputy Chairman in 2009. He is the Chairman and Group Chief Executive Officer of VTech Holdings Limited. Dr. Wong is an Independent Non-executive Director of China-Hongkong Photo Products Holdings Ltd., Li & Fung Ltd and MTR Corporation Limited.

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

Mr. Aubrey LI Kwok-sing, *ScB, MBA*
Non-executive Director and Member of the Risk Committee

Mr. Li, aged 69, was appointed a Director in 1995. He is Chairman of IAM Holdings (Hong Kong) Limited and Chairman of the Advisory Board of MCL Financial Group Limited, both Hong Kong based investment firms. Mr. Li possesses extensive experience in the fields of investment banking, merchant banking and capital markets. He is also an Independent Non-executive Director of Cafe de Coral Holdings Limited, Kunlun Energy Company Limited, Kowloon Development Co. Ltd, Pokfulam Development Company Limited and Tai Ping Carpets International Limited. He was an Independent Non-executive Director of China Everbright International Limited.

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

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

Mr. Lo, aged 78, was appointed a Director in 2000. He is the Executive Chairman of Vitasoy International Holdings Limited.

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

Mr. Lo is the Chairman of Ping Ping Investment Company Ltd. He is an Honorary Court Member of the Hong Kong University of Science and Technology and a Life Member of Cornell University Council.

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

Mr. Li, aged 59, was appointed a Director in 2006. He is a Member of the Institute of Chartered Accountants in England and Wales. Mr. Li holds a Bachelor of Science (Hons.) Degree in Mathematics from King's College, University of London, U.K. He is a Director of Affin Hwang Investment Bank Berhad. He has extensive experience in investment banking, having held senior capital markets positions with international investment banks in London and Hong Kong and board positions with international investment funds.

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

Dr. Isidro FAINÉ CASAS
Non-executive Director and Member of the Nomination Committee

Dr. Fainé, aged 77, was appointed a Director in 2009.

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

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

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

(i) Deputy Chairman of Telefónica, S.A. (integrated operator in the telecommunication sector, listed in Spain); and

(ii) Board Member of Suez, S.A. (an expert group in water and waste management, listed in France and Brussels).

Dr. Fainé was a Director and the Chairman of the Board of Gas Natural SDG, S.A. (listed in Spain), currently listed as Naturgy Energy Group, S.A., until 6 February 2018, when he was appointed the Honorary Chairman. He was the First Vice Chairman of Repsol, S.A. (listed in Spain) until September 2016, and a Board Member of Banco BPI, S.A. (listed in Portugal) until October 2016.

Dr. Fainé is a Member of the Royal Academy of Economics and Finance and of the Royal Academy of Doctorate Holders, the Chairman of the Spanish Confederation of Savings Banks (CECA) and was the Deputy Chairman of the World Savings Banks Institute (WSBI) until 14 November 2018, when he was appointed as Chairman. From 2015 until June 2018, he was the Chairman of the European Savings Banks Group (ESBG) where he currently serves as Deputy Chairman. He is also the Chairman of the Spanish Confederation of Directors and Executives (CEDE), the Spanish Chapter of the Club of Rome and the Círculo Financiero. Dr. Fainé is also a Member of the Board of Trustees of the Prado Museum and Carlos Slim Foundation.

Dr. Fainé joined "la Caixa" and was appointed Deputy Executive General Manager in 1982. He was appointed CEO in 1999 and was further appointed Chairman of Caixa d'Estalvis i Pensions de Barcelona "la Caixa" from June 2007 to June 2014. In June 2014, "la Caixa" becomes "la Caixa" Banking Foundation, in compliance with the Savings Banks and Banking Foundations Law of 27 December 2013. He was a member of the Board of Directors of CaixaBank, S.A. (listed in Spain) since 2011, presiding from 2011 until his resignation in June 2016.

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

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

Mr. Li, aged 45, was appointed an Executive Director in 2014. He first joined BEA in 2000 as General Manager & Head of Corporate Banking Division. He was appointed Deputy Chief Executive in April 2009 and Co-Chief Executive in July 2019, and is responsible for overall management and control of the Bank Group with a particular focus on its Hong Kong Business. He serves on the boards of several Bank Group members as Chairman or Member.

Mr. Li is currently an Independent Non-executive Director of two listed companies under the Sino Group (Sino Land Company Limited and Tsim Sha Tsui Properties Limited), China State Construction International Holdings Limited, and COSCO SHIPPING Ports Limited, and is a Non-executive Director of The Berkeley Group Holdings plc (listed in London). He was previously an Independent Non-executive Director of Sino Hotels (Holdings) Limited and served as a Member of the International Advisory Board of Abertis Infraestructuras, S.A. (listed in Spain).

Mr. Li is a Member of the Anhui Provincial Committee of CPPCC and a Counsellor of the Hong Kong United Youth Association. He is Chairman of The Chinese Banks' Association, Vice President of The Hong Kong Institute of Bankers' Council and a Member of the MPF Industry Schemes Committee of the Mandatory Provident Fund Schemes Authority. He is a Board Member of The Community Chest of Hong Kong and serves on its Executive Committee, a Member of the Advisory Board of The Salvation Army, Hong Kong and Macau Command, and a Trustee of The University of Hong Kong's occupational retirement schemes. Furthermore, he serves as a Member of the Election Committees responsible for electing the Chief Executive of the HKSAR and deputies of the HKSAR to the 13th National People's Congress ("**NPC**"). He also sits on the Judging Panel of the BAI Global Banking Innovation Awards. Mr. Li was previously a Member of the Guangdong Provincial Committee of the CPPCC, a Member of the All-China Youth Federation and Deputy Chairman of the Beijing Youth Federation.

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

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

Mr. Li, aged 44, was appointed an Executive Director in 2014. He first joined the Group in 2002. He was General Manager & Head of Wealth Management Division of BEA from July 2004 to March 2009. He was appointed Deputy Chief Executive in April 2009 and Co-Chief Executive in July 2019. He is responsible for the overall management and control of the Bank Group with a particular focus on its China and international businesses. He serves on the boards of several Bank Group members as Chairman or as a Member.

Mr. Li is currently an Independent Non-executive Director of Towngas China Company Limited, Shenzhen Investment Holdings Bay Area Development Company Limited (formerly known as Hopewell Highway Infrastructure Limited) and China Overseas Land & Investment Limited.

Mr. Li holds a number of public and honorary positions, including being a Member of the National Committee of CPPCC, a Member of the Chief Executive's Council of Advisers on Innovation & Strategic Development of the HKSARG, a Council Member of the Hong Kong Trade Development Council, a Director of the Financial Services Development Council and a Member of the Aviation Development and Three-runway System Advisory Committee.

He is a Member of the Hong Kong-Europe Business Council and a Member of the Hongkong-Japan Business Co-operation Committee. He is also a Vice Chairman of the Asian Financial Cooperation Association and a Member of the Financial Consulting Committee for the Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen.

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

Dr. Daryl NG Win-kong, *BA, MSc, DHL, JP*
Non-executive Director and Member of the Risk Committee

Dr. Ng, aged 41, was appointed a Director in 2015. He is currently an Executive Director and Deputy Chairman of Sino Land Company Limited, Tsim Sha Tsui Properties Limited and Sino Hotels (Holdings) Limited. He is also a Non-independent & Non-executive Director of Yeo Hiap Seng Limited (listed in Singapore).

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

Dr. Ng is a member of the Global Leadership Council of Columbia University in the City of New York, a member of the 10th Sichuan Committee of the CPPCC, a member of the 12th and 13th Beijing Municipal Committee of the CPPCC, a member of the 10th and 11th Committees of the All-China Youth Federation and the Deputy Chairman of the Chongqing Youth Federation. He is the Vice Chairman of Hong Kong United Youth Association, a member of the Executive Committee of Hong Kong Sheng Kung Hui Welfare Council Limited, a Council Member of the Hong Kong Committee for UNICEF, a Council Member of The Hong Kong Management Association, a member of the Social Welfare Advisory Committee of the HKSARG, a co-opted member of the Community Care Fund Task Force of Commission on Poverty of HKSAR, a member of the Estate Agents Authority of HKSAR, a member of the Council of the University of Hong Kong, a member of the Court of the Hong Kong University of Science and Technology, a member of NUS Medicine International Council (NIC) at the Yong Loo Lin School of Medicine of National University of Singapore, a member of the Board of M Plus Museum Limited, a Board Member of National Heritage Board, Singapore, a member of Hong Kong Trade Development Council Mainland Business Advisory Committee, a Director of The Real Estate Developers Association of Hong Kong and a Director of The Community Chest of Hong Kong.

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

Mr. Oku, aged 74, was appointed a Director in 2015. He is an Independent Non-executive Director of Komatsu Ltd., Chugai Pharmaceutical Co., Ltd., Rengo Co., Ltd. and The Royal Hotel, Limited, all of which are companies listed in Japan. Mr. Oku is also the Honorary Advisor of Sumitomo Mitsui Financial Group, Inc. ("**SMFG**") (listed in Japan and USA) and an Auditor of Nankai Electric Railway Co. Ltd. (listed in Japan). He was an Independent Non-executive Director of Kao Corporation and Panasonic Corporation (both listed in Japan).

Mr. Oku began his career in 1968 at The Sumitomo Bank, Limited. After engaging in the bank's key acquisitions and investments in the 1980's, he was transferred to New York and appointed General Manager of Chicago Branch in 1991. He returned to Tokyo in 1992, assumed the position of General Manager of the Corporate Planning Department, and was elected as a member of the Board of Directors of the bank in 1994. In 1999, Mr. Oku was appointed Secretary General of the Integration Strategy Committee of the bank, leading its merger process with The Sakura Bank, Limited, which culminated in the formation of Sumitomo Mitsui Banking Corporation ("**SMBC**") in 2001. In 2003,

he became Deputy President of SMBC, heading Corporate Banking and International Banking Units. In 2005, he was appointed President and CEO of SMBC and Chairman of the Board of SMFG, the holding company of SMBC. During his tenure as President and CEO of SMBC, he also served as Chairman of Japanese Bankers Association in 2007 and 2010. In April 2011, he resigned as President and CEO of SMBC to devote himself to his duties as Chairman of the Board of SMFG. Mr. Oku also served as Vice Chairman of Keidanren (Japan Business Federation) from 2011 to 2015. In April 2017, Mr. Oku stepped down as Chairman of the Board of SMFG and remained as a Director until 28 June 2017.

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

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

Dr. Fan, aged 73, was appointed a Director in 2016. She is currently an Independent Non-executive Director of China Overseas Land & Investment Limited and COSCO SHIPPING Ports Limited. She was an Independent Non-executive Director of COSCO SHIPPING Holdings Co., Ltd. (formerly known as China COSCO Holdings Company Limited) and China Shenhua Energy Company Limited.

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

In the lead-up to Hong Kong's reunification with China, Dr. Fan played a valuable role as a Member of the Preliminary Working Committee for the Preparatory Committee for HKSAR from 1993 to 1995 and of the Preparatory Committee for HKSAR from 1995 to 1997. She was elected as a Hong Kong Deputy to the 9th, 10th, 11th, and 12th sessions of NPC during 1998 to 2018, and was concurrently a Member of the Standing Committee of the 11th and 12th sessions of the NPC from 2008 to 2018. Dr. Fan is now serving as the Chairman of Board of Management of the Endeavour Education Centre Limited and the Endeavour Education Trust.

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

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

Mr. Li, aged 64, was appointed a Director in 2016. He is the Chief Executive of Alpha Alliance Finance Holdings Limited.

Mr. Li was the Managing Partner of Arthur Andersen, one of the major international accounting firms, taking charge of its Hong Kong and China operations from September 1993 to February 1995. He was the Managing Director and Head of Corporate Finance of NatWest Securities Asia from March 1995

to March 1998. He was the Chief Executive of ICEA Finance Holdings Limited (from March 1998 to March 2002), an investment banking joint venture between The Industrial and Commercial Bank of China and BEA, prior to the company's becoming a wholly-owned subsidiary of BEA, which was subsequently renamed as Tung Shing Holdings Company Limited and disposed to SinoPac Securities (Cayman) Holdings Limited on 6 April 2016.

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

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

Dr. the Hon. Henry TANG Ying-yen, *GBM, GBS, JP*
Independent Non-executive Director, Chairman of the Risk Committee and Member of the Audit Committee, the Nomination Committee and the Remuneration Committee

Dr. Tang, aged 66, was appointed a Director in 2017. He was the Chief Secretary for Administration of HKSARG from 2007 to 2011 and the Financial Secretary of HKSARG from 2003 to 2007. He served as a member of the Executive Council of HKSAR from 1997 to 2011 and was a member of the Legislative Council of Hong Kong from 1991 to 1998.

Dr. Tang is a Standing Committee Member of CPPCC, Chairman of the West Kowloon Cultural District Authority Board, Chairman of Friends of Hong Kong Association, Chairman of Federation of HK Jiangsu Community Organisations Limited and Chairman of Shanghai Tang Junyuan Education Foundation.

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

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

Dr. Delman LEE, *BEng, DPhil*
Independent Non-executive Director and Member of the Audit Committee, the Nomination Committee and the Risk Committee

Dr. Lee, aged 52, was appointed a Director in 2017. He is currently the President and Chief Technology Officer of TAL Apparel Limited. He is also a non-executive director of Tradelink Electronic Commerce Limited and Dairy Farm International Holdings Limited (listed in London, Bermuda and Singapore). He was a non-executive director of Luckytex (Thailand) Public Co. Ltd. (listed in Thailand).

Dr. Lee is a Council Member of The Hong Kong Management Association. Dr. Lee possesses extensive experience in information technology and management in global operations. He also has a strong background in research.

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

SENIOR MANAGEMENT

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

Biographical details are set out above under "*Board of Directors*".

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

Biographical details are set out above under "*Board of Directors*".

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

Mr. Li, aged 59, joined BEA in 1987 as Chief Internal Auditor. He was promoted to Deputy Chief Executive & Chief Investment Officer in April 2009. Mr. Li is primarily responsible for BEA's investment activities and treasury & broking operations including treasury markets. He is also a Director of various members of the Group and a Member of various committees appointed by the Board.

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

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

Mr. Tong, aged 60, joined BEA in 1975. He was promoted to Assistant General Manager in 1995 and to General Manager in 2000. He was General Manager & Head of Personal Banking Division from 2001 to March 2009. He was further promoted to Deputy Chief Executive and Chief Operating Officer in April 2009. Mr. Tong is primarily responsible for strategic planning and control, operations support, compliance, human resources, and corporate communications of BEA. He is also a Director of various members of the Group and a Member of various committees appointed by the Board. Mr. Tong is a Fellow Certified Banker of The Hong Kong Institute of Bankers, a Fellow of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries & Administrators as well as an Associate of The Chartered Institute of Bankers. He holds a BSc from the University of Manchester.

TERMS AND CONDITIONS OF THE NOTES OTHER THAN THE UNDATED CAPITAL SECURITIES

The following is the text of the terms and conditions that, save for the paragraphs in italics, and, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the applicable Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the global note(s) (the "Global Note(s)") or global certificate(s) (the "Global Certificate(s)") representing each Series. Either: (i) the full text of these terms and conditions together with the relevant provisions of the applicable Pricing Supplement; or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the applicable Pricing Supplement or the Trust Deed, as the case may be. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in these Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by an amended and restated Trust Deed dated on or about 6 September 2019 (as may be amended or supplemented as at the date of issue of the Notes (the "**Issue Date**") and as may be further amended, restated, novated or supplemented from time to time thereafter, the "**Trust Deed**") between The Bank of East Asia, Limited (the "**Issuer**") and DB Trustees (Hong Kong) Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below).

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes, Certificates, Receipts, Coupons and Talons referred to below. An amended and restated Agency Agreement dated on or about 6 September 2019 (as may be further amended, restated, novated or supplemented from time to time thereafter, the "**Agency Agreement**") has been entered into in relation to the Notes between the Issuer, the Trustee, Deutsche Bank AG, Hong Kong Branch as initial issuing and paying agent, Deutsche Bank AG, Hong Kong Branch as CMU lodging and paying agent, transfer agent and as registrar for Registered Notes to be held in the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the "**CMU**"), Deutsche Bank AG, Hong Kong Branch as registrar of each series of Notes to be held in the CMU (the "**CMU Notes**") and Deutsche Bank Luxembourg S.A. as registrar of each series of Notes (other than CMU Notes) and the other agents named in it. The issuing and paying agent, the CMU lodging and paying agent, the other paying agents, the registrars, the transfer agent(s) and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Issuing and Paying Agent**", the "**CMU Lodging and Paying Agent**", the "**Paying Agents**" (which expression shall include the Issuing and Paying Agent and the CMU Lodging and Paying Agent), the "**Registrars**", the "**Transfer Agents**" (which expression shall include the Registrars) and the "**Calculation Agent(s)**" (such Issuing and Paying Agent, CMU Lodging and Paying Agent, Paying Agents, Registrars and Transfer Agents being together referred to as the "**Agents**"). For the purposes of these Conditions, all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Issuing and Paying Agent shall, unless provided otherwise, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly.

Copies of the Trust Deed and the Agency Agreement are available for inspection by any Noteholder at all reasonable times during usual business hours (being between 9:00 a.m. and 3:00 p.m.) on any weekday (Saturdays, Sundays and public holidays excepted) at the principal office of the Trustee (presently at Level 52, International Commercial Centre, 1 Austin Road West, Kowloon, Hong Kong) and at the specified offices of the Paying Agents following prior written request and proof of holding and identity satisfactory to the Trustee or, as the case may be, the relevant Paying Agent.

The Noteholders, the holders of the interest coupons (the "**Coupons**") relating to interest-bearing Bearer Notes and, where applicable in the case of such Bearer Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Bearer Notes of which the principal is payable in instalments (the "**Receiptholders**") are entitled to the benefit of, are bound by, and are deemed to have notice of, these Conditions, all the provisions of the Trust Deed and the applicable Pricing Supplement, and are deemed to have notice of those provisions applicable to them of the Agency Agreement. The Pricing Supplement for the Notes of this Tranche is (or the relevant provisions thereof are) attached to or endorsed hereon. References to "**applicable Pricing Supplement**" are to the Pricing Supplement (or relevant provisions thereof) attached to or endorsed hereon.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the applicable Pricing Supplement or the Trust Deed, as the case may be.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects and "**Series**" means a series of Notes comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

1 Form, Denomination and Title

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case as specified in the applicable Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note and, in the case of definitive Notes, serially numbered, in the currency (the "**Specified Currency**") and in the specified denomination(s) (the "**Specified Denomination(s)**") shown hereon. The principal amount of a Non-Preferred Loss Absorbing Note or a Dated Subordinated Note is subject to adjustment following the occurrence of a Non-Viability Event (as defined in Condition 7(a)) in accordance with Condition 7(a) and references in these Conditions to the "**principal amount**" of a Non-Preferred Loss Absorbing Note or a Dated Subordinated Note shall mean the principal amount of such Non-Preferred Loss Absorbing Note or such Dated Subordinated Note as so adjusted.

Dated Subordinated Notes (as defined in Condition 3(d)) will only be issued in registered certificated form; Dated Subordinated Notes shall not be issued in bearer form. References to "**hereon**" is to the applicable Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on the Notes.

All Registered Notes shall have the same Specified Denomination. Unless otherwise permitted by the then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies). Notwithstanding any other regulatory or listing requirements in respect of specified denominations, the minimum Specified Denomination for any series or tranche of Non-Preferred Loss Absorbing Notes and of Dated Subordinated Notes shall be, if denominated in: (i) Hong Kong dollars, HKD2,000,000; (ii) United States dollars, U.S.$250,000; (iii) Euros, €200,000; or (iv) any other currency, the equivalent in that currency to HKD2,000,000 with reference to the relevant exchange rate on the Issue Date.

Each Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Senior (Preferred) Note, a Dated Subordinated Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the interest basis and redemption basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Any Bearer Note, the principal amount of which is redeemable in instalments, is issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register (the "**Register**") that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement. The Issuer may appoint a registrar (the "**Alternative Registrar**") in accordance with the provisions of the Agency Agreement other than the Registrar in relation to any Series comprising Registered Notes. In these Conditions, "**Registrar**" includes, if applicable, in relation to any Series comprising Registered Notes, the Registrar or, as the case may be, the Alternative Registrar, as specified hereon. Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the Noteholder.

The Conditions are modified by certain provisions contained in the Global Certificate.

Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes are not issuable in bearer form.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes, and the expression "**Senior (Preferred) Noteholder**" shall be construed accordingly in relation to Senior (Preferred) Notes, the expression "**Non-Preferred Loss Absorbing Noteholder**" shall be construed accordingly in relation to Non-Preferred Loss Absorbing Notes and the expression "**Dated Subordinated Noteholder**" shall be construed accordingly in relation to Dated Subordinated Notes.

References in the Conditions to Coupons, Talons, Couponholders, Receipts and Receiptholders relate to Bearer Notes only.

2 No Exchange of Notes and Transfers of Registered Notes

(a) ***No Exchange of Notes***: Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) ***Transfer of Registered Notes***: Subject to Condition 2(f) and Condition 6, one or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or such Transfer Agent may reasonably require to

prove the title of the transferor and the authority of the individuals that have executed the form of transfer. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

Transfers of interests in the Notes evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

Transfers of interests in any Dated Subordinated Notes that are the subject of a Non-Viability Event Notice issued in accordance with Condition 7 or notice of issue of a Resolution Notice shall not be permitted during any Suspension Period (as defined in Condition 2(f)).

(c) ***Exercise of Options or Partial Redemption or Partial Write-off in Respect of Registered Notes***: In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of or a partial Write-off of or cancellation, modification, conversion and/or change in form pursuant to a Resolution Notice (as defined in Condition 7(b)(iv)) of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed or Written-off in accordance with Condition 7 or subject to cancellation, modification, conversion and/or change in form pursuant to a Resolution Notice, as the case may be. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) ***Delivery of New Certificates***: Each new Certificate to be issued pursuant to Condition 2(b) or Condition 2(c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange, except for any Write-off pursuant to Condition 7(a) in which case any new Certificate to be issued shall be available for delivery as soon as reasonably practicable. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) ***Transfers Free of Charge***: Transfers of Notes and Certificates on registration, transfer, exercise of an option, partial redemption or partial Write-off shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment by the relevant Noteholder of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security as the Registrar or the relevant Transfer Agent may require).

(f) ***Closed Periods***: No Noteholder may require the transfer of a Registered Note to be registered:

(i) during the period of 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note;

(ii) after such Noteholder has exercised its put option to require the Issuer to redeem any such Note;

(iii) during the period of 15 days ending on (and including) any date on which payment is due; or

(iv) where the Registered Notes are also Dated Subordinated Notes, during the period commencing on the date of a Non-Viability Event Notice (as defined in Condition 7(a) below) and ending on the effective date of the related Write-off.

*So long as any Notes are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear Bank SA/NV ("**Euroclear**") or Clearstream Banking S.A. ("**Clearstream, Luxembourg**") or any other clearing system, no holder may require the transfer of a Note to be registered during the period of five Clearing System Business Days (or such other period as the relevant clearing systems shall determine in accordance with their rules and procedures) commencing on the Clearing System Business Day immediately following the date on which the Non-Viability Event Notice (as defined in Condition 7(a) below) has been received by the relevant clearing systems (the "**Suspension Period**"). "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive except 25 December and 1 January).*

3 Status, Subordination and Qualification of the Notes

(a) ***Status of Senior (Preferred) Notes***: The senior (preferred) notes (being those Notes that specify their status as "**Senior (Preferred)**" in the applicable Pricing Supplement (the "**Senior (Preferred) Notes**")) and the Receipts and the Coupons relating to them constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Senior (Preferred) Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

(b) ***Status and Qualification of Non-Preferred Loss Absorbing Notes***

(i) *Status*: The non-preferred loss absorbing notes (being those Notes that specify their status as "**Non-Preferred Loss Absorbing**" in the applicable Pricing Supplement (the "**Non-Preferred Loss Absorbing Notes**")) constitute direct and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves.

(ii) *Qualification*: The applicable Pricing Supplement for any Non-Preferred Loss Absorbing Notes shall specify if such Non-Preferred Loss Absorbing Notes are intended to qualify as a Loss Absorbing Instrument.

(c) ***Ranking of Non-Preferred Loss Absorbing Notes***: Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up (as defined below) of the Issuer (other than pursuant to a Permitted Reorganisation (as defined below)), the rights of the Noteholders to payment of principal and interest on the Non-Preferred Loss Absorbing Notes, and any other obligations in respect of the Non-Preferred Loss Absorbing Notes, shall rank:

(i) subsequent in right of payment to, and of, all claims of all unsubordinated creditors of the Issuer (including its depositors) only;

(ii) *pari passu* in right of payment to and of all claims of the holders of Parity Obligations and as may be further specified in the applicable Pricing Supplement; and

(iii) senior in right of payment to, and of all claims of:

(A) the holders of any subordinated instrument or other subordinated obligation issued or entered into by the Issuer (other than Parity Obligations);

(B) the holders of any instrument or other obligation issued or entered into by the Issuer that qualifies as a Tier 2 Capital Instrument or that is specified in the applicable Pricing Supplement as being Dated Subordinated Notes or as ranking *pari passu* with the Dated Subordinated Notes and any instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank *pari passu* with the Dated Subordinated Notes by operation of law or contract; and

(C) the holders of Junior Obligations and as may be further specified in the applicable Pricing Supplement,

in each case in the manner provided in the Trust Deed and, to the extent that such Noteholders did not receive payment in full of principal of and interest on such Non-Preferred Loss Absorbing Notes, such unpaid amounts shall remain payable in full; provided that payment of such unpaid amounts shall be subject to the provisions under this Condition 3 and Condition 11(b) and Clause 5 and Clause 7 of the Trust Deed.

In the event of a Winding-Up that requires the Noteholders or the Trustee to provide evidence of their claim to principal or interest under the Non-Preferred Loss Absorbing Notes, such claims of the Noteholders of such Non-Preferred Loss Absorbing Notes will only be satisfied after claims in respect of unsubordinated creditors of the Issuer (including its depositors) have been satisfied in whole.

The subordination provisions set out in this Condition 3(c) are effective only upon the occurrence of any Winding-Up proceedings of the Issuer. In the event that a Non-Viability Event occurs, the rights of holders of Non-Preferred Loss Absorbing Notes shall be subject to Condition 7. This may not result in the same outcome for the holders of Non-Preferred Loss Absorbing Notes as would otherwise occur under this Condition 3(c) upon the occurrence of any Winding-Up proceedings of the Issuer.

(d) ***Status and Qualification of Dated Subordinated Notes***:

(i) *Status*: The dated subordinated notes (being those Notes that specify their status as "**Dated Subordinated**" in the applicable Pricing Supplement (the "**Dated Subordinated Notes**")) constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves.

(ii) *Qualification*: The applicable Pricing Supplement for any Dated Subordinated Notes shall specify if such Dated Subordinated Notes are intended to qualify as:

(A) a Tier 2 Capital Instrument; and/or

(B) a Loss Absorbing Instrument.

(e) ***Subordination of Dated Subordinated Notes***: Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up (as defined below) of the Issuer (other than pursuant to a Permitted Reorganisation (as defined below)), the rights of the Noteholders to payment of principal and interest on the Dated Subordinated Notes, and any other obligations in respect of the Dated Subordinated Notes, shall rank:

(i) subordinate and junior in right of payment to, and of all claims of:

(A) all unsubordinated creditors of the Issuer (including its depositors); and

(B) the holders of Non-Preferred Loss Absorbing Instruments;

(i) *pari passu* in right of payment to and of all claims of the holders of Parity Obligations as may be further specified in the applicable Pricing Supplement; and

(ii) senior in right of payment to, and of all claims of:

(A) the holders of other Subordinated Obligations (if any) and as may be further specified in the applicable Pricing Supplement; and

(B) the holders of Junior Obligations and as may be further specified in the applicable Pricing Supplement,

in each case in the manner provided in the Trust Deed and, to the extent that such Noteholders did not receive payment in full of principal of and interest on such Dated Subordinated Notes, such unpaid amounts shall remain payable in full; provided that payment of such unpaid amounts shall be subject to the provisions under this Condition 3 and Condition 11(b) and Clause 5 and Clause 7 of the Trust Deed.

In the event of a Winding-Up that requires the Noteholders or the Trustee to provide evidence of their claim to principal or interest under the Dated Subordinated Notes, such claims of the Noteholders of such Dated Subordinated Notes will only be satisfied after all senior ranking obligations of the Issuer have been satisfied in whole.

The subordination provisions set out in this Condition 3(e) are effective only upon the occurrence of any Winding-Up proceedings of the Issuer. In the event that a Non-Viability Event occurs, the rights of holders of Dated Subordinated Notes shall be subject to Condition 7. This may not result in the same outcome for the holders of Dated Subordinated Notes as would otherwise occur under this Condition 3(e) upon the occurrence of any Winding-Up proceedings of the Issuer.

(f) ***Set-off and Payment Void in respect of Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes***: Subject to applicable law, no holder of Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Non-Preferred Loss Absorbing Notes or the Dated Subordinated

Notes and each holder of Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes shall, by virtue of being the holder of any Non-Preferred Loss Absorbing Note or Dated Subordinated Note be deemed to have waived all such rights of such set-off, counterclaim or retention to the fullest extent permitted by law.

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

(g) ***Definitions***:

In these Conditions:

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

"**Banking Capital Regulations**" means the Banking (Capital) Rules (Cap. 155L) of Hong Kong or any other banking capital regulations as amended or superseded from time to time applicable to the regulatory capital of Authorized Institutions incorporated in Hong Kong or any supervisory guidelines issued or implemented by the Monetary Authority;

"**Group**" means the Issuer and its subsidiaries;

"**Junior Obligation**" means:

(i) all classes of the Issuer's share capital (including without limitation any ordinary shares and any preference shares of the Issuer);

(ii) any Tier 1 Capital Instruments;

(iii) in respect of the Non-Preferred Loss Absorbing Notes, any instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank junior to the Non-Preferred Loss Absorbing Notes by operation of law or contract;

(iv) in respect of the Dated Subordinated Notes, any instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank junior to the Dated Subordinated Notes by operation of law or contract; and

(v) any other instrument or obligation specified in the applicable Pricing Supplement;

"**Loss Absorbing Capacity Rules**" means the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements — Banking Sector) Rules (Cap. 628B) of Hong Kong or any other loss-absorbing capacity regulations as amended or superseded from time to time applicable to the loss-absorbing capacity of Authorized Institutions incorporated in Hong Kong or any statutory guidelines issued or implemented by the Monetary Authority;

"**Loss Absorbing Instruments**" means any notes, securities or other instruments issued, entered into, or guaranteed by the Issuer that constitute "**LAC debt instruments**" under the Loss Absorbing Capacity Rules;

"**Non-Preferred Loss Absorbing Instruments**" means any Loss Absorbing Instrument that by operation of law or contract ranks or is expressed to rank senior to any:

(i) Tier 2 Capital Instruments; and

(ii) Tier 1 Capital Instruments;

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

"**Parity Obligation**" means:

(i) in respect of Non-Preferred Loss Absorbing Notes, any instrument or other obligation issued or entered into by the Issuer that is specified in the applicable Pricing Supplement as being Non-Preferred Loss Absorbing Notes or any other Non-Preferred Loss Absorbing Instruments issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank *pari passu* with the Non-Preferred Loss Absorbing Notes by operation of law or contract;

(ii) in respect of Dated Subordinated Notes, any instrument or other obligation issued or entered into by the Issuer that is specified in the applicable Pricing Supplement as ranking *pari passu* with the Dated Subordinated Notes and any instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank *pari passu* with the Dated Subordinated Notes by operation of law or contract;

"**Permitted Reorganisation**" means a solvent reconstruction, amalgamation, reorganisation, merger or consolidation whereby all or substantially all the business, undertaking or assets of the Issuer are transferred to a successor entity which assumes all the obligations of the Issuer under the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes, as the case may be;

"**Subordinated Obligations**" means any subordinated instrument or other obligation issued, entered into, or guaranteed by the Issuer that is specified in the applicable Pricing Supplement as ranking junior to the Dated Subordinated Notes and any instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank junior to the Dated Subordinated Notes by operation of law or contract but senior to the holders of Junior Obligations;

"**Tier 1 Capital Instruments**" means any instrument or other obligation issued or entered into by the Issuer that constitutes Tier 1 capital of the Issuer pursuant to the Banking Capital Regulations;

"**Tier 2 Capital Instruments**" means any instrument or other obligation issued or entered into by the Issuer that constitutes Tier 2 capital of the Issuer pursuant to the Banking Capital Regulations;

"**Winding-Up**" means, with respect to the Issuer, a final and effective order or resolution by a competent judicial authority in the place of incorporation of the Issuer for the bankruptcy, winding-up, liquidation, administrative receivership, or similar proceeding in respect of the Issuer; and

"**Winding-Up Proceedings**" means, with respect to the Issuer, proceedings for the bankruptcy, liquidation, winding-up, administrative receivership, or other similar proceeding of the Issuer.

4 Negative Pledge in respect of Senior (Preferred) Notes only

So long as any Senior (Preferred) Note or Coupon (in respect thereof) remains outstanding (as defined in the Trust Deed), the Issuer will not, and will ensure that none of its Subsidiaries will, create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Senior (Preferred) Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either:

(a) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Noteholders; or

(b) shall be approved by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the holders of the Senior (Preferred) Notes.

In this Condition 4:

"**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market; and

"**Subsidiary**" means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer.

5 Interest and other Calculations

The amount payable in respect of the aggregate principal amount of Notes represented by a Global Certificate or a Global Note (as the case may be) shall be made in accordance with the methods of calculation provided for in the Conditions and the applicable Pricing Supplement, save that the calculation is made in respect of the total aggregate amount of the Notes represented by a Global Certificate or a Global Note (as the case may be), together with such other sums and additional amounts (if any) as may be payable under the Conditions.

(a) ***Interest on Fixed Rate Notes***: Each Fixed Rate Note bears interest on its outstanding principal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) ***Interest on Floating Rate Notes and Index Linked Interest Notes***:

(i) *Interest Payment Dates*: Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding principal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined by the Calculation Agent in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment

Date(s) is/are shown hereon, "**Interest Payment Date**" shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:

(A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment;

(B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day;

(C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined by the Calculation Agent in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) **ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) **Screen Rate Determination for Floating Rate Notes**

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR or Beijing time in the case of SHIBOR) or 11.15 a.m. (Hong Kong time in the case of CNH HIBOR) or if, at around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time in the case of CNH HIBOR), as the case may be, on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR, EURIBOR, HIBOR, CNH HIBOR or SHIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(y) If the Relevant Screen Page is not available or if, sub-paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall promptly notify the Issuer and the Issuer shall use all commercially reasonable endeavours to appoint an Independent Investment Bank and procure such Independent Investment Bank to request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is HIBOR or CNH HIBOR, the principal Hong Kong office of each of the Reference Banks or, if the Reference Rate is SHIBOR, the principal Beijing office of each of the Reference Banks, to provide the Independent Investment Bank and the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time), or, if the Reference Rate is SHIBOR, at approximately 11.30 a.m. (Beijing time), on the Interest Determination Date in question. If two or more of the Reference Banks

provide the Independent Investment Bank and the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(z) If paragraph (y) above applies and the Calculation Agent has received offered quotations from fewer than two Reference Banks, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated at the request of the Independent Investment Bank to the Independent Investment Bank and the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time), or, if the Reference Rate is SHIBOR, at approximately 11.30 a.m. (Beijing time), on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London interbank market or, if the Reference Rate is EURIBOR, the Euro-zone interbank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong interbank market, or, if the Reference Rate is SHIBOR, the Beijing interbank market, as the case may be, or, if fewer than two of the Reference Banks provide the Independent Investment Bank and the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time), or, if the Reference Rate is SHIBOR, at approximately 11.30 a.m. (Beijing time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Independent Investment Bank suitable for such purpose) informs the Independent Investment Bank and the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London interbank market or, if the Reference Rate is EURIBOR, the Euro-zone interbank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong interbank market, or, if the Reference Rate is SHIBOR, the Beijing interbank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this Condition 5(b)(iii)(B), the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

For the purposes of this Condition 5(b)(iii)(B), "**Independent Investment Bank**" means an internationally recognised independent financial institution or an independent financial adviser with appropriate experience (which shall not be the Calculation Agent) selected and appointed by the Issuer (at the expense of the Issuer) for the purposes of this Condition 5(b)(iii)(B) and notified in writing by the Issuer to the Calculation Agent and the Trustee.

(iv) *Rate of Interest for Index Linked Interest Notes*: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined by the Calculation Agent in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) ***Zero Coupon Notes***: Where a Note the interest basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)(B)).

(d) ***Dual Currency Notes***: In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined by the Calculation Agent in the manner specified hereon.

(e) ***Partly Paid Notes***: In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up principal amount of such Notes and otherwise as specified hereon.

(f) ***Accrual of Interest***: Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 9).

(g) ***Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding***:

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum Rate of Interest or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest fifth decimal place (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded

to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, "**unit**" means the lowest amount of such currency that is available as legal tender in the country(ies) of such currency.

(h) ***Calculations***: The amount of interest payable per calculation amount specified hereon (or, if no such amount is so specified, the Specified Denomination) (the "**Calculation Amount**") in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) ***Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts***: The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders and any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information as soon as possible after their determination but in no event later than:

(i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount; or

(ii) in all other cases, the fourth Business Day after such determination.

Where any Interest Payment Date or Interest Period End Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 11, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5(i) but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties and the Noteholders.

If the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority, the Issuer shall notify such stock exchange or other relevant authority as soon as possible.

(j) ***Determination or Calculation by an agent of the Issuer***: If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee may appoint an agent on its behalf to do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing provisions of this Condition 5(j), with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. The determination of any rate or amount and the making of each determination or calculation by such agent pursuant to this Condition 5(j) shall (in the absence of manifest error) be final and binding upon all parties.

(k) ***Benchmark Discontinuation***: This Condition 5(k) shall apply to only those Notes for which this Condition 5(k) is specified as "**Applicable**" in the applicable Pricing Supplement.

Notwithstanding any other provision of this Condition 5(k), no Successor Rate or Alternative Rate (as applicable) will be adopted, and no other amendments to the terms of any Dated Subordinated Notes will be made pursuant to this Condition 5(k), if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of any of the Dated Subordinated Notes as Tier 2 capital and/or the Notes as eligible liabilities or loss absorbing capacity instruments for the purposes of the Banking Capital Regulations and/or any applicable Loss Absorbing Capacity Rules.

(i) *Independent Adviser*: If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, or failing which, an Alternative Rate (in accordance with Condition 5(k)(ii)) and, in either case, an Adjustment Spread (if any, in accordance with Condition 5(k)(iii)) and any Benchmark Amendments (in accordance with Condition 5(k)(iv)).

In making such determination, the Independent Adviser appointed pursuant to this Condition 5(k) shall act in good faith as an expert and in consultation with the Issuer. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, the Paying Agents or the Noteholders for any determination made by it pursuant to this Condition 5(k).

If (A) the Issuer is unable to appoint an Independent Adviser; or (B) the Independent Adviser fails to determine a Successor Rate or, failing which, an Alternative Rate, in accordance with this Condition 5(k)(i) prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period shall be substituted in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period. For the avoidance of

doubt, this paragraph shall apply to the relevant next succeeding Interest Accrual Period only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 5(k)(i).

(ii) *Successor Rate or Alternative Rate*: If the Independent Adviser determines that:

(A) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(k)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(k)).

(iii) *Adjustment Spread*: If the Independent Advisor determines that:

(A) an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be); and

(B) the quantum of, or a formula or methodology for determining such Adjustment Spread,

then the Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(iv) *Benchmark Amendments*: If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(k) and the Independent Adviser determines:

(A) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**"); and

(B) the terms of the Benchmark Amendments,

then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(k)(v), without any requirement for the consent or approval of Noteholders, the Trustee or the Agents, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two Authorised Signatories of the Issuer pursuant to Condition 5(k)(v), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed), provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more

onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

For the avoidance of doubt, the Trustee and the Issuing and Paying Agent shall, at the direction and expense of the Issuer, effect such consequential amendments to the Trust Deed, the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 5(k)(iv). Noteholders' consent shall not be required in connection with effecting of the Successor Rate or the Alternative Rate (as applicable), any Adjustment Spread, Benchmark Amendments or such other changes, including the execution of any documents or any steps by the Trustee or the Issuing and Paying Agent (if required).

In connection with any such variation in accordance with this Condition 5(k)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

Notwithstanding any other provision of this Condition 5(k)(iv), no Successor Rate or Alternative Rate will be adopted, nor will the applicable Adjustment Spread be applied, nor will any Benchmark Amendments be made, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Dated Subordinated Notes as Tier 2 Capital Instruments and/or the Notes as eligible liabilities or loss absorbing capacity instruments for the purposes of the Banking Capital Regulations and/or any applicable Loss Absorbing Capacity Rules.

(v) *Notices*: Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 5(k) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 17, the Noteholders or the Couponholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer:

(A) confirming (I) that a Benchmark Event has occurred, (II) the Successor Rate or, as the case may be, the Alternative Rate (if applicable), (III) the applicable Adjustment Spread (if any) and (IV) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 5(k); and

(B) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread (if any).

The Trustee shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate, Alternative Rate, the Adjustment Spread or the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agents, the Noteholders and Couponholders.

(vi) *Survival of Original Reference Rate*: Without prejudice to the obligations of the Issuer under Conditions 5(k)(i), 5(k)(ii), 5(k)(iii) and 5(k)(iv), the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(iii)(B), as applicable, will continue to apply unless and until a Benchmark Event has occurred.

(vii) *Definitions*:

As used in this Condition 5(k):

"**Adjustment Spread**" means either (A) a spread (which may be positive, negative or zero) or (B) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(ii) (if no such recommendation as referred to in (i) above of this definition has been made, or in the case of an Alternative Rate) the Independent Adviser determines as being customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or

(iii) (if the Independent Adviser determines that no such spread as referred to in (ii) above of this definition is customarily applied) the Independent Adviser (in consultation with the Issuer) determines, and which is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be);

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser, determines in accordance with Condition 5(k)(ii) as being customarily applied in market usage in the international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes;

"**Authorised Signatory**" has the meaning given to it in the Trust Deed;

"**Benchmark Amendments**" has the meaning given to it in Condition 5(k)(iv);

"**Benchmark Event**" means:

(i) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(ii) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate) and such cessation is reasonably expected by the Issuer to occur prior to the Maturity Date; or

(iii) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued and such discontinuation is reasonably expected by the Issuer to occur prior to the Maturity Date; or

(iv) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes and such prohibition is reasonably expected by the Issuer to occur prior to the Maturity Date; or

(v) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder or Couponholder using the Original Reference Rate;

"**Independent Adviser**" means an independent financial institution of international or national repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 5(k)(i);

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes;

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof; and

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(l) ***Definitions***: In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of Notes denominated in a currency other than Euro and Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency;

(ii) in the case of Notes denominated in Euro, a day on which the TARGET System is operating (a "**TARGET Business Day**") and a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments of Euro in Luxembourg;

(iii) in the case of Notes denominated in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(iv) in the case of Notes denominated in a currency and/or one or more Financial Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Financial Centre(s) or, if no currency is indicated, generally in each of the Financial Centres;

"**CNY**" or "**Renminbi**" means the lawful currency of the PRC;

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual - ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number is 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number is 31 and D_1 is greater than 29, in which case D_2 will be 30;

(v) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number is 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number is 31, in which case D_2 will be 30;

(vi) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number is 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number is 31, in which case D_2 will be 30;

(vii) if "**Actual/Actual-ICMA**" is specified hereon:

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s); and "**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date;

"**Euro**" means the currency of the member states of the European Union that adopt the single currency in accordance with the treaty establishing the European Community, as amended from time to time;

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the treaty establishing the European Community, as amended;

"**HKD**" or "**Hong Kong dollars**" means the lawful currency of Hong Kong;

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period End Date and each successive period beginning on (and including) an Interest Period End Date and ending on (but excluding) the next succeeding Interest Period End Date;

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon;

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified:

(i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR; or

(ii) the day falling two Business Days in London prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor Hong Kong dollars nor Euro nor Renminbi; or

(iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is Euro; or

(iv) the day falling two Business Days in Hong Kong prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR;

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Interest Period End Date**" means each Interest Payment Date unless otherwise specified hereon;

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. (as may be updated, amended or supplemented from time to time), unless otherwise specified hereon;

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

"**Reference Banks**" means:

(i) in the case of a determination of LIBOR, the principal London office of four major banks in the London interbank market;

(ii) in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone interbank market;

(iii) in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong interbank market; and

(iv) in the case of a determination of CNH HIBOR, the principal Hong Kong office of four major banks dealing in Chinese Yuan in the Hong Kong interbank market,

in each case selected by the Issuer or as specified hereon;

"**Reference Rate**" means the rate specified as such hereon or such other page, section, caption, column or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon;

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated;

"**Sterling**" means the lawful currency of the United Kingdom; and

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer System which was launched on 19 November 2007 or any successor thereto.

(m) ***Calculation Agent***: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or, if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) ***Redemption by Instalments and Final Redemption***:

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding principal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the principal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless otherwise provided hereon and unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its principal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(iii) The specified Maturity Date in respect of each Series of Non-Preferred Loss Absorbing Notes must fall on a date that is at least 12 months following the relevant Issue Date.

(iv) The specified Maturity Date in respect of each Series of Dated Subordinated Notes must fall on a date that is at least five years following the relevant Issue Date.

Any redemption of Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes by the Issuer prior to the Maturity Date is subject to the Issuer obtaining the prior written consent of the Monetary Authority, to the extent such consent is required under the Banking Capital Regulations or Loss Absorbing Capacity Rules.

(b) ***Early Redemption***:

(i) *Zero Coupon Notes*:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 11 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below of this Condition 6(b)(i), the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 11 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above of this Condition 6(b), except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this Condition 6(b)(i) shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes*: The Early Redemption Amount payable in respect of any Note (other than Notes described in Condition 6(b)(i)), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 11, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) ***Redemption for Taxation***:

(i) *Withholding Tax in respect of any Notes*: Subject to Condition 6(l), the Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if such Note is at the relevant time a Floating Rate Note or an Index Linked Note) or, if so specified thereon, at any time (if such Note is at the relevant time neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 7, at their Early Redemption Amount (as described in

Condition 6(b)) together with interest accrued but unpaid (if any) to (but excluding) the date fixed for redemption and any Additional Amounts (as defined in Condition 9) then due or which will become due on or before the date fixed for redemption, if:

(A) the Issuer has or will become obliged to pay Additional Amounts as a result of any change in, or amendment to, the laws or regulations of a Relevant Taxing Jurisdiction (as defined in Condition 9) or, in any such case, any political subdivision or any authority thereof or therein having power to tax, or any change in the official application or interpretation of such laws or regulations, which change or amendment is announced and becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts or give effect to such treatment, as the case may be, were a payment in respect of the Notes then due and, in the case of Non-Preferred Loss Absorbing Notes and of Dated Subordinated Notes, no such notice of redemption shall be given prior to the compliance with the requirements in Condition 6(l).

Prior to giving any notice of redemption pursuant to this Condition 6(c)(i), the Issuer shall deliver to the Trustee (I) a certificate signed by two Authorised Signatories of the Issuer, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the relevant conditions have been satisfied; and (II) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment, and the Trustee shall be entitled without further enquiry to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out in paragraphs (A) and (B) above of this Condition 6(c)(i), in which event the same shall be conclusive and binding on Noteholders and Couponholders.

(ii) *Tax Deductibility in respect of Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes*: Subject to Condition 6(l), any Non-Preferred Loss Absorbing Note or Dated Subordinated Note may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if such Non-Preferred Loss Absorbing Note or Dated Subordinated Note is at the relevant time a Floating Rate Note) or at any time (if such Non-Preferred Loss Absorbing Note or Dated Subordinated Note is at the relevant time not a Floating Rate Note), on giving not less than 30 but not more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 7, their Early Redemption Amount (as described in Condition 6(b)) or, if the Early Redemption Amount is not specified hereon, at their principal amount, in each case together with interest accrued but unpaid (if any) to (but excluding) the date fixed for redemption and any Additional Amounts then due or which will become due on or before the date fixed for redemption, if in respect of payments of interest on the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes, the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of computing its taxation liabilities in Hong Kong or any political subdivision or any authority thereof or therein having power to tax:

(I) as a result of any change in, or amendment to, the laws or regulations of the Relevant Taxing Jurisdiction or any political subdivision or any authority thereof or therein having power to tax (or any taxing authority of any taxing

jurisdiction in which the Issuer is a tax resident) or any change in the official application or interpretation of such laws or regulations, which change or amendment is announced and becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes; and

(II) the foregoing cannot be avoided by the Issuer taking reasonable measures available to it,

provided that, no such notice of redemption shall be given earlier than (a) if such Non-Preferred Loss Absorbing Note or Dated Subordinated Note is a Floating Rate Note, 60 days, or (b) if such Non-Preferred Loss Absorbing Note or Dated Subordinated Note is not a Floating Rate Note, 90 days, in each case, prior to the earliest date on which the Issuer would cease to be able to claim a tax deduction in respect of the interest payable on the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes then due.

Prior to giving any notice of redemption pursuant to this Condition 6(c)(ii), the Issuer shall deliver to the Trustee:

(x) a certificate signed by two Authorised Signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the relevant conditions have been satisfied, and an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will cease to be able to claim a tax deduction in respect of the interest payable on the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes; and

(y) a copy of the written consent of the Monetary Authority as referred to in Condition 6(l),

and the Trustee shall be entitled without further enquiry and without liability to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above in this Condition 6(c)(ii), in which event the same shall be conclusive and binding on the Noteholders.

Any redemption of Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes by the Issuer pursuant to this Condition 6(c)(ii) is subject to the Issuer obtaining the prior written consent of the Monetary Authority, to the extent such consent is required under the Banking Capital Regulations or Loss Absorbing Capacity Rules.

(d) ***Redemption at the Option of the Issuer***: Subject to Condition 6(l), if Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on the date(s) specified hereon (the "**Optional Redemption Date**") provided that, in the case of Dated Subordinated Notes, no such notice of redemption shall be given prior to the compliance with Condition 6(l). Any such redemption of Notes shall be at, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 7, the Optional Redemption Amount specified hereon together with interest accrued but unpaid (if any) to (but excluding) the date fixed for redemption. Any such redemption or exercise must relate to Notes of a principal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(d).

In the case of a partial redemption of Notes, the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the principal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

Any redemption of Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes by the Issuer pursuant to this Condition 6(d) is subject to the Issuer obtaining the prior written consent of the Monetary Authority, to the extent such consent is required under the Banking Capital Regulations or Loss Absorbing Capacity Rules.

For the avoidance of doubt, the Issuer does not provide any undertaking that it will exercise its option to redeem any Notes pursuant to this Condition 6(d).

(e) ***Redemption at the Option of the Noteholders other than holders of Dated Subordinated Notes***: If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Senior (Preferred) Note, upon the holder of such Senior (Preferred) Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued but unpaid (if any) to (but excluding) the date fixed for redemption, provided that in the case of Non-Preferred Loss Absorbing Notes the earliest date on which such Note may be redeemed pursuant to this Condition 6(e) is 12 months after the relevant Issue Date.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Senior (Preferred) Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Senior (Preferred) Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (an "**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No such Senior (Preferred) Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior written consent of the Issuer.

Unless otherwise provided in these Conditions or the applicable Pricing Supplement, the Non-Preferred Loss Absorbing Notes and the Dated Subordinated Notes are not redeemable prior to the Maturity Date at the option of the Noteholders.

(f) ***Redemption for Regulatory Reasons in respect of Dated Subordinated Notes***: Subject to Condition 6(l), following the occurrence of a Capital Event, the Issuer may, having given not less than 30 but not more than 60 days' prior written notice to the Noteholders in accordance with Condition 17 (which notice shall be irrevocable), redeem in accordance with these Conditions on any Interest Payment Date (if the relevant Dated Subordinated Note is at the relevant time a Floating Rate Note) or at any time (if the relevant Dated Subordinated Note is at the relevant time not a Floating Rate Note) all, but not some only, of the relevant Dated Subordinated Notes, at, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 7, their Early Redemption Amount or, if no Early Redemption Amount is specified hereon, at their principal amount, in each case together with interest accrued but unpaid (if any) to (but excluding) the date of redemption in accordance with these Conditions and provided that no such notice of redemption shall be given prior to the compliance with Condition 6(l).

For the purposes of this Condition 6(f), a "**Capital Event**" occurs if immediately before the Issuer gives the notice of redemption referred in this Condition 6(f), the Dated Subordinated Notes, after having qualified as such, will no longer qualify (in whole but not in part) as Tier 2 capital (or equivalent) of the Issuer (other than non-qualification solely as a result of any discounting or amortisation requirements as to the eligibility of the Notes for such inclusion pursuant to the relevant legislation and supervisory guidance in force from time to time), as a result of a change or amendment in (or any change in the application or official interpretation of) the relevant provisions of the Banking Capital Regulations, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto. No such notice of redemption shall be given earlier than 90 days prior to the earliest date on which it is determined that a Capital Event has occurred.

Prior to the publication of any notice of redemption pursuant to this Condition 6(f), the Issuer shall deliver to the Trustee:

(x) a certificate signed by two Authorised Signatories of the Issuer stating that a Capital Event has occurred; and

(y) a copy of the written consent of the Monetary Authority,

and the Trustee shall accept such certificate without any further inquiry as conclusive evidence of the satisfaction of the conditions set out above without liability to any person in which event it shall be conclusive and binding on the Noteholders. Upon expiry of such notice, the Issuer shall redeem the Dated Subordinated Notes in accordance with this Condition 6(f).

Any redemption of Dated Subordinated Notes by the Issuer pursuant to this Condition 6(d) is subject to the Issuer obtaining the prior written consent of the Monetary Authority, to the extent such consent is required under the Banking Capital Regulations or Loss Absorbing Capacity Rules.

(g) ***Redemption due to Loss Absorption Disqualification Event***: Subject to Condition 6(l), following the occurrence of a Loss Absorption Disqualification Event, the Issuer may, having given not less than 30 but not more than 60 days' prior written notice to the Noteholders in accordance with Condition 17 (which notice shall be irrevocable), redeem in accordance with these Conditions on any Interest Payment Date (if the relevant Note is at the relevant time a Floating Rate Note) or at any time (if the relevant Note is at the relevant time not a Floating Rate Note) all, but not some only, of the relevant Notes, at, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 7, their Early Redemption Amount or, if no Early Redemption Amount is specified hereon, at their principal amount together with interest accrued but unpaid (if any) to (but excluding) the date of redemption in accordance with these Conditions and provided that, in the case of Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes, no such notice of redemption shall be given prior to the compliance with Condition 6(l).

For the purposes of this Condition 6(g), a "**Loss Absorption Disqualification Event**" occurs if immediately before the Issuer gives the notice of redemption referred in this Condition 6(g), the Notes, after having qualified as such, will no longer qualify (in whole but not in part) as a Loss Absorbing Instrument (or equivalent) of the Issuer (other than non-qualification solely as a result of any discounting or amortisation requirements as to the eligibility of the Notes for such inclusion pursuant to the relevant legislation and supervisory guidance in force from time to time) pursuant to the Loss Absorbing Capacity Rules, as a result of a change or amendment in (or any change in the application or official interpretation of) the relevant provisions of the Loss Absorbing Capacity Rules, or any

successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto. No such notice of redemption shall be given earlier than 90 days prior to the earliest date on which it is determined that a Loss Absorption Disqualification Event has occurred.

Prior to the publication of any notice of redemption pursuant to this Condition 6(g), the Issuer shall deliver to the Trustee:

(x) a certificate signed by two Authorised Signatories of the Issuer stating that a Loss Absorption Disqualification Event has occurred; and

(y) a copy of the written consent of the Monetary Authority,

and the Trustee shall accept such certificate without any further inquiry as conclusive evidence of the satisfaction of the conditions set out above without liability to any person in which event it shall be conclusive and binding on the Noteholders. Upon expiry of such notice, the Issuer shall redeem the Notes in accordance with this Condition 6(f).

Any redemption of Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes by the Issuer pursuant to Condition 6(f) is subject to the Issuer obtaining the prior written consent of the Monetary Authority, to the extent such consent is required under the Banking Capital Regulations or Loss Absorbing Capacity Rules.

(h) ***Partly Paid Notes***: Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6 and the provisions specified hereon.

(i) ***Purchases***: The Issuer and any of its Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price in accordance with all relevant laws and regulations and, for so long as the Notes are listed, the requirements of the relevant stock exchange and provided that, in the case of Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes, no such purchase shall be made prior to the compliance with Condition 6(l). The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for, among other things, the purposes of calculating the quorums at meetings of Noteholders or the purposes of Condition 12(a). The Issuer or any such Subsidiary may, at its option, retain such purchased Notes for its own account and/or resell or cancel or otherwise deal with them at its discretion.

(j) ***Cancellation***: All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged. Any Non-Preferred Loss Absorbing Note or Dated Subordinated Note that is written-off in full in accordance with Condition 7 shall be automatically cancelled.

(k) ***No Obligation to Monitor***: The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 6 or Condition 7 and will not be responsible or liable to the Noteholders, the Receiptholders or the Couponholders or any other person for any loss arising from any failure by it to do so. Unless and until the Trustee has express notice in writing of the occurrence of any event or circumstance within this Condition 6 or Condition 7, it shall be entitled to assume that no such event or circumstance has happened or exists.

(l) ***Conditions for Redemption or Purchase of Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes***: Notwithstanding any other provision in these Conditions, the Issuer shall not redeem any of the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes (other than pursuant to Conditions 7(a) or 11) and neither the Issuer nor any of its Subsidiaries shall purchase any of the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes unless the prior written consent of the Monetary Authority thereto shall have been obtained, to the extent such consent is required under the Banking Capital Regulations and/or the Loss Absorbing Capacity Rules, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto. This Condition 6(l) shall not apply to the Issuer or any of its Subsidiaries holding any Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes in a purely nominee, custodian or trustee capacity.

7 Non-Viability Loss Absorption and Hong Kong Resolution Authority Power

The ability to operationally effect any Write-off of any Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes or any cancellation, modification, conversion or change in form of Non-Preferred Loss Absorbing Notes or of Dated Subordinated Notes as a result of the exercise of the Hong Kong Resolution Authority Power under this Condition 7 with respect to the clearing and/or settlement of any Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes in or through the relevant clearing system(s) is subject to the availability of procedures to effect any such Write-off or such cancellation, modification, conversion or change in form in the relevant clearing system(s). However, any Write-off of any Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes, or the giving of effect of the Hong Kong Resolution Authority Power with respect to the Issuer under this Condition 7 will be effective upon the exercise of any Hong Kong Resolution Authority Power (or as may otherwise be notified in writing to Noteholders, the Trustee and Agents by the Issuer) notwithstanding any inability to operationally effect any such Write-off or any cancellation, modification, conversion or change in form as a result of the exercise of the Hong Kong Resolution Authority Power under this Condition 7 in the relevant clearing system(s).

The Trust Deed and the Agency Agreement may contain certain protections and disclaimers as applicable to the Trustee and Agents in relation to this Condition 7. Each Noteholder shall be deemed to have authorised, directed and requested the Trustee, the Registrar and the other Agents, as the case may be, to take any and all necessary action to give effect to any Write-off, cancellation, notification, conversion or change in form following the occurrence of the Non-Viability Event and/or exercise of any Hong Kong Resolution Authority Power.

(a) ***Non-Viability Loss Absorption upon a Non-Viability Event in respect of Dated Subordinated Notes***:

(i) If "**Write-off**" is specified as being applicable for the Loss Absorption option in the applicable Pricing Supplement for any Dated Subordinated Notes and a Non-Viability Event occurs and is continuing, the Issuer shall, on or prior to the provision of a Non-Viability Event Notice, irrevocably (without the need for the consent of the Trustee or the holders of any Dated Subordinated Notes), reduce the then principal amount of, and cancel any accrued but unpaid interest in respect of, each Dated Subordinated Note (in each case, in whole or in part) by an amount equal to the

Non-Viability Event Write-off Amount per Dated Subordinated Note (such reduction and cancellation, and the reduction and cancellation or conversion of any other Subordinated Capital Instruments so reduced and cancelled or converted upon the occurrence of a Non-Viability Event, where applicable, being referred to herein as the "**Write-off**", and "**Written-off**" shall be construed accordingly).

(ii) Concurrently with the giving of a Non-Viability Event Notice, the Issuer shall procure unless otherwise directed by the Monetary Authority that:

(A) a similar notice be given in respect of other Parity Capital Instruments in accordance with their terms; and

(B) concurrently and rateably with the Write-off of the Dated Subordinated Notes, the aggregate principal amount of such other Parity Capital Instruments is subject to a Write-off on a pro rata basis with the Dated Subordinated Notes.

(iii) Any Write-off pursuant to this provision will not constitute a Default under the Dated Subordinated Notes.

(iv) Any Dated Subordinated Note may be subject to one or more Write-offs in part (as the case may be), except where such Dated Subordinated Note has been Written-off in its entirety.

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

(vi) Any reference in these Conditions to principal in respect of the Dated Subordinated Notes shall refer to the principal amount of the Dated Subordinated Note(s), reduced by any applicable Write-off(s).

(vii) *Definitions*:

In these Conditions:

"**Non-Viability Event**" means the earlier of:

(A) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; and

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

"**Non-Viability Event Notice**" means the notice, which shall be given by the Issuer not more than two Hong Kong Business Days after the occurrence of a Non-Viability Event, to the Noteholders, in accordance with Condition 17, and to the Trustee and the Paying Agents in writing, and which shall state:

(A) in reasonable detail the nature of the relevant Non-Viability Event; and

(B) the Non-Viability Event Write-off Amount for:

(x) each Dated Subordinated Note; and

(y) each other Subordinated Capital Instrument in accordance with its terms;

"**Non-Viability Event Write-off Amount**" means the amount of interest and/or principal to be Written-off as the Monetary Authority may direct or, in the absence of such a direction, as the Issuer shall (in consultation with the Monetary Authority) determine to be necessary to satisfy the Monetary Authority that the Non-Viability Event will cease to continue. For the avoidance of doubt:

(A) the full amount of the Dated Subordinated Notes will be Written-off in full in the event that the amount Written-off is not sufficient for the Non-Viability Event to cease to continue; and

(B) in the case of an event falling within paragraph (B) of the definition of Non-Viability Event, the Write-off will be effected in full before any public-sector injection of capital or equivalent support.

Further, the Non-Viability Event Write-off Amount in respect of each Dated Subordinated Note will be calculated based on a percentage of the principal amount of that Dated Subordinated Note;

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

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

(b) ***Hong Kong Resolution Authority Power in respect of Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes***:

*The Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong, as amended or superseded from time to time (the "**Ordinance**") became effective on 7 July 2017 and all licensed banks in Hong Kong are subject to the Ordinance.*

(i) Notwithstanding any other term of the Non-Preferred Loss Absorbing Notes, the Dated Subordinated Notes (including without limitation Condition 7(a)), or any other agreement or arrangement, each holder of Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes and the Trustee shall be subject, and shall be deemed to agree, be bound by and acknowledge that they are each subject, to having the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes (as the case may be) being written off, cancelled, converted or modified, or to having the form of the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes (as the case may be) changed, in the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:

(A) the reduction or cancellation of all or a part of the principal amount of, or interest on, the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes;

(B) the conversion of all or a part of the principal amount of, or interest on, the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes; and

(C) the amendment or alteration of the maturity of the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes or amendment or alteration of the amount of interest payable on the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes, or the date on which the interest becomes payable, including by suspending payment for a temporary period, or any other amendment or alteration of these Conditions.

(ii) With respect to (A), (B) and (C) above of Condition 7(b)(i), references to principal and interest shall include payments of principal and interest that have become due and payable (including principal that has become due and payable at the Maturity Date), but which have not been paid, prior to the exercise of any Hong Kong Resolution Authority Power. The rights of the holders of Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes and the Trustee under the Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and these Conditions are subject to, and will be amended and varied, if necessary, solely to give effect to, the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority.

(iii) No repayment of the principal amount of the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes or payment of interest on the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes shall become due and payable or be paid after the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by the Issuer under the laws and regulations applicable to the Issuer and the Group.

(iv) Upon the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes, the Issuer shall provide a written notice (a "**Resolution Notice**") not more than two Business Days after the occurrence of such exercise of the Hong Kong Resolution Authority Power to the Noteholders in accordance with Condition 17 and to the Trustee and the Principal Paying Agent in writing.

(v) Neither the reduction or cancellation, in part or in full, of the principal amount of, or interest on the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes, the conversion thereof into another security or obligation of the Issuer or another person, or any other amendment or alteration of these Conditions or any other modification or change in form of the Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes as a result of the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Issuer nor the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Notes shall constitute a Default under Condition 11.

(vi) *Definitions*:

In this Condition 7(b):

"**Group**" means the Issuer and its Subsidiaries.

"**Hong Kong Resolution Authority Power**" means any power which may exist from time to time under the Ordinance relating to financial institutions, including licensed banks, deposit-taking companies, restricted licence banks, banking group companies, insurance companies and/or investment firms incorporated in or authorised, designated, recognised or licensed to conduct regulated financial activities in Hong Kong in effect and applicable in Hong Kong to the Issuer or other members of the Group (including, for the avoidance of doubt, powers under Part 4 and Part 5 of the Ordinance) or any other laws, regulations, rules or requirements relating thereto, as the same may be amended from time to time (whether pursuant to the Ordinance or otherwise), and pursuant to which obligations of a licensed bank, deposit-taking company, restricted licence bank, banking group company, insurance company or investment firm or any of its affiliates can be reduced, cancelled, transferred, modified and/or converted into shares or other securities or obligations of the obligor or any other person; and

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

Please see the investment consideration entitled "The operation of the resolution regime in Hong Kong may override the contractual terms of the Notes and the Undated Capital Securities" in the section headed "Investment Considerations — Considerations Relating to Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities" for further information.

8 Payments and Talons

(a) ***Bearer Notes***: Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relevant Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 8(f)(iv)) or Coupons (in the case of interest, save as specified in Condition 8(f)(ii)), as the case may be:

(i) in the case of Notes denominated in a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by transfer to an account denominated in such currency with, or, at the option of the relevant Agent, by a cheque payable in the relevant currency drawn on, a Bank; and

(ii) in the case of Notes denominated in Renminbi, by transfer to a relevant account maintained by or on behalf of the Noteholder. If a holder does not maintain a relevant account in respect of a payment to be made under the Notes, the Issuer reserves the right, in its sole discretion and upon such terms as it may determine, to make arrangements to pay such amount to that holder by another means, provided that the Issuer shall not have any obligation to make any such arrangements.

In this Condition 8(a):

"**Bank**" means a bank in the principal financial centre for such currency or, in the case of Euro, in a city in which banks have access to the TARGET System; and

"**relevant account**" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

Please see the section entitled "Clearance and Settlement". Noteholders are required to ensure that they maintain an account or, as the case may be, a relevant account into which payments of principal and interest in respect of the Bearer Notes are able to be paid by the relevant Paying Agent.

(b) ***Registered Notes***:

(i) Payments of principal (which for the purposes of this Condition 8(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 8(b)(ii) below.

(ii) Interest (which for the purpose of this Condition 8(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business:

(A) in the case of Notes denominated in a currency other than Renminbi, on the 15th day before the due date for payment thereof; and

(B) in the case of Notes denominated in Renminbi, on the fifth day before the due date for payment. Payments of interest on each Registered Note shall be made:

(x) in the case of a currency other than Renminbi, in the relevant currency by transfer to an account in the relevant currency maintained by the payee with a Bank; and

(y) in the case of Renminbi, by transfer to the registered account of the Noteholder. If a holder does not maintain a registered account in respect of a payment to be made under the Notes, the Issuer reserves the right, in its sole discretion and upon such terms as it may determine, to make arrangements to pay such amount to that holder by another means, provided that the Issuer shall not have any obligation to make any such arrangements.

In this Condition 8(b):

"**Bank**" has the meaning given to it in Condition 8(a); and

"**registered account**" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth Business Day before the due date for payment.

For so long as any of the Notes that are cleared through the CMU are represented by a Global Note or a Global Certificate, payments of interest or principal will be made to the persons for whose account a relevant interest in that Global Note or, as the case may be, that Global Certificate is credited as being held by the operator of the CMU at the relevant time, as notified to the CMU Lodging and Paying Agent by the

operator of the CMU in a relevant CMU Instrument Position Report (with its meaning specified in the CMU Rules) or in any other relevant notification by the operator of the CMU. Such payment will discharge the Issuer's obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the interbank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.

Please see the section entitled "Clearance and Settlement". Noteholders are required to ensure that they maintain an account or, as the case may be, a registered account into which payments of principal and interest in respect of the Registered Notes are able to be paid by the relevant Paying Agent.

(c) ***Payments in the United States***: Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if:

(i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due;

(ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and

(iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) ***Payments subject to fiscal laws***: Payments will be subject in all cases to:

(i) any fiscal or other laws and regulations applicable thereto, but without prejudice to the provisions of Condition 9, in the place of payment; and

(ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto.

(e) ***Appointment of Agents***: The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain:

(i) an Issuing and Paying Agent;

(ii) a Registrar in relation to Registered Notes;

(iii) a Transfer Agent in relation to Registered Notes;

(iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU;

(v) one or more Calculation Agent(s) where the Conditions so require; and

(vi) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case as approved in writing by the Trustee.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 8(c) above.

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

(f) ***Unmatured Coupons and Receipts and unexchanged Talons***:

(i) Unless the Notes provide that the relevant Coupons are to become void upon the due date for redemption of those Notes, Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), the Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 10).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relevant unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) ***Talons***: On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 10).

(h) ***Non-Business Days***: If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 8(h), "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation of the relevant Bearer Note, Certificate, Receipt or Coupon and in such other jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than Euro or Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in Euro) which is a TARGET Business Day; or

(iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

9 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong (the "**Relevant Taxing Jurisdiction**") or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. If the Issuer is required to make a deduction or withholding by or within Hong Kong, the Issuer shall pay such additional amounts (the "**Additional Amounts**") as shall result in receipt by the Noteholders, Receiptholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) ***Other connection***: to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt, Talon or Coupon by reason of his having some connection with the Relevant Taxing Jurisdiction other than the holding or ownership of the Note, Receipt, Talon or Coupon or receiving income therefrom, or the enforcement thereof; or

(b) ***Presentation more than 30 days after the Relevant Date***: where presentation is required or has occurred, presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Amounts on presenting it for payment on or before the 30th such day.

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

References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any Additional Amounts that may be payable under this Condition 9 or any undertaking given in addition to or in substitution for it under the Trust Deed.

10 Prescription

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and will become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11 Events of Default and Default

(a) ***Senior (Preferred) Notes***: If any of the following events ("**Events of Default**") occurs and is continuing, in the case of Senior (Preferred) Notes, the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. in principal amount of the Senior (Preferred) Notes then outstanding or if so directed by an Extraordinary Resolution shall (but in respect of the events in Conditions 11(a)(ii) to 11(a)(vi) (inclusive) and Condition 11(a)(x) below, only if the Trustee certifies that the occurrence of such event is materially prejudicial to the interests of the Noteholders of the relevant Series) (subject in each case to its being indemnified and/or secured and/or pre-funded to its satisfaction in its sole discretion), give notice to the Issuer that the Senior (Preferred) Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest to the date of redemption:

(i) *Non-Payment*: default is made for more than 14 days (in the case of interest) or five days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Senior (Preferred) Notes; or

(ii) *Breach of Other Obligations*: the Issuer does not perform or comply with any one or more of its other obligations under the Senior (Preferred) Notes or the Trust Deed which default is incapable of remedy or, if capable of remedy, is not remedied within 21 days after notice of such default shall have been given to the Issuer by the Trustee; or

(iii) *Cross-Default*:

(A) any other present or future indebtedness for monies borrowed or raised by the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described);

(B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period; or

(C) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (C) have occurred equals or exceeds U.S.$15,000,000 or its equivalent in any other currency; or

(iv) *Enforcement Proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 45 days; or

(v) *Security Enforced*: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator, manager or other similar person); or

(vi) *Insolvency*: the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or

(vii) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Subsidiaries, or the Issuer or any of its Subsidiaries shall apply or petition for a winding-up or administration order in respect of itself or ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or

(viii) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (I) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Senior (Preferred) Notes and the Trust Deed, (II) to ensure that those obligations are legally binding and enforceable and (III) to make the Senior (Preferred) Notes and the Trust Deed admissible in evidence in the courts of England is not taken, fulfilled or done; or

(ix) *Illegality*: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Senior (Preferred) Notes or the Trust Deed; or

(x) *Analogous Events*: any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 11(a)(i) to 11(a)(ix) (both inclusive),

(b) *Non-Preferred Loss Absorbing Notes and Dated Subordinated Notes*: In the case of the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes:

(i) If default is made in the payment of any amount of principal or interest due in respect of any of the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes and the default continues for a period of five business days in Hong Kong (in the case of principal) or 10 business days in Hong Kong (in the case of interest) (in relation to Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes, each such event, a "**Default**"), then the Trustee at its discretion may, subject as provided in Condition 13, in order to enforce payment, without further notice, institute Winding-Up Proceedings in Hong Kong against the Issuer, but may take no further action in respect of such default (but without prejudice to Condition 11(b)(iii) below);

(ii) If a Write-off has occurred as described in Condition 7 or if there is a reduction or cancellation of the principal amount of, or interest on, the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes, the conversion thereof into another security or obligation of the Issuer or another person or any other amendment or alteration of these Conditions or any other modification or change in form of the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes as a result of the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Issuer, or the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority as described in Condition 7(b)(v), such event will not constitute a Default under these Conditions; and

(iii) If an order is made or an effective resolution is passed for the Winding-Up of the Issuer in Hong Kong (except for the purposes of reconstruction, amalgamation or reorganisation the terms of which have previously been approved by an Extraordinary Resolution of the Non-Preferred Loss Absorbing Noteholders or Dated Subordinated Noteholders) (in relation to Non-Preferred Loss Absorbing Notes or Dated Subordinated Notes, such event also a "**Default**"), then the Trustee at its discretion may, subject as provided in Condition 13(b), give written notice to the Issuer that the Non-Preferred Loss Absorbing Notes or the Dated Subordinated Notes are, and they shall forthwith thereupon become, immediately due and repayable at their principal amount together with accrued interest without further action or formality.

12 Meetings of Noteholders, Modification, Waiver and Substitution

(a) ***Meetings of Noteholders***: The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provision of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee if requested in writing by Noteholders holding not less than 10 per cent. in aggregate principal amount of the Notes for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment

of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the principal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum Rate of Interest and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

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

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the applicable Pricing Supplement in relation to such Series.

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

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

(d) ***Entitlement of the Trustee***: In connection with the exercise of its functions, powers, rights and discretions (including but not limited to those referred to in this Condition 12), the Trustee shall have regard to the interests of the Noteholders, the Receiptholders or the Couponholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders, Receiptholders or Couponholders and the Trustee, acting for and on behalf of Noteholders, shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in each case in respect of any tax consequence of any such exercise upon individual Noteholders, Receiptholders or Couponholders.

13 Enforcement

(a) Without prejudice to Condition 11, the Trustee may, subject as provided below in this Condition 13, at its discretion and without further notice, take such steps and/or actions and/or institute such proceedings as it may think fit against the Issuer if the Issuer fails to perform, observe or comply with any obligation, condition or provision binding on the Issuer under the Notes, the Receipts, the Coupons or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of Dated Subordinated Notes), provided that the Issuer shall not as consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or interest in respect of the Notes sooner than the same would otherwise have been payable by it.

(b) The Trustee shall not be bound to take action as referred to in these Conditions or any other action under the Trust Deed unless (i) it shall have been so requested in writing by Noteholders holding at least 25 per cent. of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(c) No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within reasonable period and such failure is continuing. In respect of Dated Subordinated Notes only, subject to applicable laws, no remedy (including the exercise of any right of set-off or analogous event) other than those provided for in Condition 11 and Conditions 13(a) and 13(b) or submitting claims in the Winding-Up of the Issuer will be available to the Trustee or the Dated Subordinated Noteholders. No Dated Subordinated Noteholder shall be entitled to institute Winding-Up Proceedings in Hong Kong (or elsewhere) against the Issuer or to submit claim in such Winding-Up except that, if the Trustee, having become bound to institute such proceedings as aforesaid, fails to do so, or, being able and bound to submit a claim in such Winding-Up, fails to do so, in each case within a reasonable period and such failure is continuing, then any such holder may, himself institute Winding-Up Proceedings against the Issuer in Hong Kong (but not elsewhere) and/or submit a claim in such Winding-Up to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

14 Indemnification of the Trustee

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

The Trustee may rely without liability to Noteholders, Receiptholders or Couponholders on any report, confirmation or certificate or any advice or opinion of any legal counsel, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by

reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate, advice or opinion and in such event, such report, confirmation, certificate, advice or opinion shall be binding on the Issuer, the Trustee, the Noteholders, the Receiptholders and the Couponholders.

15 Replacement of Notes, Certificates, Receipts, Coupons and Talons

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

16 Further Issues

The Issuer may from time to time without the consent of the Noteholders, the Couponholders or the Receiptholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 16 and consolidated and forming a single series with the Notes. Any further securities consolidated and forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

17 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing and, so long as the Registered Notes are listed on a stock exchange or admitted to trading by another relevant authority and the rules of that exchange or a relevant authority so require, published in a daily newspaper having general circulation in the place or places required by those rules. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Hong Kong (which is expected to be the South China Morning Post in Hong Kong). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 17.

So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of:

(i) Euroclear or Clearstream, Luxembourg or the Alternative Clearing System (as defined in the form of the Global Certificate), notices to Noteholders shall be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions; or

(ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in the relevant CMU Instrument Position Report issued by the Monetary Authority on the business day preceding the date of despatch of such notice.

A Non-Viability Event Notice or Resolution Notice to the holders of the relevant Dated Subordinated Notes shall be deemed to have been validly given on the date on which such notice is published in a daily newspaper of general circulation in Asia (which is expected to be Asian Wall Street Journal) or, so long as Notes are listed on The Stock Exchange of Hong Kong Limited (the "**HKSE**"), published on the website of the HKSE. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Hong Kong. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

18 Contracts (Rights of Third Parties) Act

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that the Notes expressly provide for such Act to apply to any of their terms but this shall not affect any right or remedy that exists or is available apart from such Act and is without prejudice to the rights of the Noteholders as set out in Condition 13.

19 Governing Law and Jurisdiction

(a) ***Governing Law***: The Trust Deed, the Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, save that Conditions 3(e), 3(f) and 7 are governed by, and shall be construed in accordance with, Hong Kong law.

(b) ***Jurisdiction***: The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons, save that the courts of Hong Kong shall have exclusive jurisdiction to settle any disputes that arise out of or are in connection with Conditions 3(e), 3(f) and 7, and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of the Trustee and each of the holders of the Notes, Receipts, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) ***Service of Process***: The Issuer has in the Trust Deed irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. If for any reason such process agent ceases to be able to accept service of process in England, the Issuer shall appoint a new agent to accept such service of process in England as soon as practicable.

20 Headings

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

TERMS AND CONDITIONS OF THE UNDATED CAPITAL SECURITIES

The following is the text of the terms and conditions that, save for the paragraphs in italics, and, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the applicable Pricing Supplement, shall be applicable to the Undated Capital Securities in definitive form (if any) issued in exchange for the global certificate(s) (the "Global Certificate(s)") representing each Series. Either: (i) the full text of these terms and conditions together with the relevant provisions of the applicable Pricing Supplement; or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on the Certificates relating to such Undated Capital Securities. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the applicable Pricing Supplement or the Trust Deed, as the case may be. Those definitions will be endorsed on the definitive Undated Capital Securities or Certificates, as the case may be. References in these Conditions to "Undated Capital Securities" are to the Undated Capital Securities of one Series only, not to all Undated Capital Securities that may be issued under the Programme.

The Undated Capital Securities are constituted by an amended and restated Trust Deed dated on or about 6 September 2019 (as may be amended or supplemented as at the date of issue of the Undated Capital Securities (the "**Issue Date**") and as may be further amended, restated, novated or supplemented from time to time thereafter, the "**Trust Deed**") between The Bank of East Asia, Limited (the "**Issuer**") and DB Trustees (Hong Kong) Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Securityholders (as defined below).

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed. An amended and restated Agency Agreement dated on or about 6 September 2019 (as may be further amended, restated, novated or supplemented from time to time thereafter, the "**Agency Agreement**") has been entered into in relation to the Undated Capital Securities between the Issuer, the Trustee, Deutsche Bank AG, Hong Kong Branch as initial issuing and paying agent, Deutsche Bank AG, Hong Kong Branch as CMU lodging and paying agent, transfer agent and as registrar for Undated Capital Securities to be held in the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the "**CMU**"), Deutsche Bank AG, Hong Kong Branch as registrar of each series of Undated Capital Securities to be held in the CMU and Deutsche Bank Luxembourg S.A. as registrar of each series of Undated Capital Securities (other than Undated Capital Securities to be held in the CMU) and the other agents named in it. The issuing and paying agent, the CMU lodging and paying agent, the other paying agents, the registrars, the transfer agent(s) and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Issuing and Paying Agent**", the "**CMU Lodging and Paying Agent**", the "**Paying Agents**" (which expression shall include the Issuing and Paying Agent and the CMU Lodging and Paying Agent), the "**Registrars**", the "**Transfer Agents**" (which expression shall include the Registrars) and the "**Calculation Agent(s)**" (such Issuing and Paying Agent, CMU Lodging and Paying Agent, Paying Agents, Registrars and Transfer Agents being together referred to as the "**Agents**"). For the purposes of these Conditions, all references (other than in relation to the determination of Distribution and other amounts payable in respect of the Undated Capital Securities) to the Issuing and Paying Agent shall, unless provided otherwise, with respect to a Series of Undated Capital Securities to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly.

Copies of the Trust Deed and the Agency Agreement are available for inspection by any Securityholder at all reasonable times during usual business hours (being between 9:00 a.m. and 3:00 p.m.) on any weekday (Saturdays, Sundays and public holidays excepted) at the principal office of the Trustee (presently at Level 52, International Commercial Centre, 1 Austin Road West, Kowloon, Hong Kong) and at the specified offices of the Paying Agents following prior written request and proof of holding and identity satisfactory to the Trustee or, as the case may be, the relevant Paying Agent.

The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of, these Conditions, all the provisions of the Trust Deed and the applicable Pricing Supplement, and are deemed to have notice of those provisions applicable to them of the Agency Agreement. The Pricing Supplement for the Undated Capital Securities of this Tranche is (or the relevant provisions thereof are) attached to or endorsed hereon. References to "**applicable Pricing Supplement**" are to the Pricing Supplement (or relevant provisions thereof) attached to or endorsed hereon.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the applicable Pricing Supplement or the Trust Deed, as the case may be.

As used in these Conditions, "**Tranche**" means Undated Capital Securities which are identical in all respects and "**Series**" means a series of Undated Capital Securities comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of Distribution and their issue price) have identical terms on issue and are expressed to have the same series number.

1 Form, Denomination and Title

The Undated Capital Securities are issued in registered form in the Specified Denomination(s) shown hereon. References to "**hereon**" are to the applicable Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Undated Capital Security and, in the case of definitive Undated Capital Securities, serially numbered, in the currency (the "**Specified Currency**") and in the specified denomination(s) (the "**Specified Denomination(s)**") shown hereon. The principal amount of an Undated Capital Security is subject to adjustment following the occurrence of a Non-Viability Event (as defined in Condition 7(a)) in accordance with Condition 7(a) and references in these Conditions to the "**principal amount**" of an Undated Capital Security shall mean the principal amount of such Undated Capital Security as so adjusted.

All Undated Capital Securities shall have the same Specified Denomination. Notwithstanding any other regulatory or listing requirements in respect of specified denominations, the minimum Specified Denomination for any series or tranche of Undated Capital Securities shall be, if denominated in: (i) Hong Kong dollars, HKD2,000,000; (ii) United States dollars, U.S.$250,000; (iii) Euros, €200,000; or (iv) any other currency, the equivalent in that currency to HKD2,000,000 with reference to the relevant exchange rate on the Issue Date.

Each Undated Capital Security is a Fixed Rate Undated Capital Security, a Floating Rate Undated Capital Security or any other kind of Undated Capital Security, depending on the Distribution and redemption/payment basis shown hereon.

Undated Capital Securities are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(b), each Certificate shall represent the entire holding of Undated Capital Securities by the same holder.

Title to the Undated Capital Securities shall pass only by registration in the register (the "**Register**") that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement. The Issuer may appoint a registrar (the "**Alternative Registrar**") in accordance with the provisions of the Agency Agreement other than the Registrar in relation to any Series. In these Conditions, "**Registrar**" includes, if applicable, in relation to any Series, the Registrar or, as the case may be, the Alternative Registrar, as specified hereon. Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Undated Capital Security shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the Securityholder.

The Conditions are modified by certain provisions contained in the Global Certificate.

The Undated Capital Securities are not issuable in bearer form.

In these Conditions, "**Securityholder**" or "**holder**" in relation to any Undated Capital Securities means the person in whose name an Undated Capital Security is registered.

2 Transfers of Undated Capital Securities

(a) ***Transfers of Interests in Undated Capital Securities***: Subject to Condition 2(e) and Condition 6, one or more Undated Capital Securities may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Undated Capital Securities to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals that have executed the form of transfer. In the case of a transfer of part only of a holding of Undated Capital Securities represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Undated Capital Securities and entries on the Register will be made subject to the detailed regulations concerning transfers of Undated Capital Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Securityholder upon request.

Transfers of interests in the Undated Capital Securities evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

Transfers of interests in any Undated Capital Securities that are the subject of a Non-Viability Event Notice issued in accordance with Condition 7 or notice of issue of a Resolution Notice shall not be permitted during any Suspension Period (as defined in Condition 2(f)).

(b) ***Exercise of Options or Partial Redemption or Partial Write-off in Respect of Undated Capital Securities***: In the case of an exercise of an Issuer's option in respect of, or a partial redemption of or a partial Write-off of or cancellation, modification, conversion and/or change in form pursuant to a Resolution Notice (as defined in Condition 7(b)(iv)) of, a holding of Undated Capital Securities represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed or Written-off in accordance with Condition 7 or subject to cancellation, modification, conversion and/or change in form pursuant to a Resolution Notice, as the case may be. In the case of a partial exercise of an option resulting in Undated Capital Securities of the same holding having different terms, separate Certificates shall be issued in respect of those Undated Capital Securities of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Undated Capital Securities to a person who is already a holder of Undated Capital Securities, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(c) ***Delivery of New Certificates***: Each new Certificate to be issued pursuant to Conditions 2(a) or 2(b) shall be available for delivery within three business days of receipt of the form of transfer and surrender of the Certificate for exchange, except for any Write-off pursuant to Condition 7(a) in which case any new Certificate to be issued shall be available for delivery as soon as reasonably practicable. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(c), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) ***Transfers Free of Charge***: Transfers of Undated Capital Securities and Certificates on registration, transfer, exercise of an option, partial redemption or partial Write-off shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment by the relevant Securityholder of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security as the Registrar or the relevant Transfer Agent may require).

(e) ***Closed Periods***: No Securityholder may require the transfer of an Undated Capital Security to be registered:

(i) during the period of 15 days ending on (and including) the due date for redemption of, or payment of principal or Distributions in respect of, that Undated Capital Security;

(ii) during the period of 15 days prior to any date on which Undated Capital Securities may be called for redemption by the Issuer at its option pursuant to Condition 6(d);

(iii) after any such Undated Capital Security has been called for redemption;

(iv) during the period of seven days ending on (and including) any Record Date; or

(v) during a Suspension Period.

In this Condition 2(e):

"**Business Day**" has the meaning given to such term in Condition 4(i) and shall be deemed to include a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in Hong Kong; and

"**Suspension Period**" means the period commencing on the date of a Non-Viability Event Notice (as defined in Condition 7(a) below) and ending on (and including) the close of business in Hong Kong on the effective date of the related Write-off.

*So long as any Undated Capital Securities are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear Bank SA/NV ("**Euroclear**") or Clearstream Banking S.A. ("**Clearstream, Luxembourg**") or any other clearing system, no holder may require the transfer of an Undated Capital Security to be registered during the period of five Clearing System Business Days (or such other period as the relevant clearing systems shall determine in accordance with their rules and procedures) commencing on the*

*Clearing System Business Day immediately following the date on which the Non-Viability Event Notice (as defined in Condition 7(a) below) has been received by the relevant clearing systems (the "**Suspension Period**"). "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive except 25 December and 1 January).*

3 Status, Qualification, Subordination and Set-off

(a) Status and Qualification of the Undated Capital Securities:

(i) *Status*: The Undated Capital Securities (being those securities that specify their status as "**Undated Capital Securities**" in the applicable Pricing Supplement) constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves.

(ii) *Qualification*: The Undated Capital Securities are intended to qualify as:

(A) Additional Tier 1 capital under the Banking Capital Regulations; and

(B) a Loss Absorbing Instrument.

(b) Subordination of Undated Capital Securities: Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up (as defined below) of the Issuer (other than pursuant to a Permitted Reorganisation (as defined below)), the rights of the Securityholders to payment of principal and Distributions on the Undated Capital Securities, and any other obligations in respect of the Undated Capital Securities, shall rank:

(i) subordinate and junior in right of payment to, and of all claims of:

(A) all unsubordinated creditors of the Issuer (including its depositors);

(B) the holders of Non-Preferred Loss Absorbing Instruments of the Issuer and/or Tier 2 Capital Instruments of the Issuer; and

(C) all other Subordinated Creditors of the Issuer (other than holders of Non-Preferred Loss Absorbing Instruments of the Issuer and/or Tier 2 Capital Instruments of the Issuer);

(ii) *pari passu* in right of payment to and of all claims of the holders of Parity Obligations and as may be further specified in the applicable Pricing Supplement; and

(iii) senior in right of payment to and of all claims of the holders of Junior Obligations and as may be further specified in the applicable Pricing Supplement,

in each case in the manner provided in the Trust Deed.

In the event of a Winding-Up that requires the Securityholders or the Trustee to provide evidence of their claim to principal or Distribution under the Undated Capital Securities, such claims of the Securityholders of such Undated Capital Securities will only be satisfied after all senior ranking obligations of the Issuer have been satisfied in whole.

No amount may be claimed in respect of any Distribution that has been cancelled pursuant to a Mandatory Distribution Cancellation Event (as defined in Condition 5(b)) or an Optional Distribution Cancellation Event (as defined in Condition 5(a)).

In the event that (A) the Securityholders do not receive payment in full of principal due and payable in respect of the Undated Capital Securities plus Distribution thereon accrued to the date of repayment in any Winding-Up and (B) the winding-up order or resolution passed for the Winding-Up of the Issuer or the dissolution of the Issuer is subsequently stayed, discharged, rescinded, avoided, annulled or otherwise rendered inoperative, then to the extent that such Securityholders did not receive payment in full of such principal of and Distribution on such Undated Capital Securities, such unpaid amounts shall remain payable in full; provided that payment of such unpaid amounts shall be subject to the provisions under this Condition 3 and Condition 11, and Clause 5 and Clause 7 of the Trust Deed. No amount may be claimed in respect of any Distribution that has been cancelled pursuant to a Mandatory Distribution Cancellation Event or an Optional Distribution Cancellation Event.

The subordination provisions set out in this Condition 3(b) are effective only upon the occurrence of any Winding-Up proceedings of the Issuer. In the event that a Non-Viability Event occurs, the rights of holders of Undated Capital Securities shall be subject to Condition 7. This may not result in the same outcome for the holders of Undated Capital Securities as would otherwise occur under this Condition 3(b) upon the occurrence of any Winding-Up proceedings of the Issuer.

On a Winding-Up of the Issuer, there may be no surplus assets available to meet the claims of the Securityholders after the claims of the parties ranking senior to the Securityholders (as provided in this Condition 3 and Clause 5 of the Trust Deed) have been satisfied.

In these Conditions:

"**Additional Tier 1 Capital Instruments**" means any instrument or other obligation issued or entered into by the Issuer that constitutes Additional Tier 1 capital of the Issuer pursuant to the Banking Capital Regulations;

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

"**Banking Capital Regulations**" means the Banking (Capital) Rules (Cap. 155L) of Hong Kong or any other banking capital regulations as amended or superseded from time to time applicable to the regulatory capital of Authorized Institutions incorporated in Hong Kong or any supervisory guidelines issued or implemented by the Monetary Authority;

"**Junior Obligation**" means all classes of the Issuer's ordinary share capital, any Tier 1 Capital Instruments which are not Additional Tier 1 Capital Instruments and any instrument or other obligation issued, entered into or guaranteed by the Issuer that ranks or is expressed to rank junior to the Undated Capital Securities by operation of law or contract;

"**Loss Absorbing Capacity Rules**" means the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements — Banking Sector) Rules (Cap. 628B) of Hong Kong or any other loss-absorbing capacity regulations as amended or superseded from time to time applicable to the loss-absorbing capacity of Authorized Institutions incorporated in Hong Kong or any statutory guidelines issued or implemented by the Monetary Authority;

"**Loss Absorbing Instruments**" means any notes, securities or other instruments issued, entered into, or guaranteed by the Issuer that constitute "**LAC debt instruments**" under the Loss Absorbing Capacity Rules;

"**Non-Preferred Loss Absorbing Instruments**" means any Loss Absorbing Instrument that by operation of law or contract ranks or is expressed to rank senior to any:

(i) Tier 2 Capital Instruments; and

(ii) Tier 1 Capital Instruments;

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

"**Parity Obligation**" means any Additional Tier 1 Capital Instrument, and any other instrument or other obligation issued, entered into, or guaranteed by the Issuer that ranks or is expressed to rank *pari passu* with the Undated Capital Securities by operation of law or contract;

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

"**Shares**" means the ordinary share capital of the Issuer;

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

"**Tier 1 Capital Instruments**" means any instrument or other obligation issued or entered into by the Issuer that constitutes Tier 1 capital of the Issuer pursuant to the Banking Capital Regulations;

"**Tier 2 Capital Instruments**" means any instrument or other obligation issued or entered into by the Issuer that constitutes Tier 2 capital of the Issuer pursuant to the Banking Capital Regulations;

"**Winding-Up**" means, with respect to the Issuer, a final and effective order or resolution by a competent judicial authority in the place of incorporation of the Issuer for the bankruptcy, winding-up, liquidation, administrative receivership, or similar proceeding in respect of the Issuer; and

"**Winding-Up Proceedings**" means, with respect to the Issuer, proceedings for the bankruptcy, liquidation, winding-up, administrative receivership, or other similar proceeding of the Issuer.

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

In the event that any Securityholder nevertheless receives (whether by set-off or otherwise) directly in any Winding-Up Proceedings in respect of the Issuer any payment by, or distribution of assets of, the Issuer of any kind or character, whether in cash, property or

securities, in respect of any amount owing to it by the Issuer arising under or in connection with the Undated Capital Securities, other than in accordance with this Condition 3(c), such Securityholder shall, subject to applicable law, immediately pay an amount equal to the amount of such payment or discharge to the liquidator for the time being in the Winding-Up of the Issuer for distribution and each Securityholder, by virtue of becoming a holder or any Undated Capital Security, shall be deemed to have so agreed and undertaken with, and to, the Issuer and all depositors and other unsubordinated creditors of the Issuer for good consideration.

4 Distribution and other Calculations

The amount payable in respect of the aggregate principal amount of Undated Capital Securities represented by a Global Certificate in accordance with the methods of calculation provided for in the Conditions and the applicable Pricing Supplement, save that the calculation is made in respect of the total aggregate amount of the Undated Capital Securities represented by a Global Certificate, together with such other sums and additional amounts (if any) as may be payable under the Conditions.

(a) ***Distribution on Fixed Rate Undated Capital Securities***: Subject to Condition 5, each Fixed Rate Undated Capital Security confers a right to receive distribution (each a "**Distribution**") on its outstanding principal amount (subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 7) from and including the Distribution Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Distribution, such Distribution being payable in arrear on each Distribution Payment Date.

The Rate of Distribution in respect of a Fixed Rate Undated Capital Security shall be:

(i) if no Reset Date is specified in the applicable Pricing Supplement, the Initial Distribution Rate; or

(ii) if a Reset Date is specified in the applicable Pricing Supplement:

(A) for the period from, and including, the Distribution Commencement Date to, but excluding, the First Reset Date specified in the applicable Pricing Supplement, the Initial Distribution Rate; and

(B) for the period from, and including, the First Reset Date and each Reset Date (as specified in the applicable Pricing Supplement) falling thereafter to, but excluding, the immediately following Reset Date, the Reset Distribution Rate.

The amount of Distribution payable shall be determined in accordance with Condition 4(e).

For the purposes of this Condition 4(a), "**Reset Distribution Rate**" means the Relevant Rate with respect to the relevant Reset Date plus the Spread.

Distributions will not be cumulative and Distributions which are not paid in accordance with these Conditions will not accumulate or compound and Securityholders will have no right to receive such Distributions at any time, even if subsequent Distributions are paid in the future, or be entitled to any claim in respect thereof against the Issuer. Unless otherwise provided in these Conditions, each Undated Capital Security will cease to confer the right to receive any Distribution from the due date for redemption unless, upon surrender of the Certificate representing such Undated Capital Security, payment of principal is improperly withheld or refused. In such event Distribution shall continue to accrue at such rate (both before and after judgment) until whichever is the earlier of (x) the date on which all amounts due in respect of such Undated Capital Security have been paid;

and (y) five days after the date on which the full amount of moneys payable in respect of such Undated Capital Security has been received by the Issuing and Paying Agent and notice to that effect has been given to the Securityholders in accordance with Condition 15.

No Securityholder shall have any claim in respect of any Distribution or part thereof cancelled and/or not due or payable pursuant to these Conditions. Accordingly, such Distribution shall not accumulate for the benefit of the Securityholders or entitle the Securityholders to any claim in respect thereof against the Issuer.

(b) Distribution on Floating Rate Undated Capital Securities:

(i) *Distribution Payment Dates*: Subject to Condition 5, each Floating Rate Undated Capital Security confers a right to receive distribution (each a "**Distribution**") on its outstanding principal amount from and including the Distribution Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Distribution, such Distribution being payable in arrear on each Distribution Payment Date. The amount of Distribution payable shall be determined by the Calculation Agent in accordance with Condition 4(e). Such Distribution Payment Date(s) is/are either shown hereon as Specified Distribution Payment Dates or, if no Specified Distribution Payment Date(s) is/are shown hereon, "**Distribution Payment Date**" shall mean each date which falls the number of months or other period shown hereon as the Distribution Period after the preceding Distribution Payment Date or, in the case of the first Distribution Payment Date, after the Distribution Commencement Date.

(ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:

(A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment;

(B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day;

(C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Distribution for Floating Rate Undated Capital Securities*: The Rate of Distribution in respect of Floating Rate Undated Capital Securities for each Distribution Accrual Period shall be determined by the Calculation Agent in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Undated Capital Securities

Where ISDA Determination is specified hereon as the manner in which the Rate of Distribution is to be determined, the Rate of Distribution for each Distribution Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this paragraph (A), "**ISDA Rate**" for a Distribution Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Distribution Accrual Period unless otherwise specified hereon.

For the purposes of this paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Undated Capital Securities

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Distribution is to be determined, the Rate of Distribution for each Distribution Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR or Beijing time in the case of SHIBOR) or 11.15 a.m. (Hong Kong time in the case of CNH HIBOR) or if, at around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time in the case of CNH HIBOR), as the case may be, on the Distribution Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Undated Capital Securities is specified hereon as being other than LIBOR, EURIBOR, HIBOR, CNH HIBOR or SHIBOR, the Rate of Distribution in respect of such Undated Capital Securities will be determined as provided hereon.

(y) If the Relevant Screen Page is not available or if, sub-paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall promptly notify the Issuer and the Issuer shall use all commercially reasonable endeavours to appoint an Independent Investment Bank and procure such Independent Investment Bank to request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is HIBOR or CNH HIBOR, the principal Hong Kong office of each of the Reference Banks or, if the Reference Rate is SHIBOR, the principal Beijing office of each of the Reference Banks, to provide the Independent Investment Bank and the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time), or, if the Reference Rate is SHIBOR, at approximately 11.30 a.m. (Beijing time), on the Distribution Determination Date in question. If two or more of the Reference Banks provide the Independent Investment Bank and the Calculation Agent with such offered quotations, the Rate of Distribution for such Distribution Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(z) If paragraph (y) above applies and the Calculation Agent has received offered quotations from fewer than two Reference Banks, subject as provided below, the Rate of Distribution shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated at the request of the Independent Investment Bank to the Independent Investment Bank and the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time), or, if the Reference Rate is SHIBOR, at approximately 11.30 a.m. (Beijing time), on the relevant Distribution Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London interbank market or, if the Reference Rate is EURIBOR, the Euro-zone interbank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong interbank market, or, if the Reference Rate is SHIBOR, the Beijing interbank market as the case may be, or, if fewer than two of the Reference Banks provide the Independent Investment Bank and the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m.

(Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time), or, if the Reference Rate is SHIBOR, at approximately 11.30 a.m. (Beijing time), on the relevant Distribution Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Independent Investment Bank suitable for such purpose) informs the Independent Investment Bank and the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London interbank market or, if the Reference Rate is EURIBOR, the Euro-zone interbank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong interbank market, or, if the Reference Rate is SHIBOR, the Beijing interbank market, as the case may be, provided that, if the Rate of Distribution cannot be determined in accordance with the foregoing provisions of this Condition 4(b)(iii)(B), the Rate of Distribution shall be determined as at the last preceding Distribution Determination Date (though substituting, where a different Maximum Rate of Distribution or Minimum Rate of Distribution is to be applied to the relevant Distribution Accrual Period from that which applied to the last preceding Distribution Accrual Period, the Maximum Rate of Distribution or Minimum Rate of Distribution relating to the relevant Distribution Accrual Period, in place of the Maximum Rate of Distribution or Minimum Rate of Distribution relating to that last preceding Distribution Accrual Period).

For the purposes of this Condition 4(b)(iii)(B), "**Independent Investment Bank**" means an internationally recognised independent financial institution or an independent financial adviser with appropriate experience (which shall not be the Calculation Agent) selected and appointed by the Issuer (at the expense of the Issuer) for the purposes of this Condition 4(b)(iii)(B) and notified in writing by the Issuer to the Calculation Agent and the Trustee.

(c) ***Determination and Publication of Reset Distribution Rate***: The Calculation Agent shall, on the second Business Day prior to each Reset Date, calculate the applicable Reset Distribution Rate and cause the Reset Distribution Rate to be notified to the Trustee, the Issuer, each of the Paying Agents, the Securityholders and any other Calculation Agent appointed in respect of the Undated Capital Securities that is to make a further calculation upon receipt of such information as soon as possible after their determination but in no event later than:

(i) the commencement of the relevant Distribution Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Distribution and Distribution Amount; or

(ii) in all other cases, the fourth Business Day after such determination.

The determination of any rate, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties and the Securityholders.

If the Undated Capital Securities are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority, the Issuer shall notify such stock exchange or other relevant authority as soon as possible.

(d) ***Margin, Maximum/Minimum Rates of Distribution and Redemption Amounts and Rounding***:

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Distribution Accrual Periods), an adjustment shall be made to all Rates of Distribution, in the case of (x), or the Rates of Distribution for the specified Distribution Accrual Periods, in the case of (y), calculated in accordance with Condition 4(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum Rate of Distribution or Minimum Rate of Distribution or Redemption Amount is specified hereon, then any Rate of Distribution or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest fifth decimal place (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, "**unit**" means the lowest amount of such currency that is available as legal tender in the country(ies) of such currency.

(e) ***Calculations***: The amount of Distribution payable per calculation amount specified hereon (or, if no such amount is so specified, the Specified Denomination) (the "**Calculation Amount**") in respect of any Undated Capital Security for any Distribution Accrual Period shall be equal to the product of the Rate of Distribution, the Calculation Amount, and the Day Count Fraction for such Distribution Accrual Period, unless a Distribution Amount (or a formula for its calculation) is applicable to such Distribution Accrual Period, in which case the amount of Distribution payable per Calculation Amount in respect of such Undated Capital Security for such Distribution Accrual Period shall equal such Distribution Amount (or be calculated in accordance with such formula). Where any Distribution Period comprises two or more Distribution Accrual Periods, the amount of Distribution payable per Calculation Amount in respect of such Distribution Period shall be the sum of the Distribution Amounts payable in respect of each of those Distribution Accrual Periods. In respect of any other period for which Distributions are required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which Distributions are required to be calculated.

(f) ***Determination and Publication of Rates of Distribution, Distribution Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts***: The Calculation Agent shall, as soon as practicable on each Distribution Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount or make any determination or calculation, determine such rate and calculate the Distribution Amounts for the relevant Distribution Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount or make such determination or calculation, as the case may be, and cause the Rate of Distribution and the Distribution Amounts for each Distribution Accrual Period and the relevant Distribution Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the

Trustee, the Issuer, each of the Paying Agents, the Securityholders and any other Calculation Agent appointed in respect of the Undated Capital Securities that is to make a further calculation upon receipt of such information as soon as possible after their determination but in no event later than:

(i) the commencement of the relevant Distribution Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Distribution and Distribution Amount; or

(ii) in all other cases, the fourth Business Day after such determination.

Where any Distribution Payment Date or Distribution Period End Date is subject to adjustment pursuant to Condition 4(b)(ii), the Distribution Amounts and the Distribution Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Distribution Period. If the Undated Capital Securities become due and payable under Condition 11, the accrued Distribution and the Rate of Distribution payable in respect of the Undated Capital Securities shall nevertheless continue to be calculated as previously in accordance with this Condition 4(f) but no publication of the Rate of Distribution or the Distribution Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties and the Securityholders.

If the Undated Capital Securities are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority, the Issuer shall notify such stock exchange or other relevant authority as soon as possible.

(g) ***Determination or Calculation by an agent of the Issuer***: If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Distribution for an Distribution Accrual Period or any Distribution Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee may appoint an agent on its behalf to do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing provisions of this Condition 4, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. The determination of any rate or amount and the making of each determination or calculation by such agent pursuant to this Condition 4(g) shall (in the absence of manifest error) be final and binding upon all parties.

(h) ***Benchmark Discontinuation***: This Condition 4(h) shall apply to only those Undated Capital Securities for which this Condition 4(h) is specified as "**Applicable**" in the applicable Pricing Supplement.

Notwithstanding any other provision of this Condition 4(h), no Successor Rate or Alternative Rate (as applicable) will be adopted, nor will other amendments to the terms of any Undated Capital Securities be made pursuant to this Condition 4(h), if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Undated Capital Securities as Additional Tier 1 capital of the Issuer and/or the Group, and/or as eligible liabilities or loss absorbing capacity instruments for the purposes of the Banking Capital Regulations and/or any applicable Loss Absorbing Capacity Rules.

(i) *Independent Adviser*: If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Distribution (or any component part thereof)

remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, or failing which, an Alternative Rate (in accordance with Condition 4(h)(ii)) and, in either case, an Adjustment Spread (if any, in accordance with Condition 4(h)(iii)) and any Benchmark Amendments (in accordance with Condition 4(h)(iv)).

In making such determination, the Independent Adviser appointed pursuant to this Condition 4(h) shall act in good faith as an expert and in consultation with the Issuer. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, the Paying Agents or the Securityholders for any determination made by it, pursuant to this Condition 4(h).

If (A) the Issuer is unable to appoint an Independent Adviser; or (B) the Independent Adviser fails to determine a Successor Rate or, failing which, an Alternative Rate, in accordance with this Condition 4(h)(i) prior to the relevant Distribution Determination Date, the Rate of Distribution applicable to the next succeeding Distribution Accrual Period shall be equal to the Rate of Distribution last determined in relation to the Undated Capital Securities in respect of the immediately preceding Distribution Accrual Period. If there has not been a first Distribution Payment Date, the Rate of Distribution shall be the initial Rate of Distribution. Where a different Margin or Maximum Rate of Distribution or Minimum Rate of Distribution is to be applied to the relevant Distribution Accrual Period from that which applied to the last preceding Distribution Accrual Period, the Margin or Maximum Rate of Distribution or Minimum Rate of Distribution relating to the relevant Distribution Accrual Period shall be substituted in place of the Margin or Maximum Rate of Distribution or Minimum Rate of Distribution relating to that last preceding Distribution Accrual Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Distribution Accrual Period only and any subsequent Distribution Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 4(h)(i).

(ii) *Successor Rate or Alternative Rate*: If the Independent Adviser determines that:

(A) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Distribution (or the relevant component part thereof) for all future payments of distribution on the Undated Capital Securities (subject to the operation of this Condition 4(h)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Distribution (or the relevant component part thereof) for all future payments of distribution on the Undated Capital Securities (subject to the operation of this Condition 4(h)).

(iii) *Adjustment Spread*: If the Independent Advisor determines that:

(A) an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be); and

(B) the quantum of, or a formula or methodology for determining such Adjustment Spread,

then the Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(iv) *Benchmark Amendments*:

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 4(h) and the Independent Adviser determines:

(A) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**"); and

(B) the terms of the Benchmark Amendments,

then the Issuer shall, subject to giving notice thereof in accordance with Condition 4(h)(v), without any requirement for the consent or approval of Securityholders, the Trustee or the Agents, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two Authorised Signatories of the Issuer, pursuant to Condition 4(h)(v), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Securityholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed), provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

For the avoidance of doubt, the Trustee and the Issuing and Paying Agent shall, at the direction and expense of the Issuer, effect such consequential amendments to the Trust Deed, the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 4(h)(iv). Securityholders' consent shall not be required in connection with effecting of the Successor Rate or the Alternative Rate (as applicable), any Adjustment Spread, Benchmark Amendments or such other changes, including the execution of any documents or any steps by the Trustee or the Issuing and Paying Agent (if required).

In connection with any such variation in accordance with this Condition 4(h)(iv), the Issuer shall comply with the rules of any stock exchange on which the Undated Capital Securities are for the time being listed or admitted to trading.

Notwithstanding any other provision of this Condition 4(h)(iv), no Successor Rate or Alternative Rate (as applicable) will be adopted, nor will the applicable Adjustment Spread be applied, nor will any Benchmark Amendments be made, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Undated Capital Securities as Additional Tier 1 capital of the Issuer and/or the Group, and/or as eligible liabilities or loss absorbing capacity instruments for the purposes of the Banking Capital Regulations and/or any applicable Loss Absorbing Capacity Rules.

(v) *Notices*: Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 4(h) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 15, the Securityholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer:

(A) confirming (I) that a Benchmark Event has occurred, (II) the Successor Rate or, as the case may be, the Alternative Rate (if applicable), (III) the applicable Adjustment Spread (if any) and (IV) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 4(h); and

(B) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread (if any).

The Trustee shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate, Alternative Rate, the Adjustment Spread or the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agents, the Securityholders.

(vi) *Survival of Original Reference Rate*: Without prejudice to the obligations of the Issuer under Conditions 4(h)(i), 4(h)(ii), 4(h)(iii) and 4(h)(iv), the Original Reference Rate and the fallback provisions provided for in Condition 4(b)(iii)(B), as applicable, will continue to apply unless and until a Benchmark Event has occurred.

(vii) *Definitions*:

As used in this Condition 4(h):

"**Adjustment Spread**" means either (A) a spread (which may be positive, negative or zero) or (B) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(ii) (if no such recommendation as referred to in (i) above of this definition has been made, or in the case of an Alternative Rate) the Independent Adviser determines as being customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or

(iii) (if the Independent Adviser determines that no such spread as referred to in (ii) above of this definition is customarily applied) the Independent Adviser (in consultation with the Issuer) determines, and which is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be);

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 4(h)(ii) as being customarily applied in market usage in the international debt capital markets transactions for the purposes of determining rates of distribution (or the relevant component part thereof) in the same Specified Currency as the Undated Capital Securities;

"**Authorised Signatory**" has the meaning given to it in the Trust Deed;

"**Benchmark Amendments**" has the meaning given to it in Condition 4(h)(iv);

"**Benchmark Event**" means:

(i) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(ii) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate) and such cessation is reasonably expected by the Issuer to occur during the term of the Undated Capital Securities; or

(iii) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued and such discontinuation is reasonably expected by the Issuer to occur during the term of the Undated Capital Securities; or

(iv) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Undated Capital Securities and such prohibition is reasonably expected by the Issuer to occur during the term of the Undated Capital Securities; or

(v) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Securityholder using the Original Reference Rate;

"**Independent Adviser**" means an independent financial institution of international or national repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 4(h)(i);

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Distribution (or any component part thereof) on the Undated Capital Securities;

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof; and

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(i) ***Definitions***: In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of Undated Capital Securities denominated in a currency other than Euro or Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency;

(ii) in the case of Undated Capital Securities denominated in Euro, a day on which the TARGET System is operating (a "**TARGET Business Day**") and a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments of Euro in Luxembourg;

(iii) in the case of Undated Capital Securities denominated in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(iv) in the case of Undated Capital Securities denominated in a currency and/or one or more Financial Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Financial Centre(s) or, if no currency is indicated, generally in each of the Financial Centres;

"**CNY**" or "**Renminbi**" means the lawful currency of the PRC;

"**Day Count Fraction**" means, in respect of the calculation of an amount of Distribution on any Undated Capital Security for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting a Distribution Period or a Distribution Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual — ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that

Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number is 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number is 31 and D_1 is greater than 29, in which case D_2 will be 30;

(v) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number is 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number is 31, in which case D_2 will be 30;

(vi) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number is 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number is 31, in which case D_2 will be 30;

(vii) if "**Actual/Actual-ICMA**" is specified hereon:

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Distribution Payment Date(s); and

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date;

"**Distribution Accrual Period**" means the period beginning on (and including) the Distribution Commencement Date and ending on (but excluding) the first Distribution Period End Date and each successive period beginning on (and including) a Distribution Period End Date and ending on (but excluding) the next succeeding Distribution Period End Date;

"**Distribution Amount**" means:

(i) in respect of a Distribution Accrual Period, the amount of Distribution payable per Calculation Amount for that Distribution Accrual Period and which, in the case of Fixed Rate Undated Capital Securities, and unless otherwise specified hereon, shall mean the Fixed Distribution Amount or Broken Amount specified hereon as being payable on the Distribution Payment Date ending the Distribution Period of which such Distribution Accrual Period forms part; and

(ii) in respect of any other period, the amount of Distribution payable per Calculation Amount for that period;

"**Distribution Commencement Date**" means the Issue Date or such other date as may be specified hereon;

"**Distribution Determination Date**" means, with respect to a Rate of Distribution and Distribution Accrual Period, the date specified as such hereon or, if none is so specified:

(i) the first day of such Distribution Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR; or

(ii) the day falling two Business Days in London prior to the first day of such Distribution Accrual Period if the Specified Currency is neither Sterling nor Hong Kong dollars nor Euro nor Renminbi, or

(iii) the day falling two TARGET Business Days prior to the first day of such Distribution Accrual Period if the Specified Currency is Euro; or

(iv) the day falling two Business Days in Hong Kong prior to the first day of such Distribution Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR;

"**Distribution Period**" means the period beginning on (and including) the Distribution Commencement Date and ending on (but excluding) the first Distribution Payment Date and each successive period beginning on (and including) a Distribution Payment Date and ending on (but excluding) the next succeeding Distribution Payment Date;

"**Distribution Period End Date**" means each Distribution Payment Date unless otherwise specified hereon;

"**Euro**" means the currency of the member states of the European Union that adopt the single currency in accordance with the treaty establishing the European Community, as amended from time to time;

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the treaty establishing the European Community, as amended;

"**HKD**" or "**Hong Kong dollars**" means the lawful currency of Hong Kong;

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. (as may be updated, amended or supplemented from time to time), unless otherwise specified hereon;

"**Rate of Distribution**" means the rate of Distribution payable from time to time in respect of this Undated Capital Security and that is either specified or calculated in accordance with the provisions hereon;

"**Reference Banks**" means:

(i) in the case of a determination of LIBOR, the principal London office of four major banks in the London interbank market;

(ii) in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone interbank market;

(iii) in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong interbank market; and

(iv) in the case of a determination of CNH HIBOR, the principal Hong Kong office of four major banks dealing in Chinese Yuan in the Hong Kong interbank market,

in each case selected by the Issuer or as specified hereon;

"**Reference Rate**" means the rate specified as such hereon or such other page, section, caption, column or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Rate**" means a fixed rate per annum (expressed as a percentage) of the then prevailing U.S. Treasury Rate (as defined in the applicable Pricing Supplement), payable semi-annually in arrear;

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon;

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Undated Capital Securities are denominated;

"**Spread**" means the relevant spread as defined in the applicable Pricing Supplement;

"**Sterling**" means the lawful currency of the United Kingdom; and

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer System which was launched on 19 November 2007 or any successor thereto.

(j) ***Calculation Agent***: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Undated Capital Security is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Undated Capital Securities, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or, if the Calculation Agent fails duly to establish the Rate of Distribution for a Distribution Accrual Period or to calculate any Distribution Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

5 Distribution Restrictions

(a) ***Optional Distribution Cancellation Event***: Unless a Distribution has already been cancelled in full pursuant to a Mandatory Distribution Cancellation Event, prior to any Distribution Payment Date the Issuer may, at its sole discretion, elect to cancel any payment of Distribution (each an "**Optional Distribution Cancellation Event**"), in whole or in part, by giving a notice to the Trustee signed by two Authorised Signatories of the Issuer, which shall be conclusive and binding on the Securityholders (such notice, a "**Distribution Cancellation Notice**") of such election to the Securityholders in accordance with Condition 15, and to the Trustee and the Agents at least 10 Business Days prior to the relevant Distribution Payment Date. The Issuer shall have no obligation to pay any Distribution on any Distribution Payment Date if it validly elects not to do so in accordance with this Condition 5(a) and any failure to pay such Distribution shall not constitute a Default. Distributions are non-cumulative and any Distribution that is cancelled shall therefore not be payable at any time thereafter, whether in a Winding-Up or otherwise.

In this Condition 5, "**Business Day**" means a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for general business in Hong Kong.

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

(i) the Distribution scheduled to be paid together with any dividends, distributions or other payments scheduled to be paid or made during the Issuer's then current fiscal year on any Parity Obligations or any instruments which effectively rank *pari passu* with any Parity Obligations shall exceed Distributable Reserves as at such Distribution Determination Date; or

(ii) the Monetary Authority directs the Issuer to cancel such Distribution (in whole or in part) or applicable Hong Kong banking regulations or other requirements of the Monetary Authority prevent the payment in full of dividends or other distributions when due on Parity Obligations,

(each, a "**Mandatory Distribution Cancellation Event**").

The Issuer shall have no obligation to pay a Distribution on any Distribution Payment Date if such non-payment is in accordance with this Condition 5(b) and any failure to pay such Distribution shall not constitute a Default. Distributions are non-cumulative and any Distribution which is cancelled in accordance with these Conditions shall not be payable at any time thereafter, whether in a Winding-Up or otherwise.

(c) ***Distributable Reserves***: Any Distribution may only be paid out of Distributable Reserves.

(d) ***Dividend Stopper***: If, on any Distribution Payment Date, payment of Distribution scheduled to be paid is not made in full by reason of this Condition 5, the Issuer shall not:

(i) declare or pay in cash any distribution or dividend or make any other payment in cash on, and will procure that no distribution or dividend in cash or other payment in cash is made on, any Shares; or

(ii) purchase, cancel or otherwise acquire any Shares or permit any of its Subsidiaries to do so,

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

(e) ***No Default***: Notwithstanding any other provision in these Conditions, the cancellation or non-payment of any Distribution in accordance with this Condition 5 shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 11 on the part of the Issuer.

(f) ***Definitions***: In these Conditions:

"**Auditors**" means the independent certified public accountants for the time being of the Issuer.

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

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

"**Subsidiary**" means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer.

6 Redemption and Purchase

(a) ***No Fixed Redemption Date***: The Undated Capital Securities are perpetual securities in respect of which there is no fixed redemption date. The Undated Capital Securities may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) ***Early Redemption***: The Early Redemption Amount or Optional Redemption Amount payable in respect of any Undated Capital Security, upon redemption of such Undated Capital Security pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 11, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) ***Redemption for Taxation***:

(i) *Withholding Tax in respect of the Undated Capital Securities*: Subject to Condition 6(j), the Undated Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, on any Distribution Payment Date (if such Undated Capital Security is at the relevant time a Floating Rate Undated Capital Security) or at any time (if such Undated Capital Security is at the relevant time not a Floating Rate Undated Capital Security), on giving not less than 30 nor more than 60 days' notice to the Securityholders (which notice shall be irrevocable), subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 7, at their Early Redemption Amount (as described in Condition 6(b)) together with Distribution accrued but unpaid (if any) to (but excluding) the date fixed for redemption and any Additional Amounts (as defined in Condition 9) then due or which will become due on or before the date fixed for redemption, if:

(A) the Issuer has or will become obliged to pay Additional Amounts as a result of any change in, or amendment to, the laws or regulations of a Relevant Taxing Jurisdiction (as defined in Condition 9) or, in any such case, any political subdivision or any authority thereof or therein having power to tax, or any change in the official application or interpretation of such laws or regulations, which change or amendment is announced and becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Undated Capital Securities; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts or give effect to such treatment, as the case may be, were a payment in respect of the Undated Capital Securities then due, and no such notice of redemption shall be given prior to the compliance with the requirements in Condition 6(j).

Prior to giving any notice of redemption pursuant to this Condition 6(c)(i), the Issuer shall deliver to the Trustee (I) a certificate signed by two Authorised Signatories of the Issuer, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the relevant conditions have been satisfied; and (II) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment, and the Trustee shall be entitled without further enquiry to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out in paragraphs (A) and (B) above of this Condition 6(c), in which event the same shall be conclusive and binding on the Securityholders.

(ii) *Tax Deductibility in respect of the Undated Capital Securities*: Subject to Condition 6(j), the Undated Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, on any Distribution Payment Date (if such Undated Capital Security is at the relevant time a Floating Rate Undated Capital Security) or at any time (if such Undated Capital Security is at the relevant time not a Floating Rate Undated Capital Security), on giving not less than 30 but not more than 60 days' notice to the Securityholders (which notice shall be irrevocable) at, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 7, their Early Redemption Amount (as described in Condition 6(b)) or, if the Early Redemption Amount is not specified hereon, at their principal amount, in each case together with Distribution accrued but unpaid (if any) to (but excluding) the date fixed for redemption and any Additional Amounts then due or which will become due on or before the date fixed for redemption, if in respect of payments of Distribution on the Undated Capital Securities, the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of computing its taxation liabilities in Hong Kong or any political subdivision or any authority thereof or therein having power to tax:

(I) as a result of any change in, or amendment to, the laws or regulations of the Relevant Taxing Jurisdiction or any political subdivision or any authority thereof or therein having power to tax (or any taxing authority of any taxing jurisdiction in which the Issuer is a tax resident) or any change in the official application or interpretation of such laws or regulations, which change or amendment is announced and becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Undated Capital Securities; and

(II) the foregoing cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than (aa) if such Undated Capital Security is a Floating Rate Undated Capital Security, 60 days, or (bb) if such Undated Capital Security is not a Floating Rate Undated Capital Security, 90 days, in each case, prior to the earliest date on which the Issuer would cease to be able to claim a tax deduction in respect of the Distribution payable on the Undated Capital Securities.

Prior to giving any notice of redemption pursuant to this Condition 6(c)(ii), the Issuer shall deliver to the Trustee:

(x) a certificate signed by two Authorised Signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts

showing that the relevant conditions have been satisfied, and an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will cease to be able to claim a tax deduction in respect of the Distribution payable on the Undated Capital Securities; and

(y) a copy of the written consent of the Monetary Authority as referred to in Condition 6(j),

and the Trustee shall be entitled without further enquiry and without liability to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above in this Condition 6(c)(ii), in which event the same shall be conclusive and binding on the Securityholders.

Any redemption of Undated Capital Securities by the Issuer pursuant to this Condition 6(c)(ii) is subject to the Issuer obtaining the prior written consent of the Monetary Authority.

(d) ***Redemption at the Option of the Issuer***: Subject to Condition 6(j), if Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Securityholders (or such other notice period as may be specified hereon) redeem in whole, but not in part, the Undated Capital Securities on the date(s) specified hereon (each, an "**Optional Redemption Date**") (the earliest of which shall not be less than five years from the Issue Date), provided that no such notice of redemption shall be given prior to the compliance with Condition 6(j). Any such redemption of Undated Capital Securities shall be at, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 7, their Optional Redemption Amount specified hereon together with Distribution accrued but unpaid (if any) to (but excluding) the date fixed for redemption.

All Undated Capital Securities in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(d).

Any redemption of the Undated Capital Securities by the Issuer pursuant to this Condition 6(d) is subject to the Issuer obtaining the prior written consent of the Monetary Authority.

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

(e) ***Redemption for Regulatory Reasons***: Subject to Condition 6(j), following the occurrence of a Capital Event, the Issuer may, having given not less than 30 but not more than 60 days' prior written notice to the Securityholders in accordance with Condition 15 (which notice shall be irrevocable), redeem in accordance with these Conditions on any Distribution Payment Date (if such Undated Capital Security is at the relevant time a Floating Rate Undated Capital Security) or at any time (if such Undated Capital Security is at the relevant time not a Floating Rate Undated Capital Security) all, but not some only, of the relevant Undated Capital Securities at, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 7, their Early Redemption Amount or, if no Early Redemption Amount is specified hereon, at their principal amount, in each case together with Distribution accrued but unpaid (if any) to (but excluding) the date of redemption in accordance with these Conditions and provided that no such notice of redemption shall be given prior to the compliance with Condition 6(j).

For the purposes of this Condition 6(e), a "**Capital Event**" occurs if immediately before the Issuer gives the notice of redemption referred in this Condition 6(e), (i) the Undated Capital Securities, after having qualified as such, will no longer qualify (in whole but not in part) as Additional Tier 1 capital (or equivalent) of the Issuer (other than

non-qualification solely as a result of any discounting or amortisation requirements as to the eligibility of the Undated Capital Securities for such inclusion pursuant to the relevant legislation and supervisory guidance in force from time to time) and/or (ii) the Undated Capital Securities cease to be included in the calculation of the Issuer's capital adequacy ratio, as a result of a change or amendment in (or any change in the application or official interpretation of) the relevant provisions of the Banking Capital Regulations or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto. No such notice of redemption shall be given earlier than 90 days prior to the earliest date on which it is determined that a Capital Event has occurred.

Prior to the publication of any notice of redemption pursuant to this Condition 6(e), the Issuer shall deliver to the Trustee:

(x) a certificate signed by two Authorised Signatories of the Issuer stating that a Capital Event has occurred; and

(y) a copy of the written consent of the Monetary Authority,

and the Trustee shall accept such certificate without any further inquiry as conclusive evidence of the satisfaction of the conditions set out above without liability to any person in which event it shall be conclusive and binding on the Securityholders. Upon expiry of such notice, the Issuer shall redeem the Undated Capital Securities in accordance with this Condition 6(e).

Any redemption of the Undated Capital Securities by the Issuer pursuant to this Condition 6(e)is subject to the Issuer obtaining the prior written consent of the Monetary Authority.

(f) ***Redemption due to Loss Absorption Disqualification Event***: Subject to Condition 6(j), following the occurrence of a Loss Absorption Disqualification Event, the Issuer may, having given not less than 30 but not more than 60 days' prior written notice to the Securityholders in accordance with Condition 15 (which notice shall be irrevocable), redeem in accordance with these Conditions on any Distribution Payment Date (if such Undated Capital Security is at the relevant time a Floating Rate Undated Capital Security) or at any time (if such Undated Capital Security is at the relevant time not a Floating Rate Undated Capital Security) all, but not some only, of the relevant Undated Capital Securities at, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 7, their Early Redemption Amount or, if no Early Redemption Amount is specified hereon, at their principal amount together with Distribution accrued but unpaid (if any) to (but excluding) the date of redemption in accordance with these Conditions and provided that no such notice of redemption shall be given prior to the compliance with Condition 6(j).

For the purposes of this Condition 6(f), a "**Loss Absorption Disqualification Event**" occurs if immediately before the Issuer gives the notice of redemption referred in this Condition 6(f), the Undated Capital Securities, after having qualified as such, will no longer qualify (in whole but not in part) as a Loss Absorbing Instrument (or equivalent) of the Issuer (other than non-qualification solely as a result of any discounting or amortisation requirements as to the eligibility of the Undated Capital Securities for such inclusion pursuant to the relevant legislation and supervisory guidance in force from time to time) pursuant to the Loss Absorbing Capacity Rules, as a result of a change or amendment in (or any change in the application or official interpretation of) the relevant provisions of the Loss Absorbing Capacity Rules, or any successor legislation or regulations made

thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto. No such notice of redemption shall be given earlier than 90 days prior to the earliest date on which it is determined that a Loss Absorption Disqualification Event has occurred.

Prior to the publication of any notice of redemption pursuant to this Condition 6(f), the Issuer shall deliver to the Trustee:

(x) a certificate signed by two Authorised Signatories of the Issuer, stating that a Loss Absorption Disqualification Event has occurred; and

(y) a copy of the written consent of the Monetary Authority,

and the Trustee shall accept such certificate without any further inquiry as conclusive evidence of the satisfaction of the conditions set out above without liability to any person in which event it shall be conclusive and binding on the Securityholders. Upon expiry of such notice, the Issuer shall redeem the Undated Capital Securities in accordance with this Condition 6(f).

Any redemption of Undated Capital Securities by the Issuer pursuant to this Condition 6(f) is subject to the Issuer obtaining the prior written consent of the Monetary Authority.

(g) ***Purchases***: The Issuer and any of its Subsidiaries may at any time purchase Undated Capital Securities in the open market or otherwise at any price in accordance with all relevant laws and regulations and, for so long as the Undated Capital Securities are listed, the requirements of the relevant stock exchange and provided that no such purchase shall be made prior to the compliance with Condition 6(j). The Undated Capital Securities so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Securityholders and shall not be deemed to be outstanding for, among other things, the purposes of calculating the quorums at meetings of Securityholders or the purposes of Condition 12(a). The Issuer or any such Subsidiary may, at its option, retain such purchased Undated Capital Securities for its own account and/or resell or cancel or otherwise deal with them at its discretion.

(h) ***Cancellation***: All Undated Capital Securities purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation by surrendering the Certificate representing such Undated Capital Securities to the Registrar and, if so surrendered, shall, together with all Undated Capital Securities redeemed by the Issuer, be cancelled forthwith. Any Undated Capital Securities so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Undated Capital Securities shall be discharged. Any Undated Capital Security that is written-off in full in accordance with Condition 7 shall be automatically cancelled.

(i) ***No Obligation to Monitor***: The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 6 or Condition 7 and will not be responsible or liable to the Securityholders or any other person for any loss arising from any failure by it to do so. Unless and until the Trustee has express notice in writing of the occurrence of any event or circumstance within this Condition 6 or Condition 7, it shall be entitled to assume that no such event or circumstance has happened or exists.

(j) ***Conditions for Redemption or Purchase of the Undated Capital Securities***: Notwithstanding any other provision in these Conditions, the Issuer shall not redeem any of the Undated Capital Securities (other than pursuant to Condition 7 or Condition 11) and neither the Issuer nor any of its Subsidiaries shall purchase any of the Undated Capital Securities unless the prior written consent of the Monetary Authority thereto shall have been obtained, to the extent such consent is required under the Banking Capital Regulations

and/or the Loss Absorbing Capacity Rules, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto. This Condition 6(j) shall not apply to the Issuer or any of its Subsidiaries holding the Undated Capital Securities in a purely nominee, custodian or trustee capacity.

7 Non-Viability Loss Absorption and Hong Kong Resolution Authority Power

The ability to operationally effect any Write-off of any Undated Capital Securities or any cancellation, modification, conversion or change in form of Undated Capital Securities as a result of the exercise of the Hong Kong Resolution Authority Power under this Condition 7 with respect to the clearing and/or settlement of any Undated Capital Securities in or through the relevant clearing system(s) is subject to the availability of procedures to effect any such Write-off or such cancellation, modification, conversion or change in form in the relevant clearing system(s). However, any Write-off of any Undated Capital Securities, or the giving of effect of the Hong Kong Resolution Authority Power with respect to the Issuer under this Condition 7 will be effective upon the exercise of any Hong Kong Resolution Authority Power (or as may otherwise be notified in writing to Securityholders, the Trustee and Agents by the Issuer) notwithstanding any inability to operationally effect any such Write-off or any cancellation, modification, conversion or change in form as a result of the exercise of the Hong Kong Resolution Authority Power under this Condition 7 in the relevant clearing system(s).

The Trust Deed and the Agency Agreement may contain certain protections and disclaimers as applicable to the Trustee and Agents in relation to this Condition 7. Each Securityholder shall be deemed to have authorised, directed and requested the Trustee, the Registrar and the other Agents, as the case may be, to take any and all necessary action to give effect to any Write-off, cancellation, notification, conversion or change in form following the occurrence of the Non-Viability Event and/or exercise of any Hong Kong Resolution Authority Power.

(a) Non-Viability Loss Absorption upon a Non-Viability Event:

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

(ii) Concurrently with the giving of a Non-Viability Event Notice, the Issuer shall procure unless otherwise directed by the Monetary Authority that:

(A) a similar notice be given in respect of other Parity Capital Instruments in accordance with their terms; and

(B) concurrently and rateably with the Write-off of the Undated Capital Securities, the aggregate principal amount of such other Parity Capital Instruments is subject to a Write-off on a pro rata basis with the Undated Capital Securities.

(iii) Any Write-off pursuant to this provision will not constitute a Default under the Undated Capital Securities.

(iv) Any Undated Capital Security may be subject to one or more Write-offs in part (as the case may be), except where such Undated Capital Security has been Written-off in its entirety.

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

(vi) Any reference in these Conditions to principal in respect of the Undated Capital Securities shall refer to the principal amount of the Undated Capital Securities, reduced by any applicable Write-off(s).

(vii) Definitions:

In these Conditions:

"**Non-Viability Event**" means the earlier of:

(A) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; and

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

"**Non-Viability Event Notice**" means the notice which shall be given by the Issuer not more than two Hong Kong Business Days after the occurrence of a Non-Viability Event, to the Securityholders, in accordance with Condition 15, and to the Trustee and the Paying Agents in writing, and which shall state:

(A) in reasonable detail the nature of the relevant Non-Viability Event; and

(B) the Non-Viability Event Write-off Amount for:

(x) each Undated Capital Security; and

(y) each other Subordinated Capital Instrument in accordance with its terms;

"**Non-Viability Event Write-off Amount**" means the amount of distributions and/or principal to be Written-off as the Monetary Authority may direct or, in the absence of such a direction, as the Issuer shall (in consultation with the Monetary Authority) determine to be necessary to satisfy the Monetary Authority that the Non-Viability Event will cease to continue. For the avoidance of doubt:

(A) the full amount of the Undated Capital Securities will be Written-off in full in the event that the amount Written-off is not sufficient for the Non-Viability Event to cease to continue; and

(B) in the case of an event falling within paragraph (B) of the definition of Non-Viability Event, the Write-off will be effected in full before any public sector injection of capital or equivalent support.

Further, the Non-Viability Event Write-off Amount in respect of each Undated Capital Security will be calculated based on a percentage of the principal amount of that Undated Capital Security;

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

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

(b) Hong Kong Resolution Authority Power:

*The Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong, as amended or superseded from time to time (the "**Ordinance**") became effective on 7 July 2017 and all licensed banks in Hong Kong are subject to the Ordinance.*

(i) Notwithstanding any other term of the Undated Capital Securities, including without limitation Condition 7(a), or any other agreement or arrangement, each Securityholder and the Trustee shall be subject, and shall be deemed to agree, be bound by and acknowledge that they are each subject, to having the Undated Capital Securities being written off, cancelled, converted or modified, or to having the form of the Undated Capital Securities changed, in the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority without prior notice and which may include (without limitation) and result in any of the following or some combination thereof:

(A) the reduction or cancellation of all or a part of the principal amount of, or Distributions on, the Undated Capital Securities;

(B) the conversion of all or a part of the principal amount of, or Distributions on, the Undated Capital Securities into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Undated Capital Securities; and

(C) the amendment or alteration of the maturity of the Undated Capital Securities or amendment or alteration of the amount of Distributions payable on the Undated Capital Securities, or the date on which the Distributions become payable, including by suspending payment for a temporary period, or any other amendment or alteration of these Conditions.

(ii) With respect to (A), (B) and (C) above of Condition 7(b)(i), references to principal and Distributions shall include payments of principal and Distributions that have become due and payable, but which have not been paid, prior to the exercise of any

Hong Kong Resolution Authority Power. The rights of the Securityholders and the Trustee under the Undated Capital Securities and these Conditions are subject to, and will be amended and varied, if necessary, solely to give effect to, the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority.

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

(iv) Upon the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Undated Capital Securities, the Issuer shall provide a written notice (a "**Resolution Notice**") not more than two Business Days after the occurrence of such exercise of the Hong Kong Resolution Authority Power to the Securityholders in accordance with Condition 15 and to the Trustee and the Principal Paying Agent in writing.

(v) Neither the reduction or cancellation, in part or in full, of the principal amount of, or Distributions on the Undated Capital Securities, the conversion thereof into another security or obligation of the Issuer or another person, or any other amendment or alteration of these Conditions or any other modification or change in form of the Undated Capital Securities as a result of the exercise of any Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Issuer nor the exercise of the Hong Kong Resolution Authority Power by the relevant Hong Kong Resolution Authority with respect to the Undated Capital Securities shall constitute a Default under Condition 11.

(vi) Definitions:

In this Condition 7(b):

"**Group**" means the Issuer and its Subsidiaries.

"**Hong Kong Resolution Authority Power**" means any power which may exist from time to time under the Ordinance relating to financial institutions, including licensed banks, deposit-taking companies, restricted licence banks, banking group companies, insurance companies and/or investment firms incorporated in or authorised, designated, recognised or licensed to conduct regulated financial activities in Hong Kong in effect and applicable in Hong Kong to the Issuer or other members of the Group (including, for the avoidance of doubt, powers under Part 4 and Part 5 of the Ordinance) or any other laws, regulations, rules or requirements relating thereto, as the same may be amended from time to time (whether pursuant to the Ordinance or otherwise), and pursuant to which obligations of a licensed bank, deposit-taking company, restricted licence bank, banking group company, insurance company or investment firm or any of its affiliates can be reduced, cancelled, transferred, modified and/or converted into shares or other securities or obligations of the obligor or any other person; and

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

Please see the investment consideration entitled "The operation of the resolution regime in Hong Kong may override the contractual terms of the Notes and the Undated Capital Securities" in the section headed "Investment Considerations — Considerations Relating to Non-Preferred Loss Absorbing Notes, Dated Subordinated Notes and Undated Capital Securities" for further information.

8 Payments

(a) Payments in Respect of the Undated Capital Securities:

(i) Payments of principal in respect of Undated Capital Securities shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(a)(ii) below.

(ii) Distributions shall be paid to the person shown on the Register at the close of business:

(A) in the case of Undated Capital Securities denominated in a currency other than Renminbi, on the 15th day before the due date for payment thereof; and

(B) in the case of Undated Capital Securities denominated in Renminbi, on the fifth day before the due date for payment (the "**Record Date**").

Payments of Distributions in respect of each Undated Capital Security shall be made:

(x) in the case of Undated Capital Securities denominated in a currency other than Renminbi, in the relevant currency by transfer to an account in the relevant currency maintained by the payee with, or, at the option of the relevant Agent, by a cheque payable in the relevant currency drawn on, a Bank; and

(y) in the case of Undated Capital Securities denominated in Renminbi, by transfer to the registered account of the Securityholder. If a holder does not maintain a registered account in respect of a payment to be made under the Undated Capital Securities, the Issuer reserves the right, in its sole discretion and upon such terms as it may determine, to make arrangements to pay such amount to that holder by another means, provided that the Issuer shall not have any obligation to make any such arrangements.

In this Condition 8(a):

"**Bank**" means a bank in the principal financial centre for such currency or, in the case of Euro, in a city in which banks have access to the TARGET System; and

"**registered account**" means the Renminbi account maintained by or on behalf of the Securityholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth Business Day before the due date for payment.

Please see the section entitled "Clearance and Settlement". Securityholders are required to ensure that they maintain an account or, as the case may be, a registered account into which payments of principal and Distributions in respect of the Undated Capital Securities are able to be paid by the relevant Paying Agent.

For so long as any of the Undated Capital Securities that are cleared through the CMU are represented by a Global Certificate, payments of Distribution or principal will be made to the persons for whose account a relevant interest in that Global Certificate is credited as being held by the operator of the CMU at the relevant time, as notified to the CMU Lodging and Paying Agent by the operator of the CMU in a relevant CMU Instrument Position Report (with its meaning specified in the CMU Rules) or in any other relevant notification by the operator of the CMU. Such payment will discharge the Issuer's obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the interbank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.

(b) ***Payments subject to fiscal laws***: Payments will be subject in all cases to:

(i) any fiscal or other laws and regulations applicable thereto, but without prejudice to the provisions of Condition 9, in the place of payment; and

(ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto.

(c) ***Appointment of Agents***: The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Securityholder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain:

(i) an Issuing and Paying Agent;

(ii) a Registrar;

(iii) a Transfer Agent;

(iv) a CMU Lodging and Paying Agent in relation to Undated Capital Securities accepted for clearance through the CMU;

(v) one or more Calculation Agent(s) where the Conditions so require; and

(vi) such other agents as may be required by any other stock exchange on which the Undated Capital Securities may be listed, in each case as approved in writing by the Trustee.

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

(d) ***Non-Business Days***: If any date for payment in respect of any Undated Capital Security is not a business day, the holder shall not be entitled to payment until the next following business day nor to any distribution or other sum in respect of such postponed payment. In this Condition 8(d), "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation of the relevant Certificate and in such other jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than Euro or Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in Euro) which is a TARGET Business Day; or

(iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

9 Taxation

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

(a) ***Other connection***: to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Undated Capital Securities by reason of his having some connection with the Relevant Taxing Jurisdiction other than the holding or ownership of the Undated Capital Securities or receiving income therefrom, or the enforcement thereof; or

(b) ***Presentation more than 30 days after the Relevant Date***: where presentation is required or has occurred, presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Amounts on presenting it for payment on or before the 30th such day.

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

References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Undated Capital Securities, and all amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**Distributions**" shall

be deemed to include all Distributions and all other amounts payable pursuant to Condition 4 or any amendment or supplement to it and (iii) "**principal**" and/or "**Distributions**" shall be deemed to include any Additional Amounts that may be payable under this Condition 9 or any undertaking given in addition to or in substitution for it under the Trust Deed.

10 Prescription

Claims against the Issuer for payment in respect of the Undated Capital Securities shall be prescribed and will become void unless made within 10 years (in the case of principal) or five years (in the case of Distribution) from the appropriate Relevant Date in respect of them.

11 Default and Enforcement

(a) Default and Winding-up Proceedings:

(i) If default is made in the payment of any amount of principal or Distributions in respect of the Undated Capital Securities on the due date for payment thereof and such failure continues for a period of five business days in Hong Kong (in the case of principal) or 10 business days in Hong Kong (in the case of Distribution) (each such event, a "**Default**"), then the Trustee at its discretion may, subject as provided in Condition 11(b), in order to enforce payment, without further notice, institute Winding-Up Proceedings in Hong Kong against the Issuer, but may take no further action in respect of such default (but without prejudice to Condition 11(a)(ii) below). For the avoidance of doubt, no Distribution will be due and payable if such Distribution has been cancelled or is deemed cancelled (in each case, in whole or in part) in accordance with these Conditions. Accordingly, no default in payment under the Undated Capital Securities will have occurred or be deemed to have occurred for the non-payment of any Distribution that has been so cancelled or deemed cancelled.

(ii) If a Write-off has occurred pursuant to, or otherwise in accordance with, Condition 7, such event will not constitute a Default under these Conditions.

(iii) If an order is made or an effective resolution is passed for the Winding-Up of the Issuer in Hong Kong (except for the purposes of reconstruction, amalgamation or reorganisation the terms of which have previously been approved by an Extraordinary Resolution of the holders of the Undated Capital Securities) (such event also a "**Default**"), then the Trustee at its discretion may, subject as provided in Condition 11(b), give written notice to the Issuer that the Undated Capital Securities are, and they shall forthwith thereupon become, immediately due and repayable at their principal amount together with accrued Distribution without further action or formality.

In addition, nothing in this Condition 11, including without limitation any restriction on taking action and/or commencing proceedings, shall in any way restrict or limit the rights of the Trustee or any of its directors, officers, employees or Appointees to claim from or to otherwise take any action against the Issuer in respect of any costs, charges, fees or expenses properly incurred or liabilities incurred by such party pursuant to or in connection with these Conditions or the Trust Deed.

(b) Enforcement:

(i) Without prejudice to Condition 11(a), the Trustee may subject as provided below, at its discretion and without further notice, institute such proceedings against the Issuer if the Issuer fails to perform, observe or comply with any obligation, condition or provision relating to the Undated Capital Securities binding on it under these Conditions or the Trust Deed (other than any obligation of the Issuer for the payment

of any principal or Distributions in respect of the Undated Capital Securities), provided that the Issuer shall not as a consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or Distributions in respect of the Undated Capital Securities sooner than the same would otherwise have been payable by it.

(ii) The Trustee shall not be bound to take action as referred to in Conditions 11(a) and 11(b)(i) or any other action under these Conditions or the Trust Deed unless (a) it shall have been so requested in writing by Securityholders holding at least 25 per cent. in principal amount of the Undated Capital Securities then outstanding or if so directed by an Extraordinary Resolution of the Securityholders and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(iii) No Securityholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing.

(iv) Subject to applicable laws, no remedy (including the exercise of any right of set-off or analogous event) other than those provided for in Condition 11(a) and Conditions 11(b)(i) and 11(b)(ii) above or submitting a claim in the Winding-Up of the Issuer will be available to the Trustee or the Securityholders.

(v) No Securityholder shall be entitled either to institute proceedings for the Winding-Up of the Issuer or to submit a claim in such Winding-Up, except that if the Trustee, having become bound to institute such proceedings as aforesaid, fails to do so, or, being able and bound to submit a claim in such Winding-Up, fails to do so, in each case within a reasonable period and such failure is continuing, then any such Securityholder may, on giving an indemnity and/or security and/or pre-funding satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute Winding-Up Proceedings and/or submit a claim in the Winding-Up of the Issuer to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

12 Meetings of Securityholders, Modifications and Consolidations

(a) ***Meetings of Securityholders***: The Trust Deed contains provisions for convening meetings of Securityholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provision of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee if requested in writing by Securityholders holding not less than 10 per cent. in aggregate principal amount of the Undated Capital Securities for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing more than 50 per cent. in principal amount of the Undated Capital Securities for the time being outstanding, or at any adjourned meeting two or more persons being or representing Securityholders whatever the principal amount of the Undated Capital Securities held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Undated Capital Securities or any date for payment of distribution or Distributions on the Undated Capital Securities, (ii) to reduce or cancel the principal amount of, or any premium payable on redemption of, the Undated Capital Securities, (iii) to reduce the rate or rates of distributions in respect of the Undated Capital Securities or to vary the method or basis of calculating the rate or rates or amount of distributions or the basis for calculating any distribution in respect of the Undated Capital Securities, (iv) to vary any method of, or basis for, calculating the relevant redemption

amount, (v) to vary the currency or currencies of payment or denomination of the Undated Capital Securities, or (vi) to modify the provisions concerning the quorum required at any meeting of Securityholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Undated Capital Securities for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on the Securityholders (whether or not they were present at the meeting at which such resolution was passed).

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

These Conditions may be amended, modified or varied in relation to any Series of Undated Capital Securities by the terms of the applicable Pricing Supplement in relation to such Undated Capital Securities.

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

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

(d) ***Entitlement of the Trustee***: In connection with the exercise of its functions, powers, rights and discretions (including but not limited to those referred to in this Condition 12), the Trustee shall have regard to the interests of the Securityholders as a class and shall not have regard to the consequences of such exercise for individual Securityholders and the Trustee, acting for and on behalf of Securityholders, shall not be entitled to require, nor shall any Securityholder be entitled to claim, from the Issuer any indemnification or payment in each case in respect of any tax consequence of any such exercise upon individual Securityholders.

13 Indemnification of the Trustee

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

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

14 Replacement of Certificates

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

15 Notices

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

So long as the Undated Capital Securities are represented by a Global Certificate and such Global Certificate is held on behalf of:

(i) Euroclear or Clearstream, Luxembourg or the Alternative Clearing System (as defined in the form of the Global Certificate), notices to Securityholders shall be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions; or

(ii) *the CMU, notices to the holders of Undated Capital Securities of that Series may be given by delivery of the relevant notice to the persons shown in the relevant CMU Instrument Position Report issued by the Monetary Authority on the business day preceding the date of despatch of such notice.*

A Non-Viability Event Notice or notice of the issue of a Resolution Notice to the holders of the relevant Undated Capital Securities shall be deemed to have been validly given on the date on which such notice is published in a daily newspaper of general circulation in Asia (which is expected to be Asian Wall Street Journal) or, so long as Undated Capital Securities are listed on The Stock Exchange of Hong Kong Limited (the "**HKSE**"), published on the website of the HKSE. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Hong Kong. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

16 Contracts (Rights of Third Parties) Act

No person shall have any right to enforce any term or condition of the Undated Capital Securities under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that the Undated Capital Securities expressly provide for such Act to apply to any of their terms but this shall not affect any right or remedy that exists or is available apart from such Act and is without prejudice to the rights of the Securityholders as set out in Condition 11.

17 Governing Law and Jurisdiction

(a) ***Governing Law***: The Trust Deed, the Undated Capital Securities and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, save that Conditions 3(b), 3(c) and 7 are governed by, and shall be construed in accordance with, Hong Kong law.

(b) ***Jurisdiction***: The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Undated Capital Securities, save that the courts of Hong Kong shall have exclusive jurisdiction to settle any disputes that arise out of or are in connection with Conditions 3(b), 3(c) and 7, and accordingly any legal action or proceedings arising out of or in connection with any Undated Capital Securities ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of the Trustee and each of the holders of the Undated Capital Securities and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) ***Service of Process***: The Issuer has in the Trust Deed irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. If for any reason such process agent ceases to be able to accept service of process in England, the Issuer shall appoint a new agent to accept such service of process in England as soon as practicable.

18 Headings

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

SUMMARY OF PROVISIONS RELATING TO THE NOTES AND THE UNDATED CAPITAL SECURITIES WHILE IN GLOBAL FORM

1 INITIAL ISSUE OF NOTES OR UNDATED CAPITAL SECURITIES

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream (the "**Common Depositary**") or a sub-custodian for the Monetary Authority as operator of the CMU.

Upon the initial deposit of a Global Note or Global Certificate with the Common Depositary or with a sub-custodian for the Monetary Authority as operator of the CMU or registration of Registered Notes or Registered Certificates in the name of (i) any nominee for Euroclear and Clearstream or (ii) the Monetary Authority and delivery of the relative Global Certificate to the Common Depositary or the sub-custodian for the Monetary Authority as operator of the CMU (as the case may be), Euroclear or Clearstream or the CMU (as the case may be) will credit each subscriber with a nominal amount of Notes or Undated Capital Securities equal to the nominal amount thereof for which it has subscribed and paid.

Notes or Undated Capital Securities that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream held by such other clearing systems. Conversely, Notes or Undated Capital Securities that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream or other clearing systems.

2 RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

Save as provided in the following paragraph, each of the persons shown in the records of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes or the Undated Capital Securities for so long as the Notes or the Undated Capital Securities are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules as notified by the CMU to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU (which notification, in either case, shall be conclusive evidence of the records of the CMU save in the case of manifest error) shall be the only person(s) entitled (in the case of Registered Notes, directed or deemed by the CMU as entitled) to receive payments in respect of Notes or Undated Capital Securities represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU,

as the beneficial holder of a particular nominal amount of Notes or Undated Capital Securities represented by such Global Note or Global Certificate must look solely to the Issuing and Paying Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

3 EXCHANGE

3.1 Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Summary of the Programme — Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

The CMU may require that any such exchange for a permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified.

3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "Partial Exchange of Permanent Global Notes" below, in part for Definitive Notes or, in the case of (i) below, Registered Notes:

(i) if the permanent Global Note is held on behalf of Euroclear, Clearstream, the CMU or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or

(ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes or Undated Capital Securities such that it holds an amount equal to one or more Specified Denominations.

3.3 Global Certificates

If the relevant Pricing Supplement states that the Notes or the Undated Capital Securities are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes or Undated Capital Securities held in Euroclear or Clearstream or the CMU or an

Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes or the Undated Capital Securities within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes or the Undated Capital Securities may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes or Undated Capital Securities represented by any Global Certificate pursuant to Note Condition 2 and Undated Capital Securities Condition 2 may only be made in part:

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;

(ii) if principal in respect of any Notes or Undated Capital Securities is not paid when due; or

(iii) with the prior consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

3.4 Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Note Conditions (which will be set out in the relevant Pricing Supplement) relating to Partly Paid Notes.

3.5 Delivery of Notes

On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent (or, in the case of Notes or Undated Capital Securities lodged with the CMU, the CMU Lodging and Paying Agent). In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Installment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.6 Exchange Date

"**Exchange Date**" means (i) in relation to an exchange of a temporary Global Note to a permanent Global Note, the day falling after the expiry of 40 days after its issue date; (ii) in relation to an exchange of a permanent Global Note to a Definitive Note, a day falling not more than 45 days after the date of receipt of the first relevant notice by the Issuing and Paying Agent; (iii) in relation to an exchange of a permanent Global Note to a Registered Note, a day falling not more than five days after the date of receipt of the first relevant notice by the Issuing and Paying Agent; or (iv) in the case of failure to pay principal in respect of any Notes when due or an Event of Default has occurred and is continuing, a day falling 30 days after the date of receipt of the first relevant notice by the Issuing and Paying Agent, provided if such date is not a day on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located, the immediately following day.

4 AMENDMENT TO CONDITIONS

The temporary Global Notes, permanent Global Notes and Global Notes contain provisions that apply to the Notes or the Undated Capital Securities that they represent, some of which modify the effect of the Note Conditions or the Undated Capital Securities Conditions, as applicable, set out in this Offering Circular. The following is a summary of certain of those provisions:

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note (except with respect to Global Note held through the CMU) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes.

All payments in respect of Notes or Undated Capital Securities represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

In respect of a Global Note or Global Certificate held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose.

So long as the Notes or the Undated Capital Securities are represented by a Global Note or Global Certificate and the Global Note or Global Certificate is held on behalf of the Clearing Systems, the Issuer has promised, *inter alia*, to pay interest in respect of such Notes or Undated Capital Securities from the Interest Commencement Date or the Distribution Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Note Conditions or the Undated Capital Securities Conditions, as applicable, save that the calculation is made in respect of the total aggregate amount of the Notes or the Undated Capital Securities represented by the Global Note or Global Certificate.

4.2 Prescription

Claims against the Issuer in respect of Notes or Undated Capital Securities that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Note Condition 9 and Undated Capital Securities Condition 9).

4.3 Meetings

The holder of a permanent Global Note or of the Notes or the Undated Capital Securities represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note or a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes or the Undated Capital Securities. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes or the Undated Capital Securities comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

4.4 Cancellation

Cancellation of any Note represented by a permanent Global Note or Global Certificate that is required by the Note Conditions or the Undated Capital Securities Conditions, as applicable, to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note or Global Certificate.

4.5 Purchase

Notes or Undated Capital Securities represented by a permanent Global Note may only be purchased by the Issuer or any of its respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Installment Amounts (if any) thereon.

4.6 The Option of the Issuer

Any option of the Issuer provided for in the Conditions of any Notes or Undated Capital Securities while such Notes or Undated Capital Securities are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Note Conditions or the Undated Capital Securities Conditions, as applicable, except that the notice shall not be required to contain, in the case of Bearer Notes, the certificate numbers of Notes or Undated Capital Securities drawn or, in the case of Registered Notes, the holder of the Notes in respect of a partial exercise of an option and accordingly no drawing of Notes or Undated Capital Securities shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes or the Undated Capital Securities of any Series, the rights of accountholders with a clearing system in respect of the Notes or the Undated Capital Securities will be governed by the standard procedures of Euroclear, Clearstream, the CMU or an Alternative Clearing System (as the case may be).

4.7 Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes or Undated Capital Securities while such Notes or Undated Capital Securities are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note (in accordance with the standard procedures of the relevant clearing system) giving notice to the Issuing and Paying Agent or (in respect of Notes or Undated Capital Securities represented by a Global Certificate) the Registrar or Transfer Agent or (in respect of Notes or Undated Capital Securities lodged with the CMU) the CMU Lodging and Paying Agent within the time limits relating to the deposit of Notes or Undated Capital Securities with a Paying Agent set out in the Note Conditions or the Undated Capital Securities Conditions, as applicable, substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes or the Undated Capital Securities in respect of which the option has been exercised, and stating the nominal amount of Notes or Undated Capital Securities in respect of which the option is exercised and at the same time presenting the permanent Global Note or Global Certificate to the Issuing and Paying Agent, the relevant Registrar, a Transfer Agent or the CMU Lodging and Paying Agent (or, in each case, to a Paying Agent acting on their behalf), as the case may be, for notation.

4.8 Trustee's Powers

In considering the interests of Noteholders while any Global Note is held by or on behalf of, or Registered Notes are registered in the name of, or in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes or the Undated Capital Securities represented by such Global Note or Global Certificate.

4.9 Notices

So long as any Notes or Undated Capital Securities are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes or Undated Capital Securities of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Note Conditions or the Undated Capital Securities Conditions, as applicable, or by delivery of the relevant notice to the holder of the Global Note or Global Certificate or (ii) the CMU, notices to the holders of Notes or Undated Capital Securities of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the second business day preceding the date of dispatch of such notice as holding interests in the relevant Global Note or Global Certificate.

5 PARTLY PAID NOTES

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes or Global Certificates. While any installments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any installment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

FORM OF PRICING SUPPLEMENT RELATING TO NOTES OTHER THAN THE UNDATED CAPITAL SECURITIES

[**MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** — Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [Consider any negative target market.] Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

PRIIPs REGULATION - PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes [are]/[are not] prescribed capital markets products (as defined in the CMP Regulations 2018) and [are]/[are not] prescribed capital markets products (as defined in the CMP Regulations 2018) and [are] [Excluded]/[Specified] Investment Products (as defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).][1]

[This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, the "**Professional Investors**") only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Issuer, the Programme, the Notes, the Issuer or quality of disclosure in this document. Hong Kong Exchanges

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[1] For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document together with the Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.]

It is intended that the Notes will constitute "loan capital" and/or a "regulatory capital security" for the purposes of the Stamp Duty Ordinance (Cap 117) of the Laws of Hong Kong. To the extent there are any concerns, specific Hong Kong tax advice should be sought.

Pricing Supplement dated [●]

The Bank of East Asia, Limited 東亞銀行有限公司
Issue of [*Aggregate Principal Amount of Tranche*] [*Title of Notes*]
under the U.S.$6,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (as defined below) set forth in the Offering Circular dated 6 September 2019 [and the supplementary Offering Circular dated [●]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [●]] and this Pricing Supplement.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Note Conditions (the "**Conditions**") set forth in the Offering Circular dated 6 September 2019. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated 6 September 2019 [and the supplementary Offering Circular dated [●], save in respect of the Conditions which are extracted from the Offering Circular dated 6 September 2019 and are attached hereto. Principal and/or interest of the Notes may be written off upon the occurrence and continuance of a Non-Viability Event in accordance with the terms set out in Condition 7 and paragraph 25 below. In particular, investors in the Notes should read the section titled "Investment Considerations" contained therein, including but not limited to the risk factor titled "The terms of Dated Subordinated Notes and Non-Preferred Loss Absorbing Notes may contain non-viability loss absorption provisions", which apply to the issue of Notes described herein. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [●]] and this Pricing Supplement.]]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

1	Issuer	The Bank of East Asia, Limited 東亞銀行有限公司
2	(i) [Series Number:]	[●]
	(ii) [Tranche Number: (*If fungible with an existing Series, details of that Series, including the date on which the Notes became fungible*)]	[●]
3	Specified Currency or Currencies:	[●]
4	Aggregate Principal Amount:	[●]
	(i) [Series:]	[●]
	(ii) [Tranche:]	[●]
	(iii) [Date on which the Notes become fungible]	[Not applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [*insert description of series*] on [*insert date*/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [26] below [which is expected to occur on or about [insert date]]]]
5	(i) Issue Price:	[●] per cent. of the Aggregate Principal Amount [plus accrued interest from [*insert date*] *(in the case of fungible issues only, if applicable)*]
	(ii) Net Proceeds:	[●]

6	(i)	Specified Denominations[2] [3] [4]:	[●] *(notwithstanding any other regulatory or listing requirements in respect of specified denominations, the minimum specified denomination for any series or tranche of Non-Preferred Loss Absorbing Notes and of Dated Subordinated Notes shall be, if denominated in: (i) Hong Kong dollars, HKD2,000,000; (ii) United States dollars, U.S.$250,000; (iii) Euros, €200,000; or (iv) any other currency, the equivalent in that currency to HKD2,000,000 with reference to the relevant exchange rate on the date of issue.)*
	(ii)	Calculation Amount:	[●] *[, subject to adjustment following the occurrence of a Non-Viability Event or the issue of a Resolution Notice]*[5] *(the applicable Calculation Amount will be: (i) if there is only one Specified Denomination, the Specified Denomination of the relevant Notes; or (ii) if there are several Specified Denominations or the circumstances referred to in Footnote [3] apply, the highest common factor of those Specified Denominations (note: there must be a common factor in the case of two or more Specified Denominations)*
7	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[Specify/Issue date/Not Applicable]
8		Maturity Date:	[*specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*][6]
9		Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR/HIBOR/CNH HIBOR/SHIBOR] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*specify*)] (further particulars specified below)

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2 If the Specified Denomination is expressed to be EUR 100,000 or its equivalent and multiples of a lower principal amount (for example EUR 1,000), insert the following: "EUR 100,000 and integral multiples of [EUR 1,000] in excess thereof up to and including [EUR 199,000]. No Notes in definitive form will be issued with a denomination above [EUR 199,000]".

3 Notes (including Notes denominated in pounds sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of GBP 100,000 (or its equivalent in other currencies).

4 Notes to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HK$500,000 (or its equivalent in other currencies).

5 Only relevant for Dated Subordinated Notes and Non-Preferred Loss Absorbing Notes.

6 Note that Renminbi or HK dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

10	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*specify*)]
11	Change of Interest or Redemption/ Payment Basis:	[*Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis*/ Not Applicable]
12	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)] [The Issuer shall not redeem any of the Dated Subordinated Notes or Non-Preferred Loss Absorbing Notes unless the prior written consent of the Monetary Authority thereto shall have been obtained, to the extent such consent is required under the Banking Ordinance (Cap. 155) of Hong Kong or the Banking (Capital) Rules (Cap. 155L) of Hong Kong, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto][7]]
13	(i) Status of the Notes:	[Senior (Preferred)/Dated Subordinated/Non-Preferred Loss Absorbing]
	(ii) [Qualification of the Notes:]	[Not Applicable/The Notes are intended to qualify as Tier 2 capital of the Issuer/The Notes are intended to qualify as a Loss Absorbing Instrument]
	(iii) [Date of [Board approval for issuance of Notes obtained:]	[Not Applicable/*specify details where Board (or similar) authorisation is required for the particular tranche of Notes*]
	(iv) [Date of regulatory approval for issuance of Notes obtained:]	[Monetary Authority Approval dated [●]/None required]

[7] Only relevant for Dated Subordinated Notes and Non-Preferred Loss Absorbing Notes.

14	Listing and admission to trading:	[Hong Kong/specify other/Not listed] (*for Notes to be listed on the [Hong Kong Stock Exchange], insert the expected effective listing date of the Notes*)
15	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Note Provisions:	[Applicable/Not Applicable/Applicable from and including the [Issue Date/Interest Payment Date falling on [●]] to but excluding the [Interest Payment Date falling on [●]/Maturity Date]] *(If not applicable, delete the remaining sub — paragraphs of this paragraph)*
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii) Interest Period:	[Each period from and including the [Issue Date]/[Interest Payment Date falling on [●]] to (but excluding the [subsequent Interest Payment Date falling on [●]/[Maturity Date]], except that the first Interest Period will commence on (and include) the [Issue Date]/[the Interest Payment Date falling on [●] and the final Interest Period shall end (but exclude) the [Interest Payment Date falling on [●]/[Maturity Date]]
	(iii) Interest Payment Date(s):	[●] in each [month]/[year][8] [commencing on the [Issue Date/Interest Payment Date falling on [●]] and ending on the [Interest Payment Date falling on [●]/Maturity Date]] [adjusted in accordance with [*specify Business Day Convention and any applicable Financial Centre(s) for the definition of "Business Day"*]/[not adjusted]
	(iv) Business Day Convention:	[Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / other (give details) / not adjusted]

[8] Note that for certain Renminbi and HK dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day".

	(v) Fixed Coupon Amount[(s)]:	[●] per Calculation Amount[9] [, subject to adjustment following the occurrence of a Non-Viability Event or the issue of a Resolution Notice]
	(vi) Broken Amount(s):	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph.)* [[●] per Calculation Amount, subject to adjustment following the occurrence of a Non-Viability Event or the issue of a Resolution Notice, payable on the Interest Payment Date falling [in/on] [●]]
	(vii) Day Count Fraction:	[30/360 or Actual/Actual (ICMA/ISDA) or Actual/365 or Actual/360 or other]
	(viii) Determination Dates:	[Applicable/Not Applicable] *(if not applicable, delete the remaining sub-paragraphs of this paragraph.)* [●] in each year [*(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*]
	(ix) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
17	Floating Rate Note Provisions:	[Applicable/Not Applicable/Applicable from and including the [Issue Date/Interest Payment Date falling on [●]] to but excluding the [Interest Payment Date falling on [●]/Maturity Date]] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Interest Period(s):	[Each period from and including the [Issue Date]/[Interest Payment Date falling on [●]] to (but excluding) the [subsequent Interest Payment Date falling on [●]/[Maturity Date]], except that the first Interest Period will commence on (and include) the [Issue Date]/[the Interest Payment Date falling on [●]] and the final Interest Period shall end (but exclude) the [Interest Payment Date falling on [●]] /[Maturity Date].]

[9] For Renminbi or HK dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 for the case of Renminbi denominated Fixed Rate Notes to the nearest HK$0.01, HK$0.005 for the case of HK dollar denominated Fixed Rate Notes, being rounded upwards".

(ii)	Specified Interest Payment Date(s):	[●] in each [month]/[year] [commencing on the [Issue Date/Interest Payment Date falling on [●]] and ending on the [Interest Payment Date falling on [●]/Maturity Date]] [adjusted in accordance with [specify Business Day Convention and any applicable Financial Centre(s) for the definition of "Business Day"]/not adjusted]
(iii)	Interest Period End Date:	[●] *(Not applicable unless different from Interest Payment Date)*
(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
(v)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other *(give details)*]
(vi)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
(vii)	Screen Rate Determination:	
	— Reference Bank:	[●]
	— Reference Rate:	[●]
	— Interest Determination Date(s):	[●]
	— Relevant Screen Page:	[●]
(viii)	ISDA Determination:	
	— Floating Rate Option:	[●]
	— Designated Maturity:	[●]
	— Reset Date:	[●]
(ix)	Margin(s):	[+/—] [●] per cent. per annum
(x)	Minimum Rate of Interest:	[●] per cent. per annum
(xi)	Maximum Rate of Interest:	[●] per cent. per annum
(xii)	Day Count Fraction:	[●]

	(xiii) Benchmark discontinuation and fall back provisions:	[●]
	— Benchmark Discontinuation (Condition 5(k)):	[Applicable/Not Applicable]
	— Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating Distribution on Floating Rate Undated Capital Securities, if different from those set out in the Conditions:	[●]
18	Zero Coupon Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Amortisation Yield:	[●] per cent. per annum
	(ii) Day Count Fraction:	[●]
	(iii) Any other formula/basis of determining amount payable:	[●]
19	Index Linked Interest Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Index/Formula:	[*give or annex details*]
	(ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent):	[●]
	(iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted:	[●]
	(iv) Interest Period(s):	[●]
	(v) Specified Interest Payment Dates:	[●]

	(vi) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
	(vii) Minimum Rate of Interest:	[●] per cent. per annum
	(viii) Maximum Rate of Interest:	[●] per cent. per annum
	(ix) Day Count Fraction:	[●]
20	Dual Currency Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(ii) Party, if any, responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

21	Call Option:	[Applicable/Not Applicable] *(If applicable, specify/include details. If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Optional Redemption Date(s):	[●][, subject to the prior written consent of the Monetary Authority][10]
	(ii) Optional Redemption Amount(s) of each Note and specified denomination method, if any, of calculation of such amount(s):	[●] per Calculation Amount [, subject to adjustment following the occurrence of a Non-Viability Event or the issue of a Resolution Notice][11]

[10] Only relevant for Dated Subordinated Notes and Non-Preferred Loss Absorbing Notes.

[11] Only relevant for Dated Subordinated Notes and Non-Preferred Loss Absorbing Notes.

	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period:	[●]
22	Put Option:	[Applicable/Not Applicable][, subject to the prior written consent of the Monetary Authority][12] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount[, subject to adjustment following the occurrence of a Non-Viability Event or the exercise of Hong Kong Resolution Authority Power][13]
	(iii) Notice period:	[●]
23	Final Redemption Amount of each Note:	[●] per Calculation Amount[, subject to adjustment following the occurrence of a Non-Viability Event or the exercise of Hong Kong Resolution Authority Power]
24	Early Redemption Amount:	
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Note Conditions):	[●][, subject to adjustment following the occurrence of a Non-Viability Event or the issue of a Resolution Notice][14]

PROVISIONS RELATING TO NON-VIABILITY AND LOSS ABSORPTION OF DATED SUBORDINATED NOTES AND NON-PREFERRED LOSS ABSORBING NOTES

25	Loss Absorption:	[Applicable/Not Applicable] *(if not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(a) Suspension Period:	[Not Applicable/*give details*]
	(b) Non-Viability Event:	[Not Applicable/*give details*]
	(c) Non-Viability Event Notice:	[Not Applicable/*give details*]

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12 Only relevant for Dated Subordinated Notes and Non-Preferred Loss Absorbing Notes.

13 Only relevant for Dated Subordinated Notes and Non-Preferred Loss Absorbing Notes.

14 Only relevant for Dated Subordinated Notes and Non-Preferred Loss Absorbing Notes.

(d)	Write-off:	[Not Applicable/*give details*]
(e)	Loss-absorbing capacity:	[Not Applicable/*give details*]
(f)	Others:	[Not Applicable/*give details e.g. Parity Obligations, Junior Obligations*]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26	Form of Notes:	**Bearer Notes** [Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note] *(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "EUR 100,000 plus integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000". Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)* **Registered Notes:** [Regulation S Global Note (U.S.$/EUR [●] principal amount) registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg]]
27	Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/*give details. Note that this paragraph relates to the date and place of payment*]
28	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Applicable/*Not Applicable (if Applicable, give details)*]

29	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Applicable/*Not Applicable (if Applicable, give details)*]
30	Details relating to Instalment Notes: amount of each instalment (Instalment Amount), date on which each payment is to be made (Instalment Date):	[Applicable/Not Applicable *(if Applicable, give details)*]
31	Other terms or special conditions:	[Applicable/Not Applicable *(give details e.g. if any additional loss absorption details to be set out in schedule to the Pricing Supplement)*]

DISTRIBUTION

32	(i) If syndicated, names of Managers:	[Not Applicable/give names] [The Issuer or any of its broker-dealers or other affiliates may engage in market-making transactions involving the Notes after their initial sale as permitted by applicable law, but none of the Issuer, any of its broker-dealer or its affiliates is obligated to do so or to make a market for the Notes]
	(ii) Stabilising Manager (if any):	[Not Applicable/give name]
33	If non-syndicated, name of Dealer:	[Not Applicable/give name] [The Issuer or any of its broker-dealers or other affiliates may engage in market-making transactions involving the Notes after their initial sale as permitted by applicable law, but none of the Issuer, any of its broker-dealer or its affiliates is obligated to do so or to make a market for the Notes]
34	U.S. selling restrictions:	[TEFRA D/TEFRA C/TEFRA not applicable] Regulation S (Category [1/2]) *(TEFRA not applicable for Bearer Notes with a maturity of one year or less or Registered Notes)* *(Where TEFRA D is applicable, a Bearer Note must be issued in the form of a Temporary Note exchangeable upon a U.S. tax certification for a Permanent Global Note or a Definitive Note)*

35	Prohibition of Sales to EEA Retail Investors:	Applicable
36	Additional selling restrictions:	[Not Applicable/*give details*]
37	Private bank rebate/commission:	[Not Applicable/In addition, the Issuer has agreed with the [Managers] to pay a commission to certain private banks in connection with the distribution of the Notes to their clients. This commission will be based on the principal amount of the Notes so distributed, and may be deducted from the purchase price for the Notes payable by such private banks upon settlement]

OPERATIONAL INFORMATION

38	ISIN Code:	[●]
39	Common Code:	[●]
40	CMU Instrument Number:	[●]
41	Legal Entity Identifier (LEI):	CO6GC26LCGGRTUESIP55
42	Any clearing system(s) other than The Central Moneymarkets Unit Service and/or Euroclear Bank, SA/NV and Clearstream Banking S.A. and the CMU and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
43	Delivery:	Delivery [against/free of] payment
44	Names and addresses of additional Paying Agent(s) (if any):	[●]

GENERAL

45	The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [●], producing a sum of (for Notes not denominated in U.S. dollars):	[Not applicable/U.S.$][●]
46	In the case of Registered Notes, specify the location of the office of the Registrar if other than Luxembourg:	[●]
47	In the case of Bearer Notes, specify the location of the office of the Issuing and Paying Agent if other than Dublin, Ireland:	[●]

48	Governing Law:	English law [save that the provisions relating to Dated Subordinated Notes and Non-Preferred Loss Absorbing Notes in relation to subordination, set-off and payment void and default and enforcement shall be governed by, and construed in accordance with, the laws of Hong Kong][15]
49	Ratings:	[The Notes to be issued have not been rated /The Notes to be issued have been rated: [Moody's Investor Service, Inc.: [●]] [Standard & Poor 's Rating Services, a division of the McGraw-Hill Companies: [●]] [Fitch: [●]] [Other: [●]] *(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)]*

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the [*specify relevant stock exchange/market*] of the Notes described herein pursuant to the U.S.$6,000,000,000 Medium Term Note Programme.

[USE OF PROCEEDS

Give details if different from the "Use of Proceeds" section in the Offering Circular.]

[STABILISING

In connection with this issue, [●] (the "**Stabilising Manager**") (or persons acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the closing date of the relevant Tranche of Notes. However, there is no obligation on such the Stabilising Manager to do this. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of relevant Tranche of the Notes is made and, if begun, may cease at any time, but must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.]

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[15] Only relevant for Dated Subordinated Notes and Non-Preferred Loss Absorbing Notes.

INVESTMENT CONSIDERATIONS

There are significant risks associated with the Notes including, but not limited to, counterparty risk, country risk, price risk and liquidity risk. Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in these Notes, the appropriate tools to analyse that investment, and the suitability of the investment in each investor 's particular circumstances. No investor should purchase the Notes unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in these Notes.

Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

[MATERIAL ADVERSE CHANGE STATEMENT

There has been no significant change in the financial or trading position of the Issuer or the Group since [***insert date of last audited full year or interim financial statements***] and no material adverse change in the financial position or prospects of the Issuer or the Group since [***insert date of last published audited annual financial statements***].]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of The Bank of East Asia, Limited 東亞銀行有限公司:

By: _____
Duly authorised

FORM OF PRICING SUPPLEMENT
RELATING TO UNDATED CAPITAL SECURITIES ONLY

[**MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** — Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Undated Capital Securities has led to the conclusion that: (i) the target market for the Undated Capital Securities is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; and (ii) all channels for distribution of the Undated Capital Securities to eligible counterparties and professional clients are appropriate. [*Consider any negative target market.*] Any person subsequently offering, selling or recommending the Undated Capital Securities (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Undated Capital Securities (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

PRIIPs REGULATION — PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Undated Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Undated Capital Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Undated Capital Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Undated Capital Securities are prescribed capital markets products (as defined in the CMP Regulations 2018) and [are] [Excluded]/[Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).][1]

[This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only. **Investors should not purchase the Undated Capital Securities in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Undated Capital Securities are only suitable for Professional Investors.**

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Undated Capital Securities on Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Issuer, the Programme, the Undated Capital Securities, the Issuer or quality of disclosure in

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[1] For any Undated Capital Securities to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Undated Capital Securities pursuant to Section 309B of the SFA prior to the launch of the offer.

this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document together with the Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.]

It is intended that the Undated Capital Securities will constitute "loan capital" and/or a "regulatory capital security" for the purposes of the Stamp Duty Ordinance (Cap 117) of the Laws of Hong Kong. To the extent there are any concerns, specific Hong Kong tax advice should be sought.

Pricing Supplement dated [●]

The Bank of East Asia, Limited 東亞銀行有限公司
Issue of [*Aggregate Principal Amount of Tranche*] [*Title of Undated Capital Securities*]
under the U.S.$6,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Undated Capital Securities described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Undated Capital Securities Conditions (the "**Conditions**") set forth in the Offering Circular dated 6 September 2019 [and the supplementary Offering Circular dated [●]]. This Pricing Supplement contains the final terms of the Undated Capital Securities and must be read in conjunction with such Offering Circular [as so supplemented]. Full information on the Issuer and the offer of the Undated Capital Securities is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [●]] and this Pricing Supplement.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Undated Capital Securities (the "**Conditions**") set forth in the Offering Circular dated 6 September 2019. This Pricing Supplement contains the final terms of the Undated Capital Securities and must be read in conjunction with the Offering Circular dated 6 September 2019 [and the supplementary Offering Circular dated [●], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto. Principal and/or interest of the Undated Capital Securities may be written-off upon the occurrence and continuance of a Non-Viability Event in accordance with the terms set out in Condition 7 and paragraph 20 below. In particular, investors in the Undated Capital Securities should read the section titled "Investment Considerations" contained therein, including but not limited to the risk factor titled "[The terms of Undated Capital Securities may contain non-viability loss absorption provisions]", which apply to the issue of Undated Capital Securities described herein. Full information on the Issuer and the offer of the Undated Capital Securities is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [●]] and this Pricing Supplement.]]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

1	Issuer	The Bank of East Asia, Limited 東亞銀行有限公司
2	(i) [Series Number:]	[●]
	(ii) [Tranche Number: (*If fungible with an existing Series, details of that Series, including the date on which the Undated Capital Securities became fungible*)]	[●]
3	Specified Currency or Currencies:	[●]
4	Aggregate Principal Amount:	[●]
	(i) [Series:]	[●]
	(ii) [Tranche:]	[●]
	(iii) [Date on which the Undated Capital Securities become fungible:]	[The Undated Capital Securities will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/the date that is 40 days after the Issuer Date/Not Applicable] *(if fungible with an existing Series, details of that Series, including the date on which the Undated Capital Securities become fungible)*
5	(i) Issue Price:	[●] per cent. of the Aggregate Principal Amount [plus accrued Distributions from [*insert date*] *(in the case of fungible issues only, if applicable)*]
	(ii) Net Proceeds:	[●]

6	(i)	Specified Denomination[2] [3]:	[●] (*notwithstanding any other regulatory or listing requirements in respect of specified denomination, the minimum specified denomination for any series or tranche of Undated Capital Securities intending to qualify as Additional Tier 1 capital under the Banking Capital Regulations and/or a LAC debt instrument under the Loss Absorbing Capacity Rules shall be, if denominated in: (i) Hong Kong dollars, HKD2,000,000; (ii) United States dollars, U.S.$250,000; (iii) Euros, €200,000; or (iv) any other currency, the equivalent in that currency to HKD2,000,000 with reference to the relevant exchange rate on the date of issue*)
	(ii)	Calculation Amount:	[●], subject to adjustment following the occurrence of a Non-Viability Event or the issue of a Resolution Notice
7	(i)	Issue Date:	[●]
	(ii)	Distribution Commencement Date:	[Specify/Issue date/Not Applicable]
8	Distribution		
	(i)	Distribution Basis:	[[●] per cent. Fixed Rate from [●] to [●]] [[LIBOR/EURIBOR/HIBOR/CNH HIBOR/SHIBOR] +/- [●] per cent. Floating Rate][from [●] to [●]] [Other (*specify*)] (further particulars specified below) Payment of any Distribution is subject to the terms and conditions specified in Condition 5
	(ii)	Distribution Stopper (Condition [5(c)]):	[Applicable/Not Applicable]
9	Redemption/Payment Basis:		[Redemption at par] [Other (*specify*)]
10	Change of Distribution or Redemption Payment Basis:		[*Specify details of any Payment Basis: provision for convertibility of Undated Capital Securities into another Distribution or redemption/payment basis/* Not Applicable]

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[2] Undated Capital Securities (including Undated Capital Securities denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies). Add appropriate provisions to terms and conditions if included.

[3] Undated Capital Securities to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HK$500,000 (or its equivalent in other currencies).

11	Call Options:	[Issuer Call (further particulars specified below) The Issuer shall not redeem any of the Undated Capital Securities unless the prior written consent of the Monetary Authority thereto shall have been obtained, to the extent such consent is required under the Banking Ordinance (Cap. 155) of Hong Kong or the Banking (Capital) Rules (Cap. 155L) of Hong Kong, or any successor legislation or regulations made thereunder, or any supervisory guidance issued by the Monetary Authority in relation thereto]
12	(i) Qualification of the Undated Capital Securities:	[The Undated Capital Securities are intended to qualify as Additional Tier 1 capital of the Issuer/The Undated Capital Securities are intended to qualify as a Loss Absorbing Instrument]
	(ii) [Date of [Board] approval for issuance of Undated Capital Securities obtained:]	[Not Applicable/*specify details where Board (or similar) authorisation is required for the particular tranche of Undated Capital Securities*]
	(iii) [Date of regulatory approval for issuance of Undated Capital Securities obtained:]	[Monetary Authority Approval dated [●]/None required]
13	Listing and admission to trading:	[Hong Kong/*specify other*/Not listed] (*for Undated Capital Securities to be listed on the [Hong Kong Stock Exchange], insert the expected effective listing date of the Undated Capital Securities*)
14	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO DISTRIBUTION (IF ANY) PAYABLE

15	Fixed Rate Undated Capital Securities Provisions:	[Applicable/Not Applicable/Applicable from and including the [Issue Date/Distribution Payment Date falling on [●]] to but excluding the [Distribution Payment Date falling on [●]] (*If not applicable, delete the remaining sub — paragraphs of this paragraph*)
	(i) Rate[(s)] of Distribution:	
	(a) Initial Distribution Rate:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(b) Reset:	[Applicable/Not Applicable]
	(A) First Reset Date:	[●]
	(B) Reset Date[s]:	The First Reset Date and each date falling every [●] after the First Reset Date
	(C) Relevant Rate:	[●]
	(D) Initial Spread:	[●]

(ii) Distribution Period:	[Each period from and including the [Issue Date]/[Distribution Payment Date falling on [●]] to (but excluding) the [subsequent Distribution Payment Date falling on [●]], except that the first Distribution Period will commence on (and include) the [Issue Date]/ [Distribution Payment Date falling on [●]] and the final Distribution Period shall end (but exclude) the [Distribution Payment Date falling on [●]]]
(iii) Distribution Payment Date(s):	[●] in each year[4] commencing on the [Issue Date/Distribution Payment Date falling on [●]] and ending on the [Distribution Payment Date falling on [●]]] [adjusted in accordance with [specify Business Day Convention and any applicable Financial Centre(s) for the definition of "Business Day"]/not adjusted]
(iv) Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
(v) Fixed Distribution Amount[(s)]:	[From (and including) the Distribution Commencement Date to (but excluding) the First Reset Date, [●] per Calculation Amount[5], subject to adjustment following the occurrence of a Non-Viability Event or the issue of a Resolution Notice From (and including) the First Reset Date, the respective amounts to be determined pursuant to Item 15(i)(b) above, subject to adjustment following the occurrence of a Non-Viability Event] or the issue of a Resolution Notice
(vi) Broken Amount(s):	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph.*) [[●] per Calculation Amount, subject to adjustment following the occurrence of a Non-Viability Event or the issue of a Resolution Notice, payable on the Distribution Payment Date falling [in/on] [●]]

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4 Note that for certain Renminbi and HK dollar denominated Fixed Rate Undated Capital Securities the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day".

5 For Renminbi or HK dollar denominated Fixed Rate Undated Capital Securities where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 for the case of Renminbi denominated Fixed Rate Undated Capital Securities to the nearest HK$0.01, HK$0.005 for the case of HK dollar denominated Fixed Rate Undated Capital Securities, being rounded upwards".

	(vii) Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/*other*]
	(viii) Determination Dates:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph.*) [[●] in each year (insert regular Distribution payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))]
	(ix) Other terms relating to the method of calculating Distribution for Fixed Rate Undated Capital Securities:	[Not Applicable/give details]
16	Floating Rate Undated Capital Securities Provisions:	[Applicable/Not Applicable/Applicable from and including the [Issue Date/Distribution Payment Date falling on [●]] to but excluding the [Distribution Payment Date falling on [●]]] (*if not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Distribution Period(s):	[Each period from and including the [Issue Date]/[Distribution Payment Date falling on [●]] to (but excluding) the [subsequent Distribution Payment Date falling on [●]], except that the first Distribution Period will commence on (and include) the [Issue Date]/[the Distribution Payment Date falling on [●] and the final Distribution Period shall end (but exclude) the [Distribution Payment Date falling on [●]]]
	(ii) Specified Distribution Payment Date(s):	[●] in each year [commencing on the [Issue Date/Distribution Payment Date falling on [●]] and ending on the [Distribution Payment Date falling on [●]] [adjusted in accordance with [specify Business Day Convention and any applicable Financial Centre(s) for the definition of "Business Day"]/not adjusted]
	(iii) Distribution Period Date:	[●] (*Not applicable unless different from Distribution Payment Date*)
	(iv) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(v) Manner in which the Rate(s) of Distribution is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]

(vi)	Party responsible for calculating the Rate(s) of Distribution and Distribution Amount(s) (if not the Calculation Agent):	[●]
(vii)	Screen Rate Determination:	
	— Reference Rate:	[●]
	— Distribution Determination Date(s):	[●]
	— Relevant Screen Page:	[●]
	— Reference Banks:	[●]
(viii)	ISDA Determination:	
	— Floating Rate Option:	[●]
	— Designated Maturity:	[●]
	— Reset Date:	[●]
(ix)	Margin(s):	[+/-] [●] per cent. per annum
(x)	Minimum Rate of Distribution:	[●] per cent. per annum
(xi)	Maximum Rate of Distribution:	[●] per cent. per annum
(xii)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA/ISDA) or Actual/360 or Actual/ 365 (Fixed) or [*specify other*]]
(xiii)	Benchmark discontinuation and fall back provisions:	[●]
	— Benchmark Discontinuation (Condition 4(h)):	[Applicable/Not Applicable]
	— Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating Distribution on Floating Rate Undated Capital Securities, if different from those set out in the Conditions:	[●]

PROVISIONS RELATING TO REDEMPTION

17	Call Option:	[Applicable/Not Applicable] *(if applicable, specify/include details. If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Optional Redemption Date(s):	[●], subject to the prior written consent of the Monetary Authority
	(ii) Optional Redemption Amount(s) of each Undated Capital Security and specified denomination method, if any, of calculation of such amount(s):	[●] per Calculation Amount, subject to adjustment following the occurrence of a Non-Viability Event or the exercise of Hong Kong Resolution Authority Power
18	Final Redemption Amount of each Undated Capital Security:	[●] per Calculation Amount, subject to adjustment following the occurrence of a Non-Viability Event or the exercise of Hong Kong Resolution Authority Power
19	Early Redemption Amount:	[●]/ [Not Applicable]
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[●], subject to adjustment following the occurrence of a Non-Viability Event or the issue of a Resolution Notice

PROVISIONS RELATING TO NON-VIABILITY AND LOSS ABSORPTION OF THE UNDATED CAPITAL SECURITIES

20	Loss Absorption:	
	(i) Suspension Period:	[per Condition [2(e)]/*give details*]
	(ii) Non-Viability Event:	[per Condition [7]/*give details*]
	(iii) Non-Viability Event Notice:	[per Condition [7]/*give details*]
	(iv) Write-off:	[per Condition [7]/*give details*]
	(v) Loss-absorbing capacity:	[per Condition [7]/*give details*]
	(vi) Others:	[Not Applicable/*give details e.g. Parity Obligations, Junior Obligations*]

GENERAL PROVISIONS APPLICABLE TO THE UNDATED CAPITAL SECURITIES

21	Form of Undated Capital Securities:	**Registered Undated Capital Securities:** Global Certificate exchangeable for Individual Security Certificates in the limited circumstances described in the Global Certificate

22	Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/*give details (note that this paragraph relates to the date and place of payment)*]
23	Other terms or special conditions:	[Not Applicable/*give details e.g. if any additional loss absorption details to be set out in schedule to the Pricing Supplement*]

DISTRIBUTION

24	(i) If syndicated, names of Managers:	[Not Applicable/*give names*] [The Issuer or any of its broker-dealers or other affiliates may engage in market-making transactions involving the Undated Capital Securities after their initial sale as permitted by applicable law, but none of the Issuer, any of its broker-dealer or its affiliates is obligated to do so or to make a market for the Undated Capital Securities]
	(ii) Stabilising Manager (if any):	[Not Applicable/*give name*]
25	If non-syndicated, name of Dealer:	[Not Applicable/*give name*] [The Issuer or any of its broker-dealers or other affiliates may engage in market-making transactions involving the Undated Capital Securities after their initial sale as permitted by applicable law, but none of the Issuer, any of its broker-dealer or its affiliates is obligated to do so or to make a market for the Undated Capital Securities]
26	U.S. selling restrictions:	[Reg. S Category [1] / [2]; TEFRA/Not Applicable]
27	Prohibition of Sales to EEA Retail Investors:	Applicable
28	Additional selling restrictions:	[Not Applicable/*give details*]
29	Private bank rebate/commission:	[Not Applicable/In addition, the Issuer has agreed with the [Managers] to pay a commission to certain private banks in connection with the distribution of the Undated Capital Securities to their clients. This commission will be based on the principal amount of the Undated Capital Securities so distributed, and may be deducted from the purchase price for the Undated Capital Securities payable by such private banks upon settlement]

OPERATIONAL INFORMATION

30	ISIN Code:	[●]
31	Common Code:	[●]
32	CMU Instrument Number:	[●]/[Not Applicable]
33	Legal Entity Identifier (LEI):	CO6GC26LCGGRTUESIP55
34	Any clearing system(s) other than The Central Moneymarkets Unit Service and/or Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
35	Delivery:	Delivery [against/free of] payment
36	Names and addresses of additional Paying Agent(s) (if any):	[●]

GENERAL

37	Governing Law:	English law, save that the provisions in relation to subordination, set-off and payment void and default and enforcement shall be governed by, and construed in accordance with, the laws of Hong Kong
38	Ratings:	[The Undated Capital Securities to be issued have not been rated/The Undated Capital Securities to be issued have been rated: [Moody's Investor Service, Inc.: [●]] [Standard & Poor 's Rating Services, a division of the McGraw-Hill Companies: [●]] [Fitch: [●]] [Other: [●]] (*The above disclosure should reflect the rating allocated to Undated Capital Securities of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the [*specify relevant stock exchange/market*] of the Undated Capital Securities described herein pursuant to the U.S.$6,000,000,000 Medium Term Note Programme.

[USE OF PROCEEDS

Give details if different from the "Use of Proceeds" section in the Offering Circular.**]**

[STABILISING

In connection with this issue, [●] (the "**Stabilising Manager**") (or persons acting on behalf of any Stabilising Manager) may over-allot Undated Capital Securities or effect transactions with a view to supporting the market price of the Undated Capital Securities at a level higher than that which might otherwise prevail for a limited period after the closing date of the relevant Tranche of Undated Capital Securities. However, there is no obligation on such Stabilising Manager to do this. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Undated Capital Securities is made and, if begun, may cease at any time, but must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Undated Capital Securities and 60 days after the date of the allotment of the relevant Tranche of Undated Capital Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.]

INVESTMENT CONSIDERATIONS

There are significant risks associated with the Undated Capital Securities including, but not limited to, counterparty risk, country risk, price risk and liquidity risk. Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in these Undated Capital Securities, the appropriate tools to analyse that investment, and the suitability of the investment in each investor 's particular circumstances. No investor should purchase the Undated Capital Securities unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in these Undated Capital Securities.

Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of The Bank of East Asia, Limited 東亞銀行有限公司:

By: _____
Duly authorised

TAXATION

The statements herein regarding taxation are based on the laws and practice in force as at the date of this Offering Circular and are subject to any changes in law or practice occurring after such date, which changes could be made on a retroactive basis, and do not constitute legal or taxation advice. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes or the Undated Capital Securities and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Investors should consult their own tax advisers regarding the tax consequences of an investment in the Notes or the Undated Capital Securities.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or the Undated Capital Securities or in respect of any capital gains arising from the sale of the Notes or the Undated Capital Securities.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes or the Undated Capital Securities may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes or the Undated Capital Securities is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes or the Undated Capital Securities is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Notes or the Undated Capital Securities is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap.112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes or the Undated Capital Securities is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution, on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with, inter alia, an authorized institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance (Cap. 155) of Hong Kong) is exempt from the payment of Hong Kong profits tax. This exemption does not apply, however, to deposits that are used to secure or guarantee money borrowed in certain circumstances. Provided no

prospectus involving the issue of the Notes or the Undated Capital Securities is registered under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, the issue of the Notes or the Undated Capital Securities by the Issuer is expected to constitute a deposit to which the above exemption from payment will apply.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of Notes or Undated Capital Securities will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes or Undated Capital Securities will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes or Undated Capital Securities will be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes or the Undated Capital Securities are acquired and disposed.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisers to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided that either:

(i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap.117) of Hong Kong (the "**SDO**").

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3% of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Registered Notes constitute loan capital (as defined in the SDO).

Notwithstanding the above, no stamp duty is payable on the transfer of a regulatory capital security (as defined in Section 17A of the IRO).

If stamp duty is payable in respect of the transfer of Registered Notes, it will be payable at the rate of 0.2% (of which 0.1% is payable by the seller and 0.1% is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

EUROPEAN UNION

EU Savings Directive

The Savings Directive requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain other types of entity established, in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

The Council of the European Union has adopted the Amending Directive which will, when implemented, amend and broaden the scope of the requirements described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**Participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes or Undated Capital Securities (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in Notes or Undated Capital Securities where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Notes or the Undated Capital Securities.

The FTT proposal remains subject to negotiation between the Participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate. Prospective holders of Notes or Undated Capital Securities are advised to seek their own professional advice in relation to the FTT.

FATCA WITHHOLDING

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY ANY PERSON FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE PURCHASERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

Certain provisions of U.S. law, commonly known as "**FATCA**", generally require certain non-U.S. financial institutions to report certain information on their account holders to the government of the United States and require such institutions to withhold 30 per cent. from all, or a portion of, certain payments made to persons that fail to provide the financial institution information, consents and forms or other documentation that may be necessary for such financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding.

This new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to "**foreign passthru payments**" (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Notes or Undated Capital Securities characterized as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued on or after the "**grandfathering date**", which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Notes or Undated Capital Securities characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes or Undated Capital Securities are issued before the grandfathering date, and additional Notes or Undated Capital Securities of the same series are issued on or after that date, the additional Notes or Undated Capital Securities may not be treated as grandfathered, which may have negative consequences for the existing Notes or Undated Capital Securities, including a negative impact on market price.

The application of FATCA to interest, principal or other amounts paid with respect to the Notes and the information reporting obligations of the Issuer and other entities in the payment chain is still developing. In particular, a number of jurisdictions (including Hong Kong) have entered into, or have announced their intention to enter into, intergovernmental agreements (or similar mutual understandings) with the United States ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. The full impact of such agreements (and the laws implementing such agreements in such jurisdictions) on reporting and withholding responsibilities under FATCA is unclear. The Issuer and other entities in the payment chain may be required to report certain information on their U.S. account holders to government authorities in their respective jurisdictions or the United States in order (i) to obtain an exemption from FATCA withholding on payments they receive and/or (ii) to comply with applicable law in their jurisdictions. It is not yet certain how the United States and the jurisdictions which enter into IGAs will address withholding on "foreign passthru payments" (which may include payments on the Notes or the Undated Capital Securities) or if such withholding will be required at all.

Whilst the Notes or the Undated Capital Securities are in global form and held within the Clearing Systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes or the Undated Capital Securities by the Issuer, any paying agent and the Common Depositary, given that each of the entities in the payment chain beginning with the payment agent and ending with the Clearing Systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes or the Undated Capital Securities. The documentation expressly contemplates the possibility that the Notes or the Undated Capital Securities may go into definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding pursuant to FATCA. However, definitive notes will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and IGAs, all of which are subject to change, possibly with retroactive effect. Investors should consult their own tax advisers regarding how FATCA may affect them based on their particular circumstances.

CLEARANCE AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or the CMU (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor any Dealer or the Arranger takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes or the Undated Capital Securities held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.*

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

THE CLEARING SYSTEMS

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes or the Undated Capital Securities held through Euroclear or Clearstream will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

CMU

The CMU is a central depositary service provided by the Central Moneymarkets Unit of the Monetary Authority for the safe custody and electronic trading between the members of this service ("**CMU Members**") of capital markets instruments ("**CMU Instruments**") which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Ordinance.

Compared to clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU is limited. In particular (and unlike the European Clearing Systems), the Monetary Authority does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the Monetary Authority advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the

lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the Monetary Authority will not obtain certificates of non-US beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the Monetary Authority for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream in any Notes or Undated Capital Securities held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU.

BOOK-ENTRY OWNERSHIP

Bearer Notes

The Issuer has made applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream.

Registered Notes

The Issuer has made applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of the Notes or the Undated Capital Securities to be represented by a Global Certificate. The Issuer may also apply to have Notes or Undated Capital Securities to be represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an International Securities Identification Number ("**ISIN**") and a Common Code. Investors in Notes or Undated Capital Securities of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream or the CMU (if applicable).

Each Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Subscription and Sale*".

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will be available, in the case of Notes or Undated Capital Securities initially represented by a Global Certificate, in amounts specified in the applicable Pricing Supplement.

SUBSCRIPTION AND SALE

AMENDED AND RESTATED DEALER AGREEMENT

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated 6 September 2019 (the "**Dealer Agreement**") between the Issuer, the Permanent Dealers and the Arranger, the Notes or the Undated Capital Securities will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell the Notes or the Undated Capital Securities directly on its own behalf to institutions that are not Dealers. The Notes or the Undated Capital Securities may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes or the Undated Capital Securities may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for the Notes or the Undated Capital Securities to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of the Notes or the Undated Capital Securities subscribed by it. The commissions in respect of an issue of Notes or the Undated Capital Securities on a syndicated basis will be stated in the relevant Pricing Supplement.

The Issuer has agreed to indemnify the Arranger and the Dealers against certain liabilities in connection with the offer and sale of the Notes or the Undated Capital Securities. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes or Undated Capital Securities in certain circumstances prior to payment for such Notes or Undated Capital Securities being made to the Issuer.

The Arranger, the Dealers or any of their respective affiliates may have performed certain banking and advisory services for the Issuer and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or its affiliates in the ordinary course of the Issuer's or their business. The Dealers or certain of their respective affiliates may purchase the Notes or the Undated Capital Securities and be allocated the Notes or the Undated Capital Securities for asset management and/or proprietary purposes but not with a view to distribution.

The Arranger, the Dealers or any of their respective affiliates may purchase the Notes or the Undated Capital Securities for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes or the Undated Capital Securities and/or other securities of the Issuer or its associates at the same time as the offer and sale of the Notes or the Undated Capital Securities or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes or the Undated Capital Securities to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes or the Undated Capital Securities).

Application has been made to the HKSE for the listing of the Programme by way of debt issues to Professional Investor only during the 12-month period from the date of this Offering Circular on the HKSE. In connection with the offer and sale of each Series of Notes or Undated Capital Securities, the relevant Pricing Supplement will indicate whether or not and, if so, on which stock exchange(s) the Notes or the Undated Capital Securities will be listed. No assurances can be given that the Programme will qualify for listing on a stock exchange. In addition, no assurances can be given that if the Programme qualifies for listing on a stock exchange and the relevant Pricing Supplement indicates that such Series of Notes or Undated Capital Securities will be listed on a stock exchange, that such Notes or Undated Capital Securities will trade from their date of issuance until maturity (or early redemption) and that such listing will be maintained.

SELLING RESTRICTIONS

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes or the Undated Capital Securities is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers are a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of The Bank of East Asia, Limited 東亞銀行有限公司 in such jurisdiction.

United States

The following sub-paragraphs shall apply in respect of any Notes or Undated Capital Securities the Pricing Supplement for which specifies that "Regulation S Category 1" applies.

The Notes or the Undated Capital Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or (in respect of any Notes or Undated Capital Securities in respect of which the Pricing Supplement or the Subscription Agreement specifies that the "Regulation S Category 2" applies) to, or for the benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The following sub-paragraphs shall apply in respect of any Notes or Undated Capital Securities the Pricing Supplement for which specifies that "Regulation S Category 1" applies. Each Dealer has represented that:

(a) Offers/sales only in accordance with Regulation S: it has not offered or sold, and will not offer or sell, any Notes or Undated Capital Securities constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S;

(b) No directed selling efforts: neither it nor any of its affiliates (nor any person acting on behalf of such Dealer or any of its affiliates) has engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Notes or the Undated Capital Securities; and

(c) No contractual arrangements without consent: it has not entered, and will not enter, into any contractual arrangement with respect to the distribution or delivery of the Notes or the Undated Capital Securities, except with its affiliates or with the prior written consent of the Issuer.

The following sub-paragraphs shall apply in respect of any Notes or Undated Capital Securities the Pricing Supplement for which specifies that "Regulation S Category 2" applies.

Each Dealer has represented and agreed that:

(a) Offers/sales only in accordance with Regulation S: it has offered and sold the Notes or the Undated Capital Securities, and will offer and sell the Notes or the Undated Capital Securities:

    (i) Original distribution: as part of their distribution, at any time; and

(ii) Outside original distribution: otherwise, until 40 days after the completion of the distribution of an identifiable tranche of which such Notes or Undated Capital Securities are a part, as determined and certified to the Issuer and each relevant Dealer, by the Issuing and Paying Agent or, the relevant Lead Manager (the "**Lead Manager**"),

only in accordance with Rule 903 of Regulation S;

(b) No directed selling efforts: neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Notes or the Undated Capital Securities;

(c) Offering restrictions: it and its affiliates have complied and will comply with the offering restrictions requirement of Regulation S;

(d) No contractual arrangements without consent: neither it, nor any of its Affiliates (nor any person acting on behalf of such Dealer or any of its Affiliates) has entered and will not enter into any contractual arrangement with respect to the distribution or delivery of the Notes or the Undated Capital Securities, except with its Affiliates or with the prior written consent of the Issuer; and

(e) Prescribed form of confirmation: at or prior to confirmation of sale of Notes or Undated Capital Securities, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes or Undated Capital Securities from it during the distribution compliance period a confirmation or notice in substantially the following form:

"The securities covered hereby have not been registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution of the Notes or the Undated Capital Securities as determined and certified by the Issuing and Paying Agent or the Lead Manager, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Completion of distribution: Each Dealer has agreed to notify the Issuing and Paying Agent or, in the case of a Syndicated Issue, the Lead Manager when it has completed the distribution of its portion of the Notes or the Undated Capital Securities of any identifiable tranche so that the Issuing and Paying Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Notes or Undated Capital Securities of that tranche and notify the other relevant Dealers of the end of the distribution compliance period.

The Notes or the Undated Capital Securities in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each issuance of index-, commodity-or currency-linked Notes or Undated Capital Securities shall be subject to such additional U.S. selling restrictions as the Relevant Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or, as the case may be, subscription of such Notes or Undated Capital Securities. Each Relevant Dealer agrees that it shall offer, sell and deliver such Notes or Undated Capital Securities only in compliance with such additional U.S. selling restrictions.

European Economic Area

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes or Undated Capital Securities specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes or Undated Capital Securities which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

a) the expression "retail investor" means a person who is one (or more) of the following:

   i. a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

   ii. a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

   iii. not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"); and

b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes or the Undated Capital Securities to be offered so as to enable an investor to decide to purchase or subscribe for the Notes or Undated Capital Securities.

United Kingdom

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(1) in relation to any Notes or Undated Capital Securities which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes or Undated Capital Securities other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes or the Undated Capital Securities would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes or Undated Capital Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes or the Undated Capital Securities in, from or otherwise involving the United Kingdom.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes or Undated Capital Securities except for Notes or Undated Capital Securities which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes or the Undated Capital Securities , which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes or Undated Capital Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each future Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**"). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or Undated Capital Securities or caused such Notes or Undated Capital Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or Undated Capital Securities or cause such Notes or Undated Capital Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes or the Undated Capital Securities, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This Offering Circular has not been registered as a prospectus with the MAS. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes or Undated Capital Securities may not be circulated or distributed, nor may any Notes or Undated Capital Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes or Undated Capital Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes or the Undated Capital Securities pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, unless otherwise specified before an offer of Notes or Undated Capital Securities, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes or the Undated Capital Securities are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Japan

The Notes or the Undated Capital Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes or Undated Capital Securities in Japan to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

PRC

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the Notes or the Undated Capital Securities are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

Taiwan

The Notes or the Undated Capital Securities have not been and will not be registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan and/or other regulatory authority pursuant to relevant securities laws and regulations and may not be offered or sold in Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission and/or other regulatory authority of Taiwan.

GENERAL INFORMATION

1. **Clearing Systems:** The Legal Entity Identifier Code of the Issuer is CO6GC26LCGGRTUESIP55. The Notes or the Undated Capital Securities may be accepted for clearance through the Euroclear and Clearstream systems (which are the entities in charge of keeping the records). The Issuer may also apply to have Notes or Undated Capital Securities accepted for clearance through the CMU. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. The relevant ISIN, the Common Code and (where applicable) the identification number for any other relevant clearing system for each series of Notes or Undated Capital Securities will be specified in the applicable Pricing Supplement. If the Notes or the Undated Capital Securities are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the relevant Pricing Supplement.

2. **Listing:** Application has been made to the HKSE for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular on the HKSE. Application will be made to the HKSE for the listing of the Notes or the Undated Capital Securities which are agreed at the time of issue to be so listed on the HKSE. There can be no assurance that the application will be approved.

3. **Litigation:** Save as otherwise disclosed in this Offering Circular, neither BEA nor any of its subsidiaries is involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Notes or the Undated Capital Securities, and BEA is not aware of any such litigation or arbitration proceedings pending or threatened against it or any of its subsidiaries.

4. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations as may be required in connection with the establishment of the Programme, including, but not limited to, approval by the Monetary Authority. The establishment of the Programme and the issue of Notes thereunder have been duly authorised by resolutions of the Board of Directors of the Issuer dated 30 August 2019. The Issuer has obtained and has agreed to obtain from time to time all necessary consents, approvals and authorisations for the issue of Notes or Undated Capital Securities under the Programme.

5. **No Material Adverse Change:** Except as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position or the prospects of the Issuer or of the Group since 30 June 2019.

6. **Available Documents:** For so long as Notes or Undated Capital Securities may be issued pursuant to this Offering Circular, copies of the following documents will be available (upon written request and satisfactory proof of holding and identity), by any Noteholder at all reasonable times during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at (i) the office of the Trustee (in the case of the documents referred to in sub-paragraph (d) below; or (ii) the office of the Issuer or the specified office of any Paying Agent (in the case of the documents referred to in all the sub-paragraphs below, in the case of any inspection at the specified office of any Paying Agent, subject, in the case of the documents referred to each sub-paragraph below other than sub-paragraph (d) below, to the Issuer first having provided the Paying Agents with the same):

   (a) the Articles of Association of the Issuer;

(b) the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2017 and 2018 and a copy of the auditors' report of KPMG, the Issuer's external auditors;

(c) the unaudited consolidated interim financial statements of the Issuer as at 30 June 2019 and for the six months ended 30 June 2018 and 2019 and a copy of the independent review report of KPMG;

(d) the most recent annual and interim reports (including the financial statements) published by the Issuer;

(e) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons) and the Agency Agreement, each to be dated on or about 6 September 2019;

(f) the Dealer Agreement;

(g) this Offering Circular together with any Supplement to this Offering Circular or further Offering Circular;

(h) the subscription agreement for Notes or Undated Capital Securities issued on a syndicated basis that are listed on any stock exchange, where the rules of such stock exchange so require; and

(i) each Pricing Supplement (save that a Pricing Supplement related to an unlisted Series of Notes or Undated Capital Securities will only be available for inspection by a holder of any such Notes or Undated Capital Securities and such holder must produce evidence satisfactory to the Issuer, the Trustee or the relevant Paying Agents as to its holding of Notes or Undated Capital Securities and identity).

7. **Auditors:** The consolidated financial statements of the Issuer as at and for the years ended 31 December 2017 and 2018 included in this Offering Circular have been audited by KPMG, Certified Public Accountants, as stated in the auditors' report appearing in this Offering Circular in relation to such consolidated financial statements. The consolidated interim financial statements of the Issuer as at 30 June 2019 and for the six months ended 30 June 2018 and 2019 included in this Offering Circular have been reviewed by KPMG, Certified Public Accountants, as stated in the independent review report appearing in this Offering Circular in relation to such consolidated interim financial statements.

8. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

9. The issue price and the amount of the relevant Notes or Undated Capital Securities will be determined, before filing of the relevant Pricing Supplement of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes or Undated Capital Securities.

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The independent auditor's reports and audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2017 and 2018 included in this Offering Circular are reproduced from the 2017 annual report and 2018 annual report of the Issuer, respectively. Page references referred to in the independent auditor's reports and audited consolidated financial statements refer to pages set out in such annual reports.

The independent review report and unaudited consolidated interim financial statements of the Issuer as at 30 June 2019 and for the six months ended 30 June 2018 and 2019 included in this Offering Circular are reproduced from the BEA's announcement on HKSE entitled "Interim Results and Independent Review Report for the six months ended 30th June, 2019" and dated 6 September 2019 of the Issuer. Page references referred to in the independent review report and unaudited consolidated interim financial statements refer to pages set out in such announcement.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE BANK OF EAST ASIA, LIMITED

(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of The Bank of East Asia, Limited ("the Bank") and its subsidiaries (together "the Group") set out on pages 160 to 317, which comprise the consolidated statement of financial position as at 31st December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of advances to customers

Refer to notes 2(k)(i), 29(b), 45(a) to the consolidated financial statements

Key audit matter	How the matter was addressed in our audit
The Group's advances to customers amounted as at 31st December 2017 to HK$473,776 million, 43% of which related to exposures in Mainland China. Impairment of loans and advances across the banking industry continues to be an area of concern and elevated focus, as counterparties (particularly in Mainland China) continue to tackle liquidity and over-capacity concerns. The amount of impaired loans of the Group decreased from HK$6,767 million as at 31st December 2016 to HK$5,177 million as at 31st December 2017, with total impairment allowances amounting to HK$3,437 million as at 31st December 2017. Impairment of advances to customers is a subjective area due to the level of judgement exercised by management in determining allowances.	Our audit procedures to assess the impairment of advances to customers included the following: • assessing the design, implementation and operating effectiveness of key internal controls over determination of loss events and quantum of losses including the approval, recording, monitoring and restructuring of advances to customers, the credit grading process and the measurement of impairment allowances for individually assessed advances to customers, which included using our information technology specialists to assess the information systems controls critical to the credit grading process, such as the compilation of the overdue reports for advances to customers. We also assessed the design, implementation and operating effectiveness of a selection of relevant automated application controls within these systems, as well as the key internal controls over these underlying systems, including controls over access to these systems and controls over data and change management;

獨立核數師報告

KPMG

致東亞銀行有限公司成員

(於香港註冊成立的有限公司)

意見

本核數師(以下簡稱「我們」)已審計列載於第160至317頁的東亞銀行有限公司(以下簡稱「貴銀行」)及其附屬公司(以下統稱「貴集團」)的綜合財務報表，此財務報表包括於二零一七年十二月三十一日的綜合財務狀況表與截至該日止年度的綜合收益表、綜合全面收益表、綜合權益變動表和綜合現金流量表，以及綜合財務報表附註，包括主要會計政策概要。

我們認為，該等綜合財務報表已根據香港會計師公會頒布的《香港財務報告準則》真實而中肯地反映了 貴集團於二零一七年十二月三十一日的綜合財務狀況及截至該日止年度的綜合財務表現及綜合現金流量，並已遵照香港《公司條例》妥為擬備。

意見的基礎

我們已根據香港會計師公會頒布的《香港審計準則》進行審計。我們在該等準則下承擔的責任已在本報告「核數師就審計綜合財務報表承擔的責任」部分中作進一步闡述。根據香港會計師公會頒布的《專業會計師道德守則》(以下簡稱「守則」)，我們獨立於 貴集團，並已履行守則中的其他專業道德責任。我們相信，我們所獲得的審計憑證能充足及適當地為我們的審計意見提供基礎。

關鍵審計事項

關鍵審計事項是根據我們的專業判斷，認為對本期綜合財務報表的審計最為重要的事項。這些事項是在我們審計整體綜合財務報表及出具意見時進行處理的。我們不會對這些事項提供單獨的意見。

客戶墊款的減值額

請參閱綜合財務報表附註2(k)(i)、29(b)和45(a)

關鍵審計事項	審計對策
於二零一七年十二月三十一日， 貴集團的客戶墊款達到港幣4,737.76億元，當中43%與中國內地的信貸風險相關。 由於部分企業(特別在中國內地)繼續應對流動性及產能過剩顧慮，銀行界的貸款及客戶墊款減值繼續成為主要關注事項。 貴集團的減值貸款金額由二零一六年十二月三十一日的港幣67.67億元增至二零一七年十二月三十一日的港幣51.77億元。截至二零一七年十二月三十一日，減值準備總額達到港幣34.37億元。	與評估客戶墊款減值準備相關的審計程序包括以下各項： • 評估 貴集團對客戶墊款減值事件及減值金額的決定，包括其審批、記錄、監管和重組的關鍵內部控制的設計、實施和操作成效，當中包括信貸評級流程和客戶墊款減值準備單項評估的計量，亦包括通過我們的信息技術專家來評估對信貸評級流程有重要影響的信息系統的控制，例如客戶墊款逾繳報告的自動編製。我們還評估在這些系統內，部分自動化的應用程式控制，以及對這些相關系統的主要內部控制(包括對系統登入的控制以及對數據和變更管理的控制)在設計、實施和操作上的成效；

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Impairment of advances to customers

Refer to notes 2(k)(i), 29(b), 45(a) to the consolidated financial statements

Key audit matter	How the matter was addressed in our audit
From the Group's perspective, the impairment allowances of certain portfolios are relatively more sensitive to management judgement. These include advances to customers where impairment allowances were derived from collective assessment models, where the advances are unsecured or where the advances are subject to potential collateral shortfalls. The determination of the collective impairment allowance is heavily dependent on the external macro environment and the Group's internal collective assessment models. The Group's collective impairment allowance is derived from estimates including the Group's historical losses for loans, the loss emergence period (i.e., the time lapse between the occurrence of the event causing eventual default to the actual charge-off) and other adjustment factors. Individual impairment allowances are estimated by management once objective evidence of impairment becomes apparent. Management exercises judgement in determining the occurrence of loss event and the quantum of loss based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, prevailing economic conditions, collateral valuation, the seniority of claim and the existence and cooperativeness of other creditors. Whilst the Group appoints external valuers for the valuation of certain property and other illiquid collateral, enforceability, timing and means of realisation also affect the ultimate collectability and thereby the amount of impairment allowance as at the reporting date. We identified impairment of advances to customers as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Group.	• evaluating the validity of the models used and assumptions adopted in the Group's calculation of the collective impairment allowance by critically assessing input parameters involving subjective judgement, seeking collaborative evidence from external sources and assessing the accuracy of the historical losses input to the models. As part of these procedures, we challenged the Group's revisions to estimates and input parameters, the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses. We compared the economic factors used in the model to market information to assess whether they were aligned with relevant market and economic data. We also assessed the emergence period by comparing the lifecycle of overdue accounts from the specific credit event with the downgrading of the account to a non-performing loan. Having considered the above, we checked the calculation of the amount of collective impairment allowance; • assessing the impairment allowances for individually impaired loans and advances by selecting a risk-based sample for credit review. We analysed the loan portfolio by industry sector to select samples for credit review in industries more vulnerable to economic environment, such as those suffering from lower commodity prices and over-capacity. We also selected samples based on other risk criteria and from the Group's watch list and overdue report as well as stress-testing results. We selected further samples for credit review from loans classified as "Special Mention" or "Non-performing" in accordance with the Guideline on Loan Classification System as set by the Hong Kong Monetary Authority; • for the samples selected, we assessed the forecast cash flows for impaired loans, challenging the viability of the Group's recovery plans, evaluated the timing and means of realisation of collateral and considered other sources of repayment asserted by management. We also evaluated the consistency of management's application of key assumptions, assessed any change in basis and compared the data to our own data sources; and • evaluating the competence and integrity of the external valuers engaged by the Group to value certain collateral.

客戶墊款的減值額

請參閱綜合財務報表附註2(k)(i)、29(b)和45(a)

關鍵審計事項	審計對策
由於在估算客戶墊款減值準備中需要運用到較多的管理層判斷，因此，這是一個相對主觀的領域。 循　貴集團的角度來看，某些貸款組合的減值準備較易受到管理層的判斷所影響。這包括運用組合減值損失模型來計算減值損失的客戶墊款，或無抵押墊款，或面臨抵押品價值不足的墊款。 組合減值損失的計算很大程度上取決於外在宏觀經濟環境及　貴集團內部的組合減值損失模型。　貴集團的組合減值損失乃建基於　貴集團的歷史貸款損失、歷史衍化期(即出現最終導致違約的事件和記錄實際損失的間區間)及其他調整因素。	• 通過對需要主觀判斷的輸入參數進行審慎評估、從外部渠道獲得相應證明和與　貴集團其他內部及我們的歷史資料所記載的減值損失進行對比，評價　貴集團用於計算組合客戶墊款損失的模型及假設的恰當性。在這一過程中，我們對　貴集團所使用的假設及輸入參數的修訂、運用經濟因素時發揮判斷的貫徹性、歷史衍化期及歷史損失追溯期的長短作出質詢。我們也將模型中所運用的經濟因素與市場信息進行對比，以評估這些數據是否與市場及經濟的發展相符。我們還通過追蹤逾期賬戶從發生影響信貸事件到將該賬戶降級至不良貸款的周期來評價歷史衍化期的適用性。在對以上因素進行綜合考慮以後，我們查驗了對組合減值損失的計算以確定該項目的金額。
當有客觀證據表明墊款發生減值時，管理層採用單項評估的方式評估其減值準備。管理層會根據多項因素去判斷減值事件的發生及損失金額。這些因素包括就收回墊款的方式、借款人的財務狀況、當前經濟狀況、抵押品的估值、索賠受償順序及其他債權人是否存在和其合作意向等。雖然　貴集團委聘外部評估師以評估物業及其他流動性低的抵押品的價值，但抵押品的法律效力、變現時間和方法都會影響最終可以收回的金額，以至於報告日的減值準備。	• 運用以風險為基礎的方法選擇樣本進行信貸審閱以評價個別減值準備是否恰當。我們按照行業界別分析貸款組合，抽選較易受經濟放緩影響的行業來進行信貸審核，例如受商品價格下降及產能過剩所影響的行業。我們還根據其他風險因素及　貴集團的監察清單，逾期款項報告和壓力測試結果，抽樣進行信貸審核。我們亦進一步抽查根據香港金融管理局頒布的貸款分類系統準則撥歸為「關注類」或「不良類」的貸款；
由於客户墊款的減值準備內含不確定性和涉及管理層判斷以及其對　貴集團財務和資本的重大影響，我們將其認定為一項關鍵審計事項。	• 就已抽選的樣本，我們對減值貸款的現金流預測進行了審慎評估，對　貴集團回收方案的可行性提出了質詢，對抵押品變現的時間及方式進行了評價，並考慮了管理層主張的其他還款來源。我們還評估了管理層在運用關鍵性假設時的貫徹性、基本原則改變的合理性以及將從　貴集團獲取的數據與我們的獨立來源的數據進行了對比；及 • 我們評估了　貴集團在對特定抵押物進行估值時所聘用外部評估師的勝任能力和專業素質。

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Assessment of the fair value of financial instruments

Refer to notes 1(f)(iii), 27, 28, 30, 45(b), 46(a) to the consolidated financial statements

Key audit matter	How the matter was addressed in our audit
Financial instruments carried at fair value account for a significant portion of the Group's assets. As at 31st December 2017 the fair value of these financial instruments was HK$142,785 million of which HK$89,447 million, HK$52,776 million and HK$562 million was classified as level 1, 2 and 3 financial instruments respectively. The valuation of the Group's financial instruments, which are stated at their fair values, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data for liquid markets. Where such observable data is not readily available, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant management judgement. In addition, the Group has developed its own models to value certain level 2 and 3 financial instruments, which involves significant management judgement. We identified the assessment of the fair value of financial instruments as a key audit matter because of the complexity and significant management judgement required in the valuation of some financial instruments and because of the lower transparency of inputs used in the valuation techniques for certain financial instruments which increases the risk of potential error.	Our audit procedures to assess the fair value of financial instruments included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification and model validation for financial instruments. For the key underlying systems used for the processing of transactions in relation to financial instruments we utilised our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant automated controls within these systems. We also assessed the design, implementation and operating effectiveness of the key internal controls over these underlying systems, including controls over access to these systems and controls over data and change management; • evaluating the fair values of level 1 financial instruments by comparing the fair values applied by the Group with publicly available market data, on a sample basis; • engaging our internal valuation specialists to perform, on a sample basis, independent valuations of level 2 and level 3 financial instruments and compare these valuations with the Group's valuations. Our independent valuations included developing models, obtaining inputs independently and verifying the inputs, evaluating the methodology adopted by management for the valuation of these financial instruments and assessing the inputs and assumptions used in the valuations; • assessing the appropriate application of Credit Value and Debit Value Adjustments ("CVA/DVA") that form an integral part of fair values; inquiring of management about any changes in the CVA/DVA methodology and assessing the inputs applied; and • assessing whether the disclosures in the consolidated financial statements appropriately reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.

評估金融工具的公平價值

請參閱綜合財務報表附註1(f)(iii)、27、28、30、45(b)和46(a)

關鍵審計事項	審計對策
以公平價值列賬的金融工具是　貴集團持有的重要資產之一。　貴集團於二零一七年十二月三十一日持有此類金融工具的公平價值金額為港幣1,427.85億元，其中在公平價值分級內第一級、第二級和第三級的金融工具公平價值分別為港幣894.47億元、港幣527.76億元及港幣5.62億元。 貴集團以公平價值列賬的金融工具的估值以市場數據和估值模型為基礎，其中估值模型通常需要大量的參數輸入。大部分參數源自於高流動性市場中可獲取的數據。當可觀察的數據無法從高流動性市場獲取時，即公平價值屬於第三級的情形下，管理層便需提供估算，這當中會涉及管理層的重大判斷。 此外，　貴集團已對特定的第二級及第三級金融工具開發了自有估值模型，這也會涉及管理層的重大判斷。 由於金融工具公平價值的評估涉及一定複雜性，而部分金融工具亦涉及管理層的重大判斷，以及部分金融工具使用的參數的透明度較低而增加潛在錯誤風險，我們因此對金融工具公平價值的評估識別為關鍵審計事項。	與評估金融工具公平價值相關的審計程序包括以下各項： • 評估　貴集團對金融工具估值、獨立價格驗證及估值模型審批相關的內部控制的設計、實施和操作上的成效；利用本所內部信息技術專家，評估處理金融工具相關交易的主要系統內部分自動化控制於設計、實施和操作上的成效。我們還評估了這些相關系統的關鍵內部控制(包括對系統登入的控制以及對數據和變更管理的控制)在設計、實施和操作上的成效； • 採用抽樣的方式，通過比較　貴集團採用的公平價值與公開可獲取的市場數據，評估公平價值屬於第一級的金融工具的估值。 • 採用抽樣的方式，由本所內部估值專家對公平價值屬於第二級和第三級的金融工具進行獨立估值，並將我們的估值結果與　貴集團的估值結果進行比較。我們的程序包括制定估值模型、獨立獲取及驗證參數、評估管理層所採用的金融工具估值法，以及評估估值時所使用的參數和假設； • 在評估對構成公平價值組成部分的信用估值調整和債務價值調整的運用是否適當時，詢查管理層計算信用估值調整和債務價值調整的方法曾否發生變化，並評估參數運用的恰當性。 • 評估綜合財務報表中與金融工具相關的披露是否符合有關會計準則的要求，恰當反映了　貴集團的金融工具估值風險。

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

綜合財務報表及其核數師報告以外的信息

董事需對其他信息負責。其他信息包括刊載於年報內的全部信息，但不包括綜合財務報表及我們的核數師報告。

我們對綜合財務報表的意見並不涵蓋其他信息，我們亦不對該等其他信息發表任何形式的鑒證結論。

結合我們對綜合財務報表的審計，我們的責任是閱讀其他信息，在此過程中，考慮其他信息是否與綜合財務報表或我們在審計過程中所了解的情況存在重大抵觸或者似乎存在重大錯誤陳述的情況。

基於我們已執行的工作，如果我們認為其他信息存在重大錯誤陳述，我們需要報告該事實。在這方面，我們沒有任何報告。

董事就綜合財務報表須承擔的責任

董事須負責根據香港會計師公會頒布的《香港財務報告準則》及香港《公司條例》擬備真實而中肯的綜合財務報表，並對其認為為使綜合財務報表的擬備不存在由於欺詐或錯誤而導致的重大錯誤陳述所需的內部控制負責。

在擬備綜合財務報表時，董事負責評估　貴集團持續經營的能力，並在適用情況下披露與持續經營有關的事項，以及使用持續經營為會計基礎，除非董事有意將　貴集團清盤或停止經營，或別無其他實際的替代方案。

審計委員會協助董事履行監督　貴集團的財務報告過程的責任。

核數師就審計綜合財務報表承擔的責任

我們的目標，是對綜合財務報表整體是否不存在由於欺詐或錯誤而導致的重大錯誤陳述取得合理保證，並出具包括我們意見的核數師報告。我們是按照香港《公司條例》第405條的規定，僅向整體成員報告。除此以外，我們的報告不可用作其他用途。我們概不就本報告的內容，對任何其他人士負責或承擔法律責任。

合理保證是高水平的保證，但不能保證按照《香港審計準則》進行的審計，在某一重大錯誤陳述存在時總能發現。錯誤陳述可以由欺詐或錯誤引起，如果合理預期它們單獨或滙總起來可能影響綜合財務報表使用者依賴財務報表所作出的經濟決定，則有關的錯誤陳述可被視作重大。

在根據《香港審計準則》進行審計的過程中，我們運用了專業判斷，保持了專業懷疑態度。我們亦：

- 識別和評估由於欺詐或錯誤而導致綜合財務報表存在重大錯誤陳述的風險，設計及執行審計程序以應對這些風險，以及獲取充足和適當的審計憑證，作為我們意見的基礎。由於欺詐可能涉及串謀、偽造、蓄意遺漏、虛假陳述，或凌駕於內部控制之上，因此未能發現因欺詐而導致的重大錯誤陳述的風險高於未能發現因錯誤而導致的重大錯誤陳述的風險。

- 了解與審計相關的內部控制，以設計適當的審計程序，但目的並非對　貴集團內部控制的有效性發表意見。

- 評價董事所採用會計政策的恰當性及作出會計估計和相關披露的合理性。

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Donowho, Simon Christopher.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22nd February 2018

- 對董事採用持續經營會計基礎的恰當性作出結論。根據所獲取的審計憑證，確定是否存在與事項或情況有關的重大不確定性，從而可能導致對　貴集團的持續經營能力產生重大疑慮。如果我們認為存在重大不確定性，則有必要在核數師報告中提請使用者注意綜合財務報中的相關披露。假若有關的披露不足，則我們應當發表非無保留意見。我們的結論是基於核數師報告日止所取得的審計憑證。然而，未來事項或情況可能導致　貴集團不能持續經營。

- 評價綜合財務報表的整體列報方式、結構和內容，包括披露，以及綜合財務報表是否中肯反映交易和事項。

- 就　貴集團內實體或業務活動的財務信息獲取充足、適當的審計憑證，以便對綜合財務報表發表意見。我們負責　貴集團審計的方向、監督和執行。我們為審計意見承擔全部責任。

除其他事項外，我們與審計委員會溝通了計劃的審計範圍、時間安排、重大審計發現等，包括我們在審計中識別出內部控制的任何重大缺陷。

我們還向審計委員會提交聲明，說明我們已符合有關獨立性的相關專業道德要求，並與他們溝通有可能合理地被認為會影響我們獨立性的所有關係和其他事項，以及在適用的情況下，相關的防範措施。

從與審計委員會溝通的事項中，我們確定哪些事項對本期綜合財務報表的審計最為重要，因而構成關鍵審計事項。我們在核數師報告中描述這些事項，除非法律法規不允許公開披露這些事項，或在極端罕見的情況下，如果合理預期在我們報告中溝通某事項造成的負面後果超過產生的公眾利益，我們決定不應在報告中溝通該事項。

出具本獨立核數師報告的審計項目合夥人是鄧諾豪(Donowho, Simon Christopher)。

畢馬威會計師事務所
執業會計師
香港中環
遮打道十號
太子大廈八樓

二零一八年二月二十二日

CONSOLIDATED INCOME STATEMENT
綜合收益表

For the year ended 31st December, 2017 截至2017年12月31日止年度

		Notes 附註	2017 HK$ Mn 港幣百萬元	2016 Restated 重報 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務			
Interest income	利息收入	5	**21,629**	20,363
Interest expense	利息支出	6	**(9,797)**	(9,265)
Net interest income	淨利息收入		**11,832**	11,098
Fee and commission income	服務費及佣金收入	7	**3,557**	3,485
Fee and commission expense	服務費及佣金支出		**(1,064)**	(1,028)
Net fee and commission income	服務費及佣金收入淨額		**2,493**	2,457
Net trading profits	交易溢利淨額	8	**526**	480
Net result from financial instruments designated at fair value through profit or loss	指定為通過損益以反映公平價值金融工具的淨表現	9	**35**	(92)
Net hedging loss	對沖虧損淨額	10	**(2)**	(22)
Net insurance revenue	保險業務淨收入	11(a)	**687**	415
Other operating income	其他經營收入	12	**382**	378
Non-interest income	非利息收入		**4,121**	3,616
Operating income	經營收入		**15,953**	14,714
Operating expenses	經營支出	13	**(8,067)**	(8,206)
Operating profit before impairment losses	未扣除減值損失之經營溢利		**7,886**	6,508
Impairment losses on loans and receivables	貸款及應收賬項減值損失	14	**(1,742)**	(3,462)
Impairment losses on available-for-sale financial assets	可供出售金融資產減值損失		**(2)**	(1)
Impairment losses on assets held for sale	持有作出售資產減值損失		**(63)**	–
Impairment losses on intangible assets	無形資產減值損失	34(b)	**(650)**	–
Impairment losses	減值損失		**(2,457)**	(3,463)
Operating profit after impairment losses	已扣除減值損失後之經營溢利		**5,429**	3,045
Net profit on sale of held-to-maturity investments	出售持至到期投資之淨溢利		**6**	10
Net profit on sale of available-for-sale financial assets	出售可供出售金融資產之淨溢利	15	**1,057**	92
Net loss on repurchase of debt issued	回購已發行債券淨虧損		**–**	(6)
Net profit on sale of disposal groups and assets held for sale	出售出售組別及持有作出售資產之淨溢利		**183**	99
Net profit on disposal of subsidiaries/associates	出售附屬／聯營公司之淨溢利		**2**	–
Net (loss)/gain on disposal of fixed assets	出售固定資產之淨(虧損)／盈利	16	**(22)**	859
Valuation gains on investment properties	重估投資物業盈利		**522**	62
Share of profits less losses of associates	應佔聯營公司溢利減虧損	33	**388**	431
Profit for the year before taxation	年度內除稅前溢利		**7,565**	4,592
Income tax	所得稅	17	**(1,195)**	(1,067)
Profit for the year from continuing operations	年度內持續經營業務溢利		**6,370**	3,525
DISCONTINUED OPERATIONS	已終止經營業務			
Profit from discontinued operations	已終止經營業務溢利	56	**4,145**	304
Profit for the year	年度內溢利		**10,515**	3,829

CONSOLIDATED INCOME STATEMENT (CONTINUED)
綜合收益表(續)

For the year ended 31st December, 2017 *截至2017年12月31日止年度*

		Notes 附註	2017 HK$ Mn 港幣百萬元	2016 Restated 重報 HK$ Mn 港幣百萬元
Attributable to:	可歸屬於:			
Owners of the parent	本集團股東			
– from continuing operations	–來自持續經營業務		**6,298**	3,505
– from discontinued operations	–來自已終止經營業務		**3,049**	218
		43(i)	**9,347**	3,723
Non-controlling interests	非控股權益	44	**1,168**	106
Profit for the year	年度內溢利		**10,515**	3,829
Earnings per share	每股盈利		**HK$ 港幣元**	HK$ 港幣元
Basic	基本	20		
– profit for the year	–年度內溢利		**3.21**	1.21
– profit from continuing operations	–來自持續經營業務溢利		**2.09**	1.12
Diluted	攤薄	20		
– profit for the year	–年度內溢利		**3.20**	1.21
– profit from continuing operations	–來自持續經營業務溢利		**2.09**	1.12

The notes on pages 168 to 317 form part of these financial statements. Details of dividends payable to equity shareholders of the Bank attributable to the profit for the year are set out in Note 19.

第168至317頁之附註屬本財務報表之一部分。有關屬年度內溢利並應付予本行股東之股息詳情已詳載於附註19。

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
綜合全面收益表

For the year ended 31st December, 2017 截至2017年12月31日止年度

		Notes 附註	2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Net profit	淨溢利		**10,515**	3,829
Other comprehensive income for the year:	年度內其他全面收益：			
Items that will not be reclassified to income statement:	不可轉回收益表的項目：			
Premises:	行址：			
– unrealised surplus on revaluation of premises	–重估行址所產生的未實現盈餘	43(b)	**44**	141
Items that may be reclassified subsequently to income statement:	以後可能轉回收益表的項目：			
Premises:	行址：			
– deferred taxes	–遞延稅項	43(b)	**1**	10
Available-for-sale investment revaluation reserve:	可供出售投資的重估儲備：			
– fair value changes recognised to equity	–計入股東權益的公平價值變動	43(g)	**1,491**	12
– fair value changes reclassified (to)/from income statement:	–(轉入)／轉自收益表的公平價值變動：			
– on impairment and amortisation	–減值及攤銷	43(g)	**–**	27
– on disposal	–出售	43(g)	**(1,320)**	(136)
– deferred taxes	–遞延稅項	43(g)	**(65)**	73
Share of changes in equity of associates	應佔聯營公司權益的變動	43(h)	**(54)**	147
Exchange differences arising from translation of accounts/disposal of overseas branches, subsidiaries and associates	從海外分行、附屬公司及聯營公司的賬項折算／出售所產生的匯兌差額		**2,818**	(2,144)
Other comprehensive income	其他全面收益		**2,915**	(1,870)
Total comprehensive income	全面收益總額		**13,430**	1,959
Total comprehensive income attributable to:	全面收益總額可歸屬於：			
Owners of the parent	本集團股東		**12,206**	1,884
Non-controlling interests	非控股權益		**1,224**	75
			13,430	1,959

The notes on pages 168 to 317 form part of these financial statements.

第168至317頁之附註屬本財務報表之一部分。

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
綜合財務狀況表

As at 31st December, 2017 *2017年12月31日*

		Notes 附註	2017 HK$ Mn 港幣百萬元	2016 Restated 重報 HK$ Mn 港幣百萬元
ASSETS	資產			
Cash and balances with banks and other financial institutions	現金及在銀行和其他金融機構的結存	24	**60,670**	65,720
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款	25	**53,609**	44,052
Trade bills	貿易票據	26	**13,909**	11,939
Trading assets	交易用途資產	27	**6,956**	4,404
Financial assets designated at fair value through profit or loss	指定為通過損益以反映公平價值的金融資產	28	**4,169**	3,554
Positive fair value of derivatives	衍生工具的正公平價值	47(b)(ii)	**11,335**	8,938
Loans and advances to customers	客戶貸款及墊款	29	**470,339**	450,445
Available-for-sale financial assets	可供出售金融資產	30	**120,325**	110,491
Held-to-maturity investments	持至到期投資	31	**9,798**	5,663
Investments in associates	聯營公司投資	33	**9,429**	6,011
Fixed assets	固定資產	35	**12,750**	11,990
– Investment properties	–投資物業		**5,107**	4,467
– Other properties and equipment	–其他物業及設備		**7,643**	7,523
Goodwill and intangible assets	商譽及無形資產	34	**1,959**	2,639
Deferred tax assets	遞延稅項資產	37(b)	**602**	785
Other assets	其他資產	36	**33,092**	39,075
Total Assets	資產總額		**808,942**	765,706
EQUITY AND LIABILITIES	股東權益及負債			
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘		**26,981**	26,475
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值		**3,110**	–
– At amortised cost	–攤銷成本		**23,871**	26,475
Deposits from customers	客戶存款		**571,684**	535,789
Trading liabilities	交易用途負債	38(a)	**11**	50
Negative fair value of derivatives	衍生工具的負公平價值	47(b)(ii)	**12,077**	7,982
Certificates of deposit issued	已發行存款證		**36,466**	28,857
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值		**11,655**	18,106
– At amortised cost	–攤銷成本		**24,811**	10,751
Current taxation	本期稅項	37(a)	**1,160**	1,605
Debt securities issued	已發行債務證券		**1,007**	7,154
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值		**851**	418
– At amortised cost	–攤銷成本		**156**	6,736
Deferred tax liabilities	遞延稅項負債	37(b)	**551**	462
Other liabilities	其他負債	38(b)	**45,378**	50,088
Loan capital – at amortised cost	借貸資本–攤銷成本	39	**12,413**	20,608
Total Liabilities	負債總額		**707,728**	679,070
Share capital	股本	41	**37,527**	35,490
Reserves	儲備	43	**51,955**	42,941
Total equity attributable to owners of the parent	歸屬於本集團股東權益總額		**89,482**	78,431
Additional equity instruments	額外股本工具	42	**8,894**	5,016
Non-controlling interests	非控股權益	44	**2,838**	3,189
Total Equity	股東權益總額		**101,214**	86,636
Total Equity and Liabilities	股東權益及負債總額		**808,942**	765,706

Approved and authorised for issue by the Board on 22nd February, 2018.

董事會於2018年2月22日核准及授權發布。

Chairman and Chief Executive **David LI Kwok-po**
Director **Meocre LI Kwok-wing**

主席兼行政總裁 **李國寶**
董事 **李國榮**

The notes on pages 168 to 317 form part of these financial statements.

第168至317頁之附註屬本財務報表之一部分。

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
綜合權益變動表

For the year ended 31st December, 2017　截至2017年12月31日止年度

		Share capital 股本 HK$ Mn 港幣百萬元	Capital reserve – staff share options issued 資本儲備－已發行僱員認股權 HK$ Mn 港幣百萬元	Exchange revaluation reserve 匯兌重估儲備 HK$ Mn 港幣百萬元	Investment revaluation reserve 投資重估儲備 HK$ Mn 港幣百萬元	Revaluation reserve of bank premises 行址重估儲備 HK$ Mn 港幣百萬元	Capital reserve 資本儲備 HK$ Mn 港幣百萬元	General reserve 一般儲備 HK$ Mn 港幣百萬元	Other reserves[2] 其他儲備[2] HK$ Mn 港幣百萬元	Retained profits 留存溢利 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元	Additional equity instruments 額外股本工具 HK$ Mn 港幣百萬元	Non-controlling interests 非控股權益 HK$ Mn 港幣百萬元	Total equity 權益總額 HK$ Mn 港幣百萬元
At 1st January, 2017	於2017年1月1日	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	權益變動													
Profit for the year	年度內溢利	–	–	–	–	–	–	–	–	9,347	9,347	–	1,168	10,515
Other comprehensive income	其他全面收益	–	–	2,762	106	45	–	–	(54)	–	2,859	–	56	2,915
Total comprehensive income	全面收益總額	–	–	2,762	106	45	–	–	(54)	9,347	12,206	–	1,224	13,430
Issue of additional equity instruments[1]	發行額外股本工具[1]	–	–	–	–	–	–	–	–	–	–	3,878	–	3,878
Shares issued in lieu of dividend *(Note 41)*	以股代息發行的股份*(附註41)*	1,927	–	–	–	–	–	–	–	–	1,927	–	–	1,927
Shares issued under Staff Share Option Schemes *(Note 41)*	根據僱員認股計劃發行的股份*(附註41)*	93	–	–	–	–	–	–	–	–	93	–	–	93
Equity settled share-based transaction *(Note 43(f))*	以股份為基礎作支付之交易*(附註43(f))*	–	36	–	–	–	–	–	–	–	36	–	–	36
Transfer	轉賬	17	(25)	–	–	(16)	–	25	(308)	307	–	–	–	–
Dividends declared or approved during the year	年度內已宣布或核准派發股息	–	–	–	–	–	–	–	–	(3,211)	(3,211)	–	(1,422)	(4,633)
Change of ownership in subsidiaries	附屬公司之擁有權變動	–	–	–	–	–	–	–	–	–	–	–	(18)	(18)
Decrease in non-controlling interests arising from capital reduction of a subsidiary	一附屬公司減本而導致非控股權益減少	–	–	–	–	–	–	–	–	–	–	–	(135)	(135)
At 31st December, 2017	於2017年12月31日	37,527	135	487	1,465	1,757	230	14,060	4,931	28,890	89,482	8,894	2,838	101,214

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. *Other reserves include statutory reserve and other reserves.*

The notes on pages 168 to 317 form part of these financial statements.

1. *年度內，本行發行港幣38.92億元(5億美元)無到期日非累積後償額外股本工具(「額外股本工具」)。直接發行成本港幣1,400萬元經已入賬，並已從股本工具中扣除。*

2. *其他儲備包括法定儲備及其他儲備。*

第168至317頁之附註屬本財務報表之一部分。

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
綜合權益變動表(續)

For the year ended 31st December, 2016 截至2016年12月31日止年度

		Share capital 股本 HK$ Mn 港幣百萬元	Capital reserve – staff share options issued 資本儲備－已發行僱員認股權 HK$ Mn 港幣百萬元	Exchange revaluation reserve 匯兌重估儲備 HK$ Mn 港幣百萬元	Investment revaluation reserve 投資重估儲備 HK$ Mn 港幣百萬元	Revaluation reserve of bank premises 行址重估儲備 HK$ Mn 港幣百萬元	Capital reserve 資本儲備 HK$ Mn 港幣百萬元	General reserve 一般儲備 HK$ Mn 港幣百萬元	Other reserves[2] 其他儲備[2] HK$ Mn 港幣百萬元	Retained profits 留存溢利 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元	Additional equity instruments 額外股本工具 HK$ Mn 港幣百萬元	Non-controlling interests 非控股權益 HK$ Mn 港幣百萬元	Total equity 權益總額 HK$ Mn 港幣百萬元
At 1st January, 2016	於2016年1月1日	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	權益變動													
Profit for the year	年度內溢利	–	–	–	–	–	–	–	–	3,723	3,723	–	106	3,829
Other comprehensive income	其他全面收益	–	–	(2,113)	(24)	151	–	–	147	–	(1,839)	–	(31)	(1,870)
Total comprehensive income	全面收益總額	–	–	(2,113)	(24)	151	–	–	147	3,723	1,884	–	75	1,959
Shares issued in lieu of dividend *(Note 41)*	以股代息發行的股份*(附註41)*	1,663	–	–	–	–	–	–	–	–	1,663	–	–	1,663
Shares issued under Staff Share Option Schemes *(Note 41)*	根據僱員認股計劃發行的股份*(附註41)*	11	–	–	–	–	–	–	–	–	11	–	–	11
Equity settled share-based transaction *(Note 43(f))*	以股份為基礎作支付之交易*(附註43(f))*	–	35	–	–	–	–	–	–	–	35	–	–	35
Transfer	轉賬	1	(1)	–	–	(62)	–	82	489	(509)	–	–	–	–
Dividends declared or approved during the year	年度內已宣布或核准派發股息	–	–	–	–	–	–	–	–	(2,560)	(2,560)	–	(60)	(2,620)
Purchase of interests in businesses from non-controlling interests investors	向非控股權益投資者購入商業權益	–	–	–	–	–	–	–	(9)	–	(9)	–	7	(2)
Buy back of Hybrid Tier 1 capital instruments[1]	回購混合一級資本工具[1]	–	–	–	–	–	–	–	–	(6)	(6)	–	(45)	(51)
At 31st December, 2016	於2016年12月31日	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. *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.*

2. *Other reserves include statutory reserve and other reserves.*

1. *在2016年，本行回購港幣4,500萬元於綜合財務報表中分類為非控股權益之混合一級資本工具。支付超過購入非控股權益賬面值之溢價港幣600萬元經已於留存溢利中支銷。*

2. *其他儲備包括法定儲備及其他儲備。*

The notes on pages 168 to 317 form part of these financial statements.

第168至317頁之附註屬本財務報表之一部分。

CONSOLIDATED CASH FLOW STATEMENT
綜合現金流量表

For the year ended 31st December, 2017 截至2017年12月31日止年度

		Notes 附註	2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
OPERATING ACTIVITIES	**經營業務活動**			
Profit for the year before taxation	年度內除稅前溢利		**11,724**	4,957
Adjustments for:	調整:			
Charge for impairment losses on loans and receivables	貸款及應收賬項減值損失支銷		**1,742**	3,465
Charge for impairment losses on intangible assets	無形資產減值損失支銷	*34(b)*	**650**	–
Charge for impairment losses on available-for-sale financial assets	可供出售金融資產減值損失支銷		**2**	1
Charge for impairment losses on assets held for sale	持有作出售資產減值損失支銷		**63**	–
Share of profits less losses of associates	應佔聯營公司溢利減虧損		**(388)**	(431)
Net profit on sale of held-to-maturity investments	出售持至到期投資之淨溢利		**(6)**	(10)
Net profit on sale of available-for-sale financial assets	出售可供出售金融資產之淨溢利		**(1,057)**	(96)
Net profit on disposal of subsidiaries and associates	出售附屬公司及聯營公司之淨溢利		**(2)**	–
Net profit on sale of disposal groups and assets held for sale	出售出售組別及持有作出售資產之淨溢利		**(183)**	(99)
Net profit on sale of discontinued operations	出售已終止經營業務之淨溢利		**(4,084)**	–
Net loss/(gain) on disposal of fixed assets	出售固定資產之淨虧損／(盈利)		**22**	(859)
Interest expense on certificates of deposit, debt securities and loan capital issued	已發行存款證、債務證券及借貸資本利息支出		**1,531**	1,582
Depreciation on fixed assets	固定資產折舊	*35*	**466**	500
Dividend income from available-for-sale financial assets	可供出售金融資產股息收入		**(34)**	(36)
Amortisation of intangible assets	無形資產攤銷	*13*	**32**	32
Amortisation of premium/discount on certificates of deposit, debt securities and loan capital issued	已發行存款證、債務證券及借貸資本的溢價／折扣攤銷		**309**	170
Revaluation gains on certificates of deposit, debt securities and loan capital issued	重估已發行存款證、債務證券及借貸資本盈利		**(169)**	(152)
Valuation gains on investment properties	重估投資物業盈利	*35*	**(522)**	(63)
Equity settled share-based payment expenses	以股份為基礎作支付費用	*13, 43(f)*	**36**	35
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	**營運資金變動前的經營溢利**		**10,132**	8,996
(Increase)/decrease in operating assets:	經營資產(增)／減額:			
Cash and balances with banks with original maturity beyond three months	原本期限為3個月以上的現金及其他銀行存款的結存		**(953)**	(1,207)
Placements with and advances to banks and other financial institutions with original maturity beyond three months	原本期限為3個月以上的銀行及其他金融機構存款及墊款		**7,000**	9,585
Trade bills	貿易票據		**(1,970)**	7,593
Trading assets	交易用途資產		**(3,002)**	491
Financial assets designated at fair value through profit or loss	指定為通過損益以反映公平價值的金融資產		**(615)**	782
Positive fair value of derivatives	衍生工具的正公平價值		**(2,397)**	(2,733)
Loans and advances to customers	客戶貸款及墊款		**(21,892)**	(14,460)
Advances to banks and other financial institutions	銀行及其他金融機構墊款		**–**	31
Held-to-maturity debt securities	持至到期債務證券		**(3,475)**	469
Available-for-sale debt securities	可供出售債務證券		**(5,447)**	(19,600)
Other assets	其他資產		**2,737**	(4,275)
Increase/(decrease) in operating liabilities:	經營負債增／(減)額：			
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘		**506**	(5,651)
Deposits from customers	客戶存款		**35,895**	(4,954)
Trading liabilities	交易用途負債		**(39)**	(839)
Negative fair value of derivatives	衍生工具的負公平價值		**4,095**	1,073
Other liabilities	其他負債		**(4,067)**	4,897
Exchange adjustments	匯兌調整		**(2,382)**	2,456
NET CASH INFLOW/(OUTFLOW) FROM OPERATIONS	**經營活動現金流入／(流出)淨額**		**14,126**	(17,346)
Income tax paid	已付所得稅			
Hong Kong profits tax paid	已付香港利得稅		**(812)**	(565)
Outside Hong Kong profits tax paid	已付海外利得稅		**(649)**	(832)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	**源自／(用於)經營活動之現金淨額**		**12,665**	(18,743)

The notes on pages 168 to 317 form part of these financial statements.

第168至317頁之附註屬本財務報表之一部分。

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
綜合現金流量表(續)

For the year ended 31st December, 2017 *截至2017年12月31日止年度*

		Notes 附註	2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
INVESTING ACTIVITIES	**投資活動**			
Dividends received from associates	收取聯營公司股息		**83**	76
Dividends received from available-for-sale equity securities	收取可供出售股份證券股息		**34**	36
Purchase of equity securities	購入股份證券		**(4,723)**	(3,984)
Proceeds from sale of equity securities	出售股份證券所得款項		**5,328**	3,608
Purchase of fixed assets	購入固定資產		**(409)**	(448)
Proceeds from disposal of other properties and equipment	出售其他物業及設備所得款項		**27**	1,142
Proceeds from disposal of investment properties	出售投資物業所得款項		**–**	624
Proceeds from sale of disposal groups and assets held for sale	出售出售組別及持有作出售資產所得款項		**653**	746
Proceeds from sale of discontinued operations	出售已終止經營業務所得款項		**5,947**	–
Increase of shareholding in associates	增加聯營公司權益		**(2,612)**	–
Change of ownership in subsidiaries	附屬公司之擁有權變動		**(18)**	–
Decrease in non-controlling interests arising from capital reduction of a subsidiary	一附屬公司減本而導致非控股權益減少		**(135)**	–
Purchase of interests in businesses from non-controlling interests investors	向非控股權益投資者購入商業權益		**–**	7
NET CASH GENERATED FROM INVESTING ACTIVITIES	**源自投資活動之現金淨額**		**4,175**	1,807
FINANCING ACTIVITIES	**融資活動**			
Ordinary dividends paid	支付普通股股息		**(2,106)**	(468)
Distribution to Hybrid/Additional Tier 1 issue holders	派發予混合/額外一級資本工具持有人	*19(c), 43(i)*	**(600)**	(489)
Issue of ordinary share capital	發行普通股股本	*41*	**93**	11
Issue of additional equity instruments	發行額外股本工具		**3,892**	–
Issue of certificates of deposit	發行存款證		**74,007**	40,284
Issue of debt securities	發行債務證券		**1,367**	695
Issue of loan capital	發行借貸資本		**–**	3,871
Redemption of Hybrid Tier 1 issued	贖回已發行混合一級資本工具		**–**	(51)
Redemption of certificates of deposit issued	贖回已發行存款證		**(67,055)**	(48,325)
Redemption of debt securities issued	贖回已發行債務證券		**(7,617)**	(7,119)
Redemption of loan capital	贖回已發行借貸資本		**(8,580)**	–
Interest paid on certificates of deposit issued	支付已發行存款證利息		**(663)**	(499)
Interest paid on debt securities issued	支付已發行債務證券利息		**(106)**	(205)
Interest paid on loan capital	支付借貸資本利息		**(920)**	(921)
NET CASH USED IN FINANCING ACTIVITIES	**用於融資活動之現金淨額**		**(8,288)**	(13,216)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**現金及等同現金項目淨增/(減)額**		**8,552**	(30,152)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	**於1月1日之現金及等同現金項目**	*48(a)*	**75,841**	110,966
Effect of foreign exchange rate changes	匯率變動的影響		**5,587**	(4,973)
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	**於12月31日之現金及等同現金項目**	*48(a)*	**89,980**	75,841
Cash flows from operating activities included:	源自經營業務活動的現金流量包括:			
Interest received	利息收入		**21,300**	20,756
Interest paid	利息支出		**10,423**	9,725
Dividend received	股息收入		**79**	75

The notes on pages 168 to 317 form part of these financial statements.

第168至317頁之附註屬本財務報表之一部分。

NOTES TO THE FINANCIAL STATEMENTS
財務報表附註

1. PRINCIPAL ACTIVITIES 主要業務

The Bank and its subsidiaries (the "Group") are engaged in the provision of banking and related financial services, and business, corporate and investor services.

本行及其附屬公司(「本集團」)的主要業務為提供銀行及有關的金融服務、以及商務、企業及投資者服務。

2. SIGNIFICANT ACCOUNTING POLICIES 主要會計政策

(a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable HKFRS, which collective term includes all applicable individual HKFRS, HKAS and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Listing Rules. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(a) 符合指引聲明

本財務報表乃按照香港會計師公會頒布所有適用的《香港財務報告準則》，其整體已包括個別適用的《香港財務報告準則》、《香港會計準則》及詮釋，以及香港一般採用的會計原則及《公司條例》的要求。本財務報表亦符合聯交所《上市規則》有關的披露規定。本集團採納的主要會計政策簡列如下。

香港會計師公會已頒布數項新增及經修訂的《香港財務報告準則》，並於本年度本集團的會計期首次生效或可被提早採納。附註3提供因首次應用該等準則而引致會計政策變動的資料，而該等資料只包括與本集團有關而須反映在本期及去年會計期的財務報表。

(b) Basis of Preparation of the Financial Statements

The financial statements for the year ended 31st December, 2017 comprise the Group and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (Note 2(f)(ii));
- derivative financial instruments (Notes 2(f)(ii), (vi) and 2(g)); and
- investment properties (Note 2(h)(ii)).

The preparation of financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(b) 財務報表編製基準

截至2017年12月31日止年度的財務報表包括本集團及其應佔聯營公司之權益。

除以下資產及負債是以公平價值列賬外，本財務報表是以原值成本作為計量基準。有關詳情載列於下列會計政策：

- 分類作交易用途、指定通過損益以反映公平價值及可供出售的金融工具(附註2(f)(ii))；
- 衍生金融工具(附註2(f)(ii)，(vi)及2(g))；及
- 投資物業(附註2(h)(ii))。

按《香港財務報告準則》之要求，在編製財務報表時，管理層須作判斷、估計及假設從而影響政策實施及資產和負債、及收入與支出之呈報金額。有關估計及假設乃按在既定情況下可合理地相信，根據過往之經驗及其他因素，作出判斷那些未能從其他來源確定的資產及負債的賬面值。實際結果可能與此等估計存在差異。

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

有關估計及假設須持續作檢討。若修訂只影響該修訂期，會計估計的修訂於該修訂期內確認；或如該修訂影響本期及未來會計期，則於修訂期及未來會計期內確認。

Details of judgements made by management in the application of HKFRS that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 54.

在附註54內，管理層已解釋實施對財務報表有重大影響的《香港財務報告準則》所作的詳細判斷及不明朗估計的主要來源。

(c) Basis of Consolidation

These consolidated financial statements cover the consolidated position of the Bank and all subsidiaries unless otherwise stated and the Group's interest in associates. For information required to be reported in accordance with the Banking (Disclosures) Rules, the basis of consolidation is set out in the Note 1 in the Unaudited Supplementary Financial Information.

(i) Subsidiaries and Non-controlling interests

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries made up to 31st December each year. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the net profit and total comprehensive income for the year between non-controlling interests and equity shareholders of the Bank.

(c) 綜合基準

除另外陳述外，本綜合財務報表包括本行及其所有附屬公司及本集團所佔聯營公司之權益的綜合狀況。根據《銀行業(披露)規則》所要求匯報的資料，所採納的綜合基準已在未經審核補充財務資料附註1列載。

(i) 附屬公司及非控股權益

本綜合財務報表包括本行及其所有附屬公司截至各相關年度之12月31日止的財務報表。附屬公司為本集團所控制之實體。本集團基於對有關實體之權利、參與度及權力並可運用此等條件以影響其所得回報，則視為本集團對該實體擁有控制權。在評估是否有控制權時，本集團只考慮實質的權力(由本集團及其他人士所擁有)。

附屬公司之投資由控制權生效日起至控制權失效日止在綜合財務報表內計算。在編製綜合財務報表時，集團之間的結餘，交易及現金流及任何因集團之間交易所產生的未實現溢利均被抵銷。跟未實現盈利相同，因集團之間交易所產生的未實現虧損亦同樣被抵銷，但只局限於未有減值證據。

非控股權益指無論是直接或間接並不歸屬於本行之附屬公司的權益部分，及本集團並未與該等權益持有者達成附加協議，致令本集團整體上對該等權益產生符合金融負債定義的法定義務。就每一業務合併而言，本集團可選擇按公平價值或非控股權益按比例應佔該附屬公司的可辨識淨資產以計量非控股權益。

非控股權益在綜合財務狀況表內的股東權益中列示，但與可歸屬於本集團股東權益分開。非控股權益佔本集團之業績，在綜合收益表內以分配年度溢利之形式列示，而在綜合全面收益表則以分配年度全面收益總額予非控股權益與及可歸屬於本集團股東權益之形式列示。

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

本集團將不導致喪失控股權之附屬公司權益的變動按權益交易方式入賬，即只調整在綜合權益內之控股及非控股權益的金額以反映其相關權益的變動，但不調整商譽及確認盈虧。

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate (Note 2(c)(ii)).

當本集團喪失對一附屬公司之控股權，將按出售該附屬公司之所有權益入賬，而所產生的盈虧確認為損益。任何在喪失控股權日仍保留該前度附屬公司之權益按公平價值確認，而此金額被視為初始確認一金融資產(附註2(f))的公平價值，或(如適用)按成本初始確認一聯營公司投資(附註2(c)(ii))。

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost less any impairment losses, if any (Note 2(k)).

在本行的財務狀況表中，附屬公司投資是以成本減除任何減值損失(附註2(k))列賬。

(ii) Associates

The consolidated financial statements include the attributable share of the results and reserves of associates based on financial statements prepared at dates not earlier than three months prior to 31st December, 2017. An associate is a company in which the Group or the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

(ii) 聯營公司

本綜合財務報表包括根據截至2017年12月31日止之前不超過三個月的財務報表所編製應佔聯營公司的業績及儲備。聯營公司是指本集團或本行可對其管理發揮重大影響力，包括參予其財務及經營政策的決策，但並不控制或共同控制其管理層。

An investment in an associate is accounted for in the consolidated financial statements under the equity method unless it is classified as held-for-sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (Note 2(j) and 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the associates and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the associate's other comprehensive income is recognised in the consolidated statement of comprehensive income.

除非分類為持有作出售用途，聯營公司投資是以權益會計法在綜合財務報表內入賬。根據權益會計法，投資的入賬方法是先以成本另調整本集團於購入後應佔該聯營公司的可辨識淨資產所超出成本之任何金額。往後，需調整在收購後本集團應佔聯營公司淨資產之變動及在(附註2(j)和2(k))所載有關投資的減值損失。任何超出於收購日之成本、本集團應佔聯營公司收購後和已除稅的業績及年度內的任何減值損失均在綜合收益表內確認，而本集團應佔聯營公司收購後和已除稅之其他全面收益項目則在綜合全面收益表內確認。

When the Group's share of losses exceeds its interest in the associates, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

除本集團對該聯營公司所作具法律或推定義務或替該公司償付的承擔外，當本集團應佔該聯營公司的虧損超出本集團應佔該聯營公司之權益時，超出的虧損將不被確認，而本集團應佔該聯營公司之權益將被減值至零。因此，本集團應佔該聯營公司權益即按權益會計法計算投資賬面值，及實質上構成本集團應佔該聯營公司淨資產的長期權益。

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except when unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

本集團與聯營公司交易而產生之未實現溢利及虧損，按本集團應佔該聯營公司之權益為限作沖銷。若有證據顯示未實現虧損屬資產轉讓的減值損失，則須立即於損益賬內確認。

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former associate at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(f)).

當本集團喪失對一聯營公司之重大影響力，將按出售該聯營公司之所有權益入賬，而所產生的盈虧確認為損益。任何在喪失控股權日仍保留該前度聯營公司之權益按公平價值確認，而此金額被視為初始確認一金融資產(附註2(f))的公平價值。

The Bank accounts for the results of associates to the extent of dividends received. Investments in associates are stated in the Bank's statement of financial position at cost less any impairment losses (Note 2(k)).

本行按照已收取股息計算應佔聯營公司業績。在本行的財務狀況表中，聯營公司投資是以成本減除任何減值損失(附註2(k))列賬。

An associate is considered material if it is material to either income statement or statement of financial position of the Group in two consecutive years.

若連續兩年對於本集團的收益表或財務狀況表有重大影響，該聯營公司會被視為重大。

(d) Translation of Foreign Currencies

Foreign currencies transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the end of the reporting period. Exchange gains and losses are recognised in the income statement.

(d) 外幣換算

年度內的外幣交易按交易日的匯率折算為港幣。以外幣為單位的貨幣性資產及負債按報告期結束日的匯率折算為港幣。匯兌盈虧則計入收益表內。

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

以原值成本列賬但以外幣為單位的非貨幣性資產及負債按交易日的匯率折算為港幣。以外幣為單位及按公平價值列賬的非貨幣性資產及負債按釐定其公平價值日的匯率折算。

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the income statement. Differences arising on translation of available-for-sale equity instruments are recognised in other comprehensive income and accumulated separately in equity.

有關通過損益以反映公平價值投資及衍生金融工具的匯兌差額分別包括於交易用途證券淨盈虧或指定通過損益以反映公平價值投資淨盈虧。其他有關貨幣性資產及負債的匯兌差額則於收益表之外幣買賣溢利項下列示。因折算可供出售股份證券而產生的差額則於其他全面收益內確認，並在股東權益內分開累計。

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items of statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after 1st January, 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1st January, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

海外業務之業績按交易日相約的匯率折算為港幣。資產負債表項目，財務狀況表的項目中，包括於2005年1月1日或以後因收購海外業務而在綜合時所產生的商譽，按報告期結束日的匯率折算為港幣。產生的匯兌差額直接在其他全面收益內確認，並在股東權益之匯兌儲備內分開累計。因於2005年1月1日以前收購海外業務而在綜合時所產生的商譽按收購海外業務日的匯率折算。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income statement when the profit or loss on disposal is recognised.

當確認出售海外業務的損益時，因該海外業務產生的累計匯兑差額由股東權益計入收益表。

(e) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the income statement on an accrual basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase in the present value of impaired loans due to the passage of time is reported as interest income.

(ii) Net income from financial instruments designated at fair value through profit or loss and net trading income

Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with foreign exchange differences and dividend income attributable to those financial instruments.

(iii) Fee and commission income

Fee and commission income is recognised in the income statement when the corresponding service is provided, except where the fee is interest in nature. In such cases, the fee is accounted for as interest income.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as revenue on a straight-line basis over the commitment period.

(e) 收入確認

收入按已收或應收價款的公平價值釐定。假設經濟利益有可能流向本集團及收入和支出(如適用)屬可靠計量的，在收益表內確認收入的方法如下：

(i) 利息收入

所有帶息金融工具的利息收入按有效利率方法於收益表內以應計基準列作利息收入。

有效利率方法是一種計算攤銷成本及分配利息收入於相關期間的方法。有效利率是可準確將金融工具在預計年期內產生之未來現金支出或收入折算為現值，或在較短期內折算為該金融工具賬面值的利率(如適用)。當計算有效利率時，本集團在估計現金流須考慮金融工具的所有合約條款，但不包括未來信貸損失。有效利率組成部分的計算包括所有合約對手之間的費用及基點支出或收入、交易成本及其他所有溢價或折扣。

就減值貸款而言，根據貸款原本條款計算的應計利息收入終止，但因隨時間過去令致減值貸款之現值增加則列作利息收入。

(ii) 指定通過損益以反映公平價值金融工具的淨收入及淨交易收入

指定通過損益以反映公平價值金融工具的淨收入及淨交易收入包括所有金融資產及金融負債之公平價值變動產生的盈虧(減除應計利息)，以及應歸屬於該等金融工具的匯兑差額及股息收入。

(iii) 服務費及佣金收入

除非其性質是屬於利息，服務費及佣金收入在有關服務提供時確認在收益表內。在此情況下，服務費按利息收入入賬。

因本集團開展或購入金融資產而產生之開立或承擔服務費收入／支出須遞延及確認為有效利率之調整。如承擔期滿而本集團毋須貸款，該服務費按承擔期限以直線法列作收入。

(iv) Finance income from finance leases

Finance income implicit in finance leases is recognised as interest income over the period of the lease so as to produce an approximately constant periodic rate of return of the outstanding net investment in the leases for each accounting period.

(iv) 融資租賃收入

融資租賃隱含財務收入按租賃年期確認為利息收入，以令每個會計年度期間剩餘的淨租賃投資回報大致相同。

(v) Rental income from operating leases

Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(v) 經營租賃租金收入

除非有更具代表性的基準衡量從租賃資產獲取利益的模式，其經營租賃之租金收入按該租期所涵蓋的年期以等額分期確認為其他經營收入。經營租賃協議所涉及的激勵措施均在收益表中確認為租賃淨收款總額的組成部分。或有租金以賺取該收入的會計期間列作收入。

(vi) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established unconditionally. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(vi) 股息收入

非上市投資股息收入在股東收取權被無條件確立時才予以確認。上市投資股息收入則在該投資的股價除息時才被確認。

(f) Financial Instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets at fair value through profit or loss, available for sales or held to maturity and financial liabilities at fair value through profit or loss or debts issued are recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities measured at fair value are recorded.

(f) 金融工具

(i) 初始確認

本集團根據於初始期購入資產或產生負債時之原定用途，以分類其金融工具。種類包括通過損益以反映公平價值、貸款和應收賬款、持至到期投資、可供出售金融資產及其他金融負債。

金融工具於初始期按公平價值計量，而公平價值大致與交易價相同。如金融資產或金融負債不屬於通過損益以反映公平價值，則包括直接歸屬於購入之金融資產或發行金融負債的交易成本。通過損益以反映公平價值的金融資產或金融負債的交易成本立即作費用支銷。

當本集團成為金融工具合約其中一方時確認金融資產和金融負債。以有規律方式購買或出售通過損益以反映公平價值、可供出售或持至到期金融資產及通過損益以反映公平價值的金融負債俱按交易日會計法計算。其他金融資產和金融負債則按結算日會計法計算。該等金融資產及金融負債因公平價值變動而產生的盈利及虧損由該日起計算。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

(ii) Categorisation

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are recognised initially, and are subsequently remeasured, at fair value, and classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Derivatives that do not qualify for hedge accounting (Note 2(g)) are accounted for as trading instruments.

Financial instruments are designated at fair value through profit or loss upon initial recognition when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract and the separation of the embedded derivatives from the financial instrument is not prohibited.

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise placements with banks and other financial institutions, trade bills and loans and advances to customers.

(ii) 分類

通過損益以反映公平價值

此類別包括持有作交易用途和初始被指定為通過損益以反映公平價值的金融資產及金融負債，但不包括沒有市場報價的股份證券投資，及其公平價值是不能夠可靠計量的。

作交易用途的金融工具包括購入金融資產或產生金融負債，主要是作短期出售或屬可辨識金融工具組合的一部分，該組合是整體管理的，及有證據顯示近期有短期出售以賺取利潤的模式。衍生工具於初始確認，及後按公平價值重新計量，以及當公平價值為正值時分類為資產，或當公平價值為負值時分類為負債。不符合會計對沖法(附註2(g))的衍生工具列作交易工具。

在以下情況於初始確認為指定為通過損益以反映公平價值的金融工具：

- 該資產或負債是按公平價值作內部管理、評估及呈報；
- 該指定可抵銷或重大地減低可能產生的會計錯配；或
- 該資產或負債包含嵌入衍生工具，而該嵌入衍生工具可重大地改變按合約產生的現金流及將嵌入衍生工具從金融工具內分開是不被禁止的。

屬於此類別的金融資產及金融負債按公平價值入賬。因公平價值變動產生之未實現盈利和虧損計入在期內發生的收益表。於出售或重購時，出售所得或支付淨額與賬面值的差額計入收益表。

貸款和應收賬款

貸款和應收賬款為固定或可確定付款金額及沒有活躍市場報價的非衍生金融資產，但不包括(a)本集團有計劃於短期內出售而被區分為持有作交易用途；(b)本集團於初始期已指定為通過損益以反映公平價值或可供出售；或(c)本集團可能不能收回大部分初始投資(但不包括因信貸轉壞的原因)，則須分類為可供出售。貸款和應收賬款主要包括在銀行及其他金融機構的存款、貿易票據及客戶貸款及墊款。

Securities classified as loans and receivables typically comprise securities issued by the same customers with whom the Group has a lending relationship that are not quoted in an active market. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally the yield and maturity terms are generally directly negotiated by the Group with the issuer. These securities include commercial paper, short term debentures and preference shares issued by the borrower.

分類為貸款和應收賬款的證券中，較具代表性的包括由客戶發行而在活躍市場沒有報價的證券，而該客戶是本集團在其批發銀行業務中有借貸關係的相同客戶。作出代替信貸之證券的投資決定與貸款的信貸審批程序相同，尤如本集團須承擔等同借款予同一客戶的風險。另外，回報及到期日條款普遍是透過本集團與客戶直接磋商。此類證券包括商業票據、短期債券及由借款人發行的優先股份。

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (Note 2(k)).

貸款和應收賬款及分類為貸款和應收賬款的證券按有效利率方法計算攤銷成本並減除任何減值損失入賬(附註2(k))。

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity, other than (a) those that the Group, upon initial recognition, designates as at fair value through profit or loss or available-for-sale; and (b) those that meet the definition of loans and receivables.

持至到期投資

持至到期投資包括有固定或可確定付款金額及有固定期限的非衍生金融資產而本集團有明確意向和能力持至到期日，但不包括(a)本集團於初始期已指定為通過損益以反映公平價值或可供出售，及(b)符合貸款和應收賬款之定義。

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment losses, if any (Note 2(k)).

持至到期投資採用有效利率方法計算攤銷成本並減除任何減值損失入賬(附註2(k))。

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value.

若因意向或能力改變而引致不再適合分類為持至到期投資，則將重新分類為可供出售並按公平價值計量。

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

可供出售金融資產

可供出售金融資產是被指定為可供出售的非衍生金融資產，或並非分類為以上三種類別的金融資產。它包括計劃作不定期限持有的金融資產，但可能因應流動資金之需要或市場環境轉變而出售。

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the income statement.

可供出售金融資產按公平價值列賬。除減值損失和貨幣性資產之外匯盈虧(如債務證券)在收益表內確認外，因公平價值的變動所產生的未實現盈虧於其他全面收益內確認，並在股東權益內分開累計。

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (Note 2(k)).

在活躍市場中沒有市場報價而其公平價值是不能夠可靠計量的股份證券投資，及與之掛勾及在結算時須交出該無報價股份證券的衍生工具，按成本減除任何減值損失(附註2(k))列賬。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to the income statement.

當出售可供出售金融資產時，出售盈虧包括出售所得款項淨額與賬面值的差額，以及曾經確認為其他全面收益之累計公平價值調整須由股東權益重新分類而轉入收益表。

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

其他金融負債

除作交易用途及通過損益以反映公平價值的金融負債外，金融負債按有效利率方法計算攤銷成本入賬。

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

(iii) 計量公平價值之原則

金融工具的公平價值是於報告期結束日根據其市場報價但未減除將來的估計出售成本。

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

如沒有公眾知悉的最後交易價格或在認可交易所的市場報價，或從經紀／交易員獲得屬於非交易所買賣的金融工具報價，又或該市場並不活躍，此工具的公平價值按估值模式估值，而該估值模式可根據實際市場交易提供可靠的估計價格。

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

當採用現金流折讓價格模式，估計將來現金流按管理層的最佳估計及採用的貼現率是在報告期結束日適用於相同條款工具的市場利率。當採用其他價格模式時，參數是在報告期結束日的市場價格資料。

(iv) Derecognition

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset, together with substantially all the risks and rewards of ownership, has been transferred.

(iv) 終止確認

當從金融資產獲得現金流的法定權利屆滿或已將重大風險及回報擁有權同時轉移後，本集團終止確認金融資產。

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

當合約的義務已被履行、取消或期滿，本集團終止確認金融負債。

The Group uses the weighted average or first-in first-out method, where appropriate, to determine realised gains and losses to be recognised in the income statement on derecognition.

本集團採用加權平均法或先進先出法(如適用)以釐定在終止確認時須在收益表確認的已實現盈利和虧損。

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(v) 抵銷

只有具法定權利抵銷確認金額及計劃以淨額結算，或同時變賣資產以清償負債，金融資產和金融負債互相抵銷，並在財務狀況表內以淨額列示。

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

When the embedded derivative is separated, the host contract is accounted for in accordance with note (ii) above.

(vi) 嵌入衍生工具

嵌入衍生工具屬於一種混合(結合)式工具的組成部分，該工具包括衍生工具及一主合約，並可改變該結合式工具的現金流，其作用類似一張獨立的衍生工具。當(a)該嵌入衍生工具的經濟特性及風險與主合約並非緊密關連的；及(b)混合(結合)式工具並非按公平價值計量及將公平價值變動於收益表內確認，嵌入衍生工具將與主合約分開並按衍生工具入賬。

當嵌入衍生工具被分開處理，主合約根據上述附註(ii)入賬。

(g) Hedging

Hedge accounting recognises the offsetting effects on income statement of changes in the fair values of the hedging instrument and the hedged item. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Group discontinues prospectively hedge accounting when (a) the hedging instrument expires or is sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

(g) 對沖

對沖會計法是確認因用作對沖工具與被對沖項目因公平價值變動而在收益表內產生之相互抵銷損益的影響。於衍生工具開始列作對沖工具及在對沖期間，本集團會評估及記錄用作對沖交易的金融工具是否有效地對沖相關項目的公平價值變動或現金流之風險。當(a)該用作對沖工具到期或已出售、終止或行使；(b)該對沖交易不再符合對沖會計法的要求；或(c)本集團取消對沖指定，本集團會停止繼續採用對沖會計法。

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, or the foreign currency risk of a committed future transaction, the effective part of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in the income statement.

If the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement (such as when interest income or expense is recognised).

(i) 現金流量對沖

當衍生金融工具被指定對沖已確認資產或負債的不既定現金流量，或是甚有可能發生的預計交易，或已承諾未來交易之外滙風險，其有效對沖部分的盈利或虧損或重新計量衍生金融工具至公平價值會在其他全面收益內確認，並在股東權益中的對沖儲備內分開累計。而無效對沖部份的盈利或虧損則立即在收益表內確認。

如因對沖預計交易而其後須確認為非金融資產或非金融負債，其相關之盈虧由股東權益重新分類並包括在該非金融資產或負債的初始成本或其他賬面值內。

如因對沖一項預計交易而其後須確認為金融資產或金融負債，其相關之盈虧由股東權益重新分類並計入相同期間或當購入資產或引起負債而影響該期間之收益表(如當確認為利息收入或支出)。

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to the income statement in the same period or periods during which the hedged forecast transaction affects the income statement. When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to the income statement immediately.

就現金流量對沖而言，除以上兩段政策已涵蓋外，其相關之盈虧由股東權益重新分類並包括在相同期間或受對沖預計交易所影響期間的收益表。當用作對沖工具已到期或出售，終止或行使，或當本集團取消指定對沖關係但對沖預計交易預期仍會發生，截至此期間所累計的盈利或虧損仍保留在股東權益內，直至交易發生時按以上的政策確認。如預計對沖交易不會發生，在股東權益內的累計盈利或虧損會立即由股東權益轉入收益表。

(ii) Fair value hedges

A fair value hedge seeks to offset risks of changes in the fair value of recognised asset or liability that will give rise to a gain or loss being recognised in the income statement.

(ii) 公平價值對沖

公平價值對沖用作抵銷已確認資產或負債因公平價值變動產生須在收益表內入賬的盈利和虧損的風險。

The hedging instrument is measured at fair value, with fair value changes recognised in the income statement. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of hedging instrument attributable to the risk being hedged. This adjustment is recognised in the income statement to offset the effect of the gain or loss on the hedging instrument.

對沖工具按公平價值列賬，而公平價值的變動在收益表內入賬。被對沖項目的賬面值按對沖工具所對沖之風險的價格變動予以調整。此調整在收益表內入賬以抵銷對沖工具產生的盈利和虧損。

When a hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting, or the Group revokes designation of the hedge relationship, any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to the income statement as part of the recalculated effective interest rate of the item over its remaining life.

當用作對沖工具到期或已出售，終止或行使，或當對沖不再符合對沖會計法的要求，或本集團取消對沖指定關係，所有截至此期間內按有效利率方式調整的被對沖項目，會按該項目餘下年期當作重新計算有效利率在收益表內攤銷。

(iii) Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

(iii) 對沖效用測試

為符合對沖會計法，本集團必須進行兩種測試：在開始對沖時進行「預計效用」測試，顯示預期成效極高；在對沖期內持續進行「追溯效用」測試，証明實際有效。

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

有關各對沖關係之文件載有如何評估對沖效用。本集團採納之對沖效用評估方法，是按照既定風險管理策略而實施。

For fair value hedge relationships, the Group utilises the cumulative dollar offset method or regression analysis as effectiveness testing methodologies. For cash flow hedge relationships, the Group utilises the change in variable cash flow method or the cumulative dollar offset method using the hypothetical derivative approach.

對於公平價值對沖關係，本集團採用累計價值抵銷法作為效用測試之方法。對於現金流量對沖關係，本集團會測試現金流量的變動或對沖組合的規模是否充足，或以模擬衍生工具方式，運用累計價值抵銷法測試。

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

就預計效用而言，對沖工具必須被預期為在劃定對沖期間內，能高度有效地抵銷對沖風險之公平價值或現金流量之變動。就實際效用而言，公平價值或現金流量之變動抵銷額在80%至125%範圍才被視為有效。

(h) Properties

(i) Bank premises are stated in the statement of financial position at cost or at Directors' valuation as of 1989, by reference to an independent professional valuation, less accumulated depreciation and accumulated impairment loss (Note 2(k)).

When a deficit arises on revaluation, it will be charged to the income statement, to the extent that it exceeds the amount held in the bank premises revaluation reserve in respect of that same asset immediately prior to the revaluation; and when a surplus arises on revaluation, it will be credited to the income statement, to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80AA of HKAS 16 "Property, Plant and Equipment" issued by the HKICPA, with the effect that bank premises have not been revalued to fair value at the end of the reporting period.

(ii) Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. Investment properties are valued semi-annually by external independent valuation companies, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued. No allowance has been made in the valuations for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in Note 2(e).

When a bank property is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the bank property immediately prior to transfer and its fair value is recognised as a revaluation of bank premises as described in Note 2(h)(i).

If an investment property becomes owner-occupied, it is reclassified as bank premises and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

A property interest under an operating lease is classified and accounted for as an investment property when the Group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in Note 2(l).

(h) 物業

(i) 行址是按成本或於1989年董事參照獨立專業評估作出的估值，減除累計折舊及減值損失(附註2(k))後於財務狀況表中列賬。

當重估出現虧損時，於收益表支銷的金額，只限於超過以往因重估相同行址而存入行址重估儲備的結餘；當重估出現盈餘時，存入收益表內的金額不可超過以往因重估相同行址曾於收益表支銷的重估虧損。

在編製此等財務報表時，由於可採用香港會計師公會頒布的《香港會計準則》第16號「物業、廠房及設備」第80AA段所載的過渡條款，故行址並未在報告期結束日重估至公平價值。

(ii) 投資物業是持有用作賺取租金收益或資本增值或二者皆是的物業。投資物業按公平價值列賬。投資物業由外來獨立估價公司每半年作估值，該公司擁有適當認可專業資格及對估值物業的所在地和類別有近期經驗。估值並未計算任何抵押、按揭、欠款、及在出售時可能產生的任何費用或稅項。

因公平價值變動而產生的損益在收益表內入賬。投資物業租金收入按附註2(e)所載計算。

如附註2(h)(i)所載，當一項物業因其用途改變而須轉作投資物業時，該物業於轉賬日前的賬面值與公平價值之差額視作行址重估。

如一投資物業轉為自用，該物業須重新分類為行址。於重新分類日的公平價值視作日後作會計用途的成本值。

本集團以經營租賃方式持有用作租金收入或資本增值或二者皆是的物業權益分類為投資物業。此等以經營租賃方式持有的物業權益按公平價值列賬。租金支出按附註2(l)所載入賬。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

(iii) Profit or loss on disposal of bank premises and investment properties is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the income statement upon disposal. Any surplus that is included in the bank premises revaluation reserve related to the bank premises disposed is transferred to the general reserve.

(iii) 出售行址及投資物業的損益是以出售所得款項淨額與資產賬面值的差價計算，並在出售時於收益表內入賬。任何有關之重估行址盈餘於出售時從行址重估儲備撥入一般儲備內。

(i) Amortisation and Depreciation

(i) Bank premises

Freehold land is not amortised. Leasehold land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for part of the building and is held under a finance lease. Leasehold land is amortised on a straight line basis over the remaining term of the lease. Buildings are depreciated on a straight line basis at rates calculated to write off the cost or valuation of each building over its estimated useful life of 50 years or the remaining lease period of the land on which it is situated, whichever is the shorter.

Investment properties are not depreciated.

(ii) Other fixed assets

Other fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses, which is calculated on a straight line basis to write off the assets over their estimated useful lives from 4 to 20 years.

(i) 攤銷及折舊

(i) 行址

永久業權之土地不予攤銷。用作經營租賃的租賃土地，而其公平價值是不能夠與租賃於初始時已存在之建築物的公平價值分開計量，則當作持有融資租賃入賬。租賃土地以直線法按租賃剩餘年期攤銷。建築物的成本或估值以直線法按其預計使用年限50年或其座落土地剩餘租賃期兩者中的較短期限計算折舊。

投資物業是不予折舊。

(ii) 其他固定資產

其他固定資產是按成本減累計折舊及減值損失於財務狀況表中列賬。該等資產是以直線法按照由4年至20年的預計使用年期計算折舊。

(j) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (Note 2(k)).

On disposal of a cash generating unit, or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit and loss on disposal.

Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

(j) 商譽

商譽指

(i) 對價轉讓的公平價值、任何被購入者的非控股權益金額及以往本集團曾經持有該被購入者的股東權益公平價值的總和；超出

(ii) 本集團在收購日計量應佔該被購入者之可辨識資產及負債的公平價值淨額。

當(ii)是大於(i)時，此超出金額立即在損益賬確認為一項議價收購的盈利。

商譽按成本減除累計減值損失列賬。因商業合併而產生的商譽被分配予每一現金生產單位，或一組合之現金生產單位，而預計該現金生產單位是可從商業合併中獲得協同效應，以及須每年接受減值測試(附註2(k))。

在年度內出售單一現金生產單位或聯營公司，計算出售溢利時計入任何可歸屬購入商譽的金額。

由內部產生之商譽及品牌的開支按在發生期間內確認為支出。

(k) Impairment of Assets

At each end of the reporting period, the carrying amount of the Group's assets are reviewed to determine whether there is objective evidence of impairment. If internal and external sources of information indicate such evidence exists, the carrying amount is reduced to the estimated recoverable amount and an impairment loss is recognised in the income statement.

(i) Loans and receivables

The impairment losses of loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

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

(k) 資產減值損失

本集團須於報告期結束日檢討資產的賬面值以判斷是否有客觀減值證據。如對內及對外資料來源均顯示減值證據存在，須減低賬面值至可收回金額，而減值損失於收益表內入賬。

(i) 貸款和應收賬款

貸款和應收賬款的減值損失，是根據資產賬面值及估計未來現金流按資產原本之有效利率(即於初始時確認該等資產之有效利率)折算為現值，以二者之差額計算。如果折算現值後的影響不大，不會折算短期應收賬款。

減值損失準備總額包括兩部分：個別減值準備，及整體減值準備。

本集團首先評估客觀減值證據是否個別存在於個別重大金融資產，及整體存在於非個別重大金融資產。若本集團判斷客觀減值證據並不存在於個別評估金融資產，無論重大與否，本集團將有相同風險特性的金融資產歸類，及作整體減值評估。已作個別減值評估的資產而減值損失已持續確認，該資產不會包括於整體減值評估內。

個別減值準備是根據管理層的最佳估計將可能收回之現金流按原本的有效利率折算為現值。在估計現金流時，管理層須判斷借款人的財政狀況及給予本集團的抵押品或擔保之可變現淨值。並須評估每宗減值資產的自身價值。

當評估所需的整體減值準備時，管理層須考慮的因素包括信貸質素、組合規模、信貸集中、及經濟因素。為求估計所需的準備，本集團根據過往之經驗和現時之經濟情況作假設以模擬潛在損失及判斷所需之參數。

撥備的準確性，須視乎本集團能否在評估個別準備時準確估計交易對手的未來現金流及在判斷整體減值準備時所採用的假設模式及參數。雖然視乎判斷而定，本集團相信貸款損失準備是合理和足夠的。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

All loans and receivables are reviewed and analysed periodically. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and will be charged or credited to the income statement. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

所有貸款和應收賬款須定期作檢討及分析。在較後期間，任何因估計未來現金流的金額及時間與先前估計的有所轉變，而該轉變是可客觀地與撇銷後發生的事件有關連，從而導致貸款和應收賬款之減值損失準備亦需改變，該轉變會支銷或存入收益表。減值損失之轉回只限於假設該貸款和應收賬款於過往從來未有確認減值損失的賬面值。

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

倘再無合理預期可收回時，則貸款及相關的應收利息會被撇銷。

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due. The original loan that is renegotiated is derecognised and a new financial asset is recognised at fair value if the existing agreement is cancelled and a new agreement made on substantially different terms.

經重訂條款的貸款和應收賬款是因借款人的財政狀況惡化而須重組的貸款，而本集團已顧及借款人的財政狀況而有所讓步，否則會不作此考慮。經重訂的貸款和應收賬款須持續受監控以判斷它們是否仍然已減值或逾期。如現有協議取消並同時訂立重大不同條款的新協議，經重訂條款的原有貸款會被撤銷確認並按公平價值確認為一新的金融資產。

(ii) Held-to-maturity investments

Impairment on held-to-maturity investments is considered at both an individual and collective level. The individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at asset's original effective interest rate, where the effect of discounting is material.

(ii) 持至到期投資

持至到期投資之減值按個別及整體層面考慮。當折算的效果是重大的，個別減值準備按資產賬面值，及估計未來現金流按資產原本之有效利率折算為現值，以二者之差額計算減值損失。

All significant assets found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

如所有重大資產毋須作個別減值，則須為已發生而未被發現的減值作整體評估。非個別重大資產按相同風險特性歸類及作整體減值評估。

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

若在較後期間，減值損失的金額減少而該減少是可客觀地與確認減值損失後發生的事件有關連，減值損失轉回收益表內。減值損失轉回收益表的金額不能超過假設該資產於往年從來未有確認減值損失的賬面值。

(iii) Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in the fair value reserve is reclassified to the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

(iii) 可供出售金融資產

當有客觀證據顯示可供出售金融資產已減值，已直接確認在公平價值儲備內的累計虧損會被轉入收益表內。須於損益賬內入賬的累計虧損金額，是購入成本(減除任何本金償還及攤銷)與現時公平價值二者之差額，再減除往年已於收益表內入賬的減值損失。

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material.

按成本列賬之無報價可供出售股份證券，當折算的效果是重大的，股份證券的賬面值及估計未來現金流按相同金融資產的現時市場回報率折算為現值，以二者之差額計算減值損失。

Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

已確認於收益表之可供出售股份證券的減值損失是不能轉回收益表。其後該資產之公平價值增加則直接確認在其他全面收益。

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

而可供出售債務證券之公平價值增加，而該增加是可客觀地與已確認減值損失後發生的事件有關連，減值損失可轉回。在此情況下，轉回減值損失於收益表內入賬。

(iv) Other assets

Internal and external sources of information are reviewed at each end of the reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment (other than properties carried at revalued amounts);
- investments in subsidiaries and associates;
- goodwill; and
- intangible assets

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, if measureable, or value in use, if determinable.

(iv) 其他資產

在報告期結束日，須檢討對內及對外資料來源以辨識以下資產是否有減值徵兆或，除商譽外，以往已確認之減值損失是否仍然存在或可能已經減少：

- 物業及設備(以重估金額列賬的物業除外)；
- 附屬及聯營公司投資；
- 商譽；及
- 無形資產

如任何該等徵兆存在，須估計該資產的可收回金額。此外，商譽須每年估計可收回金額以確定是否有減值徵兆。

可收回金額之計算

可收回金額是公平價值減出售成本及使用值二者中之較高者。在評估使用值時，會採用一項當時市場評估的時間值及相對於該資產的風險的稅前折扣率將估計未來現金流量折實為現在價值。當某資產未能大部分地獨立於其他資產產生現金流量，其可收回金額取決於可獨立地產生現金流量的最小資產組合(即單一現金生產單位)。

減值損失之確認

當資產的賬面值或其所屬的現金生產單位超過可收回金額時，須於收益表內確認減值損失。有關確認現金生產單位減值損失時，首先減低分配予現金生產單位(或其單位群組)之賬面值，其後再按比例減低在該單位(或其單位群組)其他資產的賬面值，但該資產的賬面值不可低過其個別公平價值減出售成本(如可計量的話)或使用值(如可確定的話)。

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(v) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (Note 2(k)(i) to (iv)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not the income statement.

減值損失之轉回

除商譽外的有關資產，如在用來釐定可收回金額的估計發生有利的變化，則減值損失會被轉回。商譽的減值損失不可轉回。

減值損失轉回只局限至該資產的賬面值，猶如該等減值損失從未在往年被確認。

減值損失轉回在該被確認的年度計入收益表內。

(v) 中期財務報告及減值

根據聯交易所《上市規則》，本集團須按《香港會計準則》第34號「中期財務報告」編制有關年度首6個月的中期財務報告。於中期期末，本集團採用等同年末的減值測試、確認、及轉回標準(附註2(k)(i)至(iv))。

商譽、可供出售股份證券及無報價的股份證券所確認於中期期間的減值損失，均不能在較後期間轉回。就算假如該減值只在與該中期期間有關之年底作評估而該減值損失是不會發生、或損失之金額會較小，在此情況下亦不可轉回。因此，如可供出售股份證券的公平價值在每年餘下期間、或後期的其他任何期間增加，增加的金額只能在其他全面收益而非收益表內確認。

(l) Leased Assets

Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and rewards of ownership are classified as operating leases.

(i) Assets held under finance leases

The amounts due from lessees in respect of finance leases are recorded in the statement of financial position as advances to customers at the amounts of net investment which represent the total rentals receivable under finance leases less unearned income. Revenue arising from finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 2(e).

(l) 租賃資產

由承租人承擔絕大部分擁有權的相關風險及報酬的資產租賃列為融資租賃。出租人並未轉讓擁有權的所有風險及報酬的資產租賃列為經營租賃。

(i) 以融資租賃購入的資產

當本行為融資出租人時，按融資租賃而租出資產的投資淨額，即應收租金總額減未賺取收入，在財務狀況表列作客戶貸款。來自融資租賃的收入會根據本行的收入確認政策附註2(e)所載計算。

(ii) Assets held for use in operating leases
Where the Group leases out assets under operating leases, the leased assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 2(i) except where the asset is classified as an investment property. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(k). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 2(e).

(ii) 用作經營租賃的資產
除該資產已分類為投資物業，當本集團以經營租賃方式租出資產，該資產根據其性質包括在財務狀況表內，及按附註2(i)所載(如適用者)本集團的折舊會計政策計算折舊。減值損失是根據會計政策附註2(k)所載計算。來自經營租賃的收入是根據本行的收入確認政策附註2(e)所載計算。

(iii) Operating lease charges
Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(iii) 經營租賃費用
當本集團使用經營租賃資產，除非有其他更具代表性的基準以衡量從該等經營租賃資產獲得利益的模式，其租賃付款按該租賃期所涵蓋的會計年期以等額分期記入收益表。經營租賃協議所涉及的激勵措施均在收益表中確認為租賃淨付款的組成部分。或有租金在其產生的會計期內在收益表支銷。

(m) Repossession of Assets

In the recovery of impaired loans and advances, the Group may take possession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Group's accounting policy set out in Note 2(k), impairment allowances for impaired loans and advances are maintained after taking into account the net realisable value of the collateral assets, usually resulting in a partial write-off of the loans and advances against impairment allowances. Repossessed assets are reported under other assets if it is highly probable that their carrying amount will be recovered through a sale transaction rather than through continuing use and the assets are available for sale in their present condition. Related loans and advances are then written off.

Repossessed assets are recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the income statement.

(m) 收回資產

在收回減值貸款時，本集團會通過法庭程序或借款人自願交出擁有權收回抵押品資產。根據本集團附註2(k)所載的會計政策，計算減值貸款之減值準備已顧及抵押品資產之可變現淨值，通常引致須在減值準備內撇銷部分貸款。如大有可能須透過變賣而不是持續使用該資產，及該資產可在現況下出售，收回資產視作其他資產列賬。有關貸款及墊款隨後撇銷。

收回資產按有關貸款的金額或於轉換日已減除出售成本後之公平價值，按兩者之較低者入賬。收回資產毋須計算折舊或攤銷。

在初始期分類及後期再計量所引致的減值損失於收益表確認。

(n) Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

(n) 所得稅

(i) 本年度所得稅包括本期及遞延稅項資產和負債的變動。除該稅款與其他全面收益或股東權益有關而須在其他全面收益或股東權益確認的金額外，本期稅項及遞延稅項資產和負債的變動計入收益表內。

(ii) 本期稅項為年度應課稅收入按報告期結束日已生效或基本上已生效的稅率計算的預計應付稅項，並已包括以往年度的應付稅項的任何調整。

(iii) 遞延稅項資產及負債是因納稅基礎計算的資產及負債與其賬面值之間的差異而分別產生的可扣稅及應課稅的暫時性差異。遞延稅項資產也包括未使用的稅損及稅項抵免。

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing deductible temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

除了若干有限的例外情況外，所有遞延稅項負債及未來可能有應課稅溢利予以抵銷的遞延稅項資產均予確認。未來有應課稅溢利可支持由可扣稅之暫時性差異引致遞延稅項資產之確認，包括現存之應課稅暫時性差異的轉回，但該等差異須屬於同一稅務機關及應課稅實體，以及預計在同期內該可扣稅之暫時性差異轉回或在若干期限內由該遞延稅項資產產生的稅損可以收回或留存。相同標準應用在判斷現時可扣稅暫時性差異能否支持由未使用的稅損或稅免產生的遞延稅項資產確認，即如果是屬於同一稅務機關及應課稅實體，以及預計在某期間內因該稅損或稅免可使用而轉回時，會計入該等差異。

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

在有限例外情況下，不確認遞延稅項資產及負債的暫時性差異包括不可扣稅的商譽、初始時已確認不影響會計及應課稅溢利的資產或負債(須不是商業合併的一部分)、及有關投資附屬公司的暫時性差異，就應課稅差異而言，當本集團可控制該差異轉回的時間而該差異在可見將來不會轉回；而就可扣稅差異而言，除非該差異在可見將來可以轉回。

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2(h)(ii), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

當投資物業根據附註2(h)(ii)所載按公平價值列賬，除該物業是需折舊的及以一商業模式持有，而其目的是要透過時間使用而並非出售該物業以獲取隱含於該物業之重大經濟利益，確認遞延稅項的金額按該物業於結算日假設以賬面值出售的稅率計算。在其他情況下，確認遞延稅項的金額是根據預期變現或償還該資產及負債的賬面值的方式，按在報告日已生效或基本上已生效的稅率計算。遞延稅項資產及負債不作折讓。

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

於報告期結束日，本行須重新檢視有關的遞延稅項資產的賬面金額，對預期不再有足夠的應課稅溢利以實現相關稅務利益予以扣減。可轉回之金額不可超過預期將來出現足夠可供扣減的應課稅溢利。

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

由派發股息引起的額外所得稅在有關股息的支付責任獲確立時確認。

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Bank or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(iv) 本期稅項與遞延稅項結餘及其變動之金額會分別列示而不會相互抵銷。本行或本集團只在有合法權利對本期稅項資產及負債抵銷及符合以下附帶條件的情況下，才對本期及遞延稅項資產及負債作出抵銷：

- 就本期稅項資產及負債而言，本行或本集團計劃支付淨額或同時間收回資產及償還負債；或
- 有關的遞延稅項資產及負債屬同一稅務機關對以下機構徵收所得稅而產生：
  - 同一個應課稅實體；或
  - 不同的應課稅實體，並預計在未來期間會償還或收回重大遞延稅項負債或資產，該實體計劃以淨額形式變現本期稅項資產及償還本期稅項負債，或同時間變現及償還。

(o) Insurance Reserves and Provisions for Outstanding Claims

Insurance reserves, except those attributable to long term business, represent the proportion of retained premiums written in the year relating to the period of risk from 1st January in the following year to the subsequent date of expiry of policies which is carried forward as a provision for unearned premiums and calculated on a daily basis.

The insurance reserve for long term business is ascertained by actuarial valuation.

Full provision is made for the estimated cost of claims notified but not settled at the end of the reporting period and for the estimated cost of claims incurred but not reported by that date, after deducting the amounts due from reinsurers. Provision has also been made for the estimated cost of servicing claims notified but not settled at the end of the reporting period and to meet expenses on claims incurred but not reported at the end of the reporting period.

These reserves and provisions are classified as other accounts and provisions.

(o) 保險基金及未付索償準備

不包括長期業務部分，保險基金指年度內收取但已作保留的保金部分，而有關的風險是屬於下年度1月1日至保單到期日為止，該保留保金視作未賺取保費準備並按每日計算。

長期業務的保險基金是按精算估值。

本集團已就在報告期結束日只已通知但未償付以及已發生但未匯報的索償，經扣除了分保人欠款，作出了充足的準備。此外，已就在報告期結束日已通知但未償付的索償及已發生但未匯報索償而引致的估計費用作出了充足的準備。

此等基金及準備分類為其他賬項及準備。

(p) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) 準備及或然負債

當負債的限期或金額不確定，但有可能因過去事項構成法律或推定義務而須付出經濟利益以償責任，並能對此作可靠估計，此負債便確認為準備。當金額的時間值屬重大的，準備金額須按估計清償負債支出的現值列賬。

倘可能不需要付出經濟利益，或不能對金額作可靠估計，除非付出的機會是極微，則此項責任會視作或然負債披露。如潛在義務的存在須視乎會否發生一項或多項未來事件才獲確定，除非付出經濟利益的機會是極微，此潛在義務亦視作或然負債披露。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

(q) Employee Benefits

(i) Salaries, bonuses and leave benefits

Employee entitlements to salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are recognised when the absences occur.

(ii) Performance-related bonus plan

Liabilities for performance-related bonus plan, which are due wholly within twelve months after the end of the reporting period, are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Retirement benefits

Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Exempted ORSO Scheme ("MPFEOS") or the Mandatory Provident Fund Scheme ("MPFS"). Both are defined contribution schemes. The employer's monthly contributions to both schemes are at a maximum of 10% of each employee's monthly salary.

The pension schemes covering all the Group's PRC and overseas employees are defined contribution schemes at various funding rates, and are in accordance with local practices and regulations.

The cost of all these schemes is charged to the income statement for the period concerned and the assets of all these schemes are held separately from those of the Group. Under the MPFEOS, the employer's contribution is not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Under the MPFS, the employer's contribution is reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(iv) Share based payments

The option exercise price is equal to the higher of:

(a) the closing price of the Bank's shares in the Stock Exchange's daily quotation sheet on the date of grant of the relevant options; and

(b) an amount equivalent to the average closing price of the Bank's shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant options.

(q) 僱員福利

(i) 薪酬、花紅及假期福利

僱員應享有的薪酬、年終花紅、有薪年假、旅行假期及其他同種類之非金錢性質福利於確立時確認。至報告期結束日已撥備因僱員提供服務所享有之年假的估計負債。

僱員應享有的病假及分娩假於發生時確認。

(ii) 表現獎勵花紅計劃

因僱員提供服務而本集團有現存法律或推定義務於報告期結束日後12個月內須全數支付表現獎勵花紅計劃的負債，對此並能作可靠估計，便須予以確認為負債。

(iii) 退休福利

本集團為其合資格的員工提供退休福利。香港員工可獲得強積金豁免的職業退休計劃或強制性公積金計劃的保障。此兩個計劃同時是定額供款計劃。僱主對兩項計劃的每月供款，上限是每位僱員月薪的10%。

本集團為所有國內及海外員工而設的退休計劃是定額供款計劃，供款率按當地慣例及規定而制定。

上述所有計劃的成本在相關期間的收益表內支銷，而所有此類計劃的資產均與本集團的資產分開處理。在強積金豁免的退休保障計劃中，僱主的供款不會因某些僱員於未完全享有僱主的供款前離開計劃被沒收的供款而減少。而強制性公積金計劃方面，僱主的供款則會因某些僱員於未完全享有僱主的供款前離開計劃被沒收的供款而減少。

(iv) 以股份為基礎作支付

認股權的行使價為以下之較高者：

(a) 於授出認股權當日本行股份在聯交所日報表的收市價；及

(b) 相等於緊接授出有關認股權當日之前五個營業日，本行股份在聯交所日報表的平均收市價。

When the options are exercised, equity is increased by the amount of the proceeds received. The fair value of share options granted to employees is recognised as an expense in the income statement with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the trinomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to those share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

當認股權被行使時，所得款項計入股東權益。授予僱員之認股權的公平價值於收益表內確認為支出，而在股東權益賬內的資本儲備作相應的增加。公平價值乃採用三項式期權定價模式，按認股權授予日計算，並顧及授予認股權的條款。當僱員須符合歸屬期條件才可無條件享有該等認股權，估計公平價值總額在歸屬期內攤分入賬，並已考慮認股權歸屬的或然率。

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged or credited to the income statement for the year of the review unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Bank's shares.

估計可歸屬認股權的數目須在歸屬期內作出檢討。除非原本支出符合資產確認之要求，任何已在往年確認的累積公平價值之所需調整須在檢討期內的收益表支銷或回撥，並在資本儲備作相應調整。在歸屬日，除非因未能符合歸屬條件引致權利喪失純粹與本行股份的市價有關，確認為支出之金額按歸屬認股權的實際數目作調整(並在資本儲備作相應調整)。

The equity amount is recognised in capital reserve until either the option is exercised and new shares allotted (when it is transferred to share capital) or the option expires (when it is released directly to retained profits).

屬股東權益金額確認在資本儲備內，直至當認股權被行使及分配新股時(轉入股本)，或當認股權之有效期屆滿時(轉入留存溢利)。

(r) Related Parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint venture of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(r) 關聯人士

在編製本財務報表時，與本集團關聯人士是指：

(a) 個人或該個人之近親家庭成員，如該個人在以下情況下視為與本集團有關聯：

(i) 可控制或共同控制本集團；

(ii) 對本集團有重大影響力；或

(iii) 是本集團或本集團之母公司的主要管理人員之成員。

(b) 在以下任何情況下一實體會視為與本集團有關聯：

(i) 該實體及本集團皆是同一集團成員(即每一間母公司、附屬公司及同系附屬公司與其他有關聯)。

(ii) 一實體是另一實體的聯營公司或合營公司(或該聯營公司或合營公司與該另一實體均屬同一集團)。

(iii) 兩個實體是同一第三者的合營公司。

(iv) 一實體是一第三者的合營公司而另一實體則是該第三者的聯營公司。

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(v) 該實體是提供福利予本集團或與本集團有關聯之實體的僱員離職後之福利計劃。

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vi) 該實體受在(a)項中所辨識的個人所控制或共同控制。

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(vii) 在(a)(i)項中所辨識的個人而該個人對該實體有重大影響力，或該個人是該實體(或是該實體的母公司)的主要管理人員之成員。

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

(viii) 該實體或是其集團中一部分之任何成員，而提供主要管理人員服務予本集團或本集團之母公司。

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

個人的近親家庭成員指可影響，或受該個人影響，他們與該實體交易的家庭成員。

(s) Segment Reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(s) 分部報告

營運分部，及在財務報表列報的每一分部項目金額，是從財務資料中辨識出來的，並定期地提供予本集團的最高行政管理層作為資源分配，以及評核本集團各項業務和區域所在地的表現。

除非分部有相同經濟特性及在產品和服務之性質、生產程序之性質、客戶類別和等級、用作銷售產品和提供服務之方法、及監管環境之性質是相同的，個別重大的營運分部不會在財務報表內合計。如它們擁有以上大部份的標準，並非個別重大的營運分部可能會被合計。

(t) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash, balances with banks and other financial institutions, treasury bills, other eligible bills and certificates of deposit that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(t) 現金及等同現金項目

就編製現金流量表而言，現金及等同現金項目包括由購入日起少於3個月到期日的結餘，包括現金、銀行及其他金融機構結餘、國庫債券、及其他受較低風險影響價值及隨時可轉換成預知金額的合格票據及存款證。

(u) Deposits, Debt Securities Issued and Subordinated Liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments and the definitions of a financial liability and an equity instrument.

Subsequent to initial recognition deposits, debt securities issued and subordinated liabilities are measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

(u) 存款、已發行債務證券及後償負債

存款、已發行債務證券及後償負債是本集團籌募資金的來源。

本集團按其合約條款的實質和金融負債及股本工具之定義分類資本工具為金融負債或股本工具。

在初始確認後，除本集團指定為通過損益的負債外，存款、已發行債務證券及後償負債按有效利率方式計算攤銷成本。

(v) Assets Held for Sale

Non-current assets and disposal groups (including both the assets and liabilities of the disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when: (i) their carrying amounts will be recovered principally through sale; (ii) they are available for sale in their present condition; and (iii) their sale is highly probable.

Immediately before the initial classification as held for sale, the carrying amounts of the asset (or assets and liabilities in the disposal group) are measured in accordance with applicable HKFRS. On subsequent remeasurement of a disposal group, the carrying amounts of the assets and liabilities that are not within the scope of the measurement requirements of HKFRS5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with applicable HKFRS before the fair value less costs to sell of the disposal group is determined.

Income earned and expenses incurred on assets and liabilities of disposal groups held for sale continue to be recognised in the appropriate line items in the income statement until the transaction is complete.

(v) 持有作出售資產

當(i)其賬面值將主要需通過出售才可收回；(ii)它們可以在現況下可供出售；(iii)出售之機會率是非常高的，非流動資產及出售組別(包括出售組別的資產和負債)按其賬面值及公平價值減出售成本，兩者之較低者，分類為持有作出售資產。

在被初始分類為持有作出售之前，資產的賬面值(或出售組別的資產和負債)按適用的《香港財務報告準則》計算。而往後在重新計算出售組別時，在未決定出售組別的公平價值減成本前，非在《香港財務報告準則》第五號「持有作出售資產的非流動資產及結束營運」所覆蓋的計算要求的資產和負債之賬面值，按適用的《香港財務報告準則》計算。

出售組別的資產和負債之已賺取收入和已發生支出仍繼續在收益表內之有關項目中確認，直至交易完成。

3. CHANGES IN ACCOUNTING POLICIES 會計政策之變動

The HKICPA has issued a number of amendments to HKFRS that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

香港會計師公會已頒布數項對本集團本期會計期可首次生效之經修訂《香港財務報告準則》。以上修訂對已編制或已呈報本集團本年度或往期之業績及財務狀況並無重大影響。

本集團並未採納任何於本會計期尚未生效的新準則或詮釋。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

4. BANK-LEVEL STATEMENT OF FINANCIAL POSITION 銀行層面之財務狀況表

		2017 HK$ Mn 港幣百萬元	2016 Restated 重報 HK$ Mn 港幣百萬元
ASSETS	資產		
Cash and balances with banks and other financial institutions	現金及在銀行和其他金融機構的結存	**23,056**	29,940
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款	**32,665**	10,663
Trade bills	貿易票據	**6,824**	8,186
Trading assets	交易用途資產	**3,018**	1,566
Financial assets designated at fair value through profit or loss	指定為通過損益以反映公平價值的金融資產	**3,879**	3,330
Positive fair value of derivatives	衍生工具的正公平價值	**1,839**	3,473
Loans and advances to customers	客戶貸款及墊款	**321,007**	311,725
Amounts due from subsidiaries	附屬公司欠款	**10,967**	10,072
Available-for-sale financial assets	可供出售金融資產	**88,438**	84,874
Held-to-maturity investments	持至到期投資	**3,445**	4,499
Investments in subsidiaries	附屬公司投資	**18,218**	19,084
Investments in associates	聯營公司投資	**4,756**	3,265
Fixed assets	固定資產	**8,904**	8,289
– Investment properties	–投資物業	**4,996**	4,388
– Other properties and equipment	–其他物業及設備	**3,908**	3,901
Goodwill and intangible assets	商譽及無形資產	**1,460**	1,460
Deferred tax assets	遞延稅項資產	**84**	86
Other assets	其他資產	**6,673**	7,841
Total Assets	資產總額	**535,233**	508,353
EQUITY AND LIABILITIES	股東權益及負債		
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘	**19,203**	17,174
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值	**3,110**	–
– At amortised cost	–攤銷成本	**16,093**	17,174
Deposits from customers	客戶存款	**372,362**	354,463
Trading liabilities	交易用途負債	**11**	50
Negative fair value of derivatives	衍生工具的負公平價值	**2,452**	2,927
Certificates of deposit issued	已發行存款證	**33,856**	25,754
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值	**11,655**	18,106
– At amortised cost	–攤銷成本	**22,201**	7,648
Amounts due to subsidiaries	欠附屬公司款項	**2,866**	2,031
Current taxation	本期稅項	**1,071**	1,200
Debt securities issued	已發行債務證券	**1,007**	7,154
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值	**851**	418
– At amortised cost	–攤銷成本	**156**	6,736
Deferred tax liabilities	遞延稅項負債	**396**	310
Other liabilities	其他負債	**6,626**	6,036
Loan capital	借貸資本	**15,141**	23,407
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值	**2,728**	2,799
– At amortised cost	–攤銷成本	**12,413**	20,608
Total Liabilities	負債總額	**454,991**	440,506
Share capital	股本	**37,527**	35,490
Reserves	儲備	**33,821**	27,341
Total equity attributable to owners of the Bank	歸屬於本行股東權益總額	**71,348**	62,831
Additional equity instruments	額外股本工具	**8,894**	5,016
		80,242	67,847
Total Equity and Liabilities	股東權益及負債總額	**535,233**	508,353

Approved and authorised for issue by the Board on 22nd February, 2018.

董事會於2018年2月22日核准及授權發布。

Chairman and Chief Executive **David LI Kwok-po**
Director **Meocre LI Kwok-wing**

主席兼行政總裁 **李國寶**
董事 **李國榮**

5. INTEREST INCOME 利息收入

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Securities classified as held-to-maturity or available-for-sale	分類為持至到期或可供出售的證券	**3,022**	2,603
Trading assets	交易用途資產	**164**	134
Financial assets designated at fair value through profit or loss	指定為通過損益以反映公平價值金融資產	**174**	129
Loans, deposits with banks and financial institutions, and trade bills	貸款、在銀行和其他金融機構的存款、及貿易票據	**18,269**	17,497
		21,629	20,363

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) (Note 29(b)) for the year ended 31st December, 2017.

以上包括截至2017年12月31日止年度減值金融資產的應計利息港幣3.51億元(2016年：港幣4.04億元)，其中包括釋放貸款減值損失之折扣的利息收入港幣1.91億元(2016年：港幣1.44億元)(附註29(b))。

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.

在不包括對沖影響前，來自非按公平價值確認損益的金融資產之利息收入為港幣215.09億元(2016年：港幣203.96億元)。

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.

就已對沖利率風險的交易而言，作為帶息金融資產的合格對沖工具或可個別地與帶息金融資產共同管理的利率合約所產生的定期支出及收入首先抵銷，淨額與其相關金融資產產生的利息收入合併。

6. INTEREST EXPENSE 利息支出

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Customer deposits, deposits of banks and other financial institutions	客戶存款、銀行及其他金融機構的存款		
– at amortised cost	–攤銷成本	**8,341**	7,887
– designated at fair value through profit or loss	–指定為通過損益以反映公平價值	**3**	–
Certificates of deposit and debt securities issued	已發行存款證及債務證券		
– at amortised cost	–攤銷成本	**519**	364
– designated at fair value through profit or loss	–指定為通過損益以反映公平價值	**185**	236
Subordinated notes carried at amortised cost	按攤銷成本列賬的後償票據	**745**	776
Other borrowings	其他借款	**4**	2
		9,797	9,265

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.

在不包括對沖影響前，來自非按公平價值確認損益的金融負債之利息支出為港幣97.00億元(2016年：港幣92.05億元)。

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.

就已對沖利率風險的交易而言，作為帶息金融負債的合格對沖工具或可個別地與帶息金融負債共同管理的利率合約所產生的定期支出及收入首先抵銷，淨額與其相關金融負債產生的利息支出合併。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

7. FEE AND COMMISSION INCOME 服務費及佣金收入

Fee and commission income arises from the following services:

源自下列服務的服務費及佣金收入：

		2017 HK$ Mn 港幣百萬元	2016 Restated 重報 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Credit cards	信用卡	**1,012**	1,003
Loans, overdrafts and guarantees	貸款、透支及擔保	**706**	733
Other retail banking services	其他零售銀行服務	**400**	324
Trade finance	貿易融資	**316**	338
Securities and brokerage	證券及經紀	**281**	215
Trust and other fiduciary activities	信託及其他代理業務	**263**	241
Others	其他	**579**	631
Total fee and commission income	服務費及佣金收入總額	**3,557**	3,485
of which:	其中：		
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	由非持作交易用途或指定為通過損益以反映公平價值列賬之金融資產或負債所產生之淨服務費收入(不包括用作計算有效利率之金額)	**2,523**	2,476
Fee income	服務費收入	**3,557**	3,485
Fee expenses	服務費支出	**(1,034)**	(1,009)

8. NET TRADING PROFITS 交易溢利淨額

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Loss on dealing in foreign currencies and funding swaps	外幣買賣及外匯掉期虧損	**(1,180)**	(230)
Profit/(Loss) on trading securities	交易用途證券溢利／(虧損)	**755**	(135)
Net gain on derivatives	衍生工具淨盈利	**906**	806
Dividend income from listed trading securities	交易用途上市證券的股息收入	**45**	39
		526	480

9. NET RESULT FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS 指定為通過損益以反映公平價值金融工具的淨表現

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Revaluation gain/(loss) on financial assets	重估金融資產盈利／(虧損)	**11**	(84)
Revaluation gain/(loss) on financial liabilities	重估金融負債盈利／(虧損)	**22**	(11)
Profit on sale of financial assets	出售金融資產溢利	**2**	3
		35	(92)

10. NET HEDGING LOSS 對沖虧損淨額

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Fair value hedges	公平價值對沖		
– Net gain/(loss) on hedged items attributable to the hedged risk	–可歸屬於被對沖項目之對沖風險產生的淨盈利／(虧損)	**57**	(435)
– Net (loss)/gain on hedging instruments	–用作對沖工具的淨(虧損)／盈利	**(59)**	413
		(2)	(22)

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

於2017年及2016年，因現金流對沖所產生並已在本集團收益表內確認之無效部分是不重大的。

11. NET INSURANCE REVENUE 保險業務淨收入

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
(a) Net insurance revenue	(a) 保險業務淨收入		
Net interest income	淨利息收入	**453**	397
Net trading profits/(loss)	交易溢利/(虧損)淨額	**59**	(14)
Net profits/(loss) from financial instruments designated at fair value through profit or loss	指定為通過損益以反映公平價值金融工具的淨溢利/(虧損)	**52**	(4)
Net hedging loss	對沖虧損淨額	**(14)**	(3)
Net insurance premium and other income (b)	淨保費及其他收入 (b)	**4,332**	3,347
Other operating income	其他經營收入	**6**	1
		4,888	3,724
Net insurance claims and expenses (c)	保險索償及支出淨額 (c)	**(4,733)**	(3,441)
		155	283
Operating expenses	經營支出	**(4)**	(3)
Impairment loss on available-for-sale financial assets	可供出售金融資產減值損失	**(2)**	(30)
Net profit on sale of available-for-sale financial assets	出售可供出售金融資產淨溢利	**538**	165
		687	415
(b) Net insurance premium and other income	(b) 淨保費及其他收入		
Gross insurance premium income *(Note)*	保費收入總額*(註)*	**4,395**	3,417
Reinsurers' share of gross insurance premium income	保費收入總額之分保份額	**(63)**	(70)
		4,332	3,347
(c) Net insurance claims and expenses	(c) 保險索償及支出淨額		
Claims, benefits and surrenders paid	已付索償、利益及退保	**3,137**	2,840
Movement in provisions	準備金變動	**1,564**	466
		4,701	3,306
Reinsurers' share of claim, benefits and surrenders paid	已付索償、利益及退保之分保份額	**(938)**	(751)
Reinsurers' share of movement in provisions	準備金變動之分保份額	**809**	735
		(129)	(16)
		4,572	3,290
Net insurance commission expenses	保險佣金支出淨額	**161**	151
		4,733	3,441

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.

註：保費收入總額指由長期業務及一般保險業務產生的已收取和應收取之保費總額，並已扣除折扣及回報。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

12. OTHER OPERATING INCOME 其他經營收入

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Dividend income from available-for-sale financial assets	可供出售金融資產股息收入		
– listed	– 上市	**14**	18
– unlisted	– 非上市	**20**	18
Rental from safe deposit boxes	保險箱租金收入	**88**	86
Rental income on properties	物業租金收入	**165**	205
Others	其他	**95**	51
		382	378

13. OPERATING EXPENSES 經營支出

		2017 HK$ Mn 港幣百萬元	2016 Restated[Note] 重報[註] HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Contributions to defined contribution plan*	定額供款公積金供款*		
– Hong Kong	– 香港	**140**	150
– Outside Hong Kong	– 香港以外	**221**	240
Equity settled share-based payment expenses *(Note 43(f))*	以股份為基礎作支付的費用 *(附註43(f))*	**36**	35
Salaries and other staff costs	薪金及其他員工成本	**4,371**	4,288
Total staff costs	員工成本總額	**4,768**	4,713
Premises and equipment expenses excluding depreciation	不包括折舊的物業及設備支出		
– Rental of premises	– 物業租金	**561**	619
– Maintenance, repairs and others	– 保養、維修及其他	**568**	558
Total premises and equipment expenses excluding depreciation	不包括折舊的物業及設備支出總額	**1,129**	1,177
Depreciation on fixed assets	固定資產折舊	**466**	468
Amortisation of intangible assets *(Note 34(b))*	無形資產攤銷*(附註34(b))*	**32**	32

		2017 HK$ Mn 港幣百萬元	2016 Restated[Note] 重報[註] HK$ Mn 港幣百萬元
Other operating expenses	其他經營支出		
– Legal and professional fees	–法律及專業服務費	**394**	461
– Communications, stationery and printing	–通訊、文具及印刷	**263**	285
– Advertising expenses	–廣告費	**254**	250
– Stamp duty, overseas and PRC business taxes, and value added taxes	–印花稅、海外及中華人民共和國營業稅，及增值稅	**182**	268
– Business promotions and business travel	–業務推廣及商務旅遊	**138**	142
– Insurance expenses	–保險費	**78**	64
– Card related expenses	–有關信用卡支出	**41**	35
– Audit fee**	–核數師酬金**	**17**	16
– Membership fees	–會員費	**17**	18
– Bank charges	–銀行收費	**10**	8
– Bank licence	–銀行牌照費	**4**	4
– Donations	–捐款	**4**	4
– Others	–其他	**270**	261
Total other operating expenses	其他經營支出總額	**1,672**	1,816
Total operating expenses***	經營支出總額***	**8,067**	8,206

* *Forfeited contributions totalling HK$25 million (2016: HK$14 million) were utilised to reduce the Group's contribution during the year. There were no forfeited contributions available for reducing future contributions at the year end (2016: Nil).*

** *If the audit fee on discontinued operations are included, the audit fee would be HK$17 million (2016: HK$20 million).*

*** *Included in operating expenses are direct operating expenses of HK$9 million (2016: HK$10 million) in respect of investment properties which generated rental income during the year.*

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.

* *年度內沒收之供款共港幣2,500萬元(2016年：港幣1,400萬元)已被用作減少本集團的供款。於年末並無任何被沒收而可用作減低將來之供款(2016年：無)。*

** *如包括已終止經營業務的核數師酬金，核數師酬金將會是港幣1,700萬元(2016年：港幣2,000萬元)。*

*** *年度內經營支出中包括由有租金收益的投資物業產生的直接經營支出，金額為港幣900萬元(2016年：港幣1,000萬元)。*

註：由於須更準確地反映支出的性質，屬中國內地之社會保障支出港幣9,600萬元由香港以外之定額供款公積金供款項下重新分類為薪金及其他員工成本項下。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

14. IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES 貸款及應收賬項減值損失

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Loans and advances to customers	客戶貸款及墊款		
Individual impairment loss	個別減值損失		
– new provisions	–新撥備	**1,821**	2,834
– releases	–回撥	**(303)**	(409)
– recoveries	–收回	**(141)**	(66)
		1,377	2,359
Collective impairment loss	整體減值損失		
– new provisions	–新撥備	**361**	1,026
Net charge of loans and advances to customers impairment loss	客戶貸款及墊款減值損失支銷淨額	**1,738**	3,385
Receivables	應收賬項		
Individual impairment loss	個別減值損失		
– new provisions	–新撥備	**4**	83
– releases	–回撥	**(1)**	(5)
– recoveries	–收回	**–**	(1)
		3	77
Collective impairment loss	整體減值損失		
– new provisions	–新撥備	**1**	–
Net charge of receivables impairment loss	應收賬項減值損失支銷淨額	**4**	77
Net charge to income statement	於收益表支銷淨額	**1,742**	3,462

15. NET PROFIT ON SALE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS 出售可供出售金融資產之淨溢利

		2017 Note註 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Net revaluation gain transferred from reserves *(Note 43(g))*	由儲備轉撥的重估盈利淨額 *(附註43(g))*	**1,320**	136
Loss arising in current year	年度內產生的虧損	**(263)**	(44)
		1,057	92

Note: Upon transition to HKFRS 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.

註：於2018年1月1日過渡至《香港財務報告準則》第9號時，本集團部份可供出售金融資產需將重新分類為「通過損益以反映公平價值」，其任何未實現損益需由重估儲備撥入2018年1月1日的留存溢利期初結餘，且於出售時不能重新分類至收益表內。因此，本集團決定於可行情況下於2017年底前出售相關可供出售金融資產。

16. NET (LOSS)/GAIN ON DISPOSAL OF FIXED ASSETS 出售固定資產之淨(虧損)／盈利

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Net gain on disposal of investment properties	出售投資物業之淨盈利	**–**	144
Net (loss)/gain on disposal of bank premises, furniture, fixtures and equipment	出售行址、傢俬、裝修及設備之淨(虧損)／盈利	**(22)**	715
		(22)	859

17. INCOME TAX 所得稅

(a) Taxation in the consolidated income statement represents:

(a) 綜合收益表內的稅項指：

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Current tax – Hong Kong	本期稅項－香港		
Tax for the year	本年度稅項	**695**	687
Under-provision in respect of prior years	往年度撥備不足	**36**	36
		731	723
Current tax – outside Hong Kong	本期稅項－香港以外		
Tax for the year*	本年度稅項*	**605**	1,026
Write back of over-provision in respect of prior years	往年度撥備過剩的回撥	**(364)**	(58)
		241	968
Deferred tax	遞延稅項		
Origination and reversal of temporary differences	暫時性差異的產生及轉回	**223**	(624)
		1,195	1,067

* *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.*

* *在2016年，出售若干中國內地物業而產生的土地增值稅及企業所得稅之總額為港幣4.27億元。*

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

香港利得稅稅款是以年度預計應課稅溢利按稅率16.5%(2016年：16.5%)計算。

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

海外分行及附屬公司的稅款亦按其經營所在國家現行稅率計算。

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

(b) 稅項支出與會計溢利按適用稅率計算稅項的對賬：

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Profit before tax	除稅前溢利	**7,565**	4,592
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	根據相關國家適用之利得稅稅率按除稅前溢利計算的名義稅款	**1,362**	969
Tax effect of non-deductible expenses	不可扣減支出的稅項影響	**571**	449
Tax effect of non-taxable revenue	毋須課稅收入的稅項影響	**(633)**	(308)
Tax effect of tax losses not recognised	未確認的稅損的稅項影響	**–**	1
Recognition of deferred tax assets on prior year tax losses	往年度稅損確認為遞延稅項資產	**(50)**	(16)
Write back of over-provision in respect of prior years	往年度撥備過剩的回撥	**(328)**	(22)
Others	其他	**273**	(6)
Actual tax expense charged to income statement	於收益表支銷的實際稅項	**1,195**	1,067

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

18. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT 可歸屬於本集團股東溢利

The consolidated profit attributable to owners of the parent includes a profit of HK$8,562 million (2016: HK$3,920 million) which has been dealt with in the financial statements of the Bank.

可歸屬於本集團股東綜合溢利包括已計入本行財務報表內的溢利港幣85.62億元(2016年：港幣39.20億元)。

Reconciliation of the above amount to the Bank's profit for the year

本行年度內溢利與上述金額之對賬

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Amount of consolidated profit attributable to equity holders dealt with in the Bank's financial statements	已計入本行財務報表之可歸屬於本集團股東綜合溢利	**8,562**	3,920
Final dividends from subsidiaries and associates attributable to the profits of the previous financial year and general reserves, approved and paid during the year	來自往年度附屬公司及聯營公司溢利及一般儲備之末期股息，並在年度內核准及派發	**819**	933
Bank's profit for the year	本行年度內溢利	**9,381**	4,853

19. DIVIDENDS 股息

(a) Dividends attributable to the year

(a) 應屬本年度股息

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
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) *(Note 43(i))*	已宣布派發及支付中期股息予27.26億股每股港幣0.68元(2016年：26.84億股每股港幣0.28元)*(附註43(i))*	**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)	已支付在報告期結束日後及本行股票過戶登記截止日前根據認股計劃發行股份屬上年度每股港幣0.28元的第二次中期股息(2016年：每股港幣0.50元)	**–**	–
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)	第二次中期股息予27.65億股每股港幣0.60元(2016年：27.03億股每股港幣0.28元)	**1,659**	757
		3,513	1,508

The total dividends attributable to the year is HK$1.28 per share (2016: HK$0.56 per share). The second interim dividend has not been recognised as a liability at the end of the reporting period.

應屬本年度股息為每股港幣1.28元(2016年：每股港幣0.56元)。於報告期結束日該第二次中期股息並未確認為負債。

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

(b) 於年度核准及支付屬上年度股息

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
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) *(Note 43(i))*	年度內核准及支付予27.03億股每股港幣0.28元(2016年: 26.41億股每股港幣0.50元)的上年度第二次中期股息*(附註43(i))*	**757**	1,320

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

(c) 派發予混合／額外一級資本工具持有人

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Interest paid or payable on the Hybrid Tier 1 capital instruments *(Note 43(i))*	已付或應付予混合一級資本工具持有人的利息*(附註43(i))*	**211**	211
Amount paid on the Additional Tier 1 capital instruments *(Note 43(i))*	已付予額外一級資本工具的款項*(附註43(i))*	**389**	278
		600	489

20. EARNINGS PER SHARE 每股盈利

(a) Basic earnings per share

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, calculated as follows:

(a) 每股基本盈利

每股基本盈利乃按照已扣減派發予混合／額外一級資本工具持有人港幣6.00億元(2016年：港幣4.89億元)及已扣除所支付用作回購部份混合一級資本工具的溢價：無(2016年：港幣600萬元)後之年度內綜合溢利及來自持續經營業務之可歸屬於本集團股東溢利，分別為港幣87.47億元及港幣56.98億元(2016年：港幣32.28億元及港幣30.10億元)及年度內已發行普通股份的加權平均數27.28億股(2016年：26.78億股)計算。

Weighted average number of ordinary shares

普通股份的加權平均數

		2017 Number of shares 股份數目 Mn 百萬	2016 Number of shares 股份數目 Mn 百萬
Issued ordinary shares at 1st January	於1月1日的已發行普通股	**2,703**	2,641
Effect of share options exercised and shares issued in lieu of dividends	已行使認股權及以股代息發行新股的影響	**25**	37
Weighted average number of ordinary shares at 31st December	於12月31日普通股份的加權平均數	**2,728**	2,678

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

20. EARNINGS PER SHARE (CONTINUED) 每股盈利

(b) Diluted earnings per share

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.

(b) 每股攤薄盈利

每股攤薄盈利乃按照已扣減派發予混合／額外一級資本工具持有人港幣6.00億元(2016年：港幣4.89億元)及已扣除所支付用作回購部份混合一級資本工具的溢價：無(2016年：港幣600萬元)後之年度內綜合溢利及來自持續經營業務之可歸屬於本集團股東溢利，分別為港幣87.47億元及港幣56.98億元(2016年：港幣32.28億元及港幣30.10億元)及就年度內所有具備潛在攤薄影響的普通股作出調整得出的普通股份的加權平均數27.30億股(2016年：26.78億股)計算。

Weighted average number of ordinary shares (diluted)

普通股份的加權平均數(攤薄)

		2017 **Number of shares** **股份數目** **Mn 百萬**	2016 Number of shares 股份數目 Mn 百萬
Weighted average number of ordinary shares at 31st December	於12月31日普通股份的加權平均數	**2,728**	2,678
Effect of deemed issue of ordinary shares under the Bank's share option schemes for nil consideration	假設按認股權計劃發行但不計價款的普通股份之影響	**2**	–
Weighted average number of ordinary shares (diluted) at 31st December	於12月31日普通股份的加權平均數(攤薄)	**2,730**	2,678

21. DIRECTORS' REMUNERATION 董事酬金

Directors' remuneration disclosed pursuant to section 383(1) of the Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

根據《公司條例》第383(1)條及《公司(披露董事利益資料)規則》第2部之規定披露董事酬金如下：

		Directors' fees 袍金 HK$ Mn 港幣百萬元	Salaries, allowances and benefits in kind 薪金、津貼及實物收益 HK$ Mn 港幣百萬元	Discretionary bonuses *(Note 1)* 酌情花紅 *(附註1)* HK$ Mn 港幣百萬元	Share options *(Note 2)* 認股權 *(附註2)* HK$ Mn 港幣百萬元	Retirement scheme contributions 退休計劃供款 HK$ Mn 港幣百萬元	2017 Total 總額 HK$ Mn 港幣百萬元
Chairman and Chief Executive	**主席兼行政總裁**						
Dr. the Hon. Sir David LI Kwok-po	李國寶爵士	0.6	10.9	23.1	11.3	1.0	46.9
Executive Directors and Deputy Chief Executives	**執行董事兼副行政總裁**						
Mr. Adrian David LI Man-kiu	李民橋先生	0.3	3.9	5.0	3.7	0.4	13.3
Mr. Brian David LI Man-bun	李民斌先生	0.3	3.9	5.0	3.7	0.4	13.3
Non-executive Directors	**非執行董事**						
Prof. Arthur LI Kwok-cheung	李國章教授	0.5	–	–	–	–	0.5
Mr. Aubrey LI Kwok-sing	李國星先生	0.5	–	–	–	–	0.5
Mr. Stephen Charles LI Kwok-sze	李國仕先生	0.3	–	–	–	–	0.3
Dr. Isidro FAINÉ CASAS	范禮賢博士	0.4	–	–	–	–	0.4
Dr. Peter LEE Ka-kit	李家傑博士	0.4	–	–	–	–	0.4
Mr. Masayuki OKU	奧正之先生	0.4	–	–	–	–	0.4
Independent Non-executive Directors	**獨立非執行董事**						
Dr. Allan WONG Chi-yun	黃子欣博士	0.9	–	–	–	–	0.9
Mr. Winston LO Yau-lai	羅友禮先生	0.8	–	–	–	–	0.8
Dr. Daryl NG Win-kong	黃永光博士	0.7	–	–	–	–	0.7
Dr. the Hon. Rita FAN HSU Lai-tai	范徐麗泰博士	0.4	–	–	–	–	0.4
Mr. Meocre LI Kwok-wing	李國榮先生	0.9	–	–	–	–	0.9
Dr. the Hon. Henry TANG Ying-yen	唐英年博士	0.8	–	–	–	–	0.8
The Hon. CHAN Kin-por	陳健波議員	0.5	–	–	–	–	0.5
Dr. Delman LEE	李國本博士	0.4	–	–	–	–	0.4
		9.1	18. 7	33.1	18.7	1.8	81.4

Notes:

1. *Due to improvement in the Group's financial performance, there is an increase in the pay-out of discretionary bonuses for 2017.*

2. *The share options were granted to Executive Directors under the Bank's Staff Share Option Schemes. The values of share options represented the fair value of the share options on the Grant Date without actual cash payment. The details of these benefits in kind are disclosed under the paragraph "Information on Share Options" in the Report of the Directors and Note 40.*

附註：

1. *2017年之酌情花紅增加是由於本集團年度之財務表現理想。*

2. *執行董事是根據本行的僱員認股計劃獲授予認股權。認股權金額是指該等認股權於授予日的公平價值，而並非是屬於現金支付。有關此等實物收益的詳情列載於董事會報告書的「認股權資料」及附註40內。*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

21. DIRECTORS' REMUNERATION (CONTINUED) 董事酬金(續)

		Directors' fees 袍金 HK$ Mn 港幣百萬元	Salaries, allowances and benefits in kind 薪金、津貼及實物收益 HK$ Mn 港幣百萬元	Discretionary bonuses *(Note 1)* 酌情花紅 *(附註1)* HK$ Mn 港幣百萬元	Share options *(Note 2)* 認股權 *(附註2)* HK$ Mn 港幣百萬元	Retirement scheme contributions 退休計劃供款 HK$ Mn 港幣百萬元	2016 Total 總額 HK$ Mn 港幣百萬元
Chairman and Chief Executive	**主席兼行政總裁**						
Dr. the Hon. Sir David LI Kwok-po	李國寶爵士	0.6	10.7	5.5	11.3	1.0	29.1
Executive Directors and Deputy Chief Executives	**執行董事兼副行政總裁**						
Mr. Adrian David LI Man-kiu	李民橋先生	0.3	3.9	1.2	3.7	0.3	9.4
Mr. Brian David LI Man-bun	李民斌先生	0.3	3.9	1.2	3.7	0.3	9.4
Non-executive Directors	**非執行董事**						
Prof. Arthur LI Kwok-cheung	李國章教授	0.4	–	–	–	–	0.4
Mr. Aubrey LI Kwok-sing	李國星先生	0.5	–	–	–	–	0.5
Mr. Eric LI Fook-chuen	李福全先生	0.1	–	–	–	–	0.1
Mr. Stephen Charles LI Kwok-sze	李國仕先生	0.3	–	–	–	–	0.3
Dr. Isidro FAINÉ CASAS	范禮賢博士	0.4	–	–	–	–	0.4
Dr. Peter LEE Ka-kit	李家傑博士	0.3	–	–	–	–	0.3
Mr. Masayuki OKU	奧正之先生	0.3	–	–	–	–	0.3
Independent Non-executive Directors	**獨立非執行董事**						
Dr. Allan WONG Chi-yun	黃子欣博士	0.7	–	–	–	–	0.7
Mr. WONG Chung-hin	黃頌顯先生	0.1	–	–	–	–	0.1
Mr. Winston LO Yau-lai	羅友禮先生	0.7	–	–	–	–	0.7
Tan Sri Dr. KHOO Kay-peng	丹斯里邱繼炳博士	0.1	–	–	–	–	0.1
Mr. Richard LI Tzar-kai	李澤楷先生	0.3	–	–	–	–	0.3
Mr. Kenneth LO Chin-ming	駱錦明先生	0.5	–	–	–	–	0.5
Mr. William DOO Wai-hoi	杜惠愷先生	0.4	–	–	–	–	0.4
Mr. KUOK Khoon-ean	郭孔演先生	0.4	–	–	–	–	0.4
Mr. Valiant CHEUNG Kin-piu	張建標先生	0.6	–	–	–	–	0.6
Dr. Daryl NG Win-kong	黃永光博士	0.5	–	–	–	–	0.5
Dr. the Hon. Rita FAN HSU Lai-tai	范徐麗泰博士	0.3	–	–	–	–	0.3
Mr. Meocre LI Kwok-wing	李國榮先生	0.2	–	–	–	–	0.2
		8.3	18.5	7.9	18.7	1.6	55.0

22. FIVE TOP-PAID EMPLOYEES 5名薪酬最高的僱員

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Salaries and other emoluments	薪金及其他酬金	**29**	28
Performance-related bonuses	表現獎勵花紅	**43**	10
Share options	認股權	**26**	26
Pension contributions	退休金供款	**2**	3
		100	67

The remuneration of the five top-paid employees is within the following bands:

5名薪酬最高的僱員的金額範圍如下：

	2017 Number of Employees 僱員人數	2016 Number of Employees 僱員人數
HK$港幣元		
9,000,001 – 9,500,000	**–**	4
13,000,001 – 13,500,000	**4**	–
29,000,001 – 29,500,000	**–**	1
46,500,001 – 47,000,000	**1**	–

Included in the emoluments of the five top-paid employees were the emoluments of 3 (2016: 3) Directors and 2 (2016: 2) senior management members. Their director's emoluments have been included in Note 21 above.

5名薪酬最高的僱員中包括3位(2016年：3位)董事及2位(2016年：2位)高層管理人員。他們的董事酬金已包括於上述附註21內。

23. SEGMENT REPORTING 分部報告

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.

本集團按分處管理其業務，而分處則由業務及地區混合組成。分部資料的列報與內部匯報予本集團的高層管理人員作為資源分配及表現評核的方式是一致的。本集團列報以下九個可匯報分部。營運分部並未包括在以下的可匯報分部內。

(a) Business segments

The Group has identified the following nine reportable segments.

(a) 營業分部

本集團已辨識以下九個可匯報分部。

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

個人銀行包括在香港之分行營運、個人電子網絡銀行、消費貸款、按揭貸款及信用卡業務。

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

企業銀行包括在香港之企業借貸及銀團貸款、資產融資、商業貸款及證券業務貸款。

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

財資市場包括在香港之財資運作及證券買賣。

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

財富管理包括提供予在香港之私人銀行業務及相關資產。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

23. SEGMENT REPORTING (CONTINUED) 分部報告(續)

(a) Business segments (continued)

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

Other Hong Kong banking operations, which 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.

(a) 營業分部(續)

金融機構包括在香港之全球同業間的銀行代理行及金融貿易業務。

其他香港銀行業務主要包括在香港之保險業務、信託業務、證券及期貨經紀、放債人業務及企業財務諮詢。

中國內地業務(前稱中國業務)主要包括在香港支援中國內地業務的後勤單位、所有在中國內地經營的分行、附屬公司及聯營公司，但不包括在中國內地經營企業服務和資料處理及其他後勤支援之附屬公司。以往，澳門及台灣業務歸納為中國業務。由2017年起，中國業務改稱為中國內地業務，並不包括澳門及台灣業務。而2016年的比較數字經已重報。

國際業務包括在香港支援國際銀行業務的後勤單位、所有在海外經營的分行、附屬公司及聯營公司，但不包括在海外經營企業服務之附屬公司。2017年以前，澳門及台灣業務歸納為中國業務。由2017年起，澳門及台灣業務歸納為國際業務。而2016年的比較數字經已重報。

企業服務包括公司秘書服務、股票登記及商業服務、以及離岸企業及信託服務。

其他業務包括與地產有關的業務、香港業務之後勤單位、投資物業、行址及在香港之其他附屬公司的業績(除已包括在其他香港銀行業務內的附屬公司)。

在評估分部表現及分配分部間的資源時，集團的高層管理人員根據以下基準監控可歸屬於每一可匯報分部之業績、資產及負債：

分部資產包括所有有形資產、無形資產及金融資產(聯營公司之權益除外)、遞延稅項資產及其他企業資產。分部負債包括存款、金融負債及可歸屬於個別分部的其他負債。

收入與支出按有關分部所產生的利息及服務費用和佣金收入、及由有關分部引致的支出或可歸屬於有關分部產生之折舊或攤銷來分配予可匯報分部。分部收入與支出並不包括集團之聯營公司的活動所產生集團應佔之收入與支出。除滙報分部間的收入外，由一分部提供協助予另一分部，包括分享資產，並未計算在內。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

		2017											
		Hong Kong banking operations 香港銀行業務											
		Personal banking 個人銀行 HK$ Mn 港幣百萬元	Corporate banking 企業銀行 HK$ Mn 港幣百萬元	Treasury markets 財資市場 HK$ Mn 港幣百萬元	Wealth management 財富管理 HK$ Mn 港幣百萬元	Financial institutions 金融機構 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Mainland China operations 中國內地業務 HK$ Mn 港幣百萬元	Overseas operations 國際業務 HK$ Mn 港幣百萬元	Total reportable segments 可匯報分部總額 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Inter-segment elimination 分部間之交易抵銷 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務												
Net interest income/(expense)	淨利息收入/(支出)	3,352	1,934	19	380	21	237	3,834	1,515	11,292	540	–	11,832
Non-interest income/(expense)	非利息收入/(支出)	816	376	20	452	19	914	742	246	3,585	884	(348)	4,121
Operating income	經營收入	4,168	2,310	39	832	40	1,151	4,576	1,761	14,877	1,424	(348)	15,953
Operating expenses	經營支出	(1,603)	(190)	(219)	(201)	(11)	(447)	(3,034)	(605)	(6,310)	(2,105)	348	(8,067)
Operating profit/(loss) before impairment losses	未扣除減值損失之經營溢利/(虧損)	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	貸款及應收賬項的減值損失(支銷)/回撥	(158)	(405)	–	(1)	–	(9)	(1,151)	(14)	(1,738)	(4)	–	(1,742)
Impairment losses on available-for-sale financial assets	可供出售金融資產減值損失	–	–	(2)	–	–	–	–	–	(2)	–	–	(2)
Impairment losses on assets held for sale	持有作出售資產減值損失	–	–	–	–	–	–	(63)	–	(63)	–	–	(63)
Impairment losses on intangible assets	無形資產減值損失	–	–	–	–	–	–	(650)	–	(650)	–	–	(650)
Operating profit/(loss) after impairment losses	已扣除減值損失後之經營溢利/(虧損)	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	出售固定資產、持至到期投資及可供出售金融資產之溢利/(虧損)	(14)	14	1,027	–	–	16	(5)	–	1,038	3	–	1,041
Profit/(Loss) on sale of disposal groups and assets held for sale	出售出售組別及持有作出售資產之溢利/(虧損)	–	–	–	–	–	4	(13)	–	(9)	192	–	183
Profit on disposal of subsidiaries/associates	出售附屬/聯營公司之溢利	–	–	–	–	–	–	–	–	–	2	–	2
Valuation gains on investment properties	重估投資物業盈利	–	–	–	–	–	–	–	1	1	521	–	522
Share of profits less losses of associates	應佔聯營公司溢利減虧損	–	–	–	–	–	4	92	292	388	–	–	388
Profit/(Loss) before taxation	除稅前溢利/(虧損)	2,393	1,729	845	630	29	719	(248)	1,435	7,532	33	–	7,565
Depreciation for the year	年度內折舊	(62)	(1)	(5)	(3)	–	(13)	(202)	(34)	(320)	(146)	–	(466)
Segment assets	分部資產	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	聯營公司投資	–	–	–	–	–	54	3,414	5,961	9,429	–	–	9,429
Other assets – Assets held for sale	其他資產 –持有作出售資產	–	–	–	–	–	351	76	39	466	–	–	466
Total assets	資產總額	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	分部負債	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	其他負債 –持有作出售負債	–	–	–	–	–	9	–	–	9	–	–	9
Total liabilities	負債總額	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	年度內資本開支	146	–	–	–	–	13	95	24	278	131	–	409

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

23. SEGMENT REPORTING (CONTINUED) 分部報告(續)

(a) Business segments (continued) (a) 營業分部(續)

		2016 Restated 重報												
		Hong Kong banking operations 香港銀行業務												
		Personal banking 個人銀行 HK$ Mn 港幣百萬元	Corporate banking 企業銀行 HK$ Mn 港幣百萬元	Treasury markets 財資市場 HK$ Mn 港幣百萬元	Wealth management 財富管理 HK$ Mn 港幣百萬元	Financial institutions 金融機構 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Mainland China operations 中國內地業務 HK$ Mn 港幣百萬元	Overseas operations 國際業務 HK$ Mn 港幣百萬元	Corporate services 企業服務 HK$ Mn 港幣百萬元	Total reportable segments 可匯報分部總額 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Inter-segment elimination 分部間之交易抵銷 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務													
Net interest income/(expense)	淨利息收入/(支出)	2,864	2,120	(229)	348	19	268	3,889	1,512	–	10,791	308	(1)	11,098
Non-interest income/(expense)	非利息收入/(支出)	716	328	76	443	15	625	768	218	–	3,189	781	(354)	3,616
Operating income	經營收入	3,580	2,448	(153)	791	34	893	4,657	1,730	–	13,980	1,089	(355)	14,714
Operating expenses	經營支出	(1,740)	(197)	(134)	(196)	(12)	(521)	(3,257)	(611)	–	(6,668)	(1,893)	355	(8,206)
Operating profit/(loss) before impairment losses	未扣除減值損失之經營溢利/(虧損)	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	貸款及應收賬項的減值損失(支銷)/回撥	(230)	(306)	1	(2)	–	(27)	(2,819)	(79)	–	(3,462)	–	–	(3,462)
Impairment losses on available-for-sale financial assets	可供出售金融資產之減值損失	–	–	–	–	–	(1)	–	–	–	(1)	–	–	(1)
Operating profit/(loss) after impairment losses	已扣除減值損失後之經營溢利/(虧損)	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	出售固定資產、持至到期投資、可供出售金融資產及回購已發行債券之溢利/(虧損)	(13)	16	68	–	–	1	891	(8)	–	955	–	–	955
Profit/(Loss) on sale of disposal groups and assets held for sale	出售出售組別及持有作出售資產之溢利/(虧損)	–	–	–	–	–	–	–	(7)	–	(7)	106	–	99
Valuation gains on investment properties	重估投資物業盈利	–	–	–	–	–	–	–	1	–	1	61	–	62
Share of profits less losses of associates	應佔聯營公司溢利減虧損	–	–	–	–	–	(1)	141	291	–	431	–	–	431
Profit/(Loss) before taxation	除稅前溢利/(虧損)	1,597	1,961	(218)	593	22	344	(387)	1,317	–	5,229	(637)	–	4,592
Depreciation for the year	年度內折舊	(59)	(1)	(6)	(2)	–	(17)	(201)	(32)	–	(318)	(150)	–	(468)
Segment assets	分部資產	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	聯營公司投資	–	–	–	–	–	49	1,166	4,796	–	6,011	–	–	6,011
Other assets – Assets held for sale	其他資產 –持有作出售資產	–	–	–	–	–	–	251	39	2,205	2,495	11	–	2,506
Total assets	資產總額	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	分部負債	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	其他負債 –持有作出售負債	–	–	–	–	–	–	41	–	385	426	–	–	426
Total liabilities	負債總額	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	年度內資本開支	100	1	30	4	–	22	74	46	30	307	141	–	448

(b) Geographical segments

The information concerning geographical analysis has been classified by the location of the principal operations of the entities and branches of the Bank responsible for reporting the results or booking the assets, or by the location where the subsidiaries or business units with special risks associated with operations.

(b) 地區分部

按地區分部之資料是根據負責報告業績或將資產入賬之實體或本行之分行的主要業務所在地點，或按與附屬公司或業務單位之營運有特殊風險關連的所在地點予以劃分。

		2017					
		Hong Kong 香港 HK$ Mn 港幣百萬元	Mainland China 中國內地 HK$ Mn 港幣百萬元	Other Asian Countries and Regions 其他亞洲國家及地區 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Inter-segment elimination 分部間之交易抵銷 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Operating income (from continuing operations)	經營收入（來自持續經營業務）	9,672	4.798	747	1,084	(348)	15,953
Profit/(loss) before taxation (from continuing operations)	除稅前溢利／(虧損)（來自持續經營業務）	6,095	(64)	643	891	–	7,565
Total assets	資產總額	478,507	286,990	53,802	59,205	(69,562)	808,942
Total liabilities	負債總額	404,785	251,946	45,898	52,158	(47,059)	707,728
Contingent liabilities and commitments	或然負債及承擔	77,693	124,792	7,851	8,732	–	219,068
Capital expenditure during the year	年度內資本開支	305	87	12	5	–	409

		2016 Restated 重報					
		Hong Kong 香港 HK$ Mn 港幣百萬元	Mainland China 中國內地 HK$ Mn 港幣百萬元	Other Asian Countries and Regions 其他亞洲國家及地區 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Inter-segment elimination 分部間之交易抵銷 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Operating income (from continuing operations)	經營收入（來自持續經營業務）	8,410	4,876	765	1,018	(355)	14,714
Profit/(loss) before taxation (from continuing operations)	除稅前溢利／(虧損)（來自持續經營業務）	3,438	(231)	637	748	–	4,592
Total assets	資產總額	462,398	270,699	50,805	55,357	(73,553)	765,706
Total liabilities	負債總額	393,799	238,368	43,815	49,117	(46,029)	679,070
Contingent liabilities and commitments	或然負債及承擔	82,323	118,988	7,896	9,046	–	218,253
Capital expenditure during the year	年度內資本開支	300	93	13	42	–	448

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

24. CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS (Note 48(a))
現金及在銀行和其他金融機構的結存(附註48(a))

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Cash in hand	現金	**1,288**	1,306
Balances with central banks	在中央銀行的結存	**47,083**	56,543
Balances with banks and other financial institutions	在銀行和其他金融機構的結存	**12,299**	7,871
		60,670	65,720

25. PLACEMENTS WITH AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (Note 48(a))
在銀行及其他金融機構的存款及墊款(附註48(a))

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款		
Maturing	到期期限		
– within one month	–1個月內	**46,496**	36,511
– after one month but within one year	–1個月至1年內	**7,113**	7,541
– after one year	–1年後	**–**	–
		53,609	44,052
Of which:	其中：		
Placements with and advances to central banks	在中央銀行的存款及墊款	**–**	–

Movement of individual impairment allowance 個別減值準備的變動

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
At 1st January	於1月1日	**–**	1
Net provisions released back to income statement	撥回收益表的準備淨額	**–**	(1)
At 31st December	於12月31日	**–**	–

26. TRADE BILLS 貿易票據

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Gross trade bills	貿易票據總額	**13,910**	11,940
Less: Individual impairment allowance	減：個別減值準備	**(1)**	(1)
		13,909	11,939

Movement of individual impairment allowance 個別減值準備的變動

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
At 1st January	於1月1日	**1**	1
Amounts written off	撇銷額	**–**	–
At 31st December	於12月31日	**1**	1

27. TRADING ASSETS 交易用途資產

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Treasury bills (including Exchange Fund Bills) *(Note 48(a))*	國庫債券(包括外匯基金票據) *(附註48(a))*	**2,218**	1,034
Certificates of deposits held *(Note 48(a))*	持有的存款證*(附註48(a))*	**–**	431
Debt securities *(Note 48(a))*	債務證券*(附註48(a))*	**1,781**	1,663
Equity securities	股份證券	**2,953**	1,276
Investment funds	投資基金	**4**	–
		6,956	4,404

28. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS 指定為通過損益以反映公平價值的金融資產

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Debt securities *(Note 48(a))*	債務證券*(附註48(a))*	**3,879**	3,330
Equity securities	股份證券	**166**	155
Investment funds	投資基金	**124**	69
		4,169	3,554

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

29. LOANS AND ADVANCES TO CUSTOMERS 客戶貸款及墊款

(a) Loans and advances to customers (a) 客戶貸款及墊款

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Gross loans and advances to customers	客戶貸款及墊款總額	**473,776**	454,242
Less: Impairment allowances	減：減值準備		
– Individual	–個別	**(1,059)**	(1,715)
– Collective	–整體	**(2,378)**	(2,082)
		470,339	450,445

(b) Impairment allowances against loans and advances to customers (b) 客戶貸款及墊款之減值準備

		2017		2016	
		Individual 個別 HK$ Mn 港幣百萬元	Collective 整體 HK$ Mn 港幣百萬元	Individual 個別 HK$ Mn 港幣百萬元	Collective 整體 HK$ Mn 港幣百萬元
At 1st January	於1月1日	**1,715**	**2,082**	1,021	1,360
New provisions charged to income statement	收益表內支銷的新準備	**1,821**	**361**	2,834	1,026
Net provisions released back to income statement	撥回收益表的準備淨額	**(253)**	**–**	(331)	–
Amounts written off	撇銷額	**(2,310)**	**(189)**	(1,588)	(202)
Recoveries	收回額	**141**	**–**	66	–
Effect of discounting *(Note 5)*	計算折扣的影響*(附註5)*	**(191)**	**–**	(144)	–
Transfer to asset classified as assets held for sale *(Note 56)*	轉至分類為持有作出售資產*(附註56)*	**–**	**(10)**	–	(1)
Exchange adjustments	匯兌調整	**136**	**134**	(143)	(101)
At 31st December	於12月31日	**1,059**	**2,378**	1,715	2,082

(c) 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.

(c) 客戶貸款及墊款－按行業分類

按行業分類的客戶墊款總額及有抵押墊款的百分比是按照金管局所採用的類別和定義。

		2017		2016	
		Gross advances 墊款總額 HK$ Mn 港幣百萬元	**% of secured advances 有抵押墊款的百分比 % 百分率**	Gross advances 墊款總額 HK$ Mn 港幣百萬元	% of secured advances 有抵押墊款的百分比 % 百分率
Loans for use in Hong Kong	在香港使用的貸款				
Industrial, commercial and financial	工商金融				
– Property development	－物業發展	**20,280**	**70.18**	21,934	78.46
– Property investment	－物業投資	**37,359**	**92.71**	38,224	92.41
– Financial concerns	－金融企業	**12,489**	**66.06**	10,296	64.91
– Stockbrokers	－股票經紀	**6,899**	**90.20**	2,988	93.10
– Wholesale and retail trade	－批發與零售業	**8,831**	**63.00**	14,821	72.21
– Manufacturing	－製造業	**2,123**	**40.31**	2,925	58.21
– Transport and transport equipment	－運輸與運輸設備	**4,976**	**65.45**	5,633	69.60
– Recreational activities	－娛樂活動	**176**	**71.30**	171	73.50
– Information technology	－資訊科技	**2,747**	**1.26**	2,596	0.51
– Others	－其他	**25,876**	**67.63**	18,720	79.83
– Sub-total	－小計	**121,756**	**74.48**	118,308	78.95
Individuals	個人				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	－購買「居者有其屋計劃」、「私人參建居屋計劃」及「租者置其屋計劃」樓宇的貸款	**1,064**	**100.00**	988	100.00
– Loans for the purchase of other residential properties	－購買其他住宅物業的貸款	**42,803**	**100.00**	40,750	100.00
– Credit card advances	－信用卡墊款	**4,644**	**0.00**	4,540	0.00
– Others	－其他	**34,034**	**87.14**	27,301	86.84
– Sub-total	－小計	**82,545**	**89.07**	73,579	88.95
Total loans for use in Hong Kong	在香港使用的貸款總額	**204,301**	**80.37**	191,887	82.78
Trade finance	貿易融資	**3,934**	**70.33**	5,390	74.86
Loans for use outside Hong Kong*	在香港以外使用的貸款*	**265,541**	**54.34**	256,965	59.76
Total advances to customers	客戶墊款總額	**473,776**	**65.70**	454,242	69.67

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

* *在香港以外使用的貸款包括以下在中國內地使用的貸款。*

		2017		2016	
		Gross advances 墊款總額 HK$ Mn 港幣百萬元	**% of secured advances 有抵押墊款的百分比 % 百分率**	Gross advances 墊款總額 HK$ Mn 港幣百萬元	% of secured advances 有抵押墊款的百分比 % 百分率
Property development	物業發展	**44,416**	**54.04**	42,140	54.91
Property investment	物業投資	**29,176**	**92.32**	28,940	94.63
Financial concerns	金融企業	**33,431**	**6.24**	25,512	15.22
Wholesale and retail trade	批發與零售業	**13,058**	**58.37**	14,639	67.90
Manufacturing	製造業	**7,176**	**30.41**	7,504	44.43
Loans for the purchase of other residential properties	購買其他住宅物業的貸款	**15,181**	**99.94**	15,982	99.98
Others	其他	**38,716**	**33.62**	37,710	39.48
		181,154	**50.24**	172,427	57.15

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

29. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED) 客戶貸款及墊款(續)

(c) Loans and advances to customers – by industry sectors (continued)

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:

(c) 客戶貸款及墊款－按行業分類(續)

以下按行業分類並佔客戶墊款總額百分之十或以上的墊款中已個別減值的貸款、以及相關資料如下：

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
(i) Property development	(i) 物業發展		
a. Individually impaired loans	a. 已個別減值的貸款	**316**	67
b. Individual impairment allowance	b. 個別減值準備	**–**	8
c. Collective impairment allowance	c. 整體減值準備	**420**	382
d. Provision charged to income statement	d. 於收益表支銷的準備		
– individual impairment loss	－個別減值損失	**15**	49
– collective impairment loss	－整體減值損失	**77**	249
e. Written off	e. 撇銷	**26**	8
(ii) Property investment	(ii) 物業投資		
a. Individually impaired loans	a. 已個別減值的貸款	**792**	932
b. Individual impairment allowance	b. 個別減值準備	**113**	77
c. Collective impairment allowance	c. 整體減值準備	**425**	401
d. Provision charged to income statement	d. 於收益表支銷的準備		
– individual impairment loss	－個別減值損失	**142**	214
– collective impairment loss	－整體減值損失	**55**	213
e. Written off	e. 撇銷	**118**	146
(iii) Loans for purchase of residential properties	(iii) 購買其他住宅物業的貸款		
a. Individually impaired loans	a. 已個別減值的貸款	**296**	355
b. Individual impairment allowance	b. 個別減值準備	**3**	6
c. Collective impairment allowance	c. 整體減值準備	**214**	209
d. Provision charged to income statement	d. 於收益表支銷的準備		
– individual impairment loss	－個別減值損失	**5**	111
– collective impairment loss	－整體減值損失	**7**	91
e. Written off	e. 撇銷	**4**	44
(iv) Wholesale and retail trade	(iv) 批發與零售業		
a. Individually impaired loans	a. 已個別減值的貸款	**1,084**	2,317
b. Individual impairment allowance	b. 個別減值準備	**368**	808
c. Collective impairment allowance	c. 整體減值準備	**180**	184
d. Provision charged to income statement	d. 於收益表支銷的準備		
– individual impairment loss	－個別減值損失	**637**	1,680
– collective impairment loss	－整體減值損失	**29**	108
e. Written off	e. 撇銷	**438**	928
(v) Hotels	(v) 酒店		
a. Individually impaired loans	a. 已個別減值的貸款	**1,189**	981
b. Individual impairment allowance	b. 個別減值準備	**258**	330
c. Collective impairment allowance	c. 整體減值準備	**69**	72
d. Provision charged to income statement	d. 於收益表支銷的準備		
– individual impairment loss	－個別減值損失	**50**	433
– collective impairment loss	－整體減值損失	**12**	40
e. Written off	e. 撇銷	**99**	379

(d) 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.

(d) 客戶貸款及墊款－按區域分類

客戶墊款總額按國家或區域的分類，是根據交易對手的所在地，並已顧及轉移風險因素。一般而言，有關墊款的債權獲得並非交易對手所在地的國家的一方擔保，或該債權的履行對象是某銀行的海外分行，而該銀行的總辦事處並非設於交易對手的所在地，風險便確認為由一個國家轉移到另一個國家。

		2017				
		Total advances to customers 客戶墊款總額 HK$ Mn 港幣百萬元	Advances overdue for over three months 逾期3個月以上的客戶墊款 HK$ Mn 港幣百萬元	Impaired advances to customers 減值客戶墊款 HK$ Mn 港幣百萬元	Individual impairment allowance 個別減值準備 HK$ Mn 港幣百萬元	Collective impairment allowance 整體減值準備 HK$ Mn 港幣百萬元
Hong Kong	香港	**207,523**	**1,746**	**1,997**	**336**	**498**
Mainland China	中國內地	**203,128**	**2,039**	**2,758**	**682**	**1,721**
Other Asian Countries and Regions	其他亞洲國家及地區	**27,456**	**191**	**390**	**41**	**68**
Others	其他	**35,669**	**1**	**32**	**–**	**91**
Total	總額	**473,776**	**3,977**	**5,177**	**1,059**	**2,378**
% of total advances to customers	佔客戶墊款總額的百分比			**1.09%**		
Market value of collateral held against impaired advances to customers	減值客戶墊款抵押品市值			**4,329**		

		2016 Restated[Note] 重報[註]				
		Total advances to customers 客戶墊款總額 HK$ Mn 港幣百萬元	Advances overdue for over three months 逾期3個月以上的客戶墊款 HK$ Mn 港幣百萬元	Impaired advances to customers 減值客戶墊款 HK$ Mn 港幣百萬元	Individual impairment allowance 個別減值準備 HK$ Mn 港幣百萬元	Collective impairment allowance 整體減值準備 HK$ Mn 港幣百萬元
Hong Kong	香港	194,181	721	2,164	260	416
Mainland China	中國內地	192,550	3,389	4,309	1,428	1,474
Other Asian Countries and Regions	其他亞洲國家及地區	30,146	76	241	26	80
Others	其他	37,365	3	53	1	112
Total	總額	454,242	4,189	6,767	1,715	2,082
% of total advances to customers	佔客戶墊款總額的百分比			1.49%		
Market value of collateral held against impaired advances to customers	減值客戶墊款抵押品市值			4,948		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

29. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED) 客戶貸款及墊款(續)

(d) Loans and advances to customers – by geographical areas (continued)

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.

(d) 客戶貸款及墊款－按區域分類(續)

註：2016年的比較數字經已重報以符合本期的呈報方式。由於須配合分部報告，中華人民共和國分部改稱中國內地及並不包括澳門及台灣業務。屬澳門及台灣之客戶墊款現歸納在其他亞洲國家及地區分部(前稱其他亞洲國家)項下。

減值貸款及墊款是個別出現客觀減值證據而須個別評估的貸款。以上按國家或區域分類的資料，是根據交易對手的所在地並已顧及轉移風險因素。

抵押品包括任何具公平價值及可隨時出售的有形抵押品。這些抵押品包括(但不限於)現金及存款、股票及債券、物業按揭及其他固定資產如器材及設備之押記。倘抵押品價值高於客戶貸款及墊款總額，則只計入最高達貸款及墊款總額的抵押品金額。

(e) Loans and advances to customers – net investment in finance leases

Loans and advances to customers include net investment in equipment leased under finance leases. The total minimum lease payments receivable under finance leases and their present values at the year end are as follows:

(e) 客戶貸款及墊款－融資租賃的淨投資額

客戶貸款及墊款包括以融資租賃形式租出的設備。根據融資租賃應收的最低租賃付款總額，及其現值如下：

		2017			2016		
		Present value of the minimum lease payments 最低租賃付款現值 HK$ Mn 港幣百萬元	**Interest income relating to future periods 相關未來利息收入 HK$ Mn 港幣百萬元**	**Total minimum lease payments 最低租賃付款總額 HK$ Mn 港幣百萬元**	Present value of the minimum lease payments 最低租賃付款現值 HK$ Mn 港幣百萬元	Interest income relating to future periods 相關未來利息收入 HK$ Mn 港幣百萬元	Total minimum lease payments 最低租賃付款總額 HK$ Mn 港幣百萬元
Amounts receivable:	應收賬款：						
Within one year	1年以內	**366**	**78**	**444**	666	100	766
After one year but within five years	1年以後至5年內	**871**	**234**	**1,105**	1,080	255	1,335
After five years	5年以後	**2,252**	**385**	**2,637**	2,460	420	2,880
		3,489	**697**	**4,186**	4,206	775	4,981
Less: Individual impairment allowance	減：個別減值準備	**(11)**			(17)		
Net investment in finance leases	融資租賃的淨投資額	**3,478**			4,189		

The net investment in finance leases is carried on the statement of financial position as loans and advances to customers. No accrual is made for the interest income relating to future periods.

融資租賃的淨投資額被視作客戶貸款及墊款在財務狀況表中列賬，未來期間的利息收入並無計算。

30. AVAILABLE-FOR-SALE FINANCIAL ASSETS 可供出售金融資產

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Treasury bills (including Exchange Fund Bills) *(Note 48(a))*	國庫債券(包括外匯基金票據)*(附註48(a))*	**27,024**	18,795
Certificates of deposit held *(Note 48(a))*	持有的存款證*(附註48(a))*	**1,150**	1,205
Debt securities *(Note 48(a))*	債務證券*(附註48(a))*	**88,560**	86,964
Equity securities	股份證券	**3,042**	3,064
Investment funds	投資基金	**549**	463
		120,325	110,491

31. HELD-TO-MATURITY INVESTMENTS (Note 48(a)) 持至到期投資(附註48(a))

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Treasury bills (including Exchange Fund Bills)	國庫債券(包括外匯基金票據)	**1,699**	2,252
Certificates of deposit held	持有的存款證	**1,269**	818
Debt securities	債務證券	**6,830**	2,593
		9,798	5,663

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

32. INVESTMENTS IN SUBSIDIARIES 附屬公司投資

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary.

以下摘要只包括對本集團的業績、資產或負債有重大影響的附屬公司。此等股份屬普通股份。

Details of these companies are as follows:

此等公司的詳情如下：

Name of company 公司名稱	Place of incorporation and operation 註冊及營業地點	Issued and paid-up capital 已發行及繳足股本	% Held by The Bank 銀行 所佔權益	% Held by The Group 集團 所佔權益	Nature of business 業務性質
Ample Delight Limited 承悅有限公司	Hong Kong 香港	HK$港幣450,000,000元		100%	Investment holding 投資控股
Bank of East Asia (Trustees) Limited 東亞銀行(信託)有限公司	Hong Kong 香港	HK$港幣150,000,000元	100%		Trustee 信託服務
*BEA Blue Sky Real Estate Fund L.P.	Cayman Islands 開曼群島	NIL		50.5%	Acting as a limited partner for the purpose of making investment in a China real estate fund 出任有限責任合夥人用作投資內地房地產基金
BEA Consortium GS Investors L.P.	BVI 英屬處女群島	NIL		100%	Acting as a limited partner for the purpose of making investment in private equity fund 出任有限責任合夥人用作投資私募基金
BEA Life Limited 東亞人壽保險有限公司	Hong Kong 香港	HK$港幣500,000,000元	100%		Life insurance 人壽保險
BEA Union Investment Management Limited 東亞聯豐投資管理有限公司	Hong Kong 香港	HK$港幣374,580,000元	51%		Asset management 資產管理
Blue Cross (Asia-Pacific) Insurance Limited 藍十字(亞太)保險有限公司	Hong Kong 香港	HK$港幣625,000,000元	100%		Insurance 保險
Central Town Limited 滙中興業有限公司	Hong Kong 香港	HK$港幣2元	100%		Property investment 物業投資

Name of company 公司名稱	Place of incorporation and operation 註冊及營業地點	Issued and paid-up capital 已發行及繳足股本	% Held by The Bank 銀行 所佔權益	% Held by The Group 集團 所佔權益	Nature of business 業務性質
Century Able Limited 階潤有限公司	Hong Kong 香港	HK$港幣929,752,849元		100%	Investment holding 投資控股
Chongqing Liangjiang New Area Credit Gain Finance Company Limited 重慶兩江新區領達小額貸款有限公司	PRC 中華人民共和國	US$50,000,000美元	100%		Micro-finance loan 小額貸款
Corona Light Limited	BVI 英屬處女群島	HK$港幣929,752,849元		100%	Investment holding 投資控股
Credit Gain Finance Company Limited 領達財務有限公司	Hong Kong 香港	HK$港幣390,000,000元	100%		Money lenders 放債人
Crystal Gleaming Limited	BVI 英屬處女群島	HK$港幣929,752,849元	100%		Investment holding 投資控股
Dragon Jade Holdings Company Limited	Hong Kong 香港	HK$港幣1,127,510,000元	100%		Investment holding 投資控股
East Asia Digital Information Services (Guangdong) Limited *(Note 1)* 東亞數據信息服務(廣東)有限公司 *(附註1)*	PRC 中華人民共和國	US$3,000,000美元		100%	Servicing 服務
*East Asia Holding Company, Inc.	U.S.A. 美國	US$5美元	100%		Bank holding company 銀行控股公司
East Asia Indonesian Holdings Limited	Seychelles 塞舌爾	US$100,000美元		100%	Investment holding 投資控股
East Asia Qianhai Holdings Company Limited	PRC 中華人民共和國	CNY人民幣180,000,000元 (Registered but unpaid 已註冊但仍未繳足)		100%	Investment holding 投資控股
East Asia Securities Company Limited 東亞證券有限公司	Hong Kong 香港	HK$港幣25,000,000元	100%		Securities broking 證券買賣
Innovate Holdings Limited	BVI 英屬處女群島	US$1美元(Ordinary 普通股) US$318,345,000美元(with a liquidation preference of US$1,000 per share 附有每股1,000美元之清盤優先權)	100%		Special purpose vehicle company specially set up for BEA's Hybrid Tier 1 issue 為東亞銀行混合一級資本而成立之特定目的投資工具公司

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

32. INVESTMENTS IN SUBSIDIARIES (CONTINUED) 附屬公司投資(續)

Name of company 公司名稱	Place of incorporation and operation 註冊及營業地點	Issued and paid-up capital 已發行及繳足股本	% Held by The Bank 銀行 所佔權益	The Group 集團 所佔權益	Nature of business 業務性質
Shanghai Lingxie Business Consulting Co., Ltd.	PRC 中華人民共和國	CNY人民幣180,000,000元		100%	Business information consulting, corporate management consulting 業務資訊咨詢，企業管理咨詢
Shenzhen Credit Gain Finance Company Limited *(Note 1)* 深圳市領達小額貸款有限公司 *(附註1)*	PRC 中華人民共和國	CNY人民幣300,000,000元	100%		Micro-finance loan 小額貸款
Skyray Holdings Limited	BVI 英屬處女群島	HK$港幣450,000,000元	100%		Investment holding 投資控股
Speedfull Limited	BVI 英屬處女群島	HK$港幣450,000,000元		100%	Investment holding 投資控股
The Bank of East Asia (China) Limited *(Note 1)* 東亞銀行(中國)有限公司*(附註1)*	PRC 中華人民共和國	CNY人民幣12,160,000,000元	100%		Banking and related financial services 銀行及有關的金融服務

* *Companies audited by auditors other than KPMG are with net assets and total income constituting approximately 0.7% and 0.3% respectively of the related consolidated totals.*

Notes:

1. *Represents a wholly foreign owned enterprise registered under the PRC laws.*

2. *The above subsidiaries have no non-controlling interests material to the Group except for Innovate Holdings Limited.*

* *非由畢馬威會計師事務所審核的已審核附屬公司財務報表之資產淨額及收入總額分別佔相關綜合總額的0.7%及0.3%。*

附註：

1. *指一根據中華人民共和國法例註冊之全資擁有外資企業。*

2. *除Innovate Holdings Limited外、以上附屬公司之非控制性權益對本集團並不重大。*

The following table lists out the information relating to Innovate Holdings Limited, the only subsidiary of the group which has a material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

下表列載本集團內唯一有重大非控制性權益之附屬公司，Innovate Holdings Limited。以下之財務摘要是指並未沖銷任何集團之間交易的金額。

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Non-current assets	非流動資產	**2,487**	2,469
Net assets	淨資產	**2,487**	2,469
Carrying amount of NCI	非控制性權益之賬面值	**2,487**	2,469
Revenue	收入	**–**	–
Profit for the year	年度溢利	**–**	–
Total comprehensive income	全面收益總額	**–**	–
Profit allocated to NCI	分配予非控制性權益之溢利	**–**	–
Dividend paid or payable to NCI	已付或應付予非控制性權益之股息	**211**	211

Details on the accounting treatment of the above NCI are set out in Notes 19(c) and 44.

以上非控制性權益的會計處理方法之詳情已在附註19(c)及44內列載。

33. INVESTMENTS IN ASSOCIATES 聯營公司投資

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Share of net assets	應佔淨資產	**8,539**	5,636
Goodwill	商譽	**890**	375
		9,429	6,011
Less: Impairment allowances	減：減值準備	**–**	–
		9,429	6,011

There was no loans to associates included under placements with and advances to banks and other financial institutions (2016: HK$233 million).

已包括在在銀行及其他金融機構的存款及墊款的聯營公司貸款為無(2016年：港幣2.33億元)。

The following list contains only the particulars of principal associates. None are considered individually material to the Group:

以下列載只包括本集團的主要聯營公司，而它們個別地對本集團沒有重大影響：

Name of company **公司名稱**	**Place of incorporation and operation** **註冊及營業地點**	**% of ordinary shares普通股 held by** **The Bank 銀行 所佔權益**	**The Group 集團 所佔權益**	**Nature of business** **業務性質**
Listed 上市				
AFFIN Holdings Berhad *(Note 1)(附註1)*	Malaysia 馬來西亞	23.52%		Investment holding 投資控股

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

33. INVESTMENTS IN ASSOCIATES (CONTINUED) 聯營公司投資(續)

Name of company 公司名稱	Place of incorporation and operation 註冊及營業地點	% of ordinary shares普通股 held by The Bank 銀行 所佔權益	The Group 集團 所佔權益	Nature of business 業務性質
Unlisted 非上市				
Briliance – BEA Auto Finance Co., Ltd. 華晨東亞汽車金融有限公司	PRC 中華人民共和國		22.5%	Auto finance and other related financial businesses 汽車貸款及其他有關金融業務
Dolford Property Holdings Limited	BVI 英屬處女群島		30%	Investment holding 投資控股
East Asia Qianhai Securities Company Limited 東亞前海控股有限公司	PRC 中華人民共和國	49%		Investment holding 投資控股
Guotong Trust Co., Ltd *(Note 2)* 國通信託有限責任公司*(附註2)*	PRC 中華人民共和國	19.99%		Trust and other financial businesses 信託及其他金融資產
Industrial and Commercial Bank of China (Canada) 中國工商銀行(加拿大)有限公司	Canada 加拿大	20%		Banking services 銀行服務
Industrial and Commercial Bank of China (USA) N.A. 中國工商銀行(美國)	U.S.A. 美國		20%	Banking services 銀行服務
Million Fortune Development (Shenzhen) Co., Ltd. 寰裕置業(深圳)有限公司	PRC 中華人民共和國		25%	Property development 物業發展
PRASAC Microfinance Institution Limited	Cambodia 柬埔寨	21%		Financial services 金融服務
PT. Bank Resona Perdania	Indonesia 印尼		30%	Banking and related financial services 銀行及有關金融服務
Shanghai Ctrip Financial Information Services Co. Ltd. 上海攜程金融信息服務有限公司	PRC 中華人民共和國		12%	Financial services 金融服務

Notes:

1. *Following the reorganization of AFFIN Group in 2017, AFFIN Holdings Berhad ("AFFIN Holdings") completed the distribution of all its shares in AFFIN Bank Berhad ("AFFIN Bank") to its shareholders on the basis of 1 ordinary share in AFFIN Bank for each ordinary share in AFFIN Holdings on 30th January, 2018. AFFIN Bank was listed on Bursa Malaysia on 2nd February, 2018, in place of AFFIN Holdings.*

2. *Previously known as "Founder BEA Trust Company Limited".*

附註：

1. *隨著AFFIN集團的重組，AFFIN Holdings Berhad已在2018年1月30日完成以一對一的比例，向其股東派發同等數量的AFFIN Bank Berhad股票。AFFIN Bank Berhad於2018年2月2日在馬來西亞股票交易所掛牌，並取代AFFIN Holdings Berhad的上市地位。*

2. *前稱「方正東亞信託有限公司」。*

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Aggregate information of associates that are not individually material	個別不重大聯營公司之總和資料		
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	個別不重大聯營公司在綜合財務報表之總和賬面值	**9,429**	6,011
Aggregate amounts of the Group's share of those associates'	本集團佔該等聯營公司之總和金額		
Profit from continuing operations	源自持續營運溢利	**388**	431
Post-tax profit or loss from discontinued operations	源自已停止營運之除稅後溢利或虧損	**–**	–
Other comprehensive income	其他全面收益	**485**	(79)
Total comprehensive income	全面收益總額	**873**	352
Reconciliation of carrying amounts to the Group's total interest in the associates	賬面值與本集團於聯營公司的權益對賬		
Carrying amount of material associates	重大聯營公司之賬面值	**–**	–
Carrying amount of individually immaterial associates	個別不重大聯營公司之賬面值	**9,429**	6,011
Interest in associates in the consolidated financial statements	在綜合財務報表中聯營公司權益	**9,429**	6,011

34. GOODWILL AND INTANGIBLE ASSETS 商譽及無形資產

Goodwill and intangible assets include goodwill arising on business combinations and acquired intangible assets. Acquired intangible assets are amortised over their estimated economic useful life.

商譽及無形資產包括因業務合併產生的商譽及購入無形資產。購入無形資產按其估計經濟使用期攤銷。

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Goodwill	商譽	**1,474**	1,474
Acquired intangible assets	購入無形資產	**485**	1,165
		1,959	2,639

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

34. GOODWILL AND INTANGIBLE ASSETS (continued) 商譽及無形資產(續)

(a) Goodwill

(a) 商譽

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
At 1st January	於1月1日	**1,474**	2,685
Audit adjustment	審計調整	**–**	(6)
Exercise option	行使期權	**–**	(7)
Reversal due to disposal	因出售轉回	**–**	(33)
Transfer to asset classified as assets held for sale *(Note 56)*	轉至分類為持有作出售資產 *(附註56)*	**–**	(1,149)
Exchange adjustments	匯兑調整	**–**	(16)
At 31st December	於12月31日	**1,474**	1,474

Note: HK$1,149 million was transferred to assets held for sale in 2016 (see Note 56).

附註： 在2016年，轉至持有作出售資產的金額為港幣11.49億元(見附註56)。

Impairment tests for cash-generating units containing goodwill

包含商譽的現金生產單位之減值測試

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to business segments as follows:

本集團按業務分部分配商譽予可辨識的現金生產單位如下：

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Personal banking	個人銀行	**849**	849
Corporate banking	企業銀行	**453**	453
Treasury markets	財資市場	**158**	158
Others	其他	**14**	14
		1,474	1,474

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

現金生產單位的可收回金額則根據使用價值計算。計算方法按照管理層已核准的5年財務預算的現金流作估計。超過5年期間的現金流按下述的估計利率作推斷。增長率不可超過該現金生產單位所經營業務的長期平均增長率。

The discount rate used for value-in-use calculations is 8.6% (2016: 7.6%) and the long-term growth rate is 1.9% (2016: 1.9%–5.8%).

用於計算使用價值的折扣率為8.6%(2016年：7.6%)及長期增長率為1.9%(2016年：1.9%－5.8%)。

Management determined the budgeted net profit based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the internal forecasts.

管理層根據過往表現及預計市場發展以釐定預算淨溢利。所採用的加權平均增長率與內部預測是一致的。

(b) Intangible assets (other than goodwill)

Intangible assets consist of building naming rights only. Intangible assets are stated at cost less accumulated amortisation and impairment loss (Note 2(k)(iv)).

Amortisation of intangible assets with finite useful lives is charged to the income statement over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available to use and their estimated useful lives are as follows:

Naming rights: Over the shorter of the lease period of building or land

Both the period and method of amortisation are reviewed annually.

(b) 無形資產(商譽除外)

無形資產只包括建築物命名權。無形資產按成本減除累計攤銷及減值損失列賬(附註2(k)(iv))。

有限定可用期的無形資產按其估計可用期於收益表內攤銷。以下有限定可用期的無形資產由可供使用日起按以下的估計可用期攤銷:

命名權按建築物或土地兩者較短的租賃期

每年須檢討其期限及攤銷方法。

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Cost	成本		
At 1st January	於1月1日	**1,402**	1,403
Exchange adjustments	匯兌調整	**2**	(1)
At 31st December	於12月31日	**1,404**	1,402
Accumulated amortisation	累計攤銷		
At 1st January	於1月1日	**(237)**	(205)
Amortisation charge for the year *(Note 13)*	年度內攤銷*(附註13)*	**(32)**	(32)
At 31st December	於12月31日	**(269)**	(237)
Impairment allowance	減值準備		
At 1st January	於1月1日	**–**	–
Charge for the year *	年度內支銷*	**(650)**	–
At 31st December	於12月31日	**(650)**	–
Carrying amount at 31st December	於12月31日賬面值	**485**	1,165

* *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.*

* *該減值損失主要由於一座位於中國內地而部份樓面由東亞中國擁有及使用的大廈，其命名權的價值因政府最近頒布規管廣告招牌之政策而下跌。*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

35. FIXED ASSETS 固定資產

		Investment properties 投資物業 HK$ Mn 港幣百萬元	Bank premises 行址 HK$ Mn 港幣百萬元	2017 Furniture, fixtures and equipment 傢俬、裝修及設備 HK$ Mn 港幣百萬元	Sub-total 小計 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Cost or valuation	成本或估值					
At 1st January, 2017	於2017年1月1日	4,467	7,961	4,871	12,832	17,299
Additions	增置	–	4	405	409	409
Revaluation surplus	重估盈餘	522	–	–	–	522
Transfer from bank premises to investment properties	由行址轉入投資物業	117	(117)	–	(117)	–
Revaluation surplus on bank premises transferred to investment properties *(Note 43(b))*	行址重估盈餘轉入投資物業*(附註43(b))*	–	44	–	44	44
Less: Elimination of accumulated depreciation on revalued bank premises	減：抵銷行址重估的累計折舊	–	(8)	–	(8)	(8)
Transfer to asset classified as assets held for sale	轉至分類為持有作出售資產	–	–	(34)	(34)	(34)
Reclassification	重新分類	–	(6)	6	–	–
Disposals	出售	–	(29)	(242)	(271)	(271)
Exchange adjustments	匯兌調整	1	344	143	487	488
At 31st December, 2017	於2017年12月31日	5,107	8,193	5,149	13,342	18,449
Accumulated depreciation and amortisation	累計折舊及攤銷					
At 1st January, 2017	於2017年1月1日	–	1,660	3,649	5,309	5,309
Charge for the year	年度內支銷	–	157	309	466	466
Elimination of accumulated depreciation on revalued bank premises	抵銷行址重估的累計折舊	–	(8)	–	(8)	(8)
Transfer to asset classified as assets held for sale	轉至分類為持有作出售資產	–	–	(25)	(25)	(25)
Reclassification	重新分類	–	(1)	1	–	–
Written off on disposal	出售時撇銷	–	(9)	(213)	(222)	(222)
Exchange adjustments	匯兌調整	–	75	104	179	179
At 31st December, 2017	於2017年12月31日	–	1,874	3,825	5,699	5,699
Net book value at 31st December, 2017	賬面淨值 於2017年12月31日	5,107	6,319	1,324	7,643	12,750
The gross amounts of the above assets are stated:	上述資產的總額列示如下：					
At cost	按成本	–	7,414	5,149	12,563	12,563
At Directors' valuation	按董事估值					
– 1989	–1989年	–	779	–	779	779
At professional valuation	按專業估值					
– 2017	–2017年	5,107	–	–	–	5,107
		5,107	8,193	5,149	13,342	18,449

Note: HK$9 million was transferred to assets held for sale (see Note 56).

附註： 轉至持有作出售資產的金額為港幣900萬元(見附註56)。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

		Investment properties 投資物業 HK$ Mn 港幣百萬元	Bank premises 行址 HK$ Mn 港幣百萬元	2016 Furniture, fixtures and equipment 傢俬、裝修及設備 HK$ Mn 港幣百萬元	Sub-total 小計 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Cost or valuation	成本或估值					
At 1st January, 2016	於2016年1月1日	4,891	8,703	5,093	13,796	18,687
Additions	增置	–	7	441	448	448
Revaluation surplus	重估盈餘	63	–	–	–	63
Transfer from investment properties to bank premises	由投資物業轉入行址	(148)	148	–	148	–
Transfer from bank premises to investment properties	由行址轉入投資物業	210	(210)	–	(210)	–
Revaluation surplus on bank premises transferred to investment properties *(Note 43(b))*	行址重估盈餘轉入投資物業 *(附註43(b))*	–	141	–	141	141
Less: Elimination of accumulated depreciation on revalued bank premises	減：抵銷行址重估的累計折舊	–	(14)	–	(14)	(14)
Transfer to asset classified as assets held for sale	轉至分類為持有作出售資產	(22)	(77)	(278)	(355)	(377)
Reclassification	重新分類	–	17	(17)	–	–
Disposals	出售	(480)	(440)	(236)	(676)	(1,156)
Exchange adjustments	匯兌調整	(47)	(314)	(132)	(446)	(493)
At 31st December, 2016	於2016年12月31日	4,467	7,961	4,871	12,832	17,299
Accumulated depreciation and amortisation	累計折舊及攤銷					
At 1st January, 2016	於2016年1月1日	–	1,613	3,777	5,390	5,390
Charge for the year	年度內支銷	–	164	336	500	500
Elimination of accumulated depreciation on revalued bank premises	抵銷行址重估的累計折舊	–	(14)	–	(14)	(14)
Transfer to asset classified as assets held for sale	轉至分類為持有作出售資產	–	(7)	(151)	(158)	(158)
Reclassification	重新分類	–	15	(15)	–	–
Written off on disposal	出售時撇銷	–	(48)	(201)	(249)	(249)
Exchange adjustments	匯兌調整	–	(63)	(97)	(160)	(160)
At 31st December, 2016	於2016年12月31日	–	1,660	3,649	5,309	5,309
Net book value at 31st December, 2016	賬面淨值 於2016年12月31日	4,467	6,301	1,222	7,523	11,990
The gross amounts of the above assets are stated:	上述資產的總額列示如下：					
At cost	按成本	–	7,182	4,871	12,053	12,053
At Directors' valuation	按董事估值					
– 1989	–1989年	–	779	–	779	779
At professional valuation	按專業估值					
– 2016	–2016年	4,467	–	–	–	4,467
		4,467	7,961	4,871	12,832	17,299

Note: HK$219 million was transferred to assets held for sale (see Note 56).

附註： 轉至持有作出售資產的金額為港幣2.19億元(見附註56)。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

35. FIXED ASSETS (CONTINUED) 固定資產(續)

Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

物業公平價值之釐定

(i) 公平價值分級

根據《香港財務報告準則》第十三號「*釐定公平價值*」三級公平價值分級之分類定義，下表列示本集團於報告期末按重覆發生基準以釐定物業之公平價值。分類予每一分級之公平價值釐定取決於以下所採用的估值模式的參數之可觀察性及重要性：

第一級估值：釐定公平價值只採用第一級參數，即於釐定日在活躍市場相同資產或負債的未經調整報價。

第二級估值：釐定公平價值採用第二級參數，即不符合第一級的可觀察參數，及未採用重要的非可觀察參數。非可觀察參數是指沒有市場資料之參數。

第三級估值：釐定公平價值採用重要的非可觀察參數。

		Fair value at 31st December, 2017 於2017年12月31日之公平價值 HK$ Mn 港幣百萬元	Fair value measurements as at 31st December, 2017 categorised into 於2017年12月31日釐定公平價值之分類 Level 1 第一級 HK$ Mn 港幣百萬元	Level 2 第二級 HK$ Mn 港幣百萬元	Level 3 第三級 HK$ Mn 港幣百萬元
Recurring fair value measurement	**重覆發生的公平價值釐定**				
Investment properties	投資物業				
Commercial – Hong Kong	商業－香港	**5,092**	**–**	**–**	**5,092**
Commercial – Others	商業－其他	**15**	**–**	**–**	**15**
		5,107	**–**	**–**	**5,107**

		Fair value at 31st December, 2016 於2016年12月31日之公平價值 HK$ Mn 港幣百萬元	Fair value measurements as at 31st December, 2016 categorised into 於2016年12月31日釐定公平價值之分類 Level 1 第一級 HK$ Mn 港幣百萬元	Level 2 第二級 HK$ Mn 港幣百萬元	Level 3 第三級 HK$ Mn 港幣百萬元
Recurring fair value measurement	**重覆發生的公平價值釐定**				
Investment properties	投資物業				
Commercial – Hong Kong	商業－香港	4,454	–	–	4,454
Commercial – Others	商業－其他	13	–	–	13
		4,467	–	–	4,467

During the years ended 31st December, 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

截至2017年及2016年12月31日止年度，沒有第一級和第二級兩者之間的轉移，亦未有第三級的轉入或轉出。本集團的政策是只確認於滙報期期末公平價值分級之間發生的轉移。

All of the Group's investment properties were revalued by independent valuers as at 31st December, 2017 and 2016.

於2017年及2016年12月31日，所有本集團的投資物業均由獨立估值師估價。

Investment properties in Hong Kong were valued at HK$5,092 million (2016: HK$4,454 million) as at 31st December, 2017 by an independent valuer, Savills Valuation and Professional Services Limited, Chartered Surveyors, who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The valuation has been incorporated in the financial statements as at 31st December, 2017 and it was performed on an open market value basis. Details of valuation techniques are described below:

於2017年12月31日，香港投資物業的估值為港幣50.92億元(2016年：港幣44.54億元)。該等物業由獨立估值師 — 特許測量師第一太平戴維斯，其僱員具香港測量師學會會士資歷並對估值物業的所在地及類別有近期經驗。估值是以公開市場價值為基礎，並已計入2017年12月31日之賬項內。估值模式詳述如下：

(ii) Information about Level 3 fair value measurements

(ii) 有關第三級釐定公平價值資料

	Valuation techniques **估值模式**	**Unobservable input** **非可觀察輸入參數**
Investment properties 投資物業	Income capitalisation approach 收入還原法	Market rental 市場租金
		Capitalisation rate 還原率
	Direct comparison approach 直接比較法	Premium (discount) on quality of the buildings 樓宇質素溢價(折扣)

Investment properties not under construction

The fair value of investment properties is determined by adoption of the Income Capitalisation Approach whereby the existing rental income of all lettable units of the property are capitalised for their respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the valuation date. Upon expiry of the existing tenancies, each unit is assumed to be let at its market rent as at the valuation date, which in turn capitalised at the market yield as expected by investors for each type of property. Due consideration has been given to expectations of the renewals of Government lease upon its expiry. The summation of the capitalised value of the term income for the leased portion, the capitalised value of the reversion income as appropriately deferred for the leased portion and the capitalised value for the vacant portion provides the market value of the property.

非正在建築中的投資物業

投資物業的公平價值是按採納收入還原法計算，其方法是將現時物業已出租單位之租金收入按其分別未到期租約條款還原，而空置單位則假設於估價日每一單位可按市值租金租出，再根據投資者預期每一類別物業之市場回報來還原。其中已顧及並預期政府之租約於期限屆滿後可續約。出租部分期間收入之還原值、已適當遞延出租部分之歸還收入的還原值及空置部分之還原值之總和計算出物業的市場價值。

The market rentals of all lettable units are made (a) by reference to the rentals fetched in the property and/or (b) by reference to the lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yields achieved in analysed market sales transactions and the market expectation from property investors. This expected return reflects implicitly the quality of the investment, the expectation of the potential for future rental growth and capital appreciation, operating costs, risk factor and the like.

所有已租出單位市場租金之計算是(a)參考由物業賺取的租金及／或(b)參考鄰近所租出之類同物業。採納之還原率是參考分析市場出售交易得出之回報及物業投資者對市場的預期。此預期回報已潛在地反映投資的質素、預期未來租金增長和資本增值的潛力、營運成本、風險因素及其他。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

35. FIXED ASSETS (CONTINUED) 固定資產(續)

Fair value measurement of properties (continued)

(ii) Information about Level 3 fair value measurements (continued)

As a supporting approach to the Income Capitalisation Approach, the Direct Comparison Approach is also adopted as a check for the valuation. Comparable sales transactions of similar properties in the locality are collected and analysed each in terms of a price per square footage. The collected comparables are then adjusted to take account of the discrepancies between the property and comparables in terms of time, location, age, building quality and the like.

The fair value measurement is positively correlated to the market rental and negatively correlated to the capitalisation rate.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

物業公平價值之釐定(續)

(ii) 有關第三級釐定公平價值資料(續)

除收入還原法外，亦採納直接比較法以核實估值。在鄰近可比較類同物業之出售交易會被收集及分析，以計算每一平方呎的價值。已收集之比較資料根據物業及可比較資料的差異，並按時間、位置、樓齡、樓宇質素及其他作調整。

釐定公平價值與市場租金有正面相互關聯及與還原率有負面相互關聯。

期間該等第三級公平價值釐定之餘額變動如下：

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Investment properties – Commercial – Hong Kong	投資物業－商業－香港		
At 1st January	於1月1日	**4,454**	4,330
Transfer from bank premises to investment properties	由行址轉入投資物業	**117**	210
Transfer from investment properties to bank premises	由投資物業轉入行址	**–**	(148)
Revaluation surplus	重估盈餘	**521**	62
At 31st December	於12月31日	**5,092**	4,454
Investment properties – Commercial – People's Republic of China	投資物業－商業－中華人民共和國		
At 1st January	於1月1日	**–**	428
Disposal	出售	**–**	(400)
Exchange adjustments	匯兌調整	**–**	(28)
At 31st December	於12月31日	**–**	–
Investment properties – Commercial – Others	投資物業－商業－其他		
At 1st January	於1月1日	**13**	133
Revaluation surplus	重估盈餘	**1**	1
Transfer to asset classified as assets held for sale *(Note 56)*	轉至分類為持有作出售資產 *(附註56)*	**–**	(22)
Disposal	出售	**–**	(80)
Exchange adjustments	匯兌調整	**1**	(19)
At 31st December	於12月31日	**15**	13

Fair value adjustment of investment properties is recognised in the line item "valuation gains on investment properties" on the face of the consolidated income statement.

投資物業的公平價值調整在綜合收益表上之「重估投資物業盈利」項下確認。

All the gains recognised in the income statement for the year arise from the properties held at the end of the reporting period.

所有確認於年度收益表之盈利均源自於報告期結束日持有之物業。

The net book value of bank premises and investment properties comprises:

行址及投資物業的賬面淨值包括：

		2017		2016	
		Investment properties 投資物業 HK$ Mn 港幣百萬元	**Bank premises 行址 HK$ Mn 港幣百萬元**	Investment properties 投資物業 HK$ Mn 港幣百萬元	Bank premises 行址 HK$ Mn 港幣百萬元
Freeholds	永久業權				
Held outside Hong Kong	在香港以外地區	**15**	**634**	13	593
Leaseholds	租借地				
Held in Hong Kong	在香港				
On long lease (over 50 years)	長期租約(50年以上)	**4,497**	**1,363**	4,020	1,372
On medium-term lease (10–50 years)	中期租約(10至50年)	**595**	**1,204**	434	1,315
Held outside Hong Kong	在香港以外地區				
On long lease (over 50 years)	長期租約(50年以上)	**–**	**15**	–	14
On medium-term lease (10–50 years)	中期租約(10至50年)	**–**	**3,064**	–	2,964
On short-term lease (below 10 years)	短期租約(10年以下)	**–**	**39**	–	43
		5,107	**6,319**	4,467	6,301

The Group leases out investment properties under operating leases. The leases typically run for an initial period from 1 to 10 years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

集團以經營租賃形式租出投資物業。租賃年期通常由1年至10年，到期日後可再續約但其他條款須另議。所有租約並不包括或有租金。

Rental income receivable from investment properties held for use under operating leases amounted to HK$165 million in 2017 (2016: HK$205 million). There was no contingent rental recognised during the year 2017 (2016: Nil).

於年內，以經營租賃形式租出的投資物業之應收租金為港幣1.65億元(2016年：港幣2.05億元)。2017年年度內未有確認或有租金(2016年：無)。

The total future minimum lease payments of bank premises and investment properties held for use under non-cancellable operating leases are receivable as follows:

以不可撤銷經營租賃作出租的行址及投資物業的未來最低應收租賃付款總額如下：

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Within one year	1年以內	**152**	128
After one year but within five years	1年以後至5年內	**164**	118
After five years	5年以後	**–**	–
		316	246

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

36. OTHER ASSETS 其他資產

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Notes and bonds	債券	**133**	–
Accrued interest	應計利息	**2,578**	2,247
Customer liabilities under acceptances	承兑客戶負債	**18,309**	25,084
		21,020	27,331
Other accounts	其他賬項	**11,622**	9,324
Less: Impairment allowances	減：減值準備		
– Individual	–個別	**(14)**	(85)
– Collective	–整體	**(2)**	(1)
		11,606	9,238
Assets held for sale *(Note 56)*	持有作出售資產*(附註56)*	**466**	2,506
		33,092	39,075

Movement of impairment allowances 減值準備的變動

		2017		2016	
		Individual 個別 HK$ Mn港幣百萬元	Collective 整體 HK$ Mn 港幣百萬元	Individual 個別 HK$ Mn 港幣百萬元	Collective 整體 HK$ Mn 港幣百萬元
At 1st January	於1月1日	**85**	**1**	19	19
New provisions charged to income statement	收益表內支銷的新準備	**4**	**1**	103	–
Net provisions released back to income statement	撥回收益表的準備淨額	**(1)**	**–**	(9)	(13)
Amounts written off	撇銷額	**(70)**	**–**	(3)	–
Recoveries	收回額	**–**	**–**	1	–
Transfer to asset classified as assets held for sale	轉至分類為持有作出售資產	**–**	**–**	(25)	(6)
Exchange and other adjustments	匯兑及其他調整	**(4)**	**–**	(1)	1
At 31st December	於12月31日	**14**	**2**	85	1

Note: Individual impairment allowance and collective impairment allowance for HK$25 million and HK$6 million were transferred to assets held for sale in 2016 respectively (see Note 56).

附註：在2016年，轉入持有作出售資產的個別減值準備及整體減值準備的金額分別為港幣2,500萬元和港幣600萬元(見附註56)。

37. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION 財務狀況表內的所得稅

(a) Current taxation in the statement of financial position represents:

(a) 資產負債表內的本期稅項為：

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Provision for Hong Kong profits tax for the year	本年度香港利得稅準備	**695**	720
Provisional profits tax paid	已付暫繳利得稅	**(664)**	(550)
		31	170
Balance of profits tax provision relating to prior years	以往年度利得稅準備餘額	**809**	751
Taxation outside Hong Kong	在香港以外稅項	**320**	684
		1,160	1,605

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

(b) 遞延稅項資產及負債確認

確認於綜合財務狀況表中遞延稅項(資產)／負債的組成部分及年內之變動如下：

		2017						
Deferred tax arising from: **遞延稅項源自:**		**Depreciation allowances in excess of related depreciation** **超過有關折舊的折舊免稅額** **HK$ Mn 港幣百萬元**	**Revaluation of properties** **物業重估** **HK$ Mn 港幣百萬元**	**Impairment losses on financial assets** **金融資產的減值損失** **HK$ Mn 港幣百萬元**	**Revaluation of available-for-sale securities** **可供出售證券重估** **HK$ Mn 港幣百萬元**	**Tax losses** **稅損** **HK$ Mn 港幣百萬元**	**Others** **其他** **HK$ Mn 港幣百萬元**	**Total** **總額** **HK$ Mn 港幣百萬元**
At 1st January, 2017	於2017年1月1日	**218**	**101**	**(784)**	**72**	**(16)**	**86**	**(323)**
Charged/(credited) to income statement	收益表內支銷／(存入)	**–**	**–**	**250**	**–**	**1**	**(28)**	**223**
(Credited)/charged to reserves *(Notes 43(b) and (g))*	儲備內(存入)／支銷 *(附註43(b)及(g))*	**–**	**(1)**	**–**	**65**	**–**	**–**	**64**
Transfer to asset classified as assets held for sale *(Note 56)*	轉至分類為持有作出售資產*(附註56)*	**–**	**–**	**6**	**–**	**17**	**2**	**25**
Exchange and other adjustments	匯兌及其他調整	**–**	**–**	**(41)**	**(1)**	**(2)**	**4**	**(40)**
At 31st December, 2017	於2017年12月31日	**218**	**100**	**(569)**	**136**	**–**	**64**	**(51)**

Note: HK$25 million deferred tax assets were transferred to assets held for sale (see Note 56).

附註： 轉至持有作出售資產的遞延稅項資產為港幣2,500萬元(見附註56)。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

37. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)
財務狀況表內的所得稅(續)

(b) Deferred tax assets and liabilities recognised (continued)

(b) 遞延稅項資產及負債確認(續)

		2016						
Deferred tax arising from: 遞延稅項源自:		Depreciation allowances in excess of related depreciation 超過有關折舊的折舊免稅額 HK$ Mn 港幣百萬元	Revaluation of properties 物業重估 HK$ Mn 港幣百萬元	Impairment losses on financial assets 金融資產的減值損失 HK$ Mn 港幣百萬元	Revaluation of available-for-sale securities 可供出售證券重估 HK$ Mn 港幣百萬元	Tax losses 稅損 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
At 1st January, 2016	於2016年1月1日	285	193	(270)	149	(18)	14	353
(Credited)/charged to income statement	收益表內(存入)/支銷	(64)	(80)	(549)	–	8	61	(624)
Credited to reserves *(Notes 43(b) and (g))*	存入儲備內 *(附註43(b)及(g))*	–	(10)	–	(73)	–	–	(83)
Additions through acquisition	收購的增置	–	–	–	–	(6)	–	(6)
Transfer to asset classified as assets held for sale *(Note 56)*	轉至分類為持有作出售資產*(附註56)*	(3)	–	1	–	(1)	10	7
Exchange and other adjustments	匯兌及其他調整	–	(2)	34	(4)	1	1	30
At 31st December, 2016	於2016年12月31日	218	101	(784)	72	(16)	86	(323)

Note: HK$10 million deferred tax assets and HK$3 million deferred tax liabilities were transferred to assets held for sale and liabilities held for sale respectively (see Note 56).

附註：轉至持有作出售資產及持有作出售負債的遞延稅項資產及遞延稅項負債分別為港幣1,000萬元及港幣300萬元(見附註56)。

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Net deferred tax assets recognised on the statement of financial position	確認於財務狀況表的遞延稅項資產淨額	**(602)**	(785)
Net deferred tax liabilities recognised on the statement of financial position	確認於財務狀況表的遞延稅項負債淨額	**551**	462
		(51)	(323)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$338 million (2016: HK$691 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Under the current tax legislation, the expiry dates of the tax losses were as follows:

(c) 未確認遞延稅項資產

由於可能未來沒有適用於有關稅務機關及實體的應課稅溢利以彌補有關虧損，本集團並未確認累計稅損港幣3.38億元(2016年：港幣6.91億元)為遞延稅項資產。根據現時稅務條例，該等稅損的到期日如下：

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Expiring within 5 years	於五年內到期	**–**	4
Expiring more than 5 years	五年後到期	**–**	–
No expiry date	無到期日	**338**	687
		338	691

38. OTHER LIABILITIES 其他負債

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
(a) Trading liabilities	(a) 交易用途負債		
Exchange fund bills sold	外匯基金票據空倉	**–**	50
Shares sold	股份空倉	**11**	–
		11	50
(b) Other liabilities	(b) 其他負債		
Accrued interest payable	應計應付利息	**3,187**	3,812
Acceptance draft payable	應付承兑票據	**18,309**	25,084
Other accounts	其他賬項	**23,873**	20,766
Liabilities held for sale *(Note 56)*	持有作出售負債*(附註56)*	**9**	426
		45,378	50,088

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

39. LOAN CAPITAL 借貸資本

					2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Subordinated notes, at amortised cost with fair value hedge adjustments		按攤銷成本及經公平價值對沖調整後列賬的後償票據				
USD600 million fixed rate subordinated notes due 16th July, 2020	(1)	在2020年7月16日到期的定息6億美元後償票據	(1)		**4,769**	4,820
USD500 million fixed rate subordinated notes due 4th May, 2022	(2)	在2022年5月4日到期的定息5億美元後償票據	(2)		**–**	3,881
SGD800 million fixed rate subordinated notes due 13th September, 2022	(3)	在2022年9月13日到期的定息8億新加坡元後償票據	(3)		**–**	4,284
USD500 million fixed rate subordinated notes due 20th November, 2024	(4)	在2024年11月20日到期的定息5億美元後償票據	(4)		**3,876**	3,874
USD500 million fixed rate subordinated notes due 3rd November, 2026	(5)	在2026年11月3日到期的定息5億美元後償票據	(5)		**3,768**	3,749
					12,413	20,608

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during the years ended 31st December, 2017 and 2016.

截至2017及2016年12月31日止年度內本集團對其所發行之債務證券的本金和利息並無違約或不履行。

(1) Two tranches of loan capital of face value totalling HK$4,688 million (USD600 million) and carrying amount totalling HK$4,769 million (2016: HK$4,820 million) were issued on 16th July, 2010 (USD450 million) and on 23rd July, 2010 (USD150 million) by the Bank. These subordinated notes carrying a coupon rate of 6.125% qualifying as Tier 2 capital are listed on the Singapore Stock Exchange and will mature on 16th July, 2020. The notes are under fair value hedge accounting and hedge ineffectiveness of HK$6 million loss was recorded in 2017 (2016: HK$5 million loss).

(1) 兩宗票面值總額港幣46.88億元(6億美元)及賬面值總額港幣47.69億元(2016年：港幣48.20億元)的借貸資本，是指由本行於2010年7月16日(4.5億美元)及於2010年7月23日(1.5億美元)發行年息6.125%，並評定為二級資本的後償票據。該票據於新加坡交易所上市，並將於2020年7月16日到期。在2017年，因採用公平價值對沖會計法而錄得的無效對沖部分虧損為港幣600萬元(2016年：港幣500萬元虧損)。

(2) On 4th May, 2017, the Bank redeemed the HK$3,891 million (USD500 million) 6.375% subordinated notes (under the Euro Medium Term Note Programme) which were issued on 4th November, 2011 and which qualified as Tier 2 capital.

(2) 於2017年5月4日，本行贖回於2011年11月4日發行港幣38.91億元(5億美元)年息6.375%，並評定為二級資本的後償票據(按歐洲形式中期票據計劃發行)。

(3) On 13th September, 2017, the Bank redeemed the HK$4,647 million (SGD800 million) 4.25% subordinated notes (under the Euro Medium Term Note Programme) which were issued on 13th March, 2012 (SGD600 million) and 27th April, 2012 (SGD200 million) and qualified as Tier 2 capital.

(3) 於2017年9月13日，本行贖回於2012年3月13日(6億新加坡元)及於2012年4月27日(2億新加坡元)港幣46.47億元(8億新加坡元)年息4.25%，並評定為二級資本的後償票據(按歐洲形式中期票據計劃發行)。

(4) Loan capital of face value of HK$3,906 million (USD500 million) and carrying amount of HK$3,876 million (2016: HK$3,874 million) represents 4.25% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 20th November, 2014 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 20th November, 2024. The notes are under fair value hedge accounting and hedge ineffectiveness of HK$2 million profit was recorded in 2017 (2016: HK$4 million loss).

(4) 票面值港幣39.06億元(5億美元)及賬面值港幣38.76億元(2016年：港幣38.74億元)的借貸資本，是指由本行於2014年11月20日發行年息4.25%，並評定為二級資本的後償票據(按歐洲形式中期票據計劃發行)。該等票據於香港交易所上市，並將於2024年11月20日到期。在2017年，因採用公平價值對沖會計法而錄得的無效對沖部分溢利港幣200萬元(2016年：港幣400萬元虧損)。

(5) Loan capital of face value of HK$3,906 million (USD500 million) and carrying amount of HK$3,768 million (2016: HK$3,749 million) represents 4% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 3rd November, 2016 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 3rd November, 2026. The notes are under fair value hedge accounting and hedge ineffectiveness of HK$1 million profit was recorded in 2017 (2016: HK$1 million profit).

(5) 票面值港幣39.06億元(5億美元)及賬面值港幣37.68億元(2016年：港幣37.49億元)的借貸資本，是指由本行於2016年11月3日發行年息4%，並評定為二級資本的後償票據(按歐洲形式中期票據計劃發行)。該等票據於香港交易所上市，並將於2026年11月3日到期。在2017年，因採用公平價值對沖會計法而錄得的無效對沖部分溢利港幣100萬元(2016年：港幣100萬元溢利)。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

40. EQUITY SETTLED SHARE-BASED TRANSACTIONS 以股份為基礎作支付的交易

The Bank has adopted Staff Share Option Schemes whereby the Board of the Bank may at its discretion grant to any employees, including Executive Director(s) and Chief Executive, of the Group options to subscribe for ordinary shares of the Bank. Except as provided otherwise in the rules of the relevant Scheme(s), share options granted under the 2011 Scheme may be exercised beginning on the Vesting Date and ending on the fifth anniversary of the Vesting Date. All options were granted for nil consideration.

本行所採納的僱員認股計劃是董事會可酌情發出認股權予本集團之任何僱員，包括執行董事及行政總裁，以認購本行普通股股份。除有關計劃的規則另有規定外，根據2011年僱員認股計劃所授予的認股權的行使期限為歸屬日開始至歸屬日的第5周年止。所有認股權均以不計價款形式發出。

(a) Particulars of share options:

(i) Share options granted under 2011 Scheme in years 2011 to 2016:

(a) 認股權詳情：

(i) 在2011年至2016年根據2011計劃所授予的認股權：

Date of grant 授予日期	Tranche 部分	Vesting period 有效期	Exercise period 行使期	Exercise price per share 每股行使價 HK$港幣元
05/5/2011	T1	05/5/2011–04/5/2012	05/5/2012–05/5/2017	32.00
05/5/2011	T2	05/5/2011–04/5/2013	05/5/2013–05/5/2018	32.00
05/5/2011	T3	05/5/2011–04/5/2014	05/5/2014–05/5/2019	32.00
10/5/2012	T1	10/5/2012–09/5/2013	10/5/2013–10/5/2018	28.99
10/5/2012	T2	10/5/2012–09/5/2014	10/5/2014–10/5/2019	28.99
10/5/2012	T3	10/5/2012–09/5/2015	10/5/2015–10/5/2020	28.99
03/5/2013	T1	03/5/2013–02/5/2014	03/5/2014–03/5/2019	31.40
03/5/2013	T2	03/5/2013–02/5/2015	03/5/2015–03/5/2020	31.40
03/5/2013	T3	03/5/2013–02/5/2016	03/5/2016–03/5/2021	31.40
02/5/2014	T1	02/5/2014–01/5/2015	02/5/2015–02/5/2020	32.50
02/5/2014	T2	02/5/2014–01/5/2016	02/5/2016–02/5/2021	32.50
02/5/2014	T3	02/5/2014–01/5/2017	02/5/2017–02/5/2022	32.50
04/5/2015	T1	04/5/2015–03/5/2016	04/5/2016–04/5/2021	34.15
04/5/2015	T2	04/5/2015–03/5/2017	04/5/2017–04/5/2022	34.15
04/5/2015	T3	04/5/2015–03/5/2018	04/5/2018–04/5/2023	34.15
08/4/2016	T1	08/4/2016–07/4/2017	08/4/2017–08/4/2022	28.45
08/4/2016	T2	08/4/2016–07/4/2018	08/4/2018–08/4/2023	28.45
08/4/2016	T3	08/4/2016–07/4/2019	08/4/2019–08/4/2024	28.45

(ii) Share options granted under 2011 Scheme in year 2017:

(ii) 在2017年根據2011計劃所授予的認股權：

Date of grant 授予日期	Tranche 部分	Vesting period 有效期	Exercise period 行使期	Exercise price per share 每股行使價 HK$港幣元
07/4/2017	T1	07/4/2017–06/4/2018	07/4/2018–07/4/2023	32.25
07/4/2017	T2	07/4/2017–06/4/2019	07/4/2019–07/4/2024	32.25
07/4/2017	T3	07/4/2017–06/4/2020	07/4/2020–07/4/2025	32.25

(b) The number and weighted average exercise prices of share options are as follows:

(b) 已行使認股權的數目及加權平均行使價如下：

		2017		2016	
		Weighted average exercise price 加權平均行使價 HK$ 港幣元	**Number of options 認股權數目 Mn 百萬**	Weighted average exercise price 加權平均行使價 HK$ 港幣元	Number of options 認股權數目 Mn百萬
Outstanding at the beginning of the year	年初結餘	**31.40**	**32**	32.10	26
Exercised during the year	年度內行使	**30.14**	**(3)**	31.40	–
Granted during the year	年度內授予	**32.25**	**6**	28.45	6
Lapsed during the year	年度內失效	**32.00**	**(1)**	–	–
Outstanding at the end of the year	年末結餘	**31.64**	**34**	31.40	32
Exercisable at the end of the year	年末可供行使	**31.85**	**21**	31.65	20

The weighted average share price at the date of exercise for share options exercised during the year was HK$34.72 (2016: HK$32.90).

年度內於行使認股權當日的加權平均股價為港幣34.72元(2016年：港幣32.90元)。

The options outstanding at 31st December, 2017 had an exercise price from HK$28.45 to HK$34.15 (2016: from HK$28.45 to HK$34.15) and a weighted average remaining contractual life of 3.91 years (2016: 4.03 years).

於2017年12月31日，尚未行使認股權的行使價由港幣28.45元至港幣34.15元(2016年：由港幣28.45元至港幣34.15元)，及剩餘合約年期之加權平均數為3.91年(2016年：4.03年)。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

40. EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)
以股份為基礎作支付的交易(續)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a trinomial lattice model. The contractual life of the option is used as an input into this model.

(c) 認股權的公平價值及假設

獲得服務以換取認股權的公平價值按授予認股權的公平價值計量。授予認股權之估計公平價值按三項式期權定價模式。認股權的合約年期為該定價模式的參數。

		2017	2016
Fair value at measurement date	於計量日的公平價值		
– Tranche 1	–部分1	**HK$港幣4.46元**	HK$港幣7.74元
– Tranche 2	–部分2	**HK$港幣4.65元**	HK$港幣8.04元
– Tranche 3	–部分3	**HK$港幣4.77元**	HK$港幣8.23元
Share price	股價	**HK$港幣31.95元**	HK$港幣28.00元
Exercise price	行使價	**HK$港幣32.25元**	HK$港幣28.45元
Expected volatility (expressed as weighted average volatility used in the modelling under trinomial lattice model)	預計波幅(以三項式期權定價模式內採用的加權平均波幅)	**18.76%**	38.48%
Option life	認股權年期		
– Tranche 1	–部分1	**6 years年**	6 years年
– Tranche 2	–部分2	**7 years年**	7 years年
– Tranche 3	–部分3	**8 years年**	8 years年
Expected dividends	預計股息	**3.13%–3.29%**	4.54%–4.80%
Risk-free interest rate (based on Exchange Fund Notes)	無風險利率(根據外匯基金票據)	**1.22%**	0.85%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

預計波幅是根據過往之波幅(以認股權的加權剩餘年期計算),再調整因公眾知悉的資訊影響未來波幅的預計變動。預計股息按過往的股息。主觀輸入假設的變動可能重大影響公平價值的估計。

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

認股權的授予須符合服務條件。該服務條件並未納入計算於授予日獲得服務的公平價值。授予認股權與市場情況並無關係。

41. SHARE CAPITAL 股本

		2017		2016	
		No. of shares 股份數目 Mn 百萬	**HK$ Mn 港幣百萬元**	No. of shares 股份數目 Mn百萬	HK$ Mn 港幣百萬元
Ordinary shares, issued and fully paid:	已發行及繳足普通股：				
At 1st January	於1月1日	**2,703**	**35,490**	2,641	33,815
Shares issued under Staff Share Option Schemes	根據僱員認股計劃發行的股份	**3**	**93**	–	11
Transfer of the fair value of options from capital reserve – share options issued *(Note 43(f))*	認股權的公平價值轉自資本儲備－已發行認股權*(附註43(f))*	**–**	**17**	–	1
Shares issued in lieu of dividend	以股代息發行的股份	**59**	**1,927**	62	1,663
At 31st December	於12月31日	**2,765**	**37,527**	2,703	35,490

Pursuant to the approved Staff Share Option Schemes (the "Schemes"), options to purchase ordinary shares in the Bank were granted to eligible employees. Except as provided otherwise in the rules of the relevant Scheme(s), share options granted under 2011 Scheme will be exercisable on the Vesting Date and ending on the fifth anniversary of the Vesting Date.

根據已核准的僱員認股權計劃(「計劃」)，認股權授予合格僱員以認購本行的普通股股份。除在有關計劃的規則另有規定外，根據2011僱員認股計劃所授予的認股權的行使期限則由歸屬日開始至歸屬日的第5周年止。

Shares issued under Staff Share Option Schemes

During the year, options were exercised to subscribe for 3 million ordinary shares in the Bank at a consideration of HK$93 million which was credited to share capital account. HK$17 million has been transferred from the capital reserve to the share capital account in accordance with policy set out in Note 2(q)(iv).

根據僱員認股權計劃發行的股份

年度內，已行使認股權以認購本行普通股300萬股之代價為港幣9,300萬元，並已存入股本。根據會計政策附註2(q)(iv)所載，已由資本儲備轉撥港幣1,700萬元往股本內。

42. ADDITIONAL EQUITY INSTRUMENTS 額外股本工具

				2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Additional Tier 1 Capital Securities		額外一級資本工具			
USD650 million undated non-cumulative subordinated capital securities	(1)	6.50億美元無到期日非累積後償資本證券	(1)	**5,016**	5,016
USD500 million undated non-cumulative subordinated capital securities	(2)	5億美元無到期日非累積後償資本證券	(2)	**3,878**	–
				8,894	5,016

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

42. ADDITIONAL EQUITY INSTRUMENTS (CONTINUED) 額外股本工具(續)

(1) On 2nd December, 2015, the Bank issued undated non-cumulative subordinated capital securities with a face value of US$650 million (equivalent to HK$5,016 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.50% coupon until the first call date on 2nd December, 2020. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.834% per annum. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up.

(1) 於2015年12月2日，本行發行面值6.5億美元(扣除有關發行成本後等值港幣50.16億元)無到期日非累積後償資本工具「額外一級資本工具」。該額外一級資本工具是無到期日及附帶5.50%息率，直至2020年12月2日的第一次收回日。如該額外一級資本工具並非按相等於當時五年期美國庫券息率加年息3.834%之固定利率贖回，息率將會按每五年重新釐定。本行可自行決定是否取消支付利息。如出現一項無法經營事件並將會持續，該額外一級資本工具將會被撇銷。該額外一級資本工具在發生清盤事件時比普通股有優先權。

The first scheduled coupon payment date was 2nd June, 2016 and the coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

第一次預定利息支付日為2016年6月2日，而利息將按每半年支付。本行有權取消支付利息(但須受該額外一級資本工具已列載之條款及細則所規限)及已取消之利息是不可累積的。除非下次預定利息經已支付，本行是禁止宣布派發股息予普通股股東。

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

如金管局通知本行並認為本行如不撇銷本金將無法繼續經營，該額外一級資本工具之本金將會按與經金管局協商後或接受其指令下撇銷。

The Bank has a call option to redeem all the outstanding capital securities from 2nd December, 2020 or any subsequent coupon payment date, but subject to restriction as set out in the terms and conditions.

由2020年12月2日起或以後任何利息支付日，本行可行使購入權以贖回所有現存的資本工具，但須受已列載之條款及細則所規限。

(2) On 18th May, 2017, the Bank issued undated non-cumulative subordinated capital securities with a face value of US$500 million (equivalent to HK$3,878 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.625% coupon until the first call date on 18th May, 2022. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.682% per annum. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up.

(2) 於2017年5月18日，本行發行面值5億美元(扣除有關發行成本後等值港幣38.78億元)無到期日非累積後償資本工具「額外一級資本工具」。該額外一級資本工具是無到期日及附帶5.625%息率，直至2022年5月18日的第一次收回日。如該額外一級資本工具並非按相等於當時五年期美國庫券息率加年息3.682%之固定利率贖回，息率將會按每五年重新釐定。本行可自行決定是否取消支付利息。如出現一項無法經營事件並將會持續，該額外一級資本工具將會被撇銷。該額外一級資本工具在發生清盤事件時比普通股有優先權。

The first scheduled coupon payment date was 18th November, 2017 and the coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

第一次預定利息支付日為2017年11月18日，而利息將按每半年支付。本行有權取消支付利息(但須受該額外一級資本工具已列載之條款及細則所規限)及已取消之利息是不可累積的。除非下次預定利息經已支付，本行是禁止宣布派發股息予普通股股東。

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

如金管局通知本行並認為本行如不撇銷本金將無法繼續經營，該額外一級資本工具之本金將會按與經金管局協商後或接受其指令下撇銷。

The Bank has a call option to redeem all the outstanding capital securities from 18th May, 2022 or any subsequent coupon payment date, but subject to restriction as set out in the terms and conditions.

由2022年5月18日起或以後任何利息支付日，本行可行使購入權以贖回所有現存的資本工具，但須受已列載之條款及細則所規限。

43. RESERVES 儲備

		The Group 集團		The Bank 銀行	
		2017	2016	**2017**	2016
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	**HK$ Mn 港幣百萬元**	HK$ Mn 港幣百萬元
(a) General reserve	(a) 一般儲備				
At 1st January	於1月1日	**14,035**	13,953	**13,444**	13,441
Transferred from property revaluation reserve on disposals	出售後轉自物業重估儲備	**16**	62	**16**	3
Transfer from retained profits	撥自留存溢利	**9**	20	**–**	–
At 31st December	於12月31日	**14,060**	14,035	**13,460**	13,444
(b) Revaluation reserve on bank premises	(b) 行址重估儲備				
At 1st January	於1月1日	**1,728**	1,639	**1,739**	1,591
Recognition of deferred tax assets *(Note 37(b))*	確認遞延稅項資產 *(附註37(b))*	**1**	10	**1**	10
Transferred to general reserve on disposals	出售後轉入一般儲備	**(16)**	(62)	**(16)**	(3)
Revaluation surplus on bank premises transferred to investment properties	行址重估盈餘轉入投資物業	**44**	141	**22**	141
At 31st December	於12月31日	**1,757**	1,728	**1,746**	1,739
(c) Statutory reserves	(c) 法定儲備				
At 1st January	於1月1日	**5,199**	4,710	**–**	–
Transfer (to)/from retained profits	(撥入)/撥自留存溢利	**(308)**	489	**–**	–
At 31st December	於12月31日	**4,891**	5,199	**–**	–
(d) Capital reserve	(d) 資本儲備				
At 1st January	於1月1日	**230**	230	**–**	–
Transfer from retained profits	撥自留存溢利	**–**	–	**–**	–
At 31st December	於12月31日	**230**	230	**–**	–
(e) Exchange revaluation reserve	(e) 匯兌重估儲備				
At 1st January	於1月1日	**(2,275)**	(162)	**(64)**	6
Exchange adjustments	匯兌調整	**2,762**	(2,113)	**191**	(70)
At 31st December	於12月31日	**487**	(2,275)	**127**	(64)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

43. RESERVES (CONTINUED) 儲備(續)

		The Group 集團		The Bank 銀行	
		2017	2016	**2017**	2016
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	**HK$ Mn 港幣百萬元**	HK$ Mn 港幣百萬元
(f) Capital reserve – staff share options issued	(f) 資本儲備–已發行僱員認股權				
At 1st January	於1月1日	**124**	90	**124**	90
Transfer of the fair value of options to share capital *(Note 41)*	認股權公平價值撥入股本*(附註41)*	**(17)**	(1)	**(17)**	(1)
Forfeited options transferred to retained profits	已註銷認股權轉入留存溢利	**(8)**	–	**(8)**	–
Additions	增加	**36**	35	**36**	35
At 31st December	於12月31日	**135**	124	**135**	124
(g) Investment revaluation reserve	(g) 投資重估儲備				
At 1st January	於1月1日	**1,359**	1,383	**1,260**	921
Changes in fair value of securities	證券的公平價值變動	**1,491**	12	**842**	370
Reversal upon disposal *(Note 15)*	於出售時轉回*(附註15)*	**(1,320)**	(136)	**(870)**	(28)
Recognition of deferred tax assets/(liabilities) *(Note 37(b))*	確認遞延稅項資產/(負債)*(附註37(b))*	**(65)**	73	**(103)**	1
Impairment loss and amortisation	減值損失及攤銷	**–**	27	**(3)**	(4)
At 31st December	於12月31日	**1,465**	1,359	**1,126**	1,260
(h) Other reserves	(h) 其他儲備				
At 1st January	於1月1日	**94**	(44)	**–**	–
Purchase of interests in businesses from non-controlling interests investors	向非控股權益投資者購入商業權益	**–**	(9)	**–**	–
Share of changes in equity of associates	應佔聯營公司權益的變動	**(54)**	147	**–**	–
At 31st December	於12月31日	**40**	94	**–**	–

		The Group 集團		The Bank 銀行	
		2017	2016	**2017**	2016
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	**HK$ Mn 港幣百萬元**	HK$ Mn 港幣百萬元
(i) Retained profits	(i) 留存溢利				
At 1st January	於1月1日	**22,447**	21,799	**10,838**	8,334
Net profit for the year	年度內溢利	**9,347**	3,723	**9,381**	4,853
Transfer to general reserve	撥入一般儲備	**(9)**	(20)	**–**	–
Transfer from/(to) statutory reserve	撥自/(撥入)法定儲備	**308**	(489)	**–**	–
Premium paid for partial bought back/ redemption of Hybrid Tier 1 capital instruments	回購/贖回部分混合一級資本工具之溢價	**–**	(6)	**–**	–
Forfeited options transferred to retained profits	已註銷認股權轉入留存溢利	**8**	–	**8**	–
Dividends *(Note 19)*	股息*(附註19)*				
– Interim dividend	–中期股息	**(1,854)**	(751)	**(1,854)**	(751)
– Second interim dividend in respect of prior year	–上年度第二次中期股息	**(757)**	(1,320)	**(757)**	(1,320)
– Hybrid Tier 1 capital instruments	–混合一級資本工具	**(211)**	(211)	**–**	–
– Additional Tier 1 capital instruments	–額外一級資本工具	**(389)**	(278)	**(389)**	(278)
At 31st December	於12月31日	**28,890**	22,447	**17,227**	10,838
(j) Total reserves	(j) 儲備總額	**51,955**	42,941	**33,821**	27,341

General reserve was set up from the transfer of retained earnings and the realised revaluation surplus on disposal of properties.

一般儲備的建立，包括來自留存溢利及出售物業時的已實現重估盈餘。

Revaluation reserve on bank premises and exchange revaluation reserve have been set up and are dealt with in accordance with the accounting policies adopted for the revaluation of bank premises and foreign currency translation.

行址及匯兌重估儲備的建立及處理是根據重估行址和外幣折算所採用的會計政策。

Statutory reserves are set up to satisfy the statutory requirements of certain overseas subsidiaries and associates mainly for the purpose of covering unidentified potential losses on risk assets in addition to those recognised under the prevailing accounting requirements in their jurisdictions.

法定儲備是用作滿足若干海外附屬公司及聯營公司之法定要求，主要用途為除按當地現行會計要求下已確認而需額外涵蓋風險資產的不可辨別之可能損失。

Capital reserve represents the capitalisation of subsidiaries' and associates' reserves.

資本儲備指附屬公司及聯營公司儲備的資本化發行。

Capital reserve – staff share options issued comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Bank recognised in accordance with the accounting policy adopted for share based payment in Note 2(q)(iv).

資本儲備(已發行僱員認股權)包括根據已採納有關附註2(q)(iv)所載以股份為基礎作支付的會計政策確認授予本行僱員之實際或估計未行使認股權數目的公平價值。

Investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held until the securities are derecognised and is dealt with in accordance with the accounting policies in Notes 2(f) and (k).

投資重估儲備包括持有可供出售證券直至證券被終止確認的累計公平價值變動淨額，有關處理的會計政策已詳載於附註2(f)和(k)。

Other reserves represent share of changes in equity of associates in respect of investment revaluation reserve and revaluation reserve of bank premises.

其他儲備包括應佔聯營公司權益之投資重估儲備及重估行址儲備的變動。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

43. RESERVES (CONTINUED) 儲備(續)

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 (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.

為符合《銀行業條例》有關審慎監管的規定，本行需在規管儲備中維持超過已確認減值損失的可能貸款減值損失金額。經諮詢金管局後，儲備的變動已直接在留存溢利內劃定。於2017年12月31日，留存溢利中包括與此有關屬可派發予本集團股東港幣40.62億元(2016年：港幣43.72億元)，但派發前須諮詢金管局。

At 31st December, 2017 the aggregate amount of reserves available for distribution to equity holders of the Bank was HK$24,928 million (2016: HK$18,608 million). After the end of the reporting period the directors declared a second interim dividend of HK$0.60 per ordinary share (2016: HK$0.28 per share), amounting to HK$1,659 million (2016: HK$757 million). The dividend has not been recognised as a liability at the end of the reporting period.

於2017年12月31日，可派發予本行股東的儲備總額為港幣249.28億元(2016年：港幣186.08億元)。在報告期結束日後董事宣布派發第二次中期股息每股普通股港幣0.60元(2016年：每股港幣0.28元)，總額達港幣16.59億元(2016年：港幣7.57億元)。於報告期結束日並未確認該股息為負債。

44. NON-CONTROLLING INTERESTS 非控股權益

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
At 1st January	於1月1日	**3,189**	3,212
– final dividend in respect of previous year	–上年度末期股息	**(31)**	(60)
– interim dividend in respect of current year	–本年度中期股息	**(1,391)**	–
– partial redemption of Hybrid Tier 1 capital instruments	–贖回部分混合一級資本工具	**–**	(45)
Purchase of interests in businesses from non-controlling interests investors	向非控股權益投資者購入商業權益	**–**	7
Decrease in non-controlling interests arising from capital reduction of a subsidiary	一附屬公司減本而導致非控股權益減少	**(135)**	–
Change of ownership in subsidiaries	附屬公司之擁有權變動	**(18)**	–
Other comprehensive income	其他全面收益	**56**	(31)
Profit for the year	年度內溢利	**1,168**	106
At 31st December	於12月31日	**2,838**	3,189

The non-controlling interests include HK$2,487 million (2016: HK$2,469 million) of Hybrid Tier 1 capital instruments.

非控股權益包括港幣24.87億元(2016年：港幣24.69億元)的混合一級資本工具。

The Hybrid Tier 1 capital instruments comprising step-up subordinated notes ("Notes") of face value HK$2,487 million (USD318 million) and carrying amount of HK$2,728 million at bank level (2016: face value HK$2,469 million (USD318 million)) and carrying amount of HK$2,799 million at bank level) and non-cumulative preference shares ("Innovate Preference Shares") of HK$2,487 million (USD318 million) (2016: HK$2,469 million (USD318 million)) were issued respectively by the Bank and by Innovate Holdings Limited, a wholly owned subsidiary of the Bank, on 5th November, 2009. The Notes bear a fixed interest rate of 8.5% per annum and will mature on 5th November, 2059. The Innovate Preference Shares are perpetual securities on which no dividend is payable. The Notes and the Innovate Preference Shares are listed, and traded together as units, on the Singapore Stock Exchange. The Hybrid Tier 1 capital instruments are qualified as Additional Tier 1 capital of the Bank and the Group. In the consolidated financial statements, the Notes are eliminated and the Innovate Preference Shares are classified as non-controlling interests.

混合一級資本工具包括分別由本行發行面值港幣24.87億元(3.18億美元)及在銀行層面之賬面值港幣27.28億元(2016年：面值港幣24.69億元(3.18億美元)及銀行層面之賬面值港幣27.99億元)步陞後償票據(「票據」)及由本行一全資附屬公司Innovate Holdings Limited所發行賬面值港幣24.87億元(3.18億美元)(2016年：賬值港幣24.69億元(3.18億美元))非累積優先股份(「Innovate」優先股)，發行日期為2009年11月5日。該票據之固定利率為年息8.5%，並將於2059年11月5日到期。Innovate優先股份是毋須支付股息的無到期日證券。該票據及Innovate優先股份是於新加坡交易所上市及以單位組合形式交易。混合一級資本工具已被評定為本行及本集團的額外一級資本。在綜合財務報表中，票據已被抵銷及Innovate優先股份則被分類為非控股權益。

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.

在2016年，本行回購港幣4,500萬元於綜合財務報表中分類為非控股權益之混合一級資本工具。支付超過購入非控股權益賬面值之溢價港幣600萬元經已於留存溢利中支銷。

45. PRINCIPAL RISK MANAGEMENT 主要風險管理

This section presents information on the Group's management of principal risks.

本部分載述有關本集團主要風險管理的資料。

The Group has established an effective risk governance and management framework in line with the requirements set out by the HKMA and other regulators. This framework is built around a structure that enables 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.

按照金管局及其他監管者發出的規定，本集團已建立一個有效的風險管治及管理架構。該架構的構造令董事會及高層管理人員能夠以適當授權和制衡履行彼等的風險管理相關職責。該等職責包括根據本集團的業務策略及目標設定風險偏好、制定風險政策以管理上述策略的執行，並設立風險審批、控制、監控及補救的程序及限制。

The RIC stands at the highest level of the Group's risk governance structure under the Board. It consists of four INEDs (including the Chairman of the Committee) and two NEDs. The RIC 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.

風險委員會為本集團僅次於董事會的最高風險管治機構，成員包括四名獨立非執行董事(其中一名為委員會主席)及兩名非執行董事。風險委員會直接監督本集團機構風險偏好的制定，並設定本集團就其財務能力、策略性指引、目前市況及監管要求而言可承擔的風險水平。

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

The RIC also ensures that the Group's risk appetite is reflected in the policies and procedures that Senior Management and Division Heads adopt to execute its business functions. Through the Group's management committees at 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 of the Risk Management Division – the RIC regularly reviews the Group's risk management framework and ensures that all important risk-related tasks are performed according to established policies and with appropriate resources.

風險委員會亦確保本集團的風險偏好反映於政策及程序上，讓高層管理人員及處級主管行使其業務職能時採納。透過本集團各管理委員會(包括危機管理委員會、風險管理委員會、信貸委員會、資產負債管理委員會及營運風險管理委員會)，及在風險管理處的整體協調下，風險委員會定期檢討本集團的風險管理架構，確保根據現有政策及運用適當資源完成所有與風險相關的重要任務。

The Crisis Management Committee and Risk Management Committee comprise the Senior Management and the Group Chief Risk Officer.

危機管理委員會及風險管理委員會由高層管理人員和集團風險總監組成。

The Credit Committee, Asset and Liability Management Committee, and Operational Risk Management Committee comprise the Senior Management, the Group Chief Risk Officer and where appropriate senior executives from the relevant areas.

信貸委員會、資產負債管理委員會及營運風險管理委員會由高層管理人員、集團風險總監及(在適當情況下)其他有關方面的高級行政人員組成。

The Group has implemented an ERM 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.

本集團已推行企業風險管理架構。此企業風險管理架構旨在全面有效地識別及管理潛在風險、實踐金管局對本集團作為一間具本地系統重要性銀行在風險管理方面的更高期望，以及鞏固「三道防線」風險管理模式。

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:–

為確保風險管理角色與責任於本集團內分工明確，本集團已採納「三道防線」風險管理架構。以下為「三道防線」模式之概要：–

- 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.

- 第一道防線為「風險負責人」，由總行各處級主管及各重要附屬公司主管，連同其屬下職員組成，主要負責其單位的日常風險管理，包括特定風險管理機制及具體程序的設立及執行。

- 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.

- 第二道防線為「風險監控人」，由總行指定處級／部級主管組成。在其單位的支援下，風險監控人負責制定風險管理管治架構、獨立監督風險及輔助各管理委員會監控風險管理。

- 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.

- 第三道防線為稽核處。稽核處負責為本集團風險管理架構(包括風險管治安排)的有效性提供保證。

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.

集團風險總監協調本集團所有風險管理相關事務，與各風險監控人就風險管理政策的制定緊密協作，並透過與所有風險監控人及風險負責人的職能工作關係，在集團層面監督風險。

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.

本集團面臨可能影響其品牌、營運及財務狀況的各類風險。在企業風險管理架構下，主要風險包括信貸風險、利率風險、市場風險、流動資金風險、營運風險、信譽風險、策略性風險、法律風險、合規風險、科技風險、持續業務運作風險及新產品及業務風險。

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. The Group's major risk management policies and control limits are approved by the Board and are monitored and regularly reviewed and enhanced on a regular basis to cater for market changes, statutory requirements, and best practices in risk management processes. The Board has delegated the responsibility for on-going risk management to the RIC and the management committees. Significant risk management-related issues must be reported to the Board, which oversees risk management. Moreover, on a daily basis, the Group Chief Risk Officer is responsible for overseeing the Bank Group's risk management issues which include, but are not limited to, the risk management infrastructure, strategies, appetites, culture, and resources.

本集團已制定政策，以識別、衡量、監察、控制及匯報各類風險，並於適當的情況下調配資本以抵禦該等風險。本集團的主要風險管理政策及控制限額由董事會批准，並且受到監控及定期檢討優化，以符合市場轉變及法定要求，及達致風險管理程序的最佳做法。董事會已將持續管理風險的責任授予風險委員會及管理委員會。與重要風險管理相關的事項須上報至監督風險管理的董事會。此外，集團風險總監的日常職責為監督集團風險管理相關事項，包括但不限於風險管理基礎架構及策略、風險偏好、風險管治文化及有關資源。

Stress testing is an integral part of the Group's risk management. The Group regularly performs stress-tests on the principal risks, where appropriate, to assess the potential impact of stressed business conditions (including hypothetical situations such as a significant economic downturn in Mainland China and Hong Kong) on the Group's financial positions, in particular, capital adequacy, profitability, and liquidity. Whenever necessary, a prompt management response will be developed and executed to mitigate potential impacts.

壓力測試為本集團風險管理的重要部分。本集團定期對相關的主要風險進行壓力測試，評估受壓營商環境(包括中國內地及香港出現嚴重經濟下滑等假設情景)對本集團的財務狀況，尤其是資本充足、盈利能力及流動資金，可能產生的影響。有需要時，管理層亦會果斷制定並執行應對措施以減低潛在影響。

(a) Credit risk management

Credit risk is the risk of loss arising from a borrower or counterparty failing to meet its obligations.

(a) 信貸風險管理

信貸風險是指因借款人或交易對手未能履行其責任而導致損失的風險。

The Credit Committee is responsible for managing all credit risk-related issues of the Group, while the Credit Risk Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to credit risk. The Group identifies and manages credit risk by defining the target market segment, formulating appropriate credit policies, carrying out credit assessment and monitoring of asset quality. Credit risk control limits are set for different levels. Risk, return, and market situation are considered when setting all limits. Active limit monitoring is undertaken.

信貸委員會負責管理所有與本集團信貸風險有關的事項，而本集團風險管理處轄下的信貸風險管理部則負責監察與信貸風險有關的活動。本集團透過設定目標市場、制定適當的信貸政策、進行信貸評核，以及監控資產素質，來識別和管理信貸風險。信貸風險控制限額設有不同層次。釐定所有限額時會考慮風險、回報及市場情況，並且採用積極限額監控程序。

In evaluating the credit risk associated with an individual customer or counterparty, financial strength and repayment ability are always the primary considerations. Credit risk may be mitigated by obtaining collateral from the customer or counterparty.

在評估與個別客戶或交易對手相關的信貸風險時，其財政實力以及還款能力是主要的考慮因素。此外，客戶或交易對手所提供的抵押品亦有助減低信貸風險。

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)

The Group has established policies, procedures, and rating systems to identify, measure, monitor, control, and report on credit risk. In this connection, guidelines for management of credit risk have been laid down in the Group's Credit Risk Management Manual. These guidelines stipulate delegated lending authorities, credit underwriting criteria, credit monitoring processes, an internal rating structure, credit recovery procedures and a provisioning policy. They are reviewed and enhanced on an ongoing basis to cater for market changes, statutory requirements, and best practices in risk management processes.

The Group's credit risk management for the major types of credit risk is depicted as follows:

(i) Corporate and bank credit risk

The Group has laid down policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate and bank customers, the Group has different internal rating systems that are applied to each counterparty. For exposure classified as Specialised Lending in particular, supervisory slotting criteria are used. To monitor credit concentration risk, the Group has preset limits for exposures to individual industries and for borrowers and groups of borrowers. The Group also has a review process to ensure that the level of review and approval is proper and will depend on the size of the facility and rating of the credit.

The Group undertakes on-going credit analysis and monitoring at several levels. The policies are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The overall portfolio risk as well as individual impaired loans and potential impaired loans are monitored on a regular basis.

(ii) Retail credit risk

The Group's retail credit policy and approval process are designed for the fact that there are high volumes of relatively homogeneous and small value transactions in each retail loan category. The design of internal rating system and formulation of credit policies are primarily based on the demographic factors and the loss experience of the loan portfolios. The Group monitors its own and industry experience to determine and periodically revise product terms and desired customer profiles.

(iii) Credit risk of treasury transactions

The credit risk of the Group's treasury transactions is managed in the same way as the Group manages its corporate and bank credit risk. The Group applies an internal rating system to its counterparties and sets individual counterparty limits.

(a) 信貸風險管理(續)

本集團已制定多項政策、程序及評級系統，以識別、衡量、監察、控制及匯報信貸風險。在此方面，本集團已將信貸風險管理指引詳列於集團的信貸風險管理手冊內，對信貸權限授權、授信標準、信貸監控程序、內部評級架構、信貸追收程序及撥備政策訂下規定。本集團持續檢討和改善該等指引，以配合市場轉變及有關法定要求，及達致風險管理程序的最佳做法。

本集團就下列各類主要信貸風險實行信貸風險管理：

(i) 企業及銀行信貸風險

本集團已制訂多項政策及程序，以評估特定交易對手或交易的潛在信貸風險，以及決定批核有關交易與否。就企業及銀行客戶而言，本集團已制定適用於所有交易對手的內部評級系統。監管分類準則尤其適用於歸類為專門性借貸的風險承擔。為監控信貸集中的風險，本集團已就個別行業及不同的借款人和借款人團體預設風險承擔限額。本集團亦已釐定檢討程序，確保按照貸款的規模和信貸評級，為貸款進行適當的檢討和審批。

本集團持續進行多個層次的信貸分析和監控。有關政策旨在盡早發現需要特別監控的交易對手、行業或產品的風險承擔。交易組合的整體風險和個別減值貸款及潛在減值貸款，均定期予以監控。

(ii) 零售信貸風險

本集團的零售信貸政策和審批程序是因應各類零售貸款中均有大量類似的小額交易而制定的。在設計內部評級系統和制訂信貸政策時，本集團的主要考慮因素包括人口結構因素和有關貸款組合過往的損失。本集團監控本身和行業狀況以釐定和定期修訂產品條款和目標客戶組合。

(iii) 財資交易的信貸風險

本集團採用企業及銀行信貸風險的管理方法，管理本集團財資交易的信貸風險，包括引用內部評級系統處理交易對手及設定個別交易對手的風險限額。

(iv) Credit-related commitment

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

(iv) 與信貸有關的承諾

與信貸有關的承諾和或有事項的風險，本質上與提供貸款予客戶時的信貸風險相同。因此，有關交易必須符合客戶申請貸款時所要達到的信貸申請、組合保存和抵押要求。

(v) Master netting arrangements

To mitigate credit risks, the Group enters into master netting arrangements with same counterparties. Netting agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the statement of financial position.

The following tables present details of financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

(v) 淨額結算總安排

本集團與其相同對手簽訂淨額結算總安排以減低信貸風險。若發生違約事件，根據淨額結算協議，所有與該對手之交易會終止及所有結餘金額以淨額結算。除發生違約事件外，所有與對手之交易會以總額結算及在財務狀況表中的資產和負債通常不會互相抵銷。

下表列示受抵銷、具法律效力之淨額結算總安排及相近協議約束的金融工具詳情。

		2017				
		Gross amounts of recognised financial assets 已確認金融資產總額 HK$ Mn 港幣百萬元	Gross amounts of recognised financial liabilities set off in the statement of financial position 於財務狀況表中抵銷之已確認金融負債總額 HK$ Mn 港幣百萬元	Net amounts of financial assets presented in the statement of financial position 於財務狀況表中列示的金融資產淨額 HK$ Mn 港幣百萬元	Related financial instruments that are not set off 未有於相關金融工具中抵銷之金額 HK$ Mn 港幣百萬元	Net amount 淨額 HK$ Mn 港幣百萬元
Assets	**資產**					
Positive fair value of derivatives	衍生工具的正公平價值	38	–	38	(34)	4
Other accounts	其他賬項	1,164	(763)	401	–	401
Total	總額	1,202	(763)	439	(34)	405

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued) (a) 信貸風險管理(續)

(v) Master netting arrangements (continued) (v) 淨額結算總安排(續)

		2017				
		Gross amounts of recognised financial liabilities 已確認金融負債總額 HK$ Mn 港幣百萬元	Gross amounts of recognised financial assets set off in the statement of financial position 於財務狀況表中抵銷之已確認金融資產總額 HK$ Mn 港幣百萬元	Net amounts of financial liabilities presented in the statement of financial position 於財務狀況表中列示的金融負債淨額 HK$ Mn 港幣百萬元	Related financial instruments that are not set off 未有於相關金融工具中抵銷之金額 HK$ Mn 港幣百萬元	Net amount 淨額 HK$ Mn 港幣百萬元
Liabilities	**負債**					
Negative fair value of derivatives	衍生工具的負公平價值	**69**	**–**	**69**	**(34)**	**35**
Other accounts	其他賬項	**763**	**(763)**	**–**	**–**	**–**
Total	總額	**832**	**(763)**	**69**	**(34)**	**35**

		2016				
		Gross amounts of recognised financial assets 已確認金融資產總額 HK$ Mn 港幣百萬元	Gross amounts of recognised financial liabilities set off in the statement of financial position 於財務狀況表中抵銷之已確認金融負債總額 HK$ Mn 港幣百萬元	Net amounts of financial assets presented in the statement of financial position 於財務狀況表中列示的金融資產淨額 HK$ Mn 港幣百萬元	Related financial instruments that are not set off 未有於相關金融工具中抵銷之金額 HK$ Mn 港幣百萬元	Net amount 淨額 HK$ Mn 港幣百萬元
Assets	**資產**					
Positive fair value of derivatives	衍生工具的正公平價值	44	–	44	(21)	23
Other accounts	其他賬項	431	(369)	62	–	62
Total	總額	475	(369)	106	(21)	85

		2016				
		Gross amounts of recognised financial liabilities 已確認金融負債總額 HK$ Mn 港幣百萬元	Gross amounts of recognised financial assets set off in the statement of financial position 於財務狀況表中抵銷之已確認金融資產總額 HK$ Mn 港幣百萬元	Net amounts of financial liabilities presented in the statement of financial position 於財務狀況表中列示的金融負債淨額 HK$ Mn 港幣百萬元	Related financial instruments that are not set off 未有於相關金融工具中抵銷之金額 HK$ Mn 港幣百萬元	Net amount 淨額 HK$ Mn 港幣百萬元
Liabilities	**負債**					
Negative fair value of derivatives	衍生工具的負公平價值	130	–	130	(21)	109
Other accounts	其他賬項	369	(369)	–	–	–
Total	總額	499	(369)	130	(21)	109

(vi) Concentrations of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's credit portfolio is diversified along geographic, industry and product sectors. For analysis of loans and advances to customers by industry sectors and geographical areas, please refer to Notes 29(c) and 29(d) respectively.

The Group monitors its credit concentration risk by adopting appropriate risk control measures, such as setting limits on exposures to different industries and loan portfolios.

(vi) 信貸集中的風險

信貸集中的風險源於交易對手團體受到地區、經濟或行業因素的影響，而該等團體的整體信貸風險承擔對本集團的總體風險承擔至關重要。本集團的信貸組合分散覆蓋不同地區、行業和產品。有關按行業分類及區域分類的客戶貸款及墊款，請分別參閱附註29(c)及29(d)。

本集團一直採用適當的風險控制措施，例如就不同行業和貸款組合釐定限額，以監控信貸集中的風險。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)

(vii) Maximum exposure

The maximum exposure to credit risk at the end of the reporting period without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

(a) 信貸風險管理(續)

(vii) 最高風險

於報告期結束日並未計算任何抵押品或其他信貸提升的最高信貸風險，即指每一項已減除任何減值準備的金融資產在財務狀況表的賬面值。最高風險摘要如下：

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Cash and balances with banks and other financial institutions	現金及在銀行和其他金融機構的結存	**59,382**	64,414
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款	**53,609**	44,052
Trade bills	貿易票據	**13,909**	11,939
Trading assets	交易用途資產	**3,999**	3,128
Financial assets designated at fair value through profit or loss	指定為通過損益以反映公平價值的金融資產	**3,879**	3,330
Positive fair value of derivatives	衍生工具的正公平價值	**11,335**	8,938
Loans and advances to customers	客戶貸款及墊款	**470,339**	450,445
Available-for-sale financial assets	可供出售金融資產	**116,734**	106,964
Held-to-maturity investments	持至到期投資	**9,798**	5,663
Other assets	其他資產	**32,843**	38,830
Financial guarantees and other credit related contingent liabilities	財務擔保及其他與信貸有關的或然負債	**14,626**	19,464
Loan commitments and other credit related commitments	貸款承擔及其他與信貸有關的承擔	**204,442**	198,789
		994,895	955,956

(viii) Credit quality of loans and advances

Loans and advances to banks are only made to banks with good credit standing. The credit quality of loans and advances to customers can be analysed as follows:

(viii) 貸款及墊款的信貸質素

銀行貸款及墊款只提供予信貸信譽優良之銀行。客戶貸款及墊款的信貸質素分析如下：

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Gross loans and advances to customers	客戶貸款及墊款總額		
– neither past due nor impaired	–無逾期及減值	**468,183**	446,965
– past due but not impaired	–有逾期但未有減值	**416**	510
– impaired	–已減值	**5,177**	6,767
		473,776	454,242

Of which:

其中：

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Gross loans and advances to customers that are neither past due nor impaired	無逾期及減值的客戶貸款及墊款總額		
– pass	–合格	**463,081**	438,607
– special mention	–需要關注	**5,102**	8,358
		468,183	446,965

The Group classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.

本集團根據用作匯報予金管局的貸款分類系統以分類貸款。

The ageing analysis of loans and advances to customers that are past due but not impaired is as follows:

已逾期但未有減值之客戶貸款及墊款的年期分析如下：

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Gross loans and advances to customers that are past due but not impaired	有逾期但未有減值的客戶貸款及墊款總額		
– overdue 3 months or less	–逾期3個月或以下	**416**	510

Loans and advances that would be past due or impaired had the terms not been renegotiated amounted to HK$108 million as at 31st December, 2017 (2016: HK$108 million).

於2017年12月31日，假如並未重訂條款而可能變作逾期或減值貸款及墊款的金額為港幣1.08億元(2016年：港幣1.08億元)。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)

(ix) Credit quality of financial assets other than loans and advances

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate and bank lending risk and risk gradings are applied to the counterparties with individual counterparty limits set.

At the end of the reporting period, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, Moody's Investor Services, or equivalent, is as follows:

(a) 信貸風險管理(續)

(ix) 非貸款及墊款金融資產的信貸質素

資金交易的信貸風險管理方法，與本集團管理其企業及銀行借貸的方法一致及風險級別是適用於設有個別對手限額的對手。

於報告期結束日，按照外部信貸評級機構，穆迪投資服務，或相同等級的評級機構，所指定之債務證券投資的信貸質素分析如下：

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Aaa	Aaa	**7,120**	6,613
Aa1 to Aa3	Aa1 至 Aa3	**26,393**	20,760
A1 to A3	A1 至 A3	**46,820**	39,405
Baa1 to Baa3	Baa1 至 Baa3	**34,482**	29,951
Below Baa3	Baa3 以下	**2,361**	2,489
Sub-total for Rated	有評級小計	**117,176**	99,218
Unrated	無評級	**17,367**	19,867
Total	總額	**134,543**	119,085

At the end of the reporting period, the credit quality of the counterparties to which there were exposures arising from positive fair value of derivatives is as follows:

於報告期結束日，以下由衍生工具的正公平價值所產生之風險的對手信貸質素分析如下：

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Aa1 to Aa3	Aa1 至 Aa3	**664**	1,314
A1 to A3	A1 至 A3	**2,214**	3,527
Baa1 to Baa3	Baa1 至 Baa3	**4,620**	1,572
Below Baa3	Baa3 以下	**56**	533
Unrated	無評級	**3,781**	1,992
Total	總額	**11,335**	8,938

(x) Collateral and other credit enhancements

The Group has established guidelines on the acceptability of various classes of collateral and determined the corresponding valuation parameters. The guidelines and collateral valuation parameters are subject to regular reviews to ensure their effectiveness over credit risk management.

The extent of collateral coverage over the Group's loans and advances to customer depends on the type of customers and the product offered. Types of collateral include residential properties (in the form of mortgages over property), other properties, other registered securities over assets, cash deposits, standby letters of credit and guarantees. Collateral generally is not held over balances and placements with banks and other financial institutions, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The Group takes possession of collateral through court proceedings or voluntary delivery of possession by the borrowers during the course of the recovery of impaired loans and advances. These repossessed assets are reported in the statement of financial position within "other assets" (Note 2(m)). If the recovery from the repossessed assets exceeds the corresponding exposure, the surplus fund is made available either to repay the borrower's other secured loans with lower priority or is returned to the borrower.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset-based securities and similar instruments, which are secured by pools of financial assets. However the credit risk may be implicit in the terms or reflected in the fair value of the corresponding instruments.

The Group's preferred agreement for documenting derivatives activity is the ISDA Master Agreement which covers the contractual framework within which dealing activity across a full range of over-the-counter products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults or following other pre-agreed termination events. It is also common for the Group to execute a Credit Support Annex in conjunction with the ISDA Master Agreement with the counterparty under which collateral is passed between the parties to mitigate the market contingent counterparty risk inherent in the outstanding position.

For contingent liabilities and commitments that are unconditionally cancellable (Note 47), the Group will assess the necessity to withdraw the credit line when there is a concern over the credit quality of the customers. Accordingly, the exposure to significant credit risk is considered as minimal. For commitments that are not unconditionally cancellable, the Group assesses the necessity of collateral depending on the type of customer and the product offered.

(x) 抵押品及其他信用提升

本集團已制訂可接受不同類別抵押品的指引，並釐定相關估值參數。本集團會定期檢討指引及抵押品估值參數，以確保信貸風險管理的成效。

本集團客戶貸款及墊款的抵押品範圍視乎客戶類別及所提供產品而定。抵押品類別包括住宅物業(以物業按揭形式)、其他物業、其他登記抵押資產、現金存款、備用信用證及擔保。除持有用作反向回購及證券借貸活動的抵押品外，在銀行及其他金融機構的結存及存款，以及銀行貸款及墊款一般不需要抵押品。在收回減值貸款及墊款時，本集團會通過法庭程序或借款人自願交出擁有權收回抵押品。該等收回資產於財務狀況表中以「其他資產」列賬(附註2(m))。倘從收回資產所得之追收額超出相關風險承擔時，則會使用盈餘資金償還借款人優先次序較低的已抵押貸款或退回予借款人。

持有用作非貸款及墊款金融資產的抵押品，是按照工具之性質決定。除以一籃子金融資產作抵押的資產融資證券及相同工具外，債務證券、庫券及其他認可票據一般俱屬無抵押的。然而，信貸風險可能隱含於相關工具的條款內或於相關工具的公平價值中反映。

ISDA的主合約為本集團處理衍生交易文件的優先合約，當中涵蓋合約框架，而在合約框架之下，本集團可進行一系列的場外產品交易活動，如其中一方違約或發生其他預先協定的終止事件，則按合約約束參與者以淨額結算合約涵蓋的所有未履行交易。本集團亦會在簽訂ISDA的主合約的同時，與交易對手簽訂信貸附約，據此，抵押品可於訂約方之間轉交，以降低出現在未履約情況下的內在市場或然交易對手風險。

對於或然負債及可無條件取消的承擔(附註47)，如本集團對客戶的信貸質素有疑慮，則會評估是否需要撤回信貸額。因此，本集團面臨重大信貸風險機會視為微乎其微。對於不可無條件取消的承擔，本集團會視乎客戶類別及所提供產品評估是否需要進行抵押。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)

(x) Collateral and other credit enhancements (continued)

The lower of gross loan amount and the estimate of the fair value of collateral and other credit enhancements held against financial assets is as follows:

(a) 信貸風險管理(續)

(x) 抵押品及其他信用提升(續)

貸款總額及持有作抵押金融資產之抵押品及其他信用提升的估計公平價值兩者之較低者如下：

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Fair value of collateral and other credit enhancements held against financial assets that are:	持有作抵押金融資產之抵押品及其他信用提升的公平價值如下：		
– neither past due nor impaired	－無逾期及減值	**306,668**	310,498
– past due but not impaired	－有逾期但未有減值	**408**	466
		307,076	310,964

(b) Market risk management

Market risk is the 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. The aim in managing market risk is to reduce the Group's exposure to the volatility inherent in financial instruments.

The Asset and Liability Management Committee deals with all market risk-related issues of the Group. It is also responsible for conducting a regular review of interest rate trends and deciding the corresponding future business strategy. The Asset and Liability Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to market risk.

The use of derivatives for proprietary trading and the sale of derivatives to customers as risk management products are integral parts of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk, as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest rate, foreign exchange, and equity-related contracts, in the form of both over-the-counter derivatives and exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to manage the risk of these and other trading positions.

In this connection, the key types of market risk that must be managed are:

(i) Currency risk

The Group's foreign currency positions arise from foreign exchange dealing (including derivatives), commercial banking operations, and structural foreign currency exposures. The Group's non-structural foreign currency exposures are mainly denominated in USD and RMB. All foreign currency positions are managed within limits approved by the Board or the Asset and Liability Management Committee.

(b) 市場風險管理

市場風險是指由市場因素，例如利率、外匯、股票價格及商品價格的不利變動而導致本集團溢利或虧損的風險。

資產負債管理委員會負責處理所有與本集團市場風險有關的事項，亦負責定期檢討利率走勢及釐定相應的未來業務策略。本集團風險管理處轄下的資產負債管理部，負責監察與市場風險有關的活動。

進行衍生工具交易及向客戶出售衍生工具以用作風險管理產品為本集團其中一項重要業務。此等工具亦用以管理本集團所承受的市場風險，作為本集團資產負債管理的部分程序。本集團所採用的衍生工具主要為利率、外匯和股份相關合約，即為場外或場內交易的衍生工具。本集團大部分的衍生工具持倉均為切合客戶需求，以及為此等和其他交易項目而進行對沖。

在此方面，本集團主要管理的市場風險包括：

(i) 貨幣風險

本集團的外幣持倉源自外匯買賣(包括衍生工具)、商業銀行業務和結構性外匯風險。本集團的非結構性外幣風險主要以美元及人民幣為單位。所有外幣持倉均維持在董事會或資產負債管理委員會所訂定的限額內。

Structural foreign currency positions, which arise mainly from foreign currency investments in the Group's branches, subsidiaries, and associated companies, are excluded from value-at-risk measurements, as related gains or losses are taken to reserves. Such foreign currency positions are managed with the principal objective of ensuring that the Group's reserves are protected from exchange rate fluctuations. The Group seeks to match its foreign currency denominated assets closely with corresponding liabilities in the same currencies.

結構性外匯持倉主要源自於本集團分行、附屬公司和聯營公司的外匯投資，其有關的溢利及虧損因為已撥入儲備，所以未計算在風險值內。管理此等外幣投資的主要目的，是保障本集團的儲備免受匯率波動的影響。本集團盡力將以外幣計值的資產與以同一貨幣計值的負債，保持在相若水平。

The Group had the following net structural positions which were not less than 10% of the total net structural foreign currency position at the end of the reporting period:

於報告期結束日，本集團的以下結構性持倉淨額不低於結構性外幣淨持倉總額10%：

		2017			2016		
		RMB	**MYR**	**USD**	RMB	MYR	USD
		人民幣	**馬幣**	**美元**	人民幣	馬幣	美元
		HK$ Mn	**HK$ Mn**	**HK$ Mn**	HK$ Mn	HK$ Mn	HK$ Mn
		港幣百萬元	**港幣百萬元**	**港幣百萬元**	港幣百萬元	港幣百萬元	港幣百萬元
Net structural position	結構性持倉淨額	**14,584**	**2,271**	**(6,965)**	12,834	2,033	2,173

(ii) Interest rate risk

The Group's trading interest rate positions arise from treasury and dynamic hedging of commercial banking activities. Interest rate risk is managed daily by the Treasury Markets Division of the Group within the limits approved by the Board or the Asset and Liability Management Committee. The instruments used to manage interest rate risk include interest rate swaps and other derivatives.

(ii) 利率風險

本集團的交易組合中的利率持倉來自財資及商業銀行業務的動態對沖。利率風險由本集團資金市場處按董事會或資產負債管理委員會批准的限額範圍進行日常管理。管理利率風險的工具包括利率掉期和其他衍生工具。

(iii) Equity risk

The Group's equity positions arise from equity investment and dynamic hedging of customer-driven business. Equity risk is managed daily by the Investment Department within the limits approved by the Board, Investment Committee, or the Asset and Liability Management Committee.

(iii) 股份風險

本集團的股份持倉來自股份投資及客戶業務的動態對沖。股份風險由投資部按董事會、投資委員會或資產負債管理委員會批准的限額範圍進行日常管理。

Market risk control limits have been set at varying levels according to the practical requirements of different units. The Board approves the core control limits and has delegated the authority to set detailed control limits to the Asset and Liability Management Committee. Risk, return, and market conditions are considered when setting limits. Active limit monitoring is carried out.

市場風險控制限額設有不同層次以配合各類業務的實際需要。董事會審批核心控制限額並授權資產負債管理委員會審批具體的控制限額。釐定限額時會考慮風險、回報及市場情況等因素，並且採用積極限額監控程序。

In this connection, the Asset and Liability Management Committee monitors the related market risk arising from the risk-taking activities of the Group, to ensure that overall and individual market risks are within the Group's risk tolerance level. Risk exposures are monitored frequently to ensure that they are within established control limits.

在此方面，資產負債管理委員會負責監察本集團承擔市場風險的活動，確保整體及個別市場風險處於本集團的風險承受範圍內。本集團會經常監控風險承擔情況，以確保所承擔風險屬於既定的控制限額內。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(b) Market risk management (continued)

The Group quantifies the market risk of the underlying trading portfolio by means of VaR. VaR is a statistical estimate that measures the potential losses in market value of a portfolio as a result of unfavourable movements in market rates and prices, if positions are held unchanged over a certain horizon time period.

The Group estimates VaR for the Group's trading portfolio by the historical simulation approach, where the VaR is calculated by revaluing the portfolio for each of the market movement scenarios obtained from the historical observation period. This methodology uses movements in market rates and prices over a one-day holding period with a 99% confidence level under a two-year observation period. This approach has been applied since 1st January, 2017. Prior to that, parametric approach was adopted.

Structural foreign exchange positions arising from net investments in branches and subsidiaries are not included in the VaR for the foreign exchange trading position.

The market value of listed shares, the fair value of private equity funds and unlisted equities (collectively the "Unlisted Securities"), are subject to limits and these are managed by the Investment Department of the Group. The Unlisted Securities and listed non-trading equities are not included in the VaR for the equity trading position, and are managed through delegated limits. The limits are subject to regular review by the Asset and Liability Management Committee.

(b) 市場風險管理(續)

本集團運用風險值來量化相關交易組合的市場風險。風險值是統計學上的估計，用來量度於某一時段內持倉維持不變的情況下，因市場息率及價格的不利波動而引致組合的市值潛在虧損。

本集團通過歷史模擬法評估本集團交易組合的風險值，其按從歷史觀察期中截獲的每個市場波動情景對有關組合進行重新估值以計算風險值。該方法是依據1日持倉期、99%置信水平以及過往兩年觀察期來推算市場利率與價格的波動。這種方法是自2017年1月1日起開始採用，而過往是採用參數法。

由分行及附屬公司的淨投資產生的結構性外匯持倉不會包括在計算外匯交易持倉的風險值內。

上市股份的市值，私人股份基金及非上市股份(統稱「非上市證券」)的公平價值均由本集團投資部按限額管理。非上市證券及非交易上市股份是根據特定限額管理及並不包括在交易股份持倉的風險值計算內。資產負債管理委員會須定期檢討該限額。

Value-at-risk statistics

風險值統計

		2017			
		At 31st December 於12月31日 HK$ Mn 港幣百萬元	**Maximum 最高 HK$ Mn 港幣百萬元**	**Minimum 最低 HK$ Mn 港幣百萬元**	**Mean 平均 HK$ Mn 港幣百萬元**
VaR for total trading activities	交易活動的風險值總額	**38**	**49**	**35**	**40**
VaR for foreign exchange trading positions*	外匯交易持倉的風險值*	**8**	**17**	**5**	**11**
VaR for interest rate trading positions	利率交易持倉的風險值	**6**	**7**	**2**	**4**
VaR for equity trading positions	股份交易持倉的風險值	**30**	**37**	**25**	**30**

		2016			
		At 31st December 於12月31日 HK$ Mn 港幣百萬元	Maximum 最高 HK$ Mn 港幣百萬元	Minimum 最低 HK$ Mn 港幣百萬元	Mean 平均 HK$ Mn 港幣百萬元
VaR for total trading activities	交易活動的風險值總額	29	45	27	34
VaR for foreign exchange trading positions*	外匯交易持倉的風險值*	11	14	8	11
VaR for interest rate trading positions	利率交易持倉的風險值	2	7	1	3
VaR for equity trading positions	股份交易持倉的風險值	19	34	17	24

* *Including all foreign exchange positions but excluding structural foreign exchange positions.*

* *包括所有外匯持倉但不包括結構性外匯持倉。*

		2017			
		At 31st December 於12月31日 HK$ Mn 港幣百萬元	**Maximum 最高 HK$ Mn 港幣百萬元**	**Minimum 最低 HK$ Mn 港幣百萬元**	**Mean 平均 HK$ Mn 港幣百萬元**
Stressed VaR for total trading activities	交易活動的受壓風險值總額	**138**	**148**	**97**	**122**

		2016			
		At 31st December 於12月31日 HK$ Mn 港幣百萬元	Maximum 最高 HK$ Mn 港幣百萬元	Minimum 最低 HK$ Mn 港幣百萬元	Mean 平均 HK$ Mn 港幣百萬元
Stressed VaR for total trading activities	交易活動的受壓風險值總額	65	80	61	70

A stressed VaR measure is intended to replicate a VaR calculation that would be generated on current trading portfolio if the relevant market factors were experiencing a period of stress.

受壓風險值是假設相關市場因素在受壓期間下，模擬計算由現行交易組合產生的風險值。

(c) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

The objectives of operational risk management are to identify, assess, monitor, and report operational risk systematically and effectively; to minimise the operational loss and other impact on the Group; and to comply with the relevant regulatory requirements.

The Operational Risk Management Committee is responsible for overseeing operational risk management of the Group while the Operational Risk Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to operational risk.

The operational risk management tools adopted include operational risk incident reporting, risk control self-assessment, risk indicators, operation manuals, insurance policies, etc.

(c) 營運風險管理

營運風險是指由於內部流程、人員和系統不足或缺陷，或因外部事件而導致損失的風險。

營運風險管理的目的在於有系統及有效地識別、評估、監控及匯報營運風險；減少營運虧損及對本集團的其他影響；以及遵守相關監管規定的要求。

營運風險管理委員會負責監督本集團的營運風險管理，而本集團風險管理處轄下的營運風險管理部則負責監察與營運風險有關的活動。

本集團所採用的營運風險管理工具包括營運風險事件匯報、風險控制自我評估、風險指標、營運手冊、保險政策等。

(d) Liquidity risk management

Liquidity risk is the 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).

The purpose of liquidity risk management is to ensure sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory Liquidity Coverage Ratio ("LCR"), and to make new loans and investments as opportunities arise.

(d) 流動資金風險管理

流動資金風險是指本集團因未能獲得充足資金投入而可能無法履行到期責任的風險(融資流動風險)；或因市場深度不足或市場失序，本集團在市場價格大幅降低的情況下無法輕易迅速清算資產的風險(市場流動性風險)。

流動資金風險管理是為了確保本集團維持充足的現金流量以履行所有財務承擔，並掌握業務擴展的機會。當中包括確保本集團能夠在即時或合約期滿時滿足提款要求，在借款期滿時能夠還款，符合法定的流動性覆蓋比率，以及掌握貸款和投資的機會。

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(d) Liquidity risk management (continued)

The Asset and Liability Management Committee is delegated by the Board to oversee the Group's liquidity risk management. The Asset and Liability Management Committee sets the strategy, policy, and limits for managing liquidity risk and the means for ensuring that such strategy and policy are implemented. Regular meetings are held to review the compliance status of the monitoring matrix established and the need for any change in strategy and policy. Liquidity is managed daily by the Capital Markets & Liquidity Management Department under the Treasury Markets Division of the Group within the set limits. The Asset & Liability Management Department under the Risk Management Division of the Group is responsible for monitoring the activities relating to liquidity risk. The Internal Audit Division performs periodic reviews to ensure that the liquidity risk management functions are carried out effectively.

The LCR, which came into effect on 1st January, 2015, imposes a more stringent regulatory regime for liquidity risk management on the Group. Banking (Liquidity) Rules require the Group to meet the minimum LCR by 2019. During the transitional period, the percentage will increase from 60% in 2015 to 100% in 2019, with 10% added to the regulatory requirement each year from 2016. To ensure compliance with the enhanced regulatory requirement, material changes in the LCR will be reviewed regularly by the Asset and Liability Management Committee together with proposed mitigation actions to cope with adverse changes arising from, but not limited to, composition of the deposit base and remaining tenor to maturity, short-term lending activities, and the Group's asset and liability mix strategy. An internal LCR target has been established to maintain the ratio within a suitable range. In planning the asset and liability mix strategy, the Group assesses the impact of asset growth and funding structure on the LCR with support from relevant business units for the Asset and Liability Management Committee's review and decision.

As part of Group efforts to manage the LCR effectively, emphasis is placed on strengthening the deposit base by retaining loyal customers and maintaining customer relationships. The Group balances funding among retail, small business, and wholesale funding to avoid concentration in any one source. Professional markets are accessed through the issuance of certificates of deposit, medium-term notes, subordinated debt, money market placement, and borrowing for the purposes of providing additional funding, maintaining a presence in local money markets, and optimising asset and liability maturities.

Internally, intra-group funding transactions are carried out at arm's length and treated in a manner in line with other third party transactions, with regular monitoring and appropriate control.

(d) 流動資金風險管理(續)

資產負債管理委員會獲董事會授權，負責監察本集團的流動資金風險管理。資產負債管理委員會制訂管理流動資金風險的策略、政策及限額，以及確保執行有關策略與政策的措施。委員會定期舉行會議，檢討各既有監控架構的合規情況，以及是否需要改變策略及政策。流動資金狀況由本集團資金市場處轄下的資本市場及流動資金管理部每日按所訂限額範圍進行管理。本集團風險管理處轄下的資產負債管理部負責監察與流動資金風險相關的活動。稽核處會定期作出檢討，確保流動資金風險管理功能得以有效執行。

流動性覆蓋比率於2015年1月1日起生效，對本集團的流動資金風險管理施加更嚴格的監管制度。《銀行業(流動性)規則》要求本集團必須於2019年達致最低流動性覆蓋比率。過渡期間，有關百分比將由2015年的60%升至2019年的100%，自2016年起監管要求每年增加10%。為確保遵守不斷提升的監管要求，資產負債管理委員會會定期檢閱有關流動性覆蓋比率重大變動的報告和其建議補救措施以應對來自但不限於存款基礎成分及其餘下期限、短期貸款活動以及本集團資產及負債組合策略的不利變動。為將流動性覆蓋比率維持在合適範圍內，已訂立內部流動性覆蓋比率目標。在規劃資產及負債組合策略時，相關業務單位協助本集團評估資產增長及融資架構對流動性覆蓋比率的影響，以供資產負債管理委員會檢討和決策。

為有效地管理流動性覆蓋比率，本集團著力留住忠實客戶及維持客戶關係，藉以增強存款基礎。本集團在零售、小企業和大額融資之間保持資金平衡，避免資金集中於任何一種資源。本集團透過發行存款證、中期票據、後償債項、貨幣市場拆借及借貸進入專業市場，獲取額外資金，並維持於當地金融市場的地位、以及優化資產及負債的期限。

至於內部，集團內公司間的融資交易乃按一般正常交易原則進行，處理方式與其他第三方交易一致，並接受定期監察及適當控制。

In addition to observing the statutory LCR, the Group has established different liquidity metrics – including but not limited to the loan-to-deposit ratio, cumulative maturity mismatch ratio, funding concentration ratio, intra-group exposure threshold, and cross currency funding ratio – to measure and analyse the Group's liquidity risks. As a majority of the Group's liquidity risk arises from the maturity mismatch gap between the Group's asset and liability portfolios, the Group manages liquidity risk by conducting cash flow analysis and projections through the regular use of the Bank's management information system. These are carried out on a regular basis to identify funding needs arising from on and off-balance sheet items in a specific time frame over a set of time horizons. The Group maintains sufficient high quality liquid assets ("HQLAs") as a liquidity cushion that can be accessed in times of stress. The HQLAs for fulfilling the LCR consist of cash, exchange fund bills and notes, high quality government debt securities and other equivalent liquid marketable assets. The majority of HQLAs are denominated in Hong Kong dollars. Contingent funding sources are maintained to provide strategic liquidity to meet unexpected and material cash outflows.

除緊守法定的流動性覆蓋比率外，本集團已設立不同的流動性指標，以衡量及分析流動資金風險，包括(但不限於)貸存比率、累積到期錯配比例、資金集中比率、集團內公司間風險限額及跨貨幣資金比率。由於本集團大部分流動資金風險來自資產與負債組合之間的期限錯配差距，本集團會透過使用本行的管理資訊系統定期對一系列時間內的資產負債表內外項目進行現金流量分析及預測，確定特定時間組別的資金需要，從而管理流動資金風險。本集團維持充足的流動資產，作為能夠在資金受壓時取用的流動資金緩衝。滿足流動性覆蓋比率所需的優質流動資產包括現金、外匯基金票據和債券、優質的政府債務票據及其他同等的流動資產。其中大部分優質流動資產以港幣計值。本集團維持應急融資來源，能提供策略性的流動資金，以應付未能預計的大量資金需求。

The Group also conducts stress testing regularly to analyse liquidity risk. Both on and off-balance sheet items and their impact on cash flow are considered, together with applicable hypothetical and historical assumptions. The assessment and review of market liquidity risk are included in the various control processes, including investment/trading strategy, market risk monitoring, valuation, and portfolio review. Three stress scenarios – namely an institution-specific crisis, a general market crisis, and a crisis involving a combination of the two – are adopted with minimum survival period defined according to HKMA's Supervisory Policy Manual LM-2, "Sound Systems and Controls for Liquidity Risk Management".

本集團亦會定期進行壓力測試，以分析流動資金風險。透過運用適當的虛擬及歷史假設，本集團的壓力測試均已考慮資產負債表內外項目及其對現金流量造成的影響。市場流動資金風險的評估及檢討納入各個控制環節，包括投資／交易策略、市場風險監控、估值及組合檢討。三個壓力情景(即個別銀行危機、整體市場危機，以及結合上述兩種情況的綜合危機)均採用金管局監管政策手冊LM-2「穩健的流動資金風險管理系統及管控措施」界定的最短存活期。

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

本集團會參照壓力測試結果，確認集團內的潛在弱點，並制訂應急融資政策及計劃，當中載列了本集團處理流動資金問題的策略及於緊急情況下彌補現金流不足的程序。

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(d) Liquidity risk management (continued)

The Contingency Funding Policy and Contingency Funding Plan are designed to be pro-active and pre-emptive, and stipulate the following three stages:

1. The Group utilises early warning indicators, which cover both qualitative and quantitative measures, and monitors both internal and external factors. Should there be any early signs of significant impact on the Group's liquidity position, the Asset and Liability Management Committee is informed. The Asset and Liability Management Committee will consider appropriate remedial actions and will consider employing crisis management if the situation warrants.

2. A Crisis Management Committee, which is chaired by the Chairman & Chief Executive, is formed to handle the crisis. Strategy and procedures for obtaining contingency funding, as well as roles and responsibilities of the parties concerned, are clearly stated.

3. In the final stage, a post-crisis review is carried out to recommend necessary improvements to avoid incidents of a similar nature in the future.

An annual drill test is conducted and the Contingency Funding Policy and Contingency Funding Plan are subject to regular review in order to accommodate any changes in the business environment. Any significant changes to the Contingency Funding Policy and Contingency Funding Plan are approved by the Board and the Asset and Liability Management Committee, respectively.

(d) 流動資金風險管理(續)

應急融資政策及計劃旨在提供防患未然的積極措施，並訂明以下三個階段：

1. 本集團運用預早警報指標，當中包括質量性及數量性的措施，及監察內部及外在因素。假如有任何早期跡象顯示本集團流動資金狀況將受重大影響，應通知資產負債管理委員會。資產負債管理委員會將考慮適當的補救措施，並在合適情況下考慮採用危機管理措施。

2. 本集團已設立危機管理委員會，並由主席兼行政總裁擔任該委員會的主席，專責處理危機，並明確規定取得應急資金的策略及程序，以及有關各方的職務及職責。

3. 於最後階段，本集團會在危機結束後對問題進行檢討，並作出必要改進，避免日後出現同類事件。

為應付商業環境中的任何轉變，本集團每年進行演習測試，並定期檢討應急融資政策及計劃。應急融資政策及計劃如有任何重大變動，均須分別取得董事會及資產負債管理委員會的批准。

Analysis of assets and liabilities by remaining maturity: 資產及負債的剩餘期限分析：

		2017							
		Repayable on demand 即時還款 HK$ Mn 港幣百萬元	Within 1 month 1個月內 HK$ Mn 港幣百萬元	3 months or less but over 1 month 1個月以上至3個月 HK$ Mn 港幣百萬元	1 year or less but over 3 months 3個月以上至1年 HK$ Mn 港幣百萬元	5 years or less but over 1 year 1年以上至5年 HK$ Mn 港幣百萬元	Over 5 years 5年以上 HK$ Mn 港幣百萬元	Undated or overdue 無註明日期或逾期 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Assets	**資產**								
Cash and balances with banks and other financial institutions	現金及在銀行和其他金融機構的結存	26,093	2,249	4,410	1,535	–	–	26,383	60,670
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款	–	46,496	5,887	1,226	–	–	–	53,609
Trade bills	貿易票據	32	3,336	3,853	6,688	–	–	–	13,909
Trading assets	交易用途資產	–	557	220	1,681	1,394	147	2,957	6,956
Financial assets designated at fair value through profit or loss	指定為通過損益以反映公平價值的金融資產	–	–	123	119	2,769	868	290	4,169
Positive fair value of derivatives	衍生工具的正公平價值	–	–	–	–	–	–	11,335	11,335
Loans and advances to customers	客戶貸款及墊款	3,674	54,317	30,919	93,731	187,627	96,783	3,288	470,339
Available-for-sale financial assets	可供出售金融資產	–	2,178	15,878	24,592	51,567	22,519	3,591	120,325
Held-to-maturity investments	持至到期投資	–	1,496	714	1,349	5,994	245	–	9,798
Investments in associates	聯營公司投資	–	–	–	–	–	–	9,429	9,429
Fixed assets	固定資產	–	–	–	–	–	–	12,750	12,750
Goodwill and intangible assets	商譽及無形資產	–	–	–	–	–	–	1,959	1,959
Deferred tax assets	遞延稅項資產	–	–	–	–	–	–	602	602
Other assets	其他資產	154	4,280	7,443	10,186	1,170	175	9,684	33,092
Total assets	資產總額	29,953	114,909	69,447	141,107	250,521	120,737	82,268	808,942
Liabilities	**負債**								
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘	4,352	9,485	7,026	6,116	2	–	–	26,981
Deposits from customers	客戶存款	220,257	114,771	127,662	88,810	18,552	1,621	11	571,684
– Demand deposits and current accounts	–活期存款及往來賬戶	85,518	–	–	–	–	–	–	85,518
– Savings deposits	–儲蓄存款	133,969	–	–	–	–	–	–	133,969
– Time, call and notice deposits	–定期及通知存款	770	114,771	127,662	88,810	18,552	1,621	11	352,197
Trading liabilities	交易用途負債	–	–	–	–	–	–	11	11
Negative fair value of derivatives	衍生工具的負公平價值	–	–	–	–	–	–	12,077	12,077
Certificates of deposit issued	已發行存款證	–	4,096	12,500	19,870	–	–	–	36,466
Current taxation	本期稅項	–	–	–	1,160	–	–	–	1,160
Debt securities issued	已發行債務證券	–	–	117	431	459	–	–	1,007
Deferred tax liabilities	遞延稅項負債	–	–	–	–	–	–	551	551
Other liabilities	其他負債	924	4,250	8,358	12,898	8,940	3,454	6,554	45,378
Loan capital	借貸資本	–	–	–	–	12,413	–	–	12,413
Total liabilities	負債總額	225,533	132,602	155,663	129,285	40,366	5,075	19,204	707,728
Net gap	淨差距	(195,580)	(17,693)	(86,216)	11,822	210,155	115,662		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(d) Liquidity risk management (continued) (d) 流動資金風險管理(續)

		2016 (Restated Note 重報註)							
		Repayable on demand 即時還款 HK$ Mn 港幣百萬元	Within 1 month 1個月內 HK$ Mn 港幣百萬元	3 months or less but over 1 month 1個月以上至3個月 HK$ Mn 港幣百萬元	1 year or less but over 3 months 3個月以上至1年 HK$ Mn 港幣百萬元	5 years or less but over 1年以上至5年 HK$ Mn 港幣百萬元	Over 5 years 5年以上 HK$ Mn 港幣百萬元	Undated or overdue 無註明日期或逾期 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Assets	**資產**								
Cash and balances with banks and other financial institutions	現金及在銀行和其他金融機構的結存	34,554	2,334	1,297	1,717	–	–	25,818	65,720
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款	–	36,511	5,550	1,991	–	–	–	44,052
Trade bills	貿易票據	25	1,053	4,739	6,122	–	–	–	11,939
Trading assets	交易用途資產	–	1,015	462	1,040	611	–	1,276	4,404
Financial assets designated at fair value through profit or loss	指定為通過損益以反映公平價值的金融資產	–	74	–	118	2,655	483	224	3,554
Positive fair value of derivatives	衍生工具的正公平價值	–	–	–	–	–	–	8,938	8,938
Loans and advances to customers	客戶貸款及墊款	5,146	48,919	26,316	92,573	178,060	95,454	3,977	450,445
Available-for-sale financial assets	可供出售金融資產	–	4,860	12,123	18,159	50,299	21,523	3,527	110,491
Held-to-maturity investments	持至到期投資	–	355	1,840	1,220	1,665	583	–	5,663
Investments in associates	聯營公司投資	–	–	–	–	–	–	6,011	6,011
Fixed assets	固定資產	–	–	–	–	–	–	11,990	11,990
Goodwill and intangible assets	商譽及無形資產	–	–	–	–	–	–	2,639	2,639
Deferred tax assets	遞延稅項資產	–	–	–	–	–	–	785	785
Other assets	其他資產	130	6,383	6,068	18,103	620	11	7,760	39,075
Total assets	資產總額	39,855	101,504	58,395	141,043	233,910	118,054	72,945	765,706
Liabilities	**負債**								
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘	5,874	11,867	3,097	5,395	242	–	–	26,475
Deposits from customers	客戶存款	202,900	90,949	122,576	96,981	22,383	–	–	535,789
– Demand deposits and current accounts	–活期存款及往來賬戶	74,993	–	–	–	–	–	–	74,993
– Savings deposits	–儲蓄存款	126,462	–	–	–	–	–	–	126,462
– Time, call and notice deposits	–定期及通知存款	1,445	90,949	122,576	96,981	22,383	–	–	334,334
Trading liabilities	交易用途負債	–	–	50	–	–	–	–	50
Negative fair value of derivatives	衍生工具的負公平價值	–	–	–	–	–	–	7,982	7,982
Certificates of deposit issued	已發行存款證	–	4,501	7,124	16,389	843	–	–	28,857
Current taxation	本期稅項	–	–	–	1,605	–	–	–	1,605
Debt securities issued	已發行債務證券	–	1	1	5,423	1,729	–	–	7,154
Deferred tax liabilities	遞延稅項負債	–	–	–	–	–	–	462	462
Other liabilities	其他負債	1,064	5,295	7,504	19,915	7,523	2,878	5,909	50,088
Loan capital	借貸資本	–	–	–	8,165	12,443	–	–	20,608
Total liabilities	負債總額	209,838	112,613	140,352	153,873	45,163	2,878	14,353	679,070
Net gap	淨差距	(169,983)	(11,109)	(81,957)	(12,830)	188,747	115,176		

Note: The 2016 comparative figures have been restated to conform to current period's presentation of Consolidated Statement of Financial Position

註：2016年的比較數字經已重報以符合本期綜合財務狀況表的呈報方式。

As the trading and available-for-sale portfolios may be sold before maturity or deposits from customers may mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows.

由於作交易及可供出售用途的組合可能於到期前出售或客戶存款可能在到期前未被提取，合約到期日並非代表未來現金流的預計日期。

The following tables provide an analysis of the undiscounted cashflow projection of the financial liabilities of the Group at the end of the reporting period based on the dates of their contractual payment obligations:

下表展示於報告期結束日集團的未經折扣之金融負債的預計現金流按其合約支付債務之日期分析：

		2017							
		Carrying amount 賬面值 HK$ Mn 港幣百萬元	Gross cash outflow 現金流出總額 HK$ Mn 港幣百萬元	Repayable on demand 即時還款 HK$ Mn 港幣百萬元	Less than three months 3個月或以下 HK$ Mn 港幣百萬元	Between three months and one year 3個月以上至1年 HK$ Mn 港幣百萬元	Between one and five years 1年以上至5年 HK$ Mn 港幣百萬元	More than five years 5年以上 HK$ Mn 港幣百萬元	Undated 無註明日期 HK$ Mn 港幣百萬元
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘	26,981	27,100	4,353	16,597	6,147	3	–	–
Deposits from customers	客戶存款	571,684	576,718	220,341	243,719	90,481	20,504	1,662	11
– Demand deposits and current accounts	–活期存款及往來賬戶	85,518	85,608	85,593	15	–	–	–	–
– Savings deposits	–儲蓄存款	133,969	133,969	133,969	–	–	–	–	–
– Time, call and notice deposits	–定期及通知存款	352,197	357,141	779	243,704	90,481	20,504	1,662	11
Trading liabilities	交易用途負債	11	11	–	–	–	–	–	11
Negative fair value of derivatives	衍生工具的負公平價值	12,077	12,077	–	–	–	–	–	12,077
Certificates of deposit issued	已發行存款證	36,466	36,609	–	16,646	19,963	–	–	–
Current taxation	本期稅項	1,160	1,160	–	–	1,160	–	–	–
Debt securities issued	已發行債務證券	1,007	1,036	–	120	443	473	–	–
Loan capital	借貸資本	12,413	15,843	–	144	466	14,276	957	–
Interest rate swaps	利率掉期合約	6,205	6,205	1	540	1,369	3,682	613	–
Other liabilities	其他負債	45,929	42,742	884	11,405	11,933	7,975	3,454	7,091
Total	總額	713,933	719,501	225,579	289,171	131,962	46,913	6,686	19,190

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(d) Liquidity risk management (continued) (d) 流動資金風險管理(續)

		2016							
		Carrying amount 賬面值 HK$ Mn 港幣百萬元	Gross cash outflow 現金流出總額 HK$ Mn 港幣百萬元	Repayable on demand 即時還款 HK$ Mn 港幣百萬元	Less than three months 3個月或以下 HK$ Mn 港幣百萬元	Between three months and one year 3個月以上至1年 HK$ Mn 港幣百萬元	Between one and five years 1年以上至5年 HK$ Mn 港幣百萬元	More than five years 5年以上 HK$ Mn 港幣百萬元	Undated 無註明日期 HK$ Mn 港幣百萬元
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘	26,475	26,605	5,874	15,008	5,479	244	–	–
Deposits from customers	客戶存款	535,789	542,739	203,021	215,280	99,162	25,275	1	–
– Demand deposits and current accounts	–活期存款及往來賬戶	75,312	75,393	75,383	10	–	–	–	–
– Savings deposits	–儲蓄存款	126,462	126,487	126,462	12	13	–	–	–
– Time, call and notice deposits	–定期及通知存款	334,015	340,859	1,176	215,258	99,149	25,275	1	–
Trading liabilities	交易用途負債	50	50	–	–	50	–	–	–
Negative fair value of derivatives	衍生工具的負公平價值	7,982	7,982	–	–	–	–	–	7,982
Certificates of deposit issued	已發行存款證	28,857	29,194	–	11,772	16,567	855	–	–
Current taxation	本期稅項	1,605	1,605	–	–	1,605	–	–	–
Debt securities issued	已發行債務證券	7,154	7,267	–	7	5,510	1,750	–	–
Loan capital	借貸資本	20,608	23,265	–	204	8,813	14,248	–	–
Interest rate swaps	利率掉期合約	6,890	6,890	–	767	1,673	4,129	321	–
Other liabilities	其他負債	50,550	46,738	1,005	11,205	18,640	6,650	2,878	6,360
Total	總額	685,960	692,335	209,900	254,243	157,499	53,151	3,200	14,342

(e) Interest rate risk management

Interest rate risk is the risk resulting from adverse movement in interest rates. The Asset and Liability Management Committee is delegated by the Board to oversee the Group's interest rate risk management, establish the strategy and policy for managing interest rate risk, and determine the means for ensuring that such strategies and policies are implemented. Interest rate risk is managed daily by the Treasury Markets Division of the Group within the limits approved by the Board or the Asset and Liability Management Committee. The Asset & Liability Management Department under the Risk Management Division of the Group is responsible for monitoring the activities relating to interest rate risk. The Internal Audit Division performs periodic reviews to ensure that the interest rate risk management functions are implemented effectively.

Interest rate risk primarily results from the timing differences in the re-pricing of interest-bearing assets, liabilities, and off-balance sheet items in the banking book. In determining the level of interest rate risk, assessments are made for the repricing risk, basis risk, options risk, and yield curve risk. The Group manages the interest rate risk on the banking book primarily by focusing on re-pricing mismatches. Gap analysis provides a static view of the maturity and re-pricing characteristics of the Group's assets, liabilities, and off-balance sheet positions. Re-pricing gap limits are set to control the Group's interest rate risk.

(e) 利率風險管理

利率風險是指不利的利率變動帶來的風險。資產負債管理委員會獲董事會授權，負責監察本集團的利率風險管理，訂立管理利率風險的策略與政策，並制定相應措施，以確保執行有關策略與政策。利率風險由本集團資金市場處按董事會或資產負債管理委員會批核的限額範圍進行日常管理。本集團風險管理處轄下的資產負債管理部，負責監察利率風險相關的活動。稽核處會定期作出檢討，確保利率風險管理功能得以有效執行。

利率風險主要是由銀行賬冊內帶息資產、負債及資產負債表外項目在再定息時的時差所致。釐定利率風險水平時，對重訂息率風險、息率基準風險、期權風險及收益率曲線風險進行評估。本集團管理銀行賬冊利率風險的主要集中於重訂息率的錯配。差距分析可讓本集團從靜態角度瞭解資產、負債和資產負債表外持倉的到期情況及重訂息率特點。本行設有重訂息率差距限額以控制本集團的利率風險。

Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on the Group's assets, liabilities, and off-balance sheet positions and is performed on a monthly basis. Sensitivity limits are set to control the Group's interest rate risk exposure under both earnings and economic value perspectives. The results are reported to the Asset and Liability Management Committee on a regular basis.

本集團每月進行敏感度分析，以估算利率變動對盈利和經濟價值的影響，當中假設本集團資產、負債和資產負債表外持倉的收益率曲線出現200個基點的利率衝擊。本集團設有敏感度限額，以控制本集團的盈利及經濟價值兩方面的利率風險承擔。有關結果定期向資產負債管理委員會匯報。

Sensitivity analysis on interest rate risk
The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income and economic value change.

利率風險敏感度分析
本集團採用敏感度分析來量度利率變動對淨利息收入及經濟價值變動可能產生的影響。

		2017				2016			
		HKD港元 HK$ Mn 港幣百萬元	USD美元 HK$ Mn 港幣百萬元	RMB人民幣 HK$ Mn 港幣百萬元	GBP英鎊 HK$ Mn 港幣百萬元	HKD港元 HK$ Mn 港幣百萬元	USD美元 HK$ Mn 港幣百萬元	RMB人民幣 HK$ Mn 港幣百萬元	GBP英鎊 HK$ Mn 港幣百萬元
Impact on earnings over the next 12 months if interest rates rise by 200 basis points	倘利率上調200個基點對未來12個月的盈利影響	**1,064**	**158**	**376**	**57**	946	50	691	39
Impact on economic value if interest rates rise by 200 basis points	倘利率上調200個基點對經濟價值的影響	**(334)**	**145**	**68**	**30**	(206)	96	501	29

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis is based on the following assumptions:

敏感度分析乃依據資產及負債的靜態利率風險狀況作出，僅作風險管理用途。有關分析乃根據以下假設進行：

(i) there is a parallel shift in the yield curve and in interest rates;

(ii) there are no other changes to the portfolio;

(iii) no loan prepayment is assumed as the majority of loans is on a floating rate basis; and

(iv) deposits without fixed maturity dates are assumed to be repriced on the next day.

(i) 收益率曲線及利率平行移動；

(ii) 組合並無其他變動；

(iii) 假設沒有提早償還貸款，因大部分貸款屬於浮息貸款；及

(iv) 假設沒有固定到期日的存款於翌日再定息。

Actual changes in the Group's net interest income and the economic value resulting from the increases in interest rates may differ from the results of this sensitivity analysis.

利率上調而導致本集團淨利息收入及經濟價值的實際變動與敏感度分析的結果可能有所不同。

(f) Strategic risk management

Strategic risk is the 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 technology changes.

(f) 策略性風險管理

策略性風險是指因本集團營運環境變動、不良策略決策、決策實施不當或對工業、經濟或技術變動反應遲緩而對本集團盈利、資本、信譽或地位造成當前或潛在影響的風險。

The Risk Management Division of the Group monitors the activities under the Group's prevailing interest earning asset mix and funding strategies and regularly reports the status to the Asset and Liability Management Committee, Risk Management Committee, RIC and the Board, where appropriate.

本集團轄下的風險管理處監控本集團現行生息資產組合及融資策略下的活動，並於適當情況下定期向資產負債管理委員會、風險管理委員會、風險委員會及董事會匯報有關情況。

Capital management through projection of the Capital Adequacy Ratio and Internal Capital Adequacy Assessment Process is conducted to assess the level and structure of capital resources needed to support the risks that the Group tolerates.

本集團透過資本充足比率預計及內部資本充足評估程序進行資本管理，以評估支援本集團在風險可承受水平上所需的資本資源水平及結構。

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(g) Legal risk management

Legal risk is the risk of loss arising from unenforceable contracts, lawsuits, or adverse judgments that may disrupt or otherwise negatively affect the operations or financial condition of the Group.

The objective of managing legal risk is to identify, assess, monitor and report on legal risk, and to comply with the relevant legal and regulatory requirements.

The Group provides appropriate training courses conducted by qualified internal personnel and/or external lawyers/professionals, and issues regular reminders to staff members. When dealing with legal matters, the Group engages qualified internal personnel and, when necessary and appropriate, external lawyers with appropriate expertise including counsel and senior counsel for advice.

The Operational Risk Management Committee is responsible for overseeing the management of the Group's legal risk.

(g) 法律風險管理

法律風險是指出現合約未能執行、訴訟或不利審判的情況，可能對本集團的日常運作或財務狀況造成擾亂或負面影響而導致損失的風險。

法律風險管理的目的，在於識別、評估、監控及匯報法律風險，以及遵守相關法律及監管規定的要求。

本集團提供由合資格內部人員及／或外聘律師／專業人士講解的適當培訓課程，並向員工發出定期提示。當處理法律事宜，本集團諮詢合資格內部人士，並於必要及適當的情況下徵詢具備相應專業知識的外聘律師(包括大律師及資深大律師)的意見。

營運風險管理委員會負責監督本集團的法律風險管理。

(h) Reputation risk management

Reputation risk is the risk that the Group's reputation is damaged by one or more events, which 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, result in costly litigation, or lead to a decline in its customer base, business, and/or revenue.

The objective of managing reputation risk is to identify, assess, monitor, report, and mitigate reputation risk, and to ensure compliance with the relevant regulatory requirements.

The Group establishes 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.

The Group formulates, and adheres 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. The Guidelines for Incident Response and Management are established for swift response to and management of unexpected incidents. The Media Guidelines are established to ensure effective and consistent delivery of the Group's key messages to the media.

The Operational Risk Management Committee is responsible for overseeing the management of the Group's reputation risk.

(h) 信譽風險管理

信譽風險是指因對本集團一項或多項有關營商規則、行為或財務狀況事件的負面報導而損及本集團信譽的風險。此等負面報導，不管真確與否，有可能影響公眾對本集團的信心，可能導致高昂的訴訟費用，或令本集團客戶、業務及／或收入減少。

信譽風險管理的目的在於識別、評估、監控、匯報及降低信譽風險，以及確保符合相關監管規定的要求。

本集團制定各項政策、指引、手冊及守則，確保遵守適用法例、規則及規例，同時確保本集團維持高水準的企業管治，藉此保障及提升本集團的信譽。

本集團制定並遵從信譽風險管理手冊，該手冊載錄對信譽風險實施系統化管理的方法，包括識別、評估、監控、緩減及控制信譽風險的機制，藉此保護及提升本集團的信譽。本集團已建立事件應對及管理指引，以快速應對並管理未能預期的事件。並已建立媒體指引，以確保有效及一致地將本集團的關鍵信息傳達予媒體。

營運風險管理委員會負責監督本集團的信譽風險管理。

(i) Compliance risk management

Compliance risk is the 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 banking activities.

The Group establishes 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, which govern the Group's operations. The Group formulates, and adheres 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. Independent regulatory compliance reviews are conducted on major functions of the Bank using a risk-based approach.

(i) 合規風險管理

合規風險是指因法律及監管制裁、罰金或罰款、財務損失，或因未能遵守適用於本集團銀行業務的法例、規例、規則、相關自律組織標準及行為守則，而導致本集團損失的風險。

本集團已制定各項政策、指引及手冊，確保遵守所有適用法例、規則、行為守則、行業標準及有關監管機構發出的規管本集團營運的指引。本集團已制定並遵從集團合規風險管理手冊，該手冊載錄對合規風險實施系統化管理的方法，包括識別、評估、監控、緩減及控制合規風險的機制，藉此令本集團有效地管理合規風險。並採用風險為本的方式對本行主要職能進行獨立合規監察審查。

(j) Technology risk management

Technology risk is the 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.

The Group has established a technology risk management framework, supported by comprehensive control policies, standards, guidelines, and procedures.

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 are adopted.

The Operational Risk Management Committee is responsible for overseeing the technology risk-related issues of the Group.

(j) 科技風險管理

科技風險是指因技術程序、人員及／或計算系統不足或出現故障；或因未經授權使用或破壞技術資源(尤其在涉及網絡安全及電子銀行時)導致本集團損失的風險。

本集團已建立科技風險管理機制，並以全面的控制政策、標準、指引及程序確保其實施。

與網絡系統及應用程式安全、客戶身份驗證、新產品及服務風險評估、以及資料保密及完整性相關的控制措施已被採納。

營運風險管理委員會負責監督本集團的科技風險相關事項。

(k) New product and business risk management

New product and business risk is the 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 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.

The Group establishes a robust risk governance structure, supported by comprehensive control guidelines and procedures. A structured process, which ensures that when initiating a new product or business, the potential significant risks are duly assessed, documented, and approved. It also facilitates Senior Management's oversight of new products and businesses.

(k) 新產品及業務風險管理

新產品及業務風險是指本集團在新產品推出、現有產品結構性變動及新業務運作(即透過設立新附屬公司及／或合併及收購)時，未充分預先評估其重大潛在風險，而導致本集團損失的風險。此等重大潛在風險包括信貸風險、市場風險、營運風險、流動資金風險、利率風險、法律風險、科技風險、合規風險、策略性風險、信譽風險及持續業務運作風險。

本集團已建立穩健風險管治架構，並以全面的控制指引及程序確保其實施。透過框架內的程序，本集團確保在推出新產品或業務時對潛在重大風險作出適當評估、記錄及審批；其亦有助高級管理層監督新產品及業務。

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(k) New product and business risk management (continued)

Each new product launch must go through an approval process, which includes business and financial analysis and risk assessment. New products are reviewed and assessed by the New Products Evaluation Working Group (comprising the department heads of supporting units and representatives of risk controllers), endorsed by the Steering Group (chaired by the Bank's Group Chief Risk Officer and comprising the division heads of supporting units), and approved by the Risk Management Committee.

(k) 新產品及業務風險管理(續)

每一個新產品的推出，須通過審批過程，包括業務和財務分析和風險評估。這些新產品首先由新產品評審工作組審核及評估，並由督導組認可及由風險管理委員會批准。新產品評審工作組由支援職能的部門主管及風險監控代表組成；而督導組的主席為集團風險總監，並由支援職能的處級主管組成。

(l) Business continuity risk management

Business continuity risk is the 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..

To manage business continuity risk, the Group establishes comprehensive policies, guidelines, and manuals. Business impact analysis is conducted and business continuity plans are developed by all individual functional units of the Group. Annual drills are performed to test preparedness and effectiveness of the business continuity plans.

(l) 持續業務運作風險管理

持續業務運作風險是指事件或危機發生時業務中斷導致損失的風險。業務中斷可能由員工、資訊科技及電訊系統、行址、主要服務提供者、關鍵記錄等相關損失而引致。

為管理持續業務運作風險，本集團已制定全面的政策、指引及手冊。本集團所有個別職能單位均進行業務影響分析及制定業務持續規劃。並每年進行演習以測試業務持續規劃是否備妥及有效。

(m) Capital management

The HKMA sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements the HKMA requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the Group's VaR models and uses its internal gradings as the basis for risk weightings for credit risk. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

In addition to meeting the regulatory requirements, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

Capital managed by the Group to achieve these objectives includes ordinary share capital, retained profits, other reserves, and non-controlling interests after deductions for goodwill and intangible assets. It also includes subordinated liabilities and collectively assessed impairment allowances.

The HKMA supervises the Group on both a consolidated basis and a solo-consolidated basis, which sets capital requirements and receives information of capital adequacy on a regular basis for the Group as a whole. Individual overseas branches and banking subsidiaries are directly regulated by respective domestic banking supervisors, who set and monitor their capital adequacy requirements. In certain jurisdictions, non-banking financial subsidiaries are also subject to the supervision and capital requirements of domestic regulatory authorities.

(m) 資本管理

金管局制定及監察本集團整體的資本規定。在實施現行的資本規定時，金管局規定本集團維持既定的總資本對總風險加權資產比率。本集團根據風險值模式計算交易組合的市場風險，及根據內部評級作為信貸風險之風險比重的基準。銀行業務分為交易賬冊或銀行賬冊。風險加權資產依照特別規定而定，特別規定旨在反映與資產的不同風險水平及資產負債表外的風險。

除符合監管規定外，本集團管理資本的主要目的是保障本集團可持續經營，藉以不斷為股東提供回報及為其他利益關涉者帶來利益。方法包括依照風險水平釐定產品及服務價格，及以合理的成本提供融資渠道。

以求達至該目的，本集團管理資本包括股本、留存溢利、其他儲備，及非控股權益及經已扣除商譽和無形資產。

金管局按綜合基準及單獨綜合基準以監管本集團，並制訂資本要求及定期收集本集團整體性的資本充足資料。個別海外分行及銀行附屬公司分別由當地的銀行監管機關直接監管，並制訂及監控其資本充足要求。在某些地區，非銀行財務附屬公司是受當地監管機關規管及資本要求。

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

本集團積極定期檢討及管理資本架構，以期在爭取更高股東回報與維持良好資本的好處和安全之間取得平衡，並且因應經濟情況的轉變調整資本架構。

The process of allocating capital to specific operations and activities is undertaken by the Asset and Liability Management Committee and is reviewed regularly by the Risk Management Committee, RIC and the Board.

調配資本至特定業務及活動的程序由資產及負債管理委員會進行，並由風險管理委員會、風險委員會及董事會定期檢討。

Consistent with industry practice, the Group monitors its capital structure on the basis of the capital adequacy ratios and there have been no material changes in the Group's policy on the management of capital during the year.

本集團依據行業慣例，以資本充足比率為基準監察資本架構，年度內本集團資本管理政策並無重大改變。

The capital adequacy ratios as at 31st December, 2017 and 31st December, 2016 are computed on the consolidated basis of the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Capital Rules of the Banking Ordinance.

2017年12月31日及2016年12月31日的資本充足比率是依據金管局為監管目的而制定的，本行及若干附屬公司已按綜合基準計算，並符合《銀行業條例》的《資本規則》。

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the years ended 31st December, 2017 and 31st December, 2016 and the Group's capital ratios are well above the minimum required by the HKMA.

截至2017年12月31日及2016年12月31日止年度內，本集團及其個別受監管業務已符合所有外間訂立的資本規定，以及本集團俱遠高於金管局所定的最低規定比率。

46. FAIR VALUES OF FINANCIAL INSTRUMENTS 金融工具的公平價值

(a) Financial instruments carried at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following hierarchy of methods:

Level 1 – Quoted market price in an active market for an identical instrument.

Level 2 – Valuation techniques based on observable input. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(a) 以公平價值列賬的金融工具

公平價值估計是根據金融工具的特性和相關市場資料於某一特定時間作出，因此一般是主觀的。本集團以下列的分級方法計算公平價值：

第一級－參考同一工具在活躍市場取得的市場報價。

第二級－根據可觀察的參數之估值模式。為此級別估值的工具，包括以下方式：就相若工具在活躍市場取得的市場報價；就相若工具在非活躍市場取得的市場報價；或其他估值模式，而該等估值模式所用的參數，是直接或間接可從市場觀察所得的數據。

第三級－根據重要但非可觀察得到的參數之估值模式。為此級別估值的工具，其估值模式所輸入之參數為非可觀察的數據，惟該等非可觀察的數據可以對估值產生重大影響。為此級別估值的工具，也包括在活躍市場取得相若金融工具的市場報價，惟當中需要作出非可觀察之調整或假設，以反映不同金融工具之間的差別。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

46. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED) 金融工具的公平價值(續)

(a) Financial instruments carried at fair value (continued)

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or counterparty quotations. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and various market widely recognised option pricing models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, equity prices, foreign currency exchange rates, index prices, historical or implied volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price of the financial instrument that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the reporting date.

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses valuation models, which usually are developed from recognised valuation methodologies. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation control function, namely Financial Instruments Valuation Group ("FIVG") which comprises control units independent of front office management. Procedures for price verification have been established. Any pricing models to be used would be subject to a rigorous validation and approval process.

(a) 以公平價值列賬的金融工具(續)

於活躍市場買賣的金融資產及金融負債，是根據市場報價或交易對手報價以釐定其公平價值。而對於所有其他金融工具，本集團則利用估值模式以釐定公平價值。估值模式包括淨現值及現金流量折現模式、以及其他市場廣泛應用的期權估值模式。用於估值模式之假設及參數包括無風險利率、基準利率、股票價格、外幣兑換率、指數價格、過往或預期波幅及相聯關係。採用估值模式的目的是計量公平價值，藉以在申報日能反映金融工具的價格，而該價格可被視為在正常交易下市場人士當賣出資產時可收取或當轉移負債時須支付之款項。

本集團會使用廣泛應用的估值模式，以釐定一般性及較簡單金融工具的公平價值，例如僅使用可觀察市場價格、及毋須管理層耗時判斷及估計之利率及貨幣掉期。可觀察價格及模式的參數，通常可從市場上的上市債務及股份證券、在交易所買賣的衍生工具和簡單的場外交易衍生工具如利率掉期獲取。獲取可觀察市場價格及模式的參數，可以減省管理層需時判斷及估計，也可減少有關釐定公平價值的不穩定因素。是否取得可觀察市場價格及參數，視乎產品及市場性質，並會因金融市場的個別事件和一般情況而有不同變化。

至於較複雜的金融工具，本集團會使用通常由已有認受性的估值模式改動而來。部分甚或所有須予輸入模式的重要參數或未能從市場中觀察得出，而必須從市場價格或利率計算、或基於假設而估計而得出。該等須利用重要而非可觀察之參數的估值模式，需要管理層投入較多時間於判斷及估計，始能釐定金融工具的公平價值；而揀選適當的估值模式、為估值之金融工具決定其預期的未來現金流、決定交易對手方違約和提早還款的或然率，以及挑選適用的貼現率等，一般皆需要管理層的判斷和估計。

本集團已就計算公平價值設立了監控機制。此機制包括擁有產品監控功能並獨立於前線管理人員，稱為金融工具估值群組(「群組」)。價格核賣的程序已經確立。任何將被採用的價格模式必須經過嚴格的檢測及審批程序。

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

下表是分析於報告期期末，在公平價值分級內金融工具之公平價值的處理方式：

		2017				2016			
		Level One 第一級 HK$ Mn 港幣百萬元	**Level Two 第二級 HK$ Mn 港幣百萬元**	**Level Three 第三級 HK$ Mn 港幣百萬元**	**Total 總額 HK$ Mn 港幣百萬元**	Level One 第一級 HK$ Mn 港幣百萬元	Level Two 第二級 HK$ Mn 港幣百萬元	Level Three 第三級 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Recurring fair value measurement	**重覆發生的公平價值釐定**								
Assets	**資產**								
Trading assets	交易用途資產	**3,018**	**3,938**	**–**	**6,956**	1,566	2,838	–	4,404
Financial assets designated at fair value through profit or loss	指定為通過損益以反映公平價值的金融資產	**2,594**	**1,575**	**–**	**4,169**	2,097	1,457	–	3,554
Positive fair value of derivatives	衍生工具的正公平價值	**–**	**11,335**	**–**	**11,335**	–	8,938	–	8,938
Available-for-sale financial assets	可供出售金融資產	**83,835**	**35,928**	**562**	**120,325**	73,567	36,431	493	110,491
		89,447	**52,776**	**562**	**142,785**	77,230	49,664	493	127,387
Liabilities	**負債**								
Trading liabilities	交易用途負債	**11**	**–**	**–**	**11**	50	–	–	50
Negative fair value of derivatives	衍生工具的負公平價值	**–**	**12,077**	**–**	**12,077**	–	7,982	–	7,982
Financial liabilities designated at fair value through profit or loss	指定為通過損益以反映公平價值的金融負債	**–**	**15,616**	**–**	**15,616**	–	18,524	–	18,524
		11	**27,693**	**–**	**27,704**	50	26,506	–	26,556

During the years ended 31st December 2017 and 2016, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

截至2017年及2016年12月31日止之年內，根據第一級及第二級分級方法釐定公平價值之金融工具，兩者之間並無重大的轉移。本集團的政策是只確認於報告期期末公平價值分級之間發生的轉移。

Information about significant unobservable inputs in Level 3 valuations

有關第三級估值的重要非可觀察參數資料

	Valuation technique 估值模式	**Significant unobservable input(s) 重要非可觀察參數**	**Range 幅度**
Unlisted available-for-sale equity instruments 非上市可供出售股份工具	Net asset value 資產淨值	N/A 不適用	N/A 不適用
	Discounted cash flow model 現金流折扣模式	Discount rate 折扣率	15.4% (31-12-2016: 11.92%)
		Marketability discount 市場性折扣	20% (31-12-2016: 20%)
	Market-comparable approach 市場可類比法	Earnings multiple 盈利倍數	25.13%–26.33% (31-12-2016: N/A不適用)
		P/B ratios 市賬率	4.11%–4.39% (31-12-2016: N/A不適用)
		Marketability discount 市場性折扣	50% (31-12-2016: N/A不適用)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

46. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED) 金融工具的公平價值(續)

(a) Financial instruments carried at fair value (continued)

The fair values of unlisted available-for-sale equity instruments are estimated using the discounted cash flow model, on the basis of an analysis of the investee's financial position and results, or with reference to multiples of comparable listed companies, such as price/earning ratio of comparables, adjusted for a marketability discount to reflect the fact that the shares are not actively traded. An increase in the ratio/investee's financial position and results in isolation will result in favourable movement in the fair values, while an increase in discount rate/marketability discount in isolation will result in unfavourable movement.

Valuation of financial instruments in Level 3 is subject to the same valuation control framework as described above and reviewed regularly by FIVG.

(1) Valuation of financial instruments with significant unobservable inputs

Movements in the recognised fair values of instruments with significant unobservable inputs were as follows:

(a) 以公平價值列賬的金融工具(續)

非上市可供出售股份工具的公平價值是採用現金流折扣模式作估算，根據受投資公司的財務狀況及業績之分析，或參考可比較上市公司之倍數(如價格／盈利率的比較)，但須計入市場性折扣以反映該股份並非有活躍交易之調整。任何因比率／受投資公司的財務狀況及業績之個別增加對公平價值有正面影響，而因折扣率／市場性折扣之個別增加則對公平價值有負面影響。

在第三級之金融工具估值是受以上所述之相同估值監控機制及金融工具估值群組的定期檢視。

(1) 使用重要而非可觀察之參數的金融工具估值

已列賬並含有重要而非可觀察參數的工具，其公平價值之變動如下：

		2017		
		Positive fair value of derivatives 衍生工具的正公平價值 HK$ Mn 港幣百萬元	Available-for-sale financial assets 可供出售金融資產 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Assets	**資產**			
At 1st January, 2017	於2017年1月1日	–	493	493
Purchases	購入	–	42	42
Settlements	結算	–	(86)	(86)
Changes in fair value recognised in the income statement	公平價值變動確認於收益表	–	(2)	(2)
Changes in fair value recognised in the other comprehensive income	公平價值變動確認於其他全面收益	–	114	114
Exchange adjustments	匯兑調整	–	1	1
At 31st December, 2017	於2017年12月31日	–	562	562
Total gains or losses for the year included in available-for-sale fair value reserve of the other comprehensive income for assets held at the end of the reporting period	於報告期結束日持有之資產而已計入年度內其他全面收益之可供出售公平價值儲備之收益或虧損總額	–	114	114
Total gains or losses for the year included in the income statement for assets held at the end of the reporting period recorded in net trading income	於報告期結束日持有之資產而已計入年度內收益表之交易收入淨額	–	–	–

During the year 2016, the Group had developed an internal valuation model based on observable market inputs for pricing various foreign exchange, equity and interest rate structured derivatives contracts. As a result, these financial instruments were transferred from Level 3 to Level 2 of the fair value hierarchy at the reporting date.

在2016年，本集團按市場可觀察參數制定了一套內部估價模式為各種外匯、股份及利率結權衍生合約作定價。因此，於報告期結束日，該等金融工具的公平價值分級由第三級轉入第二級內。

		2016		
		Positive fair value of derivatives 衍生工具的正公平價值 HK$ Mn 港幣百萬元	Available-for-sale financial assets 可供出售金融資產 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Assets	**資產**			
At 1st January, 2016	於2016年1月1日	3,141	750	3,891
Purchases	購入	–	11	11
Settlements	結算	(1,140)	(52)	(1,192)
Changes in fair value recognised in the income statement	公平價值變動確認於收益表	(1,503)	–	(1,503)
Changes in fair value recognised in the other comprehensive income	公平價值變動確認於其他全面收益	–	(15)	(15)
Exchange adjustments	匯兌調整	–	1	1
Transfer to level 2	轉入第二級	(498)	(173)	(671)
Transfer to asset classified as assets held for sale	轉至分類為持有作出售資產	–	(29)	(29)
At 31st December, 2016	於2016年12月31日	–	493	493
Total gains or losses for the year included in available-for-sale fair value reserve of the other comprehensive income for assets held at the end of the reporting period	於報告期結束日持有之資產而已計入年度內其他全面收益之可供出售公平價值儲備之收益或虧損總額	–	(15)	(15)
Total gains or losses for the year included in the income statement for assets held at the end of the reporting period recorded in net trading income	於報告期結束日持有之資產而已計入年度內收益表之交易收入淨額	–	–	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

46. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED) 金融工具的公平價值(續)

(a) Financial instruments carried at fair value (continued)

(1) Valuation of financial instruments with significant unobservable inputs (continued)

(a) 以公平價值列賬的金融工具(續)

(1) 使用重要而非可觀察之參數的金融工具估值(續)

		2017 **Negative fair value of derivatives 衍生工具的負公平價值 HK$ Mn 港幣百萬元**	2016 Negative fair value of derivatives 衍生工具的負公平價值 HK$ Mn 港幣百萬元
Liabilities	**負債**		
At 1st January	於1月1日	–	3,017
Settlements	結算	–	(1,139)
Changes in fair value recognised in the income statement	公平價值變動確認於收益表	–	(1,417)
Transfer to level 2	轉入第二級	–	(461)
At 31st December	於12月31日	–	–
Total gains or losses for the year included in the income statement for liabilities held at the end of the reporting period recorded in net trading income	於報告期結束日持有之負債而已計入年度內收益表之交易收入淨額	–	–

(2) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions

(2) 因重要而非可觀察之假設變動至合理可行之另類假設所產生的影響

		2017			
		Effect recorded in profit or loss 直接記錄於損益上之影響		**Effect recorded directly in equity 直接記錄於股東權益上之影響**	
		Favourable 有利 HK$ Mn 港幣百萬元	**(Unfavourable) (不利) HK$ Mn 港幣百萬元**	**Favourable 有利 HK$ Mn 港幣百萬元**	**(Unfavourable) (不利) HK$ Mn 港幣百萬元**
Positive fair value of derivatives	衍生工具的正公平價值	–	–	–	–
Available-for-sale financial assets	可供出售金融資產	–	–	**47**	**(47)**
		–	–	**47**	**(47)**

		2016			
		Effect recorded in profit or loss 直接記錄於損益上之影響		Effect recorded directly in equity 直接記錄於股東權益上之影響	
		Favourable 有利 HK$ Mn 港幣百萬元	(Unfavourable) (不利) HK$ Mn 港幣百萬元	Favourable 有利 HK$ Mn 港幣百萬元	(Unfavourable) (不利) HK$ Mn 港幣百萬元
Positive fair value of derivatives	衍生工具的正公平價值	–	–	–	–
Available-for-sale financial assets	可供出售金融資產	–	–	41	(41)
		–	–	41	(41)

The fair values of financial instruments are in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The table above shows the sensitivity of fair values due to parallel movement of plus or minus 10 per cent in reasonably possible alternative assumptions.

在若干情況下，計算金融工具的公平價值所使用的估值模式，其含有的假設並非依據在相同工具的當前可觀察市場交易價格，亦非依賴其他可觀察的市場數據。上表顯示公平價值之敏感度，即因轉用至合理可行之另類假定所產生的正、負10%的價值的並行變動。

(b) Fair values of financial instruments carried at other than fair value

(b) 以公平價值以外列賬的金融工具公平價值

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented below:

本集團採用下列方法和重要假定，以釐定如下的金融工具的公平價值：

(i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the end of the reporting period.

(i) 不設指定期限的活期存款和儲蓄賬戶的公平價值，乃假定為於報告期結束日可按要求而支付的金額。

(ii) The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value.

(ii) 浮息金融工具的公平價值，乃假定為與其賬面值相若。如此等工具為貸款和非上市債務證券，由於相關的信貸風險影響是在賬面值和公平價值中將減值準備金額減除後才分別予以確認，因此其公平價值不能反映其信貸素質的改變。

(iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(iii) 以攤銷成本入賬的定息貸款和按揭貸款的公平價值，乃在此等貸款按相若貸款所獲提供的目前市場利率批出時，以市場利率比較的方式估計。由於相關的信貸風險影響是在賬面值和公平價值中將減值準備金額減除後才分別予以確認，在決定公平價值總額時，貸款組合內各項貸款的信貸素質的改變均不會予以考慮。

(iv) The fair value of unquoted equity investments is estimated, if possible, using the applicable dividend discount model, or share of net asset value in the investment, or applying a discount to the market value of investments with a lock-up period.

(iv) 非上市股票投資的公平價值是在可能情況下採用適用的股息折扣模式，或應佔投資的淨資產，或為設有禁售期之投資按其市值以折扣計算。

(v) The fair value of unlisted open-ended investment funds is estimated using the net asset value per share as reported by the managers of such funds.

(v) 非上市開放式投資基金的公平價值估計，是基於投資經理所匯報的每股資產淨值作出。

(vi) The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

(vi) 已發出的融資擔保之公平價值，是以參考在相若服務的公平交易中所徵收費用之可取得相關資料而釐定；有關的資料也可參考利率差價而估計，亦可以就貸款機構對發出擔保所實際徵收的息率，與在沒有取得擔保之情況下而貸款機構將可能徵收的估計息率作出比較，並在當中取用較可靠的相關資料以釐定公平價值。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

46. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED) 金融工具的公平價值(續)

(b) Fair values of financial instruments carried at other than fair value (continued)

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31st December, 2017 and 2016 except as follows:

(b) 以公平價值以外列賬的金融工具公平價值(續)

除下列者外，本集團以成本或攤銷成本入賬的金融工具賬面值，與其於2017年12月31日及2016年同日之公平價值相若。

		2017				
		Carrying amount 賬面值 HK$ Mn 港幣百萬元	**Fair value 公平價值 HK$ Mn 港幣百萬元**	**Level 1 第一級 HK$ Mn 港幣百萬元**	**Level 2 第二級 HK$ Mn 港幣百萬元**	**Level 3 第三級 HK$ Mn 港幣百萬元**
Financial assets	金融資產					
Held-to-maturity investments	持至到期投資	**9,798**	**9,756**	**3,469**	**6,287**	**–**

		2016				
		Carrying amount 賬面值 HK$ Mn 港幣百萬元	Fair value 公平價值 HK$ Mn 港幣百萬元	Level 1 第一級 HK$ Mn 港幣百萬元	Level 2 第二級 HK$ Mn 港幣百萬元	Level 3 第三級 HK$ Mn 港幣百萬元
Financial assets	金融資產					
Held-to-maturity investments	持至到期投資	5,663	5,724	3,967	1,757	–

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures level 2 fair values using the following method and there is no change to the valuation technique:

Level 2 – Valuation techniques based on observable input. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

釐定公平價值通常是較具主觀性的，及根據在其一特定時間點按金融工具之特性及相關市場資料而作出。本集團釐定第二級公平價值是採納以下方法及估值模式並無改變：

第二級 — 估值模式是以可觀察參數為基準。此類別工具估值包括採用：在活躍市場內相近工具有報價的市場價格；在較不活躍之市場內相近工具有報價的價格；或其他估值模式而所有重要參數是直接或間接地由市場資料可觀察到。

47. OFF-BALANCE SHEET EXPOSURES 資產負債表以外的風險

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

(a) 或然負債及承擔

每項或然負債及承擔主要類別的合約金額摘要如下：

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Contingent liabilities	或然負債		
Direct credit substitutes	直接信貸代替品	**12,319**	17,568
Transaction-related contingencies	與交易有關的或然項目	**817**	763
Trade-related contingencies	與貿易有關的或然項目	**1,490**	1,133
		14,626	19,464
Commitments	承擔		
Commitments that are unconditionally cancellable without prior notice	可無條件取消而毋須事先通知的承擔	**170,099**	160,737
Other commitments with an original maturity	其他承擔的原到期日		
– up to 1 year	–1年或以下	**7,766**	10,419
– over 1 year	–1年以上	**26,577**	27,633
		204,442	198,789
Total	總額	**219,068**	218,253
Credit risk weighted amounts	信貸風險加權金額	**31,289**	34,130

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts does not represent expected future cash flows.

或然負債及承擔是與信貸有關的工具，包括用以提供信貸的承兑票據、信用證、擔保書和承付款項。合約金額是指當合約被完全提取及客戶違約時所承擔風險的金額。由於預期擔保書及承付款項的大部分金額會在未經提取前逾期，合約金額並不代表預計未來現金流量。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

47. OFF-BALANCE SHEET EXPOSURES (CONTINUED) 資產負債表以外的風險(續)

(b) Derivatives

(i) Notional amount of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

The following is a summary of the notional amounts of each significant type of derivative for the Group:

(b) 衍生工具

(i) 衍生工具的名義金額

衍生工具是指由一項或多項潛在資產或指數價值釐定價值的財務合約。

集團的每項衍生工具主要類別的名義金額摘要如下：

		2017			
		Qualifying for hedge accounting 符合對沖會計法 HK$ Mn 港幣百萬元	Managed in conjunction with financial instruments designated at fair value through profit or loss 按通過損益以反映公平價值金融工具模式管理 HK$ Mn 港幣百萬元	Others, including held for trading 其他，包括持有作交易用途 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Exchange rate contracts	匯率合約				
Forwards and futures	遠期交易及期貨	1,552	–	46,193	47,745
Swaps	掉期交易	–	13,641	601,277	614,918
Options purchased	購入期權	–	–	18,187	18,187
Options written	沽出期權	–	–	18,694	18,694
Interest rate contracts	利率合約				
Forwards and futures	遠期交易及期貨	–	–	758	758
Swaps	掉期交易	60,080	16,382	433,999	510,461
Equity contracts	股份合約				
Swaps	掉期交易	–	–	8,355	8,355
Options purchased	購入期權	–	–	5,247	5,247
Options written	沽出期權	–	–	6,155	6,155
Others	其他	–	–	1,342	1,342
		61,632	30,023	1,140,207	1,231,862

		2016			
		Qualifying for hedge accounting 符合對沖會計法 HK$ Mn 港幣百萬元	Managed in conjunction with financial instruments designated at fair value through profit or loss 按通過損益以反映公平價值金融工具模式管理 HK$ Mn 港幣百萬元	Others, including held for trading 其他，包括持有作交易用途 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Exchange rate contracts	匯率合約				
Forwards and futures	遠期交易及期貨	2,013	–	132,039	134,052
Swaps	掉期交易	–	10,305	351,136	361,441
Options purchased	購入期權	–	–	16,895	16,895
Options written	沽出期權	–	–	17,529	17,529
Interest rate contracts	利率合約				
Forwards and futures	遠期交易及期貨	–	–	469	469
Swaps	掉期交易	69,855	24,399	291,968	386,222
Equity contracts	股份合約				
Swaps	掉期交易	–	–	5,534	5,534
Options purchased	購入期權	–	–	2,389	2,389
Options written	沽出期權	–	–	2,988	2,988
Others	其他	–	–	1,297	1,297
		71,868	34,704	822,244	928,816

Derivatives arise from futures, forward, swap and option transactions undertaken by the Group and the Bank in the foreign exchange, interest rate and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting period; they do not represent amounts at risk.

衍生工具是由本集團及本行在外匯、利率及股票市場進行期貨、遠期、掉期及期權交易而產生。這些工具的名義金額指在報告期結束日仍未完成的交易量，但並不代表所承受風險的金額。

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

前述資產負債表以外風險的公平價值及信貸風險加權金額如下。這些金額並未計入雙邊淨額安排的影響。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

47. OFF-BALANCE SHEET EXPOSURES (CONTINUED) 資產負債表以外的風險(續)

(b) Derivatives (continued)

(ii) Fair value and credit risk weighted amounts of derivatives

(b) 衍生工具(續)

(ii) 衍生工具之公平價值及信貸風險加權金額

		2017			2016		
		Fair value 公平價值		Credit risk weighted amounts*	Fair value 公平價值		Credit risk weighted amounts*
		Assets 資產	Liabilities 負債	信貸風險加權金額*	Assets 資產	Liabilities 負債	信貸風險加權金額*
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元
Exchange rate contracts	匯率合約						
Forwards and futures	遠期交易及期貨	559	958	537	1,591	942	1,522
Swaps	掉期交易	7,667	8,560	2,914	3,913	3,945	2,971
Options purchased	購入期權	580	9	779	633	392	610
Options written	沽出期權	–	72	–	11	430	28
Interest rate contracts	利率合約						
Forwards and futures	遠期交易及期貨	3	–	–	–	–	–
Swaps	掉期交易	2,255	1,924	455	2,582	2,019	775
Equity contracts	股份合約						
Swaps	掉期交易	110	116	–	139	134	–
Options purchased	購入期權	135	59	92	63	31	41
Options written	沽出期權	11	359	–	–	69	–
Others	其他	15	20	349	6	20	286
		11,335	12,077	5,126	8,938	7,982	6,233

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

* *根據《資本規則》，本行採納「基礎內部評級基準計算法」計算於2017年12月31日及2016年12月31日之信貸風險之風險加權金額。*

The tables above give the contractual or notional amounts, fair value and credit risk weighted amounts of off-balance sheet transactions. The fair value is calculated for the purposes of deriving the credit risk weighted amounts. These are assessed in accordance with the Capital Rules. Fair value represents the cost of replacing all contracts which have a positive value when marked to market.

Fair value is a close approximation of the credit risk for these contracts as at the end of the reporting period. The credit risk weighted amount refers to the amount as computed in accordance with the Capital Rules.

上表列出資產負債表以外交易的合約或名義金額、公平價值及信貸風險加權金額。公平價值是用來計算信貸風險加權金額。該等金額是按照《資本規則》作評估。公平價值是指重置所有按市場價值計算差額時附有正值的合約成本。

公平價值是在報告期結束日該等合約的略計信貸風險。信貸風險加權金額是指按照《資本規則》計算。

(iii) Fair values of derivatives designated as hedging instruments
The following is a summary of the fair values of derivatives held for hedging purposes by product type:

(iii) 指定為對沖工具之衍生工具的公平價值
用作對沖用途之衍生工具的公平價值按產品種類摘要如下：

		2017		2016	
		Assets 資產 HK$ Mn 港幣百萬元	**Liabilities 負債 HK$ Mn 港幣百萬元**	Assets 資產 HK$ Mn 港幣百萬元	Liabilities 負債 HK$ Mn 港幣百萬元
Cash flow hedged derivatives	現金流對沖衍生工具				
Exchange rate contracts	匯率合約	**–**	**10**	–	30
Fair value hedged derivatives	公平價值對沖衍生工具				
Interest rate contracts	利率合約	**750**	**418**	908	338

(a) Cash flow hedges
The Group's cash flow hedge principally consists of foreign exchange contracts that are used to hedge against the variability in cash flows of certain debt securities subject to foreign exchange rate movement.

The time periods in which the hedged cash flows are expected to occur and affect the consolidated statement of comprehensive income are as follows:

(a) 現金流對沖
本集團之現金流對沖主要包括外滙合約，其作用是對沖若干受外幣滙率波動影響現金流改變的債務證券。

影響綜合全面收益表及所對沖之現金流預期會發生的期間如下：

		Within one year 1年以內 HK$ Mn 港幣百萬元	**Over one year but within five years 1年以上至5年 HK$ Mn 港幣百萬元**	**Over five years 5年以上 HK$ Mn 港幣百萬元**
At 31st December, 2017	於2017年12月31日			
Cash inflows from assets	來自資產的現金流入	–	1,552	–
Cash outflows from liabilities	來自負債的現金流出	–	–	–
Net cash inflows	淨現金流入	–	1,552	–
At 31st December, 2016	於2016年12月31日			
Cash inflows from assets	來自資產的現金流入	12	1,655	346
Cash outflows from liabilities	來自負債的現金流出	–	–	–
Net cash inflows	淨現金流入	12	1,655	346

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

47. OFF-BALANCE SHEET EXPOSURES (CONTINUED) 資產負債表以外的風險(續)

(b) Derivatives (continued)

(iii) Fair values of derivatives designated as hedging instruments (continued)

(b) Fair value hedges

The Group's fair value hedge principally consists of interest rate swaps that are used to protect against changes in the fair value of fixed rate long-term financial instruments due to movements in market interest rates.

(iv) Remaining life of derivatives

The following table provides an analysis of the notional amounts of derivatives of the Group by relevant maturity grouping based on the remaining periods to settlement at the end of the reporting period.

(b) 衍生工具(續)

(iii) 指定為對沖工具之衍生工具的公平價值(續)

(b) 公平價值對沖

本集團的公平價值對沖主要包括利率掉期，其作用是保障受市場利率波動而影響長期定息金融工具的公平價值變動。

(iv) 衍生工具之剩餘期限

下表分析在報告期結束日本集團根據到期期限歸類之剩餘結算期限有關衍生工具的名義金額。

		Notional amounts with remaining life of 剩餘期限的名義金額							
		2017				2016			
		1 year or less 1年或以下 HK$ Mn 港幣百萬元	Over 1 year to 5 years 1年以上至5年 HK$ Mn 港幣百萬元	Over 5 years 5年以上 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元	1 year or less 1年或以下 HK$ Mn 港幣百萬元	Over 1 year to 5 years 1年以上至5年 HK$ Mn 港幣百萬元	Over 5 years 5年以上 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Interest rate derivatives	利率衍生工具	**281,490**	**217,826**	**11,903**	**511,219**	203,731	171,314	11,646	386,691
Currency derivatives	貨幣衍生工具	**678,735**	**19,947**	**862**	**699,544**	521,645	7,772	500	529,917
Other derivatives	其他衍生工具	**15,634**	**3,904**	**1,561**	**21,099**	7,320	4,888	–	12,208
		975,859	**241,677**	**14,326**	**1,231,862**	732,696	183,974	12,146	928,816

(c) Capital commitments

Capital commitments outstanding at 31st December and not provided for in the financial statements were as follows:

(c) 資本承擔

於12月31日未償付但並未在財務報表中提撥準備的資本承擔如下：

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Expenditure authorised and contracted for	已核准支出並已簽約	**242**	212
Expenditure authorised but not contracted for	已核准支出但未簽約	**215**	107
		457	319

(d) Operating lease commitments

At 31st December, 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

(d) 經營租賃承擔

於2017年12月31日，在不可撤銷的經營租賃內，未來最低應付租賃款項總額如下：

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Properties	物業		
Within one year	1年以內	**425**	532
After one year but within five years	1年至5年內	**538**	738
After five years	5年以後	**112**	248
		1,075	1,518

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Equipment	設備		
Within one year	1年以內	**4**	8
After one year but within five years	1年至5年內	**3**	16
		7	24

The Group lease certain properties and equipment under operating leases. The leases run for an initial period of one to twenty five years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually adjusted annually to reflect market rentals. None of the leases includes contingent rentals.

本集團以經營租賃形式租入若干物業和設備。租賃年期由1年至25年，到期日後可再續約但其他條款須另議。租賃付款金額通常每年調整以反映市值租金。所有租約並不包括或有租金。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

48. NOTES ON CONSOLIDATED CASH FLOW STATEMENT 綜合現金流量表附註

(a) Cash and cash equivalents

(i) Components of cash and cash equivalents in the consolidated cash flow statement

(a) 現金及等同現金項目

(i) 在綜合現金流量表內現金及等同現金項目的組成部分

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Cash and balances with banks and other financial institutions with original maturity within three months	原本期限為3個月以內之現金及在銀行和其他金融機構的結存	**32,371**	38,374
Placements with and advances to banks and other financial institutions with original maturity within three months	原本期限為3個月以內在銀行及其他金融機構的存款及墊款	**51,189**	34,632
Treasury bills with original maturity within three months	原本期限為3個月以內的國庫債券	**4,583**	996
Certificates of deposit held with original maturity within three months	原本期限為3個月以內之持有的存款證	**1,269**	741
Debt securities with original maturity within three months	原本期限為3個月以內的債務證券	**564**	658
Add: Cash and balances with banks and other financial institutions included in "Assets held for sale" *(Note 56)*	加：包括在「持有作出售資產」*(附註56)*的現金及在銀行和其他金融機構的結存	**4**	426
Placements with and advances to banks and other financial institutions with original maturity within three months included in "Assets held for sale"	「持有作出售資產」中包括原本期限為3個月以內在銀行及其他金融機構的存款及墊款	**–**	14
		89,980	75,841

(ii) Reconciliation with the consolidated statement of financial position

(ii) 與綜合財務狀況表的對賬

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Cash and balances with banks and other financial institutions *(Note 24)*	現金及在銀行及其他金融機構的結存*(附註24)*	**60,670**	65,720
Placements with and advances to banks and other financial institutions *(Note 25)*	在銀行及其他金融機構的存款及墊款*(附註25)*	**53,609**	44,052
Treasury bills, certificates of deposit held and debt securities	國庫債券、持有存款證及債務證券		
– trading assets *(Note 27)*	–交易用途資產*(附註27)*	**3,999**	3,128
– designated at fair value through profit or loss *(Note 28)*	–指定為通過損益以反映公平價值*(附註28)*	**3,879**	3,330
– other assets *(Note 36)*	–其他資產*(附註36)*	**133**	–
– available-for-sale *(Note 30)*	–可供出售*(附註30)*	**116,734**	106,964
– held-to-maturity *(Note 31)*	–持至到期*(附註31)*	**9,798**	5,663
		134,543	119,085
Add: Cash and balances with banks and other financial institutions included in "Assets held for sale" *(Note 56)*	加：包括在「持有作出售資產」*(附註56)*的現金及在銀行和其他金融機構的結存	**4**	426
Placements with and advances to banks and other financial institutions included in "Assets held for sale" *(Note 56)*	「持有作出售資產」中包括在銀行及其他金融機構的存款及墊款*(附註56)*	**–**	66
Amounts shown in the consolidated statement of financial position	在綜合財務狀況表出現的金額	**248,826**	229,349
Less: Amounts with an original maturity of beyond three months	減：原本期限為3個月以上的金額	**(130,547)**	(126,162)
Cash balance with central bank subject to regulatory restriction	受規管限制的在中央銀行的現金結存	**(28,299)**	(27,346)
Cash and cash equivalents in the consolidated cash flow statement	在綜合現金流量表內的現金及等同現金項目	**89,980**	75,841

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

48. NOTES ON CONSOLIDATED CASH FLOW STATEMENT (CONTINUED) 綜合現金流量表附註(續)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

(b) 源自融資活動產生的負值之對賬

下表列載本集團由融資活動產生的負值之變動，包括現金及非現金之變動。源自融資活動產生的負值指在本集團的綜合現金流量表內分類為由融資活動產生的現金流或未來現金流產生的負債。

		Certificates of deposit issued 已發行存款證 HK$ Mn 港幣百萬元	Debt securities issued 已發行債務證券 HK$ Mn 港幣百萬元	Loan capital 借貸資本 HK$ Mn 港幣百萬元	Certificates of deposit issued accrued interest payable 已發行存款證之應計利息 HK$ Mn 港幣百萬元	Debt securities issued accrued interest payable 已發行債務證券之應計利息 HK$ Mn 港幣百萬元	Loan capital accrued interest payable 借貸資本之應計利息 HK$ Mn 港幣百萬元	Interest rate swaps held to hedge borrowings (assets) 持有作對沖借款的利率掉期合約(資產) HK$ Mn 港幣百萬元	Interest rate swaps held to hedge borrowings liabilities 持有作對沖借款的利率掉期合約負債 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
At 1st January 2017	**於2017年1月1日**	28,857	7,154	20,608	97	42	261	(434)	760	57,345
Changes from financing cash flows	**源自融資現金流的變動**									
Issue of certificates of deposit	發行存款證	74,007	–	–	–	–	–	–	–	74,007
Issue of debt securities	發行債務證券	–	1,367	–	–	–	–	–	–	1,367
Redemption of certificates of deposit issued	贖回已發行存款證	(67,055)	–	–	–	–	–	–	–	(67,055)
Redemption of debt securities issued	贖回已發行債務證券	–	(7,617)	–	–	–	–	–	–	(7,617)
Redemption of loan capital	贖回已發行借貸資本	–	–	(8,580)	–	–	–	–	–	(8,580)
Interest paid on loan capital	支付借貸資本利息	–	–	–	–	–	(920)	–	–	(920)
Interest paid on certificates of deposit issued	支付已發行存款證利息	–	–	–	(663)	–	–	–	–	(663)
Interest paid on debt securities issued	支付已發行債務證券利息	–	–	–	–	(106)	–	–	–	(106)
Total changes from financing cash flows	源自融資現金流的變動總額	6,952	(6,250)	(8,580)	(663)	(106)	(920)	–	–	(9,567)
Exchange adjustments	滙兑調整	396	97	512	–	–	–	–	–	1,005
Changes in fair value	公平價值變動	(27)	2	–	–	–	–	56	(635)	(604)
Revaluation under hedge accounting	對沖會计法的重估	–	–	(144)	–	–	–	158	37	51
Interest expenses	利息支出	288	4	17	625	71	835	–	–	1,840
Total other changes	其他變動總額	657	103	385	625	71	835	214	(598)	2,292
At 31st December 2017	**於2017年12月31日**	36,466	1,007	12,413	59	7	176	(220)	162	50,070

49. ASSETS PLEDGED AS SECURITY 用作抵押品的資產

The following assets have been pledged as collateral for own liabilities at the end of the reporting period.

於報告期結束日，以下資產經已用作本身負債之抵押品。

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Secured liabilities	有抵押負債	**6,588**	6,284
Assets pledged:	抵押資產:		
Loans and advances to customers	客戶貸款及墊款	**1,056**	890
Financial assets designated at fair value through profit or loss	指定為通過損益以反映公平價值的金融資產	**1,189**	249
Available-for-sale financial assets	可供出售金融資產	**4,448**	5,125
Held-to-maturity investments	持至到期投資	**194**	194
		6,887	6,458

The following balances with banks have been pledged as collateral for securities borrowings and margin deposits of derivatives.

以下的銀行結餘已用作證券借貸及衍生工具孖展按金之抵押品。

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Cash collateral for borrowed securities	用作證券借貸的現金抵押品	**83**	–
Margin accounts for open futures and forward contracts	用作開立期貨及遠期合約的孖展賬戶	**1,211**	1,521
		1,294	1,521

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

此等交易之條款是按一般及慣常標準借款及證券借貸交易進行。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

50. LOANS TO DIRECTORS AND ENTITIES CONNECTED WITH DIRECTORS 董事及與董事有關連實體的貸款

The aggregate of loans to directors of the Bank and entities connected with directors disclosed pursuant to Section 383(1)(d) of the Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

根據《公司條例》第383(1) (d)條及《公司(披露董事利益資料)規則》第3部規定，本行董事及與董事有關連實體之貸款總額披露如下：

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Aggregate amount of relevant loans outstanding at 31st December	相關貸款於12月31日的結欠總額		
By the Bank	由銀行借出	**1,776**	2,316
By subsidiaries	由附屬公司借出	**4**	101
		1,780	2,417
The maximum aggregate amount of relevant loans outstanding during the year	年度內相關貸款之最高結欠總額		
By the Bank	由銀行借出	**5,385**	3,046
By subsidiaries	由附屬公司借出	**7**	172
		5,392	3,218

There was no interest due but unpaid nor any impairment allowance made against these loans at 31st December, 2017 and 2016.

於2017年12月31日及2016年12月31日，沒有逾期未償付利息，亦未有對該等貸款作減值準備。

51. MATERIAL RELATED PARTY TRANSACTIONS 關聯人士的重大交易

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Bank's directors as disclosed in Note 21 and certain of the highest paid employees as disclosed in Note 22, is as follows:

(a) 主要管理人員薪酬

本集團之主要管理人員薪酬，已包括在附註21中所披露支付予本行董事及在附註22中所披露支付予本行若干最高薪酬僱員的金額如下：

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Short-term employee benefits	短期僱員福利	**165**	105
Post-employment benefits	僱員退休福利	**7**	7
Equity compensation benefits	股份補償福利	**35**	35
		207	147

(b) The Group maintains certain retirement benefit schemes for its staff as per Note 2(q)(iii). In 2017, the total amount of contributions the Group made to the schemes was HK$159 million (2016: HK$165 million).

(b) 本集團為其職員提供若干退休保障計劃，並已於附註2(q)(iii)披露。於2017年內，本集團對該等計劃的供款總數為港幣1.59億元(2016年：港幣1.65億元)。

The Group enters into a number of transactions with the Group's related parties, including its associates, and key management personnel and their close family members and companies controlled or significantly influenced by them. The transactions include accepting deposits from and extending credit facilities to them. All interest rates in connection with the deposits taken and credit facilities extended are under terms and conditions normally applicable to customers of comparable standing.

本集團與其關聯人士進行多項交易，該等人士包括聯營公司、及主要行政人員與其直系親屬、及受該等人士所控制或具有重大影響力的公司。該等交易包括接受該等人士存款及為他們提供信貸。所有存款及信貸的利率，均按照給予一般相若水平客戶的條款。

The interest received from and interest paid to the Group's related parties for the year, outstanding balances of amounts due from and due to at the year end, and maximum outstanding balance of amounts due from and due to them during the year are aggregated as follows:

年度內，本集團從關聯人士所收取與支付予他們的利息，及在年末關聯人士的欠款及欠關聯人士的款項，及在年度內關聯人士最高欠款及欠關聯人士的最高款項現總結如下：

		Key management personnel 主要管理人員		Associates 聯營公司	
		2017	2016	**2017**	2016
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	**HK$ Mn 港幣百萬元**	HK$ Mn 港幣百萬元
Interest income	利息收入	**103**	131	**19**	19
Interest expense	利息支出	**24**	22	**1**	–
Amounts due from	關聯人士的欠款	**4,547**	7,229	**454**	648
Amounts due to	欠關聯人士的款項	**2,672**	3,471	**78**	87
Maximum amounts due from	關聯人士的最高欠款	**6,452**	9,052	**808**	718
Maximum amounts due to	欠關聯人士的最高款項	**7,077**	7,779	**516**	491
Committed facilities to	給予信貸承諾	**1,751**	2,710	**401**	311

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

52. EQUITY COMPENSATION PLANS 股份補償計劃

The Bank has adopted Staff Share Option Schemes whereby the Board may at its discretion grant to any employees of the Group, including Executive Director and Chief Executive, options to subscribe for ordinary shares of the Bank. All options were granted for nil consideration.

本行所採納的僱員認股計劃是董事會可酌情發出認股權予本集團之任何僱員，包括執行董事及行政總裁，以認購本行普通股股份。所有認股權均以無計價款形式發出。

(a) Particulars of share options

(a) 認股權詳情

Date of grant 授予日期	Vesting period 有效期	Exercise period 行使期	Exercise price per share 每股行使價 HK$ 港幣元
05/5/2011(T1)	05/5/2011–04/5/2012	05/5/2012–05/5/2017	32.00
05/5/2011(T2)	05/5/2011–04/5/2013	05/5/2013–05/5/2018	32.00
05/5/2011(T3)	05/5/2011–04/5/2014	05/5/2014–05/5/2019	32.00
10/5/2012(T1)	10/5/2012–09/5/2013	10/5/2013–10/5/2018	28.99
10/5/2012(T2)	10/5/2012–09/5/2014	10/5/2014–10/5/2019	28.99
10/5/2012(T3)	10/5/2012–09/5/2015	10/5/2015–10/5/2020	28.99
03/5/2013(T1)	03/5/2013–02/5/2014	03/5/2014–03/5/2019	31.40
03/5/2013(T2)	03/5/2013–02/5/2015	03/5/2015–03/5/2020	31.40
03/5/2013(T3)	03/5/2013–02/5/2016	03/5/2016–03/5/2021	31.40
02/5/2014(T1)	02/5/2014–01/5/2015	02/5/2015–02/5/2020	32.50
02/5/2014(T2)	02/5/2014–01/5/2016	02/5/2016–02/5/2021	32.50
02/5/2014(T3)	02/5/2014–01/5/2017	02/5/2017–02/5/2022	32.50
04/5/2015(T1)	04/5/2015–03/5/2016	04/5/2016–04/5/2021	34.15
04/5/2015(T2)	04/5/2015–03/5/2017	04/5/2017–04/5/2022	34.15
04/5/2015(T3)	04/5/2015–03/5/2018	04/5/2018–04/5/2023	34.15
08/4/2016(T1)	08/4/2016–07/4/2017	08/4/2017–08/4/2022	28.45
08/4/2016(T2)	08/4/2016–07/4/2018	08/4/2018–08/4/2023	28.45
08/4/2016(T3)	08/4/2016–07/4/2019	08/4/2019–08/4/2024	28.45
07/4/2017(T1)	07/4/2017–06/4/2018	07/4/2018–07/4/2023	32.25
07/4/2017(T2)	07/4/2017–06/4/2019	07/4/2019–07/4/2024	32.25
07/4/2017(T3)	07/4/2017–06/4/2020	07/4/2020–07/4/2025	32.25

(b) Movement of share options during the period

(b) 期內認股權之變動

2017			Number of share options 認股權數目				
Date of grant 授予日期	Tranche 部分	Exercise price per share 每股行使價 HK$ 港幣元	Outstanding at 1/1/2017 於2017年1月1日尚未行使	Granted 已授予	Exercised 已行使	Lapsed 已失效	Outstanding at 31/12/2017 於2017年12月31日尚未行使
05/5/2011	T1	32.00	1,880,000	–	386,000	1,494,000	–
05/5/2011	T2	32.00	1,930,000	–	441,000	–	1,489,000
05/5/2011	T3	32.00	1,940,000	–	50,000	–	1,890,000
10/5/2012	T1	28.99	1,164,000	–	582,000	–	582,000
10/5/2012	T2	28.99	1,164,000	–	50,000	–	1,114,000
10/5/2012	T3	28.99	1,172,000	–	–	–	1,172,000
03/5/2013	T1	31.40	1,214,000	–	100,000	–	1,114,000
03/5/2013	T2	31.40	1,515,000	–	351,000	–	1,164,000
03/5/2013	T3	31.40	1,890,000	–	–	–	1,890,000
02/5/2014	T1	32.50	1,942,000	–	–	–	1,942,000
02/5/2014	T2	32.50	1,992,000	–	50,000	–	1,942,000
02/5/2014	T3	32.50	2,003,500	–	50,000	–	1,953,500
04/5/2015	T1	34.15	2,030,000	–	–	–	2,030,000
04/5/2015	T2	34.15	2,030,000	–	–	–	2,030,000
04/5/2015	T3	34.15	2,040,000	–	–	–	2,040,000
08/4/2016	T1	28.45	2,083,000	–	1,019,000	–	1,064,000
08/4/2016	T2	28.45	2,083,000	–	–	–	2,083,000
08/4/2016	T3	28.45	2,096,500	–	–	–	2,096,500
07/4/2017	T1	32.25	–	2,130,000	–	–	2,130,000
07/4/2017	T2	32.25	–	2,130,000	–	–	2,130,000
07/4/2017	T3	32.25	–	2,140,000	–	–	2,140,000
Total 總額			32,169,000	6,400,000	3,079,000	1,494,000	33,996,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

52. EQUITY COMPENSATION PLANS (CONTINUED) 股份補償計劃(續)

(b) Movement of share options during the period (continued)

(b) 期內認股權之變動(續)

2016			Number of share options 認股權數目				
Date of grant 授予日期	Tranche 部分	Exercise price per share 每股行使價 HK$ 港幣元	Outstanding at 1/1/2016 於2016年1月1日尚未行使	Granted 已授予	Exercised 已行使	Lapsed 已失效	Outstanding at 31/12/2016 於2016年12月31日尚未行使
05/5/2011	T1	32.00	1,880,000	–	–	–	1,880,000
05/5/2011	T2	32.00	1,930,000	–	–	–	1,930,000
05/5/2011	T3	32.00	1,940,000	–	–	–	1,940,000
10/5/2012	T1	28.99	1,164,000	–	–	–	1,164,000
10/5/2012	T2	28.99	1,164,000	–	–	–	1,164,000
10/5/2012	T3	28.99	1,172,000	–	–	–	1,172,000
03/5/2013	T1	31.40	1,214,000	–	–	–	1,214,000
03/5/2013	T2	31.40	1,880,000	–	365,000	–	1,515,000
03/5/2013	T3	31.40	1,890,000	–	–	–	1,890,000
02/5/2014	T1	32.50	1,942,000	–	–	–	1,942,000
02/5/2014	T2	32.50	1,992,000	–	–	–	1,992,000
02/5/2014	T3	32.50	2,003,500	–	–	–	2,003,500
04/5/2015	T1	34.15	2,030,000	–	–	–	2,030,000
04/5/2015	T2	34.15	2,030,000	–	–	–	2,030,000
04/5/2015	T3	34.15	2,040,000	–	–	–	2,040,000
08/4/2016	T1	28.45	–	2,083,000	–	–	2,083,000
08/4/2016	T2	28.45	–	2,083,000	–	–	2,083,000
08/4/2016	T3	28.45	–	2,096,500	–	–	2,096,500
Total 總額			26,271,500	6,262,500	365,000	–	32,169,000

(c) No share options were cancelled during the years ended 31st December, 2017 and 2016.

(c) 截至2017年12月31日及2016年12月31日止年度內並未有認股權被註銷。

(d) Details of share options exercised

(d) 已行使認股權詳情

Exercise period 行使期間	Date of grant 授予日期	Number of share options 認股權數目 2017	2016
February 2月	05/5/2011 (T1)	**150,000**	–
	03/5/2013 (T2)	**301,000**	–
March 3月	05/5/2011 (T1)	**20,000**	–
May 5月	05/5/2011 (T1)	**216,000**	–
	10/5/2012 (T1)	**10,000**	–
	08/4/2016 (T1)	**50,000**	–
June 6月	10/5/2012 (T1)	**50,000**	–
	08/4/2016 (T1)	**87,000**	–
August 8月	05/5/2011 (T2)	**105,000**	–
September 9月	05/5/2011 (T2)	**336,000**	–
	05/5/2011 (T3)	**50,000**	–
	10/5/2012 (T1)	**522,000**	–
	10/5/2012 (T2)	**40,000**	–
	03/5/2013 (T2)	**–**	365,000
	02/5/2014 (T2)	**50,000**	–
	02/5/2014 (T3)	**50,000**	–
	08/4/2016 (T1)	**882,000**	–
October 10月	03/5/2013 (T1)	**100,000**	–
	03/5/2013 (T2)	**50,000**	–
November 11月	10/5/2012 (T2)	**10,000**	–
		3,079,000	365,000

53. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD
毋須調整的報告期結束日後的事件

After the end of the reporting period the directors declared a second interim dividend. Further details are disclosed in Note 19(a).

董事於報告期結束日後擬派發第二次中期股息。詳情已在附註19(a)作披露。

54. ACCOUNTING ESTIMATES AND JUDGEMENTS 會計估計及判斷

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Changes in assumptions may have a significant impact on the financial statements in the periods where the assumptions are changed. The application of assumptions and estimates means that any selection of different assumptions would cause the Group's reporting to differ. The Group believes that the assumptions that have been made are appropriate and that the financial statements therefore present the financial position and results fairly, in all material respects.

在編製本集團的財務報表時，管理層必須作出若干於該等財務報表的日期，對所匯報資產及負債之金額和或然資產及負債披露有影響的估計和假定，同時亦須作出若干對報告年度內收入及支出之金額有影響的估計和假定。如本集團更改該等假設，便可能對作出有關改變期間的財務報表產生重大影響。採用此等不同的假設和估計意味本集團之報告會有所不同。在各個重要環節方面，本集團認為已作出適當之假設，而本集團的財務報表均能公平地反映其財政狀況和業績。

Management discussed with the Audit Committee the development, selection and disclosure of the Group's significant accounting policies and estimates and the application of these policies and estimates.

管理層已與審核委員會商討關於本集團重要會計政策及估計的制定、選擇和披露，以及該等政策和估計的應用。

(a) Key sources of estimation uncertainty

Notes 34, 40 and 46 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options granted and fair values of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) 估計不穩定因素的主要來源

附註34、40和46載述有關商譽減值、已授予股權的公平價值和金融工具的公平價值的假設及其風險因素。估計不穩定因素的其他主要來源如下：

(i) Impairment losses

Loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgement as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment includes observable data that the payment status of borrowers in a group has adversely changed. It may also include observable data that correlate with defaults on the assets in the Group. If management has determined, based on their judgement, that objective evidence for impairment exists, expected future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(i) 減值損失

貸款及墊款

本集團會定期檢討貸款組合，以評估減值損失是否存在。本集團需要判斷是否有任何客觀證據可以證明貸款組合已經減值，即估計將來現金流有所減少。減值客觀證據包括與借款人有關的可觀察資料整體上的付款狀況已出現逆轉，而該等資料與本集團的不履行資產是互相關連的。當管理層根據其判斷決定減值的客觀證據存在，便會依據若干與該等資產的信貸風險特性相若之資產的以往損失經驗，以估計預期將來現金流。以往損失經驗是以目前的可觀察資料為基礎作出調整。管理層亦會定期檢討用以估計將來現金流的方法和假設，從而減少估計損失與實際損失的差異。

Available-for-sale financial assets and held-to-maturity investments

The Group determines that available-for-sale financial assets and held-to-maturity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of when a decline in fair value below its cost is not recoverable within a reasonable time period is judgmental by nature, so profit and loss could be affected by differences in this judgement.

可供出售金融資產及持至到期投資

若可供出售金融資產及持至到期投資的公平價值明顯或持續地低於其成本，本集團即判斷該等資產及投資已減值。本集團判斷公平價值低於成本的金額會在一段合理時間內不可收回純屬假設性質，因此判斷之差異會對損益有所影響。

(ii) Valuation of financial instruments
The Group's accounting policy for valuation of financial instruments is included in Note 2. The fair value of the financial instruments is mainly based on the quoted market price on a recognised stock exchange or a price quoted from a broker/dealer for non-exchanged traded financial instruments. The fair value of collateralised debt obligations is based on bid prices quoted by reputable brokers and has been carefully assessed for reasonableness by management. The fair value of a Special Investment Vehicle ("SIV") is based on its net asset values as provided by the SIV's manager.

(ii) 金融工具的估值
本集團對金融工具估值的會計政策列載於附註2。金融工具的公平價值主要根據認可之交易所的市場報價，或就非在交易所作交易的金融工具而言，則根據經紀／交易員的報價。債務抵押債券的公平價值由聲譽良好的經紀按買入價提供報價，及經已被管理層小心評估其適當性。特別投資工具的公平價值是根據特別投資工具之管理人所提供該工具的資產淨值。

(b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below:

(i) Held-to-maturity investments
The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has a positive intention and ability to hold to maturity as held-to-maturity investments. In making this judgement, the Group evaluates its intention and ability to hold such investments till maturity.

If the Group fails to hold these investments to maturity other than for certain specific circumstances, the Group will have to reclassify the entire portfolio of held-to-maturity investments as available-for-sale, as such class is deemed to have been tainted.

This would result in held-to-maturity investments being measured at fair value instead of at amortised cost.

(ii) Recognition of deferred tax assets
The Group recognises deferred tax assets only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Estimates and judgements are applied in determining the amount of future taxable profits and the probability that such future taxable profits are available in the foreseeable future to support recognition of the deferred tax assets. The Group uses all readily available information, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs, in determining future taxable profits. Changes in these estimates could significantly affect the timing of deferred tax asset recognition and the amount of asset recognised.

(b) 本集團應用會計政策的重要會計判斷

本集團應用會計政策的若干重要會計判斷如下：

(i) 持至到期投資
本集團將設有固定或可確定付款金額和固定到期日，以及本集團有確信的意向及能力持有至到期日的非衍生金融資產，分類為持至到期投資。在作出有關判斷時，本集團會評估本身是否有意向及能力持有該等投資至到期日。

除若干特殊情況外，若本集團未能持有該等投資至到期日，本集團會將整個可持至到期日的投資組合，重新分類為可供出售。這是由於此類投資已被蒙污。

以上之情況會導致原以攤銷成本計量的可持至到期投資改以公平價值計量。

(ii) 遞延稅項資產之確認
須在未來可能有應課稅溢利予以抵銷遞延稅項資產的情況下，本集團才確認遞延稅項資產。在釐定未來應課稅溢利的金額及其可能性時，須估計及判斷在可見之將來該未來應課稅溢利可否支持確認該遞延稅項資產。本集團使用所有已有的資料，包括根據合理及可支持之假設和對收入及支出成本的估計，以釐定未來應課稅溢利。此等估計的變動可能對遞延稅項資產確認的時間及資產確認的金額有重大影響。

55. COMPARATIVE FIGURES 比較數字

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 4, 7, 13, 23, 29(d) and 45(d) for the effect of restatement.

若干2016年的比較數字經已重報以符合本年度的呈報方式。請參閱綜合收益表、綜合財務狀況表、附註4、7、13、23、29(d)及45(d)中所述的重報影響。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

56. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE
已終止經營業務及持有作出售資產

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.

2016年10月5日，東亞銀行有限公司、新創建集團有限公司(「新創建集團」)及East Asia Secretaries (BVI) Limited(「East Asia Secretaries」)與Trivium Investment Limited(「Trivium」)簽訂了一份購買股份協議，Trivium是由Permira全資擁有的附屬公司，出售由East Asia Secretaries持有的Tricor Holdings Limited及其附屬公司(「卓佳集團」)的全部已發行股份，作價為港幣64.70億元。卓佳集團均是通過East Asia Secretaries由本行及新創建集團分別持有75.61%及24.39%之權益。於2017年3月31日，本行完成出售卓佳集團予Trivium。隨着出售交易完成，本行已終止持有卓佳集團任何股份權益，而卓佳集團亦並非是本行之附屬公司。本行就此項出售錄得淨溢利港幣30.05億元，並已計入來自已終止經營業務之可歸屬於本集團股東溢利項下。卓佳集團的經營業績在綜合收益表中呈列為已終止經營業務，而其於2016年12月31日相關資產及負債在綜合財務報表中分別以持有作出售資產及持有作出售負債列示。

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.

2016年12月6日，本行簽訂了一份協議，向陝西定邊農村商業銀行股份有限公司出售其全資擁有的附屬公司，陝西富平東亞村鎮銀行有限責任公司(「東亞村鎮銀行」)，作價為人民幣2,400萬元。該出售交易已於2017年5月22日完成。東亞村鎮銀行於2016年12月31日的資產及負債在綜合財務報表中分別以持有作出售資產及持有作出售負債列示。

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.

2017年11月29日，本行及其全資附屬公司領達財務有限公司與中國金融投資管理有限公司簽訂一份股權轉讓協議，就買賣深圳市領達小額貸款有限公司(「深圳領達小額貸款」)、重慶兩江新區領達小額貸款有限公司(「重慶領達小額貸款」)及重慶市東榮商務諮詢有限公司(「東榮商務諮詢」)的全部股權(統稱「內地業務出售交易」)。內地業務出售交易的總對價為人民幣5.63億元，惟雙方可在完成交易時協定對此金額作出調整。該項交易之完成須得到中國內地相關監管部門批准。深圳領達小額貸款、重慶領達小額貸款及東榮商務諮詢於2017年12月31日的資產及負債在綜合財務報表中分別以持有作出售資產及持有作出售負債列示。

The results of discontinued operations for the periods are as follows: 期內已終止經營業務的業績如下：

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
Interest income	利息收入	1	6
Interest expense	利息支出	(1)	(3)
Net interest income	淨利息收入	–	3
Fee and commission income	服務費及佣金收入	312	1,258
Fee and commission expense	服務費及佣金支出	–	–
Net fee and commission income	服務費及佣金收入淨額	312	1,258
Net trading losses	交易虧損淨額	(4)	(8)
Other operating income	其他經營收入	–	2
Non-interest income	非利息收入	308	1,252
Operating income	經營收入	308	1,255
Operating expenses	經營支出	(232)	(892)
Operating profit before impairment losses	未扣除減值損失之經營溢利	76	363
Impairment losses on loans and receivables	貸款及應收賬項減值損失	(2)	(3)
Operating profit after impairment losses	已扣除減值損失後之經營溢利	74	360
Net profit on sale of available-for-sale financial assets	出售可供出售金融資產之淨溢利	–	4
Net profit on sale of discontinued operations	出售已終止經營業務之淨溢利	4,084	–
Valuation gains on investment properties	重估投資物業盈利	–	1
Share of profits less losses of associates	應佔聯營公司溢利減虧損	1	–
Profit for the year before taxation	年度內除稅前溢利	4,159	365
Income tax	所得稅		
Current tax	本期稅項		
– Hong Kong	–香港	(8)	(33)
– Outside Hong Kong	–香港以外	(6)	(28)
Profit for the year from discontinued operations	年度內已終止經營業務溢利	4,145	304

		2017 HK$ 港幣元	2016 HK$ 港幣元
Earnings per share for profit attributable to the equity holders of the Bank	歸屬於本行股東權益的每股盈利		
Basic and diluted	基本及攤薄		
– profit from discontinued operations	– 來自已終止經營業務溢利	1.12	0.09

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

56. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (CONTINUED)
已終止經營業務及持有作出售資產(續)

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

持有作出售之出售組別的資產和負債摘要如下：

		2017 HK$ Mn 港幣百萬元	2016 HK$ Mn 港幣百萬元
ASSETS	**資產**		
Cash and balances with banks and other financial institutions	現金及在銀行和其他金融機構的結存	**4**	426
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款	**–**	66
Loans and advances to customers	客戶貸款及墊款	**307**	95
– Gross loans and advances to customers	–客戶貸款及墊款總額	**317**	96
– Less: Collective impairment allowance	–減：整體減值準備	**(10)**	(1)
Available-for-sale financial assets	可供出售金融資產	**–**	27
Investments in associates	聯營公司投資	**–**	21
Fixed assets	固定資產	**9**	205
– Investment properties	–投資物業	**–**	22
– Other properties and equipment	–其他物業及設備	**9**	183
Goodwill and intangible assets *(Note 34)*	商譽及無形資產*(附註34)*	**–**	1,149
Deferred tax assets *(Note 37(b))*	遞延稅項資產*(附註37(b))*	**25**	10
Other assets	其他資產	**6**	315
– Accrued interest and other accounts	–應計利息及其他賬項	**6**	346
– Less: Individual impairment allowance	–減：個別減值準備	**–**	(25)
Collective impairment allowance	整體減值準備	**–**	(6)
Assets held for sale	持有作出售資產	**351**	2,314
LIABILITIES	**負債**		
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘	**–**	66
Deposits from customers	客戶存款	**–**	40
Current taxation	本期稅項	**–**	18
Deferred tax liabilities *(Note 37(b))*	遞延稅項負債*(附註37(b))*	**–**	3
Other liabilities	其他負債	**9**	299
Liabilities held for sale *(Note 38(b))*	持有作出售負債*(附註38(b))*	**9**	426

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

持有作出售之資產及負債摘要如下：

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Assets held for sale *(Note 36)*	持有作出售資產*(附註36)*		
Disposal groups held for sale	持有作出售的組別	**351**	2,314
Other properties	其他物業	**115**	192
		466	2,506
Liabilities held for sale *(Note 38(b))*	持有作出售負債*(附註38(b))*		
Disposal groups held for sale	持有作出售的組別	**9**	426

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

有關持有作出售的組別在其他全面收益內確認之累計收入如下：

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Cumulative income recognised in other comprehensive income	確認在其他全面收益內之累計收入	**(34)**	(61)

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

已包括在綜合現金流量表而由已終止經營業務產生的淨現金流如下：

		2017 **HK$ Mn 港幣百萬元**	2016 HK$ Mn 港幣百萬元
Operating activities	經營活動	**–**	278
Investing activities	投資活動	**–**	(19)
Financing activities	融資活動	**–**	(91)
Net cash inflow	淨現金流入	**–**	168

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

57. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2017
在截至2017年12月31日止年度前已公布但尚未生效的修訂、新標準和詮釋所產生的可能影響

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st December, 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

直至此等財務報表之發布日期，香港會計師公會已頒布了多項修訂及新準則；但該等修訂和新準則於截至2017年12月31日止會計年度尚未生效，因此尚未應用於此等財務報表。可能與本集團有關之修訂和新準則如下。

	Effective for accounting periods beginning on or after **由會計期開始或以後起生效**
HKFRS 9, *Financial instruments* 《香港財務報告準則》第9號*「金融工具」*	1st January, 2018 2018年1月1日
HKFRS 15, *Revenue from contracts with customers* 《香港財務報告準則》第15號*「與客戶之間的合同產生的收入」*	1st January, 2018 2018年1月1日
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions* 經修訂《香港財務報告準則》第2號*「以股份為基礎作支付：以股份為基礎作支付交易的分類及計量」*	1st January, 2018 2018年1月1日
Amendments to HKAS 40, *Investment property: Transfers of investment property* 經修訂《香港會計準則》第40號*「投資物業：投資物業的轉讓」*	1st January, 2018 2018年1月1日
HK(IFRIC) 22, *Foreign currency transactions and advance consideration* 香港《國際財務報告準則詮釋委員會詮釋》第22號*「外幣交易及預付代價」*	1st January, 2018 2018年1月1日
HKFRS 16, *Leases* 《香港財務報告準則》第16號*「租賃」*	1st January, 2019 2019年1月1日
HK(IFRIC) 23, *Uncertainty over income tax treatments* 香港《國際財務報告準則詮釋委員會詮釋》第23號*「所得稅不確定性的處理」*	1st January, 2019 2019年1月1日

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements except for the following:

本集團正在評估該等修訂對首個應用期可能產生的影響。除以下所述外，至今所得結論是若採納該等修訂對本集團的綜合財務報表不可能構成重大影響：

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*.

《香港財務報告準則》第9號「金融工具」

《香港財務報告準則》第9號於2018年1月1日或以後的會計年度生效並容許提前採納。《香港財務報告準則》第9號取代《香港會計準則》第39號*「金融工具：確認與計量」*。

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 (see (ii)); and
- a reduction of approximately HK$0.1 billion related to classification and measurement requirements, other than impairment (see (i) and (iii)), 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.

(i) Classification – Financial assets
HKFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

HKFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. It eliminates the existing HKAS 39 categories of held to maturity, loans and receivables and available for sale.

本集團於2018年1月1日起採用《香港財務報告準則》第9號。根據現時評估，採納《香港財務報告準則》第9號預期令本集團於2018年1月1日的期初股東權益減少約港幣5億元，包括：

- 因額外減值令股東權益減少約港幣4億元(見(ii))；及
- 除減值以外，因分類和計量變動令股東權益減少約港幣1億元，主要是部分持有以收取合約現金流為目的可供出售金融資產重分類至以攤銷成本計量時所轉回的未實現收益之影響(見(i)及(iii))。

遞延稅項及聯營公司對本集團股東權益的相關影響估計並不重大。

另外，對普通一級資本比率的整體性影響估計減少約18個基點。

以上對採納《香港財務報告準則》第9號的初步評估及其預期對集團的影響因以下因素可能需作進一步調整及確實：

- 因實施此新會計準則的相關稅務影響仍有待地方稅務機關明確的稅務處理或安排；
- 本集團正完善及將預期信用損失計算模型定稿；及
- 本集團在完成其第一份包含初始應用日的財務報表前，對採納新會計政策、假設、判斷及估計技術的相關調整。

(i) 分類－金融資產
《香港財務報告準則》第9號對金融資產引入了新的分類及計量方法，以反映管理金融資產的商業模式及該資產的合約現金流特徵。

《香港財務報告準則》第9號規定金融資產有三大分類，計量類別分類為：攤銷成本、通過其他全面收益以反映公平價值及通過損益以反映公平價值，並撤銷了現時《香港會計準則》第39號持至到期、貸款及應收賬款及可供出售的分類。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

57. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2017 (CONTINUED)
在截至2017年12月31日止年度前已公布但尚未生效的修訂、新標準和詮釋所產生的可能影響(續)

HKFRS 9, Financial Instruments (continued)

(i) Classification – Financial assets (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by- investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. See (viii) for the transition requirements relating to classification of financial assets.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of HKFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

《香港財務報告準則》第9號「金融工具」(續)

(i) 分類－金融資產(續)

一項金融資產以攤銷成本作後續計量，其必須符合以下條件及未有指定為通過損益以反映公平價值：

- 其商業模型是持有該資產以收取合約現金流為目的；及
- 該資產的合約現金流符合本金及按本金結餘的利息支付特徵。

一項金融資產以通過其他全面收益以反映公平價值作後續計量，其必須符合以下條件及未有指定為通過損益以反映公平價值：

- 其商業模型是同時收取合約現金流及出售該資產；及
- 該資產的合約現金流符合金及按本金結餘的利息支付特徵。

非交易用途之股份工具初始確認時，本集團可作出不可撤回的選擇，將其後續公平值變化確認於其他全面收益。該選擇權是以每個股份工具逐一選擇的。

除以上以攤銷成本或以通過其他全面收益以反映公平價值作後續計量的金融資產外，所有金融資產應以通過損益以反映公平價值作後續計量。此外，於初始確認時，本集團可以作出不可撤回的選擇，指定符合以攤銷成本或通過其他全面收益以反映公平價值條件的金融資產為通過損益以反映公平價值分類，若該選擇可消除或明顯減少會計錯配的情況。

金融資產於初始確認時應以以上作計量分類，見(viii)關於金融資產的分類之過渡規定。

根據《香港財務報告準則》第9號，嵌入衍生工具的合約而其主合約屬《香港財務報告準則》第9號範圍下的金融資產，該嵌入衍生工具不可與其主合約分開處理。相反，應以整個混合金融工具作分類評估。

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1st January, 2018 as follows:

- Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under HKAS 39, will also be measured at FVTPL under HKFRS 9.
- Trade bills, loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under HKAS 39 will in general also be measured at amortised cost under HKFRS 9, save that the portfolios of forfaiting and draft discount business which are managed within a business model whose objective is achieved by both collecting contractual cash flows and selling will be measured at FVOCI.
- Held-to-maturity investment securities measured at amortised cost under HKAS 39 will in general also be measured at amortised cost under HKFRS 9, save that a small portfolio of investment securities which the contractual cash flows do not meet the SPPI criterion will be measured at FVTPL.
- Debt investment securities that are classified as available-for-sale under HKAS 39 may, under HKFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.
- Investment securities that are designated as at FVTPL under HKAS 39 will in general continue to be measured at FVTPL under HKFRS 9.
- The majority of the equity investment securities that are classified as available-for-sale under HKAS 39 will be measured at FVTPL under HKFRS 9. However, some of these equity investment securities are held for long-term strategic purposes and will be designated as at FVOCI on 1st January, 2018.

The Group has estimated that, on the adoption of HKFRS 9 at 1st January, 2018, the impact of these changes (before tax) is a reduction in the Group's equity of approximately HK$0.1 billion.

影響評估

新會計準則對於2018年1月1日持有之金融資產的分類及計量影響如下：

- 根據《香港會計準則》第39號分類為持有作交易用途並以通過損益以反映公平價值作計量的持有作風險管理的交易用途資產及衍生工具資產，於《香港財務報告準則》第9號下將以通過損益以反映公平價值作分類。
- 根據《香港會計準則》第39號分類為貸款及應收賬款，並以攤銷成本作後續計量的貿易票據、銀行及客戶貸款及墊款。該等資產於《香港財務報告準則》第9號下大部份將以攤銷成本作後續計量，除福費廷及票據貼現業務組合因其商業模型是同時收取合約現金流及出售該等資產將以通過其他全面收益以反映公平價值作分類。
- 根據《香港會計準則》第39號分類為持至到期並以攤銷成本作後續計量的投資證券，於《香港財務報告準則》第9號下大部份將仍然以攤銷成本作後續計量，除少部份投資證券因未能符合本金及按本金結餘的利息支付的合約現金流特徵需以通過損益以反映公平價值作分類。
- 根據《香港會計準則》第39號分類為可供出售的債券投資證券將視乎其特定情況，於《香港財務報告準則》第9號下分類為攤銷成本、通過其他全面收益以反映公平價值或通過損益以反映公平價值。
- 根據《香港會計準則》第39號指定為通過損益以反映公平價值的投資證券於《香港財務報告準則》第9號下將大部份繼續以通過損益以反映公平價值作計量。
- 根據《香港會計準則》第39號大部份分類為可供出售的股份證券於《香港財務報告準則》第9號下將以通過損益以反映公平價值作計量。而部份持有作長遠策略性目的之股份證券將於2018年1月1日指定為以通過其他全面收益以反映公平價值分類。

本集團評估於2018年1月1日實施《香港財務報告準則》第9號時，以上轉變對本集團之影響(除稅前)為減少集團權益約港幣1億元。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

57. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2017 (CONTINUED)
在截至2017年12月31日止年度前已公布但尚未生效的修訂、新標準和詮釋所產生的可能影響(續)

HKFRS 9, Financial Instruments (continued)

(ii) Impairment – Financial assets, loan commitments and financial guarantee contracts

HKFRS 9 replaces the 'incurred loss' model in HKAS 39 with a forward-looking 'expected credit loss' model.

The new impairment model applies to the following financial assets that are not measured at FVTPL:

– Debt instruments;

– Lease receivables; and

– Loan commitments and financial guarantee contracts issued (previously, impairment was measured under HKAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under HKFRS 9, no impairment loss is recognized on equity investments.

HKFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from the default events that are possible within the 12 months after the reporting date.

The Group will recognize loss allowances at an amount equal to 12-month ECLs, except in the following cases, for which the amount recognized will be lifetime ECLs:

– A financial asset that is determined as "credit-impaired" at the reporting date; or

– A financial asset that is classified as "special-mention" at the reporting date; or

《香港財務報告準則》第9號「金融工具」(續)

(ii) 減值－金融資產，貸款承擔及財務擔保合約

《香港財務報告準則》第9號中具前瞻性的「預期信貸損失」模型將替代《香港會計準則》第39號中的「已發生損失」模型。

新的減值模型將應用於下列非通過損益以反映公平價值的金融資產：

－ 債務工具；

－ 租賃應收賬款；及

－ 貸款承擔及已發出的財務擔保合約(之前以《香港會計準則》第37號「準備，或然負債及或然資產」計算減值)。

在《香港財務報告準則》第9號下，無需為股份投資計算減值。

《香港財務報告準則》第9號需要確認和計量12個月內之預期信貸損失或合約期內之預期信貸損失。合約期內之預期信貸損失指該金融工具在合約期內，所有潛在違約事件所導致的信貸損失，而12個月內之預期信貸損失則指金融工具在報告日後之12個月內，所有潛在違約事件所導致的信貸損失。

除以下情況以合約期內之預期信貸損失計算損失準備外，本集團會以12個月內之預期信貸損失作準備：

－ 於報告日被認定為「不良信貸」的金融資產；或

－ 於報告日被歸類為「需要關注」的金融資產；或

– A financial asset for which credit risk is considered to have a significant increase since initial recognition and is not deemed with low credit risk at the reporting date. The Group will deem that a non-retail financial asset is with low credit risk if its internal credit risk grade is equivalent to the globally understood definition of "investment-grade". The Group will deem that a retail financial asset is with low credit risk if its internal credit risk grade is benchmarking with a rating in credit bureau that will be accepted by the Group for setting normal pricing.

– 信貸風險較初始承擔時有明顯增加並於報告日不被視為低風險的金融資產。對於非個人零售金融資產，如它的內部信貸風險評級等同於國際通用的投資評級，集團將視為低風險。對於個人零售金融資產，如它的內部信貸風險評級等同集團設定正常定價所採納之信貸資料機構評級，集團將視為低風險。

The impairment requirements of HKFRS 9 are complex and require management judgments, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

《香港財務報告準則》第9號的減值規定具複雜性並需要管理層作出判斷，估算及假設，特別是在以下將會詳述之處：

– Assessing whether the credit risk of an asset has increased significantly since initial recognition; and

– 評估金融資產的信貸風險會否較初始承擔時明顯增加，及

– Incorporating forward-looking information into the measurement of ECLs.

– 整合前瞻性資料以作估算預期信貸損失。

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

計量預期信貸損失

預期信貸損失是一個信貸損失的或然率在加權後的估算值，以如下方法估算：

– Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows the Group expects to receive;

– 於報告日為非不良信貸的金融資產：現金缺口的現值(即集團根據合約所標明的現金流與集團預期收回的現金流的差額)；

– Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of the estimated future cash flows.

– 於報告日為不良信貸的金融資產：墊款總額與估算的將來的現金流現值之差額；

– Undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and

– 未提取的貸款承擔：假設貸款承擔已被提取並為此需要支付予本集團的合約現金流與本集團預期收回的現金流的差額；及

– Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amount that the Group expects to recover.

– 財務擔保合約：預期支付予合約持有者的金額減除本集團預期可收回金額的現值。

Financial assets that are credit-impaired are defined by HKFRS 9 in a similar way to financial assets that are impaired under HKAS 39.

《香港財務報告準則》第9號中為不良信貸所作的定義與《香港會計準則》第39號下信貸不良的金融資產相若。

57. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2017 (CONTINUED)
在截至2017年12月31日止年度前已公布但尚未生效的修訂、新標準和詮釋所產生的可能影響(續)

HKFRS 9, Financial Instruments (continued)

(ii) Impairment – Financial assets, loan commitments and financial guarantee contracts (continued)

Definition of default

The Group will consider a financial asset to be in default or credit-impaired under HKFRS 9, in a similar way under HKAS 39, when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing collateral (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the borrower has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

The definition is largely consistent with the loan classification system required to be adopted for reporting to the HKMA for loans and advances.

Significant increase in credit risk

The Group has established a framework to determine whether the credit risk on a particular financial asset has increased significantly since initial recognition. The framework aligns with the Group's internal credit risk management process.

The Group will allocate each exposure to a credit risk grade that is determined to be predictive of the risk of default. Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade when the risk of asset changes. The Group will primarily identify whether a significant increase in credit risk under HKFRS 9 has occurred for an exposure by comparing:

- the credit risk grade at the reporting date; with
- the credit risk grade at the initial recognition of the exposure.

The Group will deem the credit risk of a particular exposure to have increased significantly since initial recognition if the current credit risk grade deteriorates by a pre-determined number of notches. The criteria for determining the number of notches may vary by portfolio and include a backstop based on delinquency.

《香港財務報告準則》第9號「金融工具」(續)

(ii) 減值－金融資產，貸款承擔及財務擔保合約(續)

違約的定義

與《香港會計準則》第39號相若，在《香港財務報告準則》第9號下，集團會視金融資產違約或信貸不良，當：

- 如集團不採取行動如變賣抵押品(如有)，借款人不可能履行其信貸責任全額支付集團，或
- 借款人於本集團之借貸已逾期超過90日。如借款人的戶口透支超越所批准之額度或因額度被調整後低於透支金額，該筆透支會被視作逾期。

以上之定義與匯報予香港金融管理局的貸款分類系統大致相同。

明顯增加的信貸風險

本集團已建立機制以確定某一金融資產的信貸風險是否較初始承擔時明顯增加。此機制與本集團的內部信貸風險管理程序吻合。

本集團會為每一個信貸風險承擔確定一個信貸風險評級作違約風險的預測。在初始承擔時，會根據每一個借貸人的相關資料確定一個信貸風險評級。信貸風險承擔會持續受監控並在其風險程度有所改變時被調配至不同的信貸風險評級。在《香港財務報告準則》第9號下，集團會識別一個資產的信貸風險是否明顯增加主要透過比較該資產：

- 於報告日的信貸風險評級；和
- 於初始承擔時的信貸風險評級。

如某一資產的現行信貸風險評級已較本集團初始承擔時的評級下跌了超過一個指定數量的級別，本集團會視該資產的信貸風險已有明顯增加。不同的資產組合會以不同的級別數量作為衡量標準，並以逾期情況作為預設的基本標準。

As a backstop, and as required by HKFRS 9, the Group will presumptively consider that a significantly increase in credit risk occurs no later than when an asset is more than 30 days past due.

在《香港財務報告準則》第9號下，作為一個基本標準，本集團會預設某一已逾期超過30日的資產為信貸風險已經明顯增加。

The Group will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular review to confirm that:

本集團會監控識別信貸風險增加的衡量標準的有效性，透過定期檢討以確保：

- the criteria are capable of identifying significant increase in credit risk before an exposure is in default;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

- 衡量標準能在風險承擔違約前識別信貸風險增加；
- 風險承擔一般不會從12個月內之預期信貸損失直接轉為不良信貸；及
- 不會導致減值準備因為風險承擔在計算12個月內之預期信貸損失和合約期內之預期信貸損失中的轉變時出現不必要的波動。

Inputs into measurements of ECLs

The key inputs into the measurement of ECLs are likely to be the following variables:

預期信貸損失的計算因素

以下是計算預期信貸損失時的主要因素：

- Probability of Default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

- 違約概率；
- 違約損失率；及
- 違約風險承擔。

These parameters will be derived from internally developed statistical models using internal and external data. They will be adjusted to reflect forward-looking information.

這些參數會透過內部建立的統計模型，運算內部及外部數據而產生。這些參數會被調整成具前瞻性的資料。

For portfolios in respect of which the Group has limited historical data, external benchmark information will be used.

對於在本集團內歷史數據不足的資產組合，會以外部資料為基準。

PD estimates will be based on internal rating models tailored to the various categories of counterparties and exposures. These PD estimates will be based on internally compiled data comprising both quantities and qualitative factors. PD estimates of certain portfolios of exposure with external ratings will be derived based on the historical default rates of external ratings.

用於估算違約概率的內部評級模型是按著不同的交易對手和風險承擔類別建立。違約概率估值參考了包含質量性和數量性的內部綜合數據。某類含外部評級的承擔組合的違約概率估值會參考該外部評級以往的違約概率。

LGD is the magnitude of the likely loss if there is a default. The Group will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. LGD estimates will be calibrated for different economic scenarios, to reflect possible changes in collateral values. They will be calculated on a discounted cash flow basis using the effective interest rate as the discounting factors. When internal data is not available, LGD will be estimated based on the externally published statistics of historical recoveries and calibrated for economic scenarios.

違約損失率是如果發生違約時的預期損失幅度。本集團會根據以往從違約交易對手的回收率去估算違約損失率。違約損失率估值會依不同經濟情景所反映的抵押品價值變化再作校正。以有效利率作為現值折算基準，利用現金流現值折算方法去計算。如內部數據不足，違約損失率會參考外部公開的歷史回收率數據再作經濟情景校正。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

57. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2017 (CONTINUED)
在截至2017年12月31日止年度前已公布但尚未生效的修訂、新標準和詮釋所產生的可能影響(續)

HKFRS 9, Financial Instruments (continued)

(ii) Impairment – Financial assets, loan commitments and financial guarantee contracts (continued)

EAD represents the expected exposure in the event of a default. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider both the amount drawn and the estimated potential future amounts that may be drawn.

For retail portfolios, modeling of parameters are carried out on collective basis and the financial assets are grouped on the basis of shared risk characteristics that include:

– Instrument type;

– Collateral type;

– Geographical location

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Forward-looking information

Under HKFRS 9, the Group will incorporate forward-looking information into its measurement of ECLs. The Group will formulate a 'baseline' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on advice from the economic experts and consideration of a variety of external actual and forecast information. This process will involve developing multiple economic scenarios and considering the relative probabilities of each outcome. External information may include economic data and forecast published by governmental bodies and monetary authorities in the countries where the Group operates.

The "baseline" view will represent a most-likely outcome. The other scenarios will represent more optimistic and more pessimistic outcomes.

The Group has identified key drivers of credit risk and credit losses for each portfolio of financial assets and, using an analysis of historical data, has estimated relationship between macro-economic variables and credit risk and credit losses.

《香港財務報告準則》第9號「金融工具」(續)

(ii) 減值－金融資產，貸款承擔及財務擔保合約(續)

違約風險承擔反映違約發生時的預期額度。金融資產的違約風險承擔是違約時的賬面總額。對於借貸承擔及財務擔保，違約風險承擔會考慮已提取的額度及預期將會提取的額度。

對於個人零售組合，模型內之參數是以整體基礎處理，而金融資產的分類是根據共同風險特質包括：

－ 工具類別；

－ 抵押品類別；

－ 區域所在地

以上分類會透過定期檢討以確保同一特定類別的風險承擔的風險特質仍然相當一致。

前瞻性資料

在《香港財務報告準則》第9號下，集團會整合前瞻性資料以計算預期信貸損失。集團會對相關經濟因素的未來方向制訂基準線，及依據經濟專家們的意見和參考不同的外界實質和預測資料以制訂一系列的可能預測情景。這過程包括建立多個預測經濟情景及考慮各結果的可能性。所參考的外界資料包括由本集團有業務據點的國家之政府及其監管機構所發佈的經濟數據及預測。

基準線反映最可能結果。而其餘情景反映較正面及較負面的結果。

本集團已釐定了各金融資產組合的信貸風險及信貸損失的重點因素，及以歷史數據分析去估算宏觀經濟因素，信貸風險及信貸損失的關聯性。

Impact assessment

The most significant impact on the Group's financial statements from the implementation of HKFRS 9 is expected to result from the new impairment requirement.

The Group has estimated that, on the adoption of HKFRS 9 at 1st January 2018, the impact of the increase in loss allowance (before tax) will be approximately HK$0.4 billion.

(iii) Classification – Financial liabilities

HKFRS 9 largely retains the existing requirements in HKAS 39 for the classification of financial liabilities.

However, under HKAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under HKFRS 9 these fair value changes will generally be presented as follows:

- the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and
- the remaining amount of the change in the fair value will be presented in profit or loss.

The Group has designated debt securities issued as at FVTPL when it holds related derivatives at FVTPL and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise. At 31st December 2017, the accumulated loss in fair value attributable to changes in credit risk of these liabilities was HK$7 million and was recognised in profit or loss under HKAS 39. On the adoption of HKFRS 9, such changes in fair value will be recognised in OCI. Although the amount recognised in OCI each year will vary, the cumulative amount recognised in OCI will be nil if the designated liabilities are repaid at maturity.

影響評估

《香港財務報告準則》第9號的減值規定的實施，會對本集團財務報表有最重大影響。

當《香港財務報告準則》第9號於2018年1月1日實施，本集團估計稅前減值準備將會增加約4億港元。

(iii) 分類－金融負債

《香港財務報告準則》第9號基本上保留了《香港會計準則》第39號中對金融負債分類的要求。

然而，根據《香港會計準則》第39號，所有指定為通過損益以反映公平價值作計量的金融負債的公平值變更均於損益表內確認，而於《香港財務報告準則》第9號下，該等公平值變更將呈列如下：

- 因其信貸風險的改變而導致的公平值變動，需列示於其他全面收益；及
- 公平值變更總額的剩餘部分則包括於損益表內。

當本集團發行債務證券同時持有相關衍生工具，會指定該債務證券為通過損益以反映公平價值以消除或明顯減少會計錯配的情況。根據《香港會計準則》第39號，於2017年12月31日，該等負債因其信貸風險改變而導致的公平值變動累計約港幣7百萬元。於實施《香港財務報告準則》第9號時，該因其信貸風險改變而導致的相關公平值變動會於其他全面收益確認。儘管因此每年於其他全面收益確認之數字會浮動，如指定的負債於到期時還款，確認於其他全面收益的累計數字將為零。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

57. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2017 (CONTINUED)
在截至2017年12月31日止年度前已公布但尚未生效的修訂、新標準和詮釋所產生的可能影響(續)

HKFRS 9, Financial Instruments (continued)

(iv) Derecognition and contract modification

HKFRS 9 incorporates the requirements of HKAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under HKFRS 9, the Group will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. Under HKAS 39, the Group does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

The Group expects an immaterial impact from adopting these new requirements.

(v) Hedge accounting

When initially applying HKFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of HKAS 39 instead of the requirements in Chapter 6 of HKFRS 9. The Group has elected to continue to apply HKAS 39. However, the Group will provide the expanded disclosures on hedge accounting introduced by HKFRS 9's amendments to HKFRS 7 Financial Instruments: Disclosures because the accounting policy election does not provide an exemption from these new disclosure requirements.

(vi) Disclosures

HKFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs.

《香港財務報告準則》第9號「金融工具」(續)

(iv) 終止確認及合約修訂

《香港財務報告準則》第9號保留了《香港會計準則》第39號中對金融資產及金融負債終止確認的要求，沒有太多修訂。

可是，《香港財務報告準則》第9號提出對非通過損益以反映公平價值作計量的金融工具在合約修訂但不會導致終止確認情況下的特定指引。根據《香港財務報告準則》第9號，本集團會按原本的有效利率折算已修訂的合約現金流，重新計算該金融資產的總賬面值(或金融負債的攤銷成本)，並於損益表內確認相關調整為修訂收益或虧損。根據《香港會計準則》第39號，本集團未有於損益表內確認在合約修訂但沒有終止確認的金融負債及非不良金融資產的相關修訂收益或虧損。

本集團預計採納相關規定未有重大影響。

(v) 對沖會計

於初始應用《香港財務報告準則》第9號，本集團可選擇繼續應用《香港會計準則》第39號的對沖會計規定作為其會計政策而非《香港財務報告準則》第9號第6章的要求。本集團選擇繼續應用《香港會計準則》第39號的對沖會計規定。然而，相關的會計政策選擇未有豁免新的披露要求，本集團將提供因應《香港財務報告準則》第9號而修訂的《香港財務報告準則》第7號「金融工具：披露」中對沖會計廣泛披露要求。

(vi) 披露

《香港財務報告準則》第9號提出了廣泛的新披露要求，尤其關於對沖會計，信用風險及預期信用損失。

(vii) Impact on capital planning

According to the regulatory requirements stipulated by the HKMA, the impact of implementation of the HKFRS 9 on regulatory capital will be fully recognized on 1st January, 2018. The principal impact on the Group's regulatory capital arises from the difference in specific provisions for loans and advances to customers estimated under HKAS 39 and HKFRS 9, and the increased coverage under HKFRS 9.

Under current regulatory requirements, banks are required to maintain a regulatory reserve for general banking risks and impairment provisions are dealt with differently depending on the credit risk-weighting approach applied.

- IRB approach – Majority of the Group's assets which are subject to provisioning under HKFRS 9 are risk-weighted using IRB approach. For IRB portfolios, any shortfall between eligible provisions (being the sum of accounting provisions and regulatory reserve) and regulatory expected losses is deducted from CET1 capital and any excess is added back to Tier 2 capital (up to a certain limit).

- Standardised approach – Assets risk-weighted using the standardised approach constitute only a minor portion of the Group's total assets. While all accounting provisions and regulatory reserve for portfolios under standardised approach are deducted from CET1 capital, general provisions and regulatory reserve are added back to Tier 2 capital (up to a certain limit).

The Group's assessment indicates that the aggregate impact on regulatory capital of the implementation of HKFRS 9 for both the IRB and standardised portfolios will be a reduction in CET1 capital of approximately HK$0.9 billion and a reduction in total capital of approximately HK$0.4 billion as at 1st January, 2018.

(vii) 對資本規劃的影響

根據香港金融管理局載列的監管要求，《香港財務報告準則》第9號對監管資本的影響將於2018年1月1日全面反映。《香港財務報告準則》第9號對集團的監管資本的影響主要源於其與《香港會計準則》第39號中客戶貸款及墊款的特定準備金計算上的差別，及其新覆蓋的減值準備範圍。

在現行的監管要求下，銀行須為一般銀行業務風險維持監管儲備；減值準備金則會因應不同的信貸風險加權計算法而有不同的處理。

- 內部評級基準計算法－在《香港財務報告準則》第9號下，集團內大部分需要進行減值準備的資產乃以內部評級基準計算法計算風險加權金額。對以內部評級基準計算法計算風險加權金額的組合而言，合資格準備金(即會計準備金及監管儲備之和)與監管預期損失的任何差額將從普通股權一級資本扣減，而任何溢額則可包括在二級資本內(上至特定限額)。

- 標準計算法－以標準計算法計算風險加權金額的資產只佔集團總資產的少部分。對此組合而言，所有會計準備金及監管儲備須從普通股權一級資本扣減，而一般準備金及監管儲備則可包括在二級資本內(上至特定限額)。

集團的評估顯示，《香港財務報告準則》第9號於2018年1月1日執行後，其對集團的監管資本的總體影響(包括以內部評級基準計算法及標準計算法計算風險加權金額的組合)為：普通股權一級資本將減少約9億港元，而總資本則將減少約4億港元。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

57. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2017 (CONTINUED)
在截至2017年12月31日止年度前已公布但尚未生效的修訂、新標準和詮釋所產生的可能影響(續)

HKFRS 9, Financial Instruments (continued)

(viii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 will generally be recognised in retained earnings and reserves as at 1st January, 2018.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

- If a debt investment security has low credit risk at 1st January, 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

《香港財務報告準則》第9號「金融工具」(續)

(viii) 過渡

因採納《香港財務報告準則》第9號修訂的會計政策除以下所列外應作出追溯性修訂。

- 本集團會採用豁免，允許其不再重列關於分類及計量(包括減值)轉變的以往會計年度比較數字。採納《香港財務報告準則》第9號引致的金融資產及金融負債之賬面值差異將於2018年1月1日的留存溢利及儲備中確認。

- 需根據初始應用日的事實及情況作評估如下。
  - 決定持有的金融資產的商業模型。
  - 指定及撤回之前指定部份金融資產及金融負債為通過損益以反映公平價值分類。
  - 指定部份非交易用途的股份工具為通過其他全面收益以反映公平價值。
  - 於指定為通過損益以反映公平價值的金融負債中，決定因應信貸風險的改變確認於其他全面收益會否於損益表製造或擴大會計錯配。

- 如債務投資證券於2018年1月1日的信用風險低，集團將決定其信用風險自從初始確認以來未有顯著增加。

HKFRS 16, Leases

As disclosed in Note 2(l), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases(i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the income statement over the period of the lease. As disclosed in Note 47(d), at 31st December, 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$1,075 million and HK$7 million for properties and equipments respectively, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

《香港財務報告準則》第16號「租賃」

如在附註2(l)中所披露，本集團現分類租賃為融資租賃和經營租賃，本集團會按租賃的分類而採納不同的會計方法來處理租賃安排。本集團會以出租人及受租人身份簽訂租賃合約。

預計《香港財務報告準則》第16號對出租人根據他們在租賃的權利和義務的會計處理方法未有重大影響。但是，當採納《香港財務報告準則》第16號，受租人將毋須分辨融資租賃及經營租賃。另外，視乎實際情況，受租人將以現行相同的融資租賃會計法處理所有租賃，即在租賃之生效日受租人將按未來最低租賃付款之現值確認及計算租賃負債，亦會同時確認另一「可使用權利」資產。在初始確認該資產及負債後，受租人將按租賃負債的結餘確認應計利息支出，以及可使用權利資產的折舊，而並不是現行會計政策按租賃期限分期確認為經營租賃的租金支出。視乎實際情況，受租人可選擇不採納此會計模式計算短期租賃(即租賃期是12個月或以下)以及低價值資產之租賃，即仍繼續按租賃期限分期確認為經營租賃的租金支出。

《香港財務報告準則》第16號將主要影響現行本集團對物業、廠房及設備的租賃作為受租人(分類為經營租賃)的會計處理方法。預計採納新會計模式會令資產及負債增加，以及影響按租賃期限在收益表中確認費用支出的時間。如在附註47(d)中所披露，在2017年12月31日，本集團不可撤銷經營租賃的物業及設備之未來最低租賃付款分別為港幣10.75億元及港幣700萬元，而大部份是在報告日後1至5年及超過5年後支付。因此，當採納《香港財務報告準則》第16號，部份上述金額可能需要確認為租賃負債和相同金額的可使用權利資產。本集團須進行深入分析以計算當採納《香港財務報告準則》第16號由經營租賃承擔所產生的新資產和負債之金額，但會考慮實際情況及經調整由現在至採納《香港財務報告準則》第16號期間任何新承諾或已被終止之租賃及折現的影響。

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE BANK OF EAST ASIA, LIMITED
(Incorporated in Hong Kong with limited liability)

OPINION
We have audited the consolidated financial statements of The Bank of East Asia, Limited ("the Bank") and its subsidiaries (together "the Group") set out on pages 168 to 366, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION
We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment allowances of loans and advances to customers
Refer to notes 2(h)(vii), 29(a), 45(a)(x) to the consolidated financial statements

Key audit matter	How the matter was addressed in our audit
The Group's advances to customers as at 31 December 2018 amounted to HK$500,631 million, with total expected credit losses ("ECL") amounting to HK$2,347 million as at 31 December 2018. 41% of the Group's advances to customers related to exposures in Mainland China. Impairment allowances of loans and advances to customers across the banking industry continues to be an area of concern and elevated focus due to the uncertain global economic outlook. The Group has applied Hong Kong Financial Reporting Standard 9 – Financial Instruments ("HKFRS 9") which replaced Hong Kong Accounting Standard 39, Financial Instruments: recognition and measurement, since 1 January 2018.	Our audit procedures to assess the impairment allowances on loans and advances to customers measured at amortised cost included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls on financial reporting over the change of financial instruments standard, approval, recording and monitoring of loans measured at amortised cost, the credit grading process, the ECL model development, approval, monitoring, governance and validation process, and the measurement of provisions for impairment allowances; • evaluating the accuracy of the classification of advances to customers. We obtained information on how management applied the classification requirements of the new financial instruments standard and the classification results and on a sample basis we assessed the contractual cash flow characteristics of advances to customers and relevant documents in relation to the business model;

獨立核數師報告

KPMG

致東亞銀行有限公司成員
(於香港註冊成立的有限公司)

意見

本核數師(以下簡稱「我們」)已審計列載於第168至第366頁的東亞銀行有限公司(以下簡稱「貴銀行」)及其附屬公司(以下統稱「貴集團」)的綜合財務報表，此綜合財務報表包括於二零一八年十二月三十一日的綜合財務狀況表和截至該日止年度的綜合收益表、綜合全面收益表、綜合權益變動表和綜合現金流量表，以及綜合財務報表附註，包括主要會計政策概要。

我們認為，該等綜合財務報表已根據香港會計師公會頒布的《香港財務報告準則》真實而中肯地反映了 貴集團於二零一八年十二月三十一日的綜合財務狀況及截至該日止年度的綜合財務表現及綜合現金流量，並已遵照香港《公司條例》妥為擬備。

意見的基礎

我們已根據香港會計師公會頒布的《香港審計準則》進行審計。我們在該等準則下承擔的責任已在本報告「核數師就審計綜合財務報表承擔的責任」部分中作進一步闡述。根據香港會計師公會頒布的《專業會計師道德守則》(以下簡稱「守則」)，我們獨立於 貴集團，並已履行守則中的其他專業道德責任。我們相信，我們所獲得的審計憑證能充足及適當地為我們的審計意見提供基礎。

關鍵審計事項

關鍵審計事項是根據我們的專業判斷，認為對本期綜合財務報表的審計最為重要的事項。這些事項是在我們審計整體綜合財務報表及出具意見時進行處理的。我們不會對這些事項提供單獨的意見。

客戶貸款及墊款的減值準備

請參閱綜合財務報表附註2(h)(vii)、29(a)和45(a)(x)

關鍵審計事項	審計對策
於二零一八年十二月三十一日， 貴集團的客戶墊款達到港幣5,006.31億元，預期信貸損失於二零一八年十二月三十一日總額為港幣23.47億元。 貴集團的客戶墊款中，41%與中國內地的信貸風險相關。 由於全球經濟前景不明朗，銀行業界的客戶貸款及墊款的減值準備繼續成為主要關注事項。 貴集團已自二零一八年一月一日起採用《香港財務報告準則》第9號「金融工具」，該準則已取代《香港會計準則》第39號「金融工具：確認與計量」。	與評估以攤銷成本計量的客戶貸款及墊款的減值準備相關的審計程序包括以下各項： • 瞭解並評估與以下項目有關的關鍵財務報告內部控制的設計、實施及操作成效：金融工具準則的變更，以攤銷成本計量的貸款的審批、記錄和監管，信貸評級流程、預期信貸損失模型的制定、審批、監管、管治和驗證程序，以及減值準備的撥備計量； • 評價客戶墊款分類的準確性。我們已取得有關管理層如何應用新金融工具準則的分類要求及相關分類結果的資訊，並在抽樣基礎上評估了客戶貸款的合約現金流特徵以及與商業模式有關的檔；

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Impairment allowances of loans and advances to customers

Refer to notes 2(h)(vii), 29(a), 45(a)(x) to the consolidated financial statements

Key audit matter	How the matter was addressed in our audit
The new financial instruments standard has amended the previous classification and measurement framework of financial instruments, which determines the amount of loans and advances subject to assessment of impairment allowances. ECL may be materially misstated if the classification and measurement framework of financial instruments is not properly adopted. Therefore, the determination of impairment allowances of loans and advances to customers is subject to the accuracy of the classifications of the Group's loans and advances to customers. The new financial instruments standard also introduced a more complex expected credit loss model to assess impairment allowances of loans and advances to customers measured at amortised cost. The Group is required to retrospectively apply the classification and measurement (including impairment allowances) requirements and recognise any difference between the original carrying amount and new carrying amount at the date of initial application (i.e. 1 January 2018) in the opening retained earnings or other components of equity ("Transition adjustments"). In order to adopt the new requirements, the Group has developed a new model for measuring impairment allowances of financial assets including advances to customers. Loan exposures that are not already credit-impaired are classified as stage 1 on origination and a 12-month ECL provision is recognised. Loan exposures will remain in stage 1 until they are repaid, unless they experience a significant increase in credit risk (stage 2) or they become credit-impaired (stage 3). Loan exposures will transfer to stage 2 when there has been a significant increase in credit risk compared to origination. Loan exposures are classified as stage 3 when they become credit-impaired. A lifetime ECL provision is recognised for loans classified as stage 2 and stage 3. ECL may be materially misstated if the exposures with a significant increase in credit risk are not properly identified, leading to inaccurate recognition of ECL. The determination of impairment allowances using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgement is involved in the selection of those parameters and the application of the assumptions.	• obtaining journal entries relating to adjustments made on transition to the new financial instruments standard and comparing the list of classification of advances to customers, the original carrying amounts and new carrying amounts of advances to customers to assess if the journal entries have been properly recorded in the accounting systems; • involving specialists in assessing the reliability of the ECL model used by management in determining impairment allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments; • assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model, by comparing individual loan information on a sample basis with the underlying agreements and other related documentation to assess the accuracy of the loan information in the expected credit loss model. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with publicly available sources; • for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing it to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with the estimates and input parameters on transition to the new accounting standard and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development; • for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis. We involved our information technology specialists in assessing the information systems controls critical to the credit grading process, such as the compilation of the overdue reports for advances to customers. We also assessed the design, implementation and operating effectiveness of relevant automated application controls within these systems, as well as the key internal controls over these underlying systems, including controls over access to these systems and controls over data and change management;

客戶貸款及墊款的減值準備

請參閱綜合財務報表附註2(h)(vii)、29(a)和45(a)(x)

關鍵審計事項	審計對策
新的金融工具準則已修改此前的金融工具分類及計量框架，而確定應進行減值準備評估的貸款及墊款金額。倘未能恰當採用金融工具的分類和計量框架，預期信貸損失可能會存在重大錯誤陳述。因此， 貴集團客戶貸款及墊款的分類是否準確，會影響客戶貸款及墊款之減值準備的釐定。 新的金融工具準則還引入了更為複雜的預期信貸損失模型，以評估以攤銷成本計量的客戶貸款及墊款的減值準備。 貴集團需要追溯應用新的分類及計量(包括減值準備)的要求，並將原賬面金額與初始應用日(即二零一八年一月一日)的新賬面金額之間的任何差異計入期初留存溢利或其他權益項目(「過渡調整」)。 因應新的要求， 貴集團已就測量金融資產(包括客戶墊款)的減值準備制定新的模型。尚未成為不良信貸的貸款於發放時被劃歸為第一階段，並按照相當於12個月的預期信貸損失的金額確認撥備。在貸款被償還前，貸款會保留於第一階段，除非其信貸風險有顯著增加(第二階段)或已成為不良信貸(第三階段)。 倘貸款的信貸風險與發放時相比有顯著增加，貸款將轉入第二階段。倘貸款成為不良信貸，貸款將會劃入第三階段。對於被歸類為第二階段和第三階段的貸款，應按照相當於合約期內之預期信貸損失的金額確認撥備。 倘貸款的信貸風險顯著增加卻未被恰當地識別，可能導致預期信貸損失存在重大錯誤陳述及不準確確認。 採用預期信貸損失模型釐定減值準備時須考慮若干關鍵參數及假設，包括所識別的損失階段，所估計的違約概率、違約損失率、違約風險承擔和貼現率，就前瞻性資訊所作的調整以及其他調整因素。在選取該等參數及應用上述假設時亦須管理層作出判斷。	• 獲取在新金融工具準則過渡時所作的調整有關的會計分錄，並對比客戶墊款分類列表以及客戶墊款的原賬面金額與新賬面金額，以評估該會計分錄是否已恰當地計入會計系統； • 使用專家評估管理層在釐定減值準備時所用的預期信貸損失模型的可靠性，包括評估預期信貸損失模型所用的關鍵參數及假設是否恰當，這包括所識別的損失階段，違約概率、違約損失率、違約風險承擔和貼現率，就前瞻性資訊所作的調整以及管理層所作的其他調整； • 通過在抽樣基礎上對比個別貸款資訊與相關協議及其他相關文檔，評估預期信貸損失模型中的貸款資訊是否準確，以此評估預期信貸損失模型中的關鍵參數所用的數據是否完整及準確。對於源自外部數據的關鍵參數，我們採用抽樣方式將該等數據與公開可獲取的數據進行比較，以檢查該等數據的準確性； • 對於涉及判斷的關鍵參數，從外部管道獲得證據並將其與 貴集團的內部記錄(包括以往損失經驗和抵押品的類型)進行比較，以對輸入參數進行審慎評估。在這一過程中，我們通過與新會計準則過渡時的估計及輸入參數進行比較，就管理層對估計及輸入參數的修訂提出質詢，並考慮判斷的一致性。我們將模型中所運用的經濟因素與市場資訊進行對比，以評估這些數據是否與市場及經濟發展相符； • 對於預期信貸損失模型中所用的、源自系統生成的內部數據的關鍵參數，在抽樣基礎上將輸入數據與原始檔進行對比以評估輸入參數的準確性。我們使用本所的資訊技術專家來評估對信貸評級流程有重要影響的資訊系統控制，包括客戶墊款逾期報告的編制。我們還評估這些系統內的相關自動化應用程式控制，以及對這些相關系統的主要內部控制(包括對系統登入的控制以及對數據和變更管理的控制)在設計、實施和操作上的成效；

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Impairment allowances of loans and advances to customers

Refer to notes 2(h)(vii), 29(a), 45(a)(x) to the consolidated financial statements

Key audit matter	How the matter was addressed in our audit
In particular, the determination of the impairment allowances is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The expected credit losses for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors. Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. Management refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of property held as collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of impairment allowances as at the end of the reporting period. We identified the impairment allowances of loans and advances to customers measured at amortised cost as a key audit matter because of the complexity of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Group.	• for selected samples of loans and advances to customers that are credit-impaired, evaluating management's assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, challenged the viability of the Group's recovery plans and evaluated other credit enhancements that are integral to the contract terms; • in respect of identifying exposures with a significant increase in credit risk, evaluating the validity of management's assessment on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting samples for which we checked loan overdue information, made enquiries of the credit managers about the borrowers' business operations, checked borrowers' financial information and researched market information about borrowers' businesses; • in respect of assessing the accuracy of ECL calculation, recalculating the amount of credit loss allowance for 12-month and life-time credit losses using the expected credit loss model based on the above parameters and assumptions for a sample of loans and advances to customers where the credit risk of the loan has not, or has, increased significantly since initial recognition, respectively and comparing to the results from the Group; • assessing the appropriateness of material manual adjustments and overlays on ECL model outputs; • evaluating whether the presentation and disclosures on impairment allowances of loans and advances to customers measured at amortised cost meet the requirements in HKAS 32 Financial Instruments: Presentation and HKFRS 7 Financial Instruments: Disclosures; and • assessing whether the relevant disclosures in relation to the change in the financial instruments standard are in compliance with the Hong Kong Financial Reporting Standards.

客戶貸款及墊款的減值準備

請參閱綜合財務報表附註2(h)(vii)、29(a)和45(a)(x)

關鍵審計事項

當中，減值準備的釐定在很大程度上取決於外部宏觀環境及　貴集團的內部信貸風險管理策略。預期信貸損失乃源自於對歷史損失、內部及外部信貸評級及其他調整因素的估計。個人貸款的預期信貸損失乃源自於管理層考慮了歷史逾期數據、個人貸款的以往損失經驗以及其他調整因素而作出的估計。

管理層在釐定違約損失率的金額時亦會根據多項因素作出判斷。這些因素包括收回墊款的方式、借款人的財務狀況、抵押品的可收回金額、索賠受償順序及其他債權人是否存在及其合作意向等。在評估持作抵押品的物業的價值時，管理層會參考合資格第三方評估師出具的估值報告，並考慮各種因素的影響，包括物業的市場價格、位置及用途。抵押品的法律效力、變現時間和方法亦會影響抵押品的可收回金額，並從而影響報告期末的減值準備金額。

由於以攤銷成本計量的客戶貸款及墊款的減值準備所涉及的複雜性、管理層判斷以及內含的不確定性，同時由於其對　貴集團財務業績和資本的重大影響，我們將其認定為一項關鍵審計事項。

審計對策

- 對於已抽選的不良信貸的客戶貸款及墊款樣本，根據持作抵押品的物業的位置及用途以及鄰近物業的價格，將持作抵押品的物業的價值與市場價格進行比較，以評價管理層對該類物業價值的評估。我們還評價了抵押品的變現時間和方法以及現金流預測，對貴集團回收方案的可行性提出了質詢，並對合同條款中的其他信貸提升進行了評價；

- 在識別信貸風險已顯著增加的貸款方面，採用抽樣的方式檢查貸款逾期資訊，就借款人的業務運營詢問信貸經理，檢查借款人的財務信息並查考有關借款人業務的市場資訊，以評價管理層對於貸款的信貸風險自初始確認以來是否已，或尚未有，顯著增加以及貸款是否已成為不良信貸的評估是否恰當；

- 在評估預期信貸損失計算的準確性方面，抽選信貸風險自初始確認以來尚未顯著增加或已顯著增加的客戶貸款及墊款樣本，同時根據上述參數及假設並使用預期信貸損失模型，分別重新計算該等樣本按照12個月內的信貸損失和合約期內的信貸損失計量的信貸損失準備金額，並將該計算結果與　貴集團的結果進行比較；

- 評估重大的手動調整以及預期信貸損失模型輸出值的調整是否恰當；

- 評價以攤銷成本計量的客戶貸款及墊款的減值準備的列報與披露是否滿足《香港會計準則》第32號「金融工具：列報」以及《香港財務報告準則》第7號「金融工具：披露」的要求；及

- 評估與金融工具準則變更有關的披露是否符合《香港財務報告準則》的要求。

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Assessment of the fair value of financial instruments

Refer to notes 2(h)(iii), 27, 28, 30, 46(a) to the consolidated financial statements

Key audit matter	How the matter was addressed in our audit
Financial instruments carried at fair value account for a significant portion of the Group's assets. As at 31 December 2018 the fair value of these financial instruments was HK$151,166 million of which HK$25,967 million, HK$124,202 million and HK$997 million was classified as level 1, 2 and 3 financial instruments respectively. The valuation of the Group's financial instruments, which are stated at their fair values, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data for liquid markets. Where such observable data is not readily available, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant management judgement. In addition, the Group has developed its own models to value certain level 2 and 3 financial instruments, which involves significant management judgement. We identified the assessment of the fair value of financial instruments as a key audit matter because of the complexity and significant management judgement required in the valuation of some financial instruments and because of the lower transparency of inputs used in the valuation techniques for certain financial instruments which increases the risk of potential error.	Our audit procedures to assess the fair value of financial instruments included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification and model validation for financial instruments. For the key underlying systems used for the processing of transactions in relation to financial instruments we involved specialists to assess the design, implementation and operating effectiveness of relevant automated controls within these systems. We also assessed the design, implementation and operating effectiveness of the key internal controls over these underlying systems, including controls over access to these systems and controls over data and change management; • evaluating the fair values of financial instruments with quoted price by comparing the fair values applied by the Group with publicly available market data on a sample basis; • involving our internal valuation specialists to perform independent valuations of level 2 and level 3 financial instruments on a sample basis and comparing these valuations with the Group's valuations. Our internal valuation specialists performed independent valuations by developing models, obtaining inputs independently and verifying the inputs, evaluating the methodology adopted by management for the valuation of these financial instruments and assessing the inputs and assumptions used in the valuations; • assessing the appropriate application of Credit Value and Debit Value Adjustments ("CVA/DVA") that form an integral part of fair values; inquiring of management about any changes in the CVA/DVA methodology and assessing the inputs applied; and • assessing whether the disclosures in the consolidated financial statements appropriately reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.

評估金融工具的公平價值

請參閱綜合財務報表附註2(h)(iii)、27、28、30和46(a)

關鍵審計事項	審計對策
以公平價值列賬的金融工具是 貴集團持有的重要資產之一。 貴集團於二零一八年十二月三十一日持有此類金融工具的公平價值金額為港幣1,511.66億元，其中在公平價值分級內第一級、第二級和第三級的金融工具公平價值分別為港幣259.67億元、港幣1,242.02億元及港幣9.97億元。 貴集團以公平價值列賬的金融工具的估值以市場數據和估值模型為基礎，其中估值模型通常需要大量的參數輸入。大部分參數源自於高流動性市場中可獲取的數據。當可觀察的數據無法從高流動性市場獲取時，即公平價值屬於第三級的情形下，管理層便需提供估算，這當中會涉及管理層的重大判斷。 此外， 貴集團已對特定的第二級及第三級金融工具開發了自有估值模型，這也會涉及管理層的重大判斷。 由於金融工具公平價值的評估涉及一定複雜性，而部分金融工具亦涉及管理層的重大判斷，以及部分金融工具使用的參數的透明度較低而增加潛在錯誤風險，我們因此將金融工具公平價值的評估識別為關鍵審計事項。	與評估金融工具公平價值相關的審計程序包括以下各項： • 評估與金融工具估值、獨立價格驗證及模型驗證相關的內部控制的設計、實施和操作上的成效。利用本所專家，評估處理金融工具相關交易的主要系統內自動化控制於設計、實施和操作上的成效。我們還評估了這些相關系統的關鍵內部控制(包括對系統登入的控制以及對數據和變更管理的控制)在設計、實施和操作上的成效； • 採用抽樣的方式，通過比較 貴集團採用的公平價值與公開可獲取的市場數據，評估具有市場報價的金融工具的公平價值； • 採用抽樣的方式，由本所內部估值專家對公平價值屬於第二級和第三級的金融工具進行獨立估值，並將我們的估值結果與 貴集團的估值結果進行比較。我們的程序包括制定估值模型、獨立獲取及驗證參數、評估管理層所採用的金融工具估值法，以及評估估值時所使用的參數和假設； • 在評估對構成公平價值組成部分的信用估值調整和債務價值調整的運用是否適當時，詢查管理層計算信用估值調整和債務價值調整的方法曾否發生變化，並評估參數運用的恰當性；及 • 評估綜合財務報表中與金融工具相關的披露是否符合有關會計準則的要求，恰當反映了 貴集團的金融工具估值風險。

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

綜合財務報表及其核數師報告以外的資訊

董事需對其他資訊負責。其他資訊包括刊載於年報內的全部資訊,但不包括綜合財務報表及我們的核數師報告。

我們對綜合財務報表的意見並不涵蓋其他資訊,我們亦不對該等其他資訊發表任何形式的鑒證結論。

結合我們對綜合財務報表的審計,我們的責任是閱讀其他資訊,在此過程中,考慮其他資訊是否與綜合財務報表或我們在審計過程中所瞭解的情況存在重大抵觸或者似乎存在重大錯誤陳述的情況。

基於我們已執行的工作,如果我們認為其他資訊存在重大錯誤陳述,我們需要報告該事實。在這方面,我們沒有任何報告。

董事就綜合財務報表須承擔的責任

董事須負責根據香港會計師公會頒布的《香港財務報告準則》及香港《公司條例》擬備真實而中肯的綜合財務報表,並對其認為為使綜合財務報表的擬備不存在由於欺詐或錯誤而導致的重大錯誤陳述所需的內部控制負責。

在擬備綜合財務報表時,董事負責評估 貴集團持續經營的能力,並在適用情況下披露與持續經營有關的事項,以及使用持續經營為會計基礎,除非董事有意將 貴集團清盤或停止經營,或別無其他實際的替代方案。

審計委員會協助董事履行監督 貴集團的財務報告過程的責任。

核數師就審計綜合財務報表承擔的責任

我們的目標,是對綜合財務報表整體是否不存在由於欺詐或錯誤而導致的重大錯誤陳述取得合理保證,並出具包括我們意見的核數師報告。我們是按照香港《公司條例》第405條的規定,僅向整體成員報告。除此以外,我們的報告不可用作其他用途。我們概不就本報告的內容,對任何其他人士負責或承擔法律責任。

合理保證是高水準的保證,但不能保證按照《香港審計準則》進行的審計,在某一重大錯誤陳述存在時總能發現。錯誤陳述可以由欺詐或錯誤引起,如果合理預期它們單獨或滙總起來可能影響綜合財務報表使用者依賴財務報表所作出的經濟決定,則有關的錯誤陳述可被視作重大。

在根據《香港審計準則》進行審計的過程中,我們運用了專業判斷,保持了專業懷疑態度。我們亦:

- 識別和評估由於欺詐或錯誤而導致綜合財務報表存在重大錯誤陳述的風險,設計及執行審計程序以應對這些風險,以及獲取充足和適當的審計憑證,作為我們意見的基礎。由於欺詐可能涉及串謀、偽造、蓄意遺漏、虛假陳述,或凌駕於內部控制之上,因此未能發現因欺詐而導致的重大錯誤陳述的風險高於未能發現因錯誤而導致的重大錯誤陳述的風險。

- 瞭解與審計相關的內部控制,以設計適當的審計程序,但目的並非對 貴集團內部控制的有效性發表意見。

- 評價董事所採用會計政策的恰當性及作出會計估計和相關披露的合理性。

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Donowho, Simon Christopher.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 February 2019

- 對董事採用持續經營會計基礎的恰當性作出結論。根據所獲取的審計憑證，確定是否存在與事項或情況有關的重大不確定性，從而可能導致對　貴集團的持續經營能力產生重大疑慮。如果我們認為存在重大不確定性，則有必要在核數師報告中提請使用者注意綜合財務報中的相關披露。假若有關的披露不足，則我們應當發表非無保留意見。我們的結論是基於核數師報告日止所取得的審計憑證。然而，未來事項或情況可能導致　貴集團不能持續經營。

- 評價綜合財務報表的整體列報方式、結構和內容，包括披露，以及綜合財務報表是否中肯反映交易和事項。

- 就　貴集團內實體或業務活動的財務資訊獲取充足、適當的審計憑證，以便對綜合財務報表發表意見。我們負責　貴集團審計的方向、監督和執行。我們為審計意見承擔全部責任。

除其他事項外，我們與審計委員會溝通了計劃的審計範圍、時間安排、重大審計發現等，包括我們在審計中識別出內部控制的任何重大缺陷。

我們還向審計委員會提交聲明，說明我們已符合有關獨立性的相關專業道德要求，並與他們溝通有可能合理地被認為會影響我們獨立性的所有關係和其他事項，以及在適用的情況下，相關的防範措施。

從與審計委員會溝通的事項中，我們確定哪些事項對本期綜合財務報表的審計最為重要，因而構成關鍵審計事項。我們在核數師報告中描述這些事項，除非法律法規不允許公開披露這些事項，或在極端罕見的情況下，如果合理預期在我們報告中溝通某事項造成的負面後果超過產生的公眾利益，我們決定不應在報告中溝通該事項。

出具本獨立核數師報告的審計項目合夥人是鄧諾豪(Donowho, Simon Christopher)。

畢馬威會計師事務所
執業會計師
香港中環
遮打道十號
太子大廈八樓

二零一九年二月二十七日

CONSOLIDATED INCOME STATEMENT
綜合收益表

For the year ended 31st December, 2018 截至2018年12月31日止年度

		Notes 附註	2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務			
Interest income	利息收入	5	**25,598**	21,629
Interest income calculated using the effective interest method	按有效利率方法計算的利息收入		**25,058**	21,509
Other interest income	其他利息收入		**540**	120
Interest expense	利息支出	6	**(12,639)**	(9,797)
Net interest income	淨利息收入		**12,959**	11,832
Fee and commission income	服務費及佣金收入	7	**3,813**	3,557
Fee and commission expense	服務費及佣金支出		**(1,160)**	(1,064)
Net fee and commission income	服務費及佣金收入淨額		**2,653**	2,493
Net trading profits	交易溢利淨額	8	**994**	526
Net result from other financial instruments at FVTPL	通過損益以反映公平價值其他金融工具的淨表現	9	**(286)**	35
Net hedging profit/(loss)	對沖溢利／(虧損)淨額	10	**43**	(2)
Net insurance revenue	保險業務淨收入	11(a)	**295**	687
Other operating income	其他經營收入	12	**414**	382
Non-interest income	非利息收入		**4,113**	4,121
Operating income	經營收入		**17,072**	15,953
Operating expenses	經營支出	13	**(8,563)**	(8,067)
Operating profit before impairment losses	未扣除減值損失之經營溢利		**8,509**	7,886
Impairment losses on financial instruments	金融工具減值損失	14	**(1,188)**	(1,744)
Impairment losses on assets held for sale	持有作出售資產減值損失		**–**	(63)
Impairment losses on intangible assets	無形資產減值損失	33(b)	**(5)**	(650)
Impairment losses on associate	聯營公司減值損失	32	**(397)**	–
Impairment losses	減值損失		**(1,590)**	(2,457)
Operating profit after impairment losses	已扣除減值損失後之經營溢利		**6,919**	5,429
Net profit on sale of held-to-maturity investments	出售持至到期投資之淨溢利		**–**	6
Net profit on sale of available-for-sale financial assets	出售可供出售金融資產之淨溢利	15	**–**	1,057
Net profit on sale of financial assets at FVOCI	出售通過全面收益以反映公平價值金融資產之淨溢利	16	**62**	–
Net profit on sale of disposal groups and assets held for sale	出售出售組別及持有作出售資產之淨溢利		**56**	183
Net profit on disposal of subsidiaries/associates	出售附屬／聯營公司之淨溢利		**1**	2
Net loss on disposal of fixed assets	出售固定資產之淨虧損	17	**(9)**	(22)
Valuation gains on investment properties	重估投資物業盈利	34	**465**	522
Share of profits less losses of associates	應佔聯營公司溢利減虧損	32	**566**	388
Profit for the year before taxation	年度內除稅前溢利		**8,060**	7,565
Income tax	所得稅	18	**(1,506)**	(1,195)
Profit for the year from continuing operations	年度內持續經營業務溢利		**6,554**	6,370
DISCONTINUED OPERATIONS	已終止經營業務			
Profit from discontinued operations	已終止經營業務溢利	56	**–**	4,145
Profit for the year	年度內溢利		**6,554**	10,515

CONSOLIDATED INCOME STATEMENT (CONTINUED)
綜合收益表（續）

For the year ended 31st December, 2018 *截至2018年12月31日止年度*

		Notes 附註	2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Attributable to:	可歸屬於：			
Owners of the parent	本集團股東			
– from continuing operations	–來自持續經營業務		**6,509**	6,298
– from discontinued operations	–來自已終止經營業務		**–**	3,049
		43(k)	**6,509**	9,347
Non-controlling interests	非控股權益	44	**45**	1,168
Profit for the year	年度內溢利		**6,554**	10,515
Earnings per share	每股盈利		**HK$ 港幣元**	HK$ 港幣元
Basic	基本	21		
– profit for the year	–年度內溢利		**2.07**	3.21
– profit from continuing operations	–來自持續經營業務溢利		**2.07**	2.09
Diluted	攤薄	21		
– profit for the year	–年度內溢利		**2.07**	3.20
– profit from continuing operations	–來自持續經營業務溢利		**2.07**	2.09

The notes on pages 177 to 366 form part of these financial statements. Details of dividends payable to equity shareholders of the Bank attributable to the profit for the year are set out in Note 19.

第177至366頁之附註屬本財務報表之一部分。有關屬年度內溢利並應付予本行股東之股息詳情已詳載於附註19。

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
綜合全面收益表

For the year ended 31st December, 2018 *截至2018年12月31日止年度*

		Notes 附註	2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Net profit	淨溢利		**6,554**	10,515
Other comprehensive income for the year:	年度內其他全面收益：			
Items that will not be reclassified to income statement:	不可轉回收益表的項目：			
Premises:	行址：			
– unrealised surplus on revaluation of premises	－重估行址所產生的未實現盈餘	43(b)	**8**	44
– deferred taxes	－遞延稅項	43(b)	**(13)**	1
Fair value reserve (equity instruments at FVOCI):	公平價值儲備（通過全面收益以反映公平價值股份工具）：			
– net change in fair value	－公平價值變動	43(g)	**296**	–
– deferred taxes	－遞延稅項	43(g)	**(5)**	–
Liability credit reserve:	負債信貸儲備：			
– net change in fair value attributable to Group's own credit risk	－因集團自身信貸風險而引致的公平價值變動	43(i)	**3**	–
Items that may be reclassified subsequently to income statement:	以後可能轉回收益表的項目：			
Fair value reserve (debt instruments at FVOCI):	公平價值儲備（通過全面收益以反映公平價值債務工具）：			
– net change in fair value	－公平價值變動	43(g)	**(932)**	–
– amount transferred to income statement on disposal	－於出售時轉入收益表的金額	43(g)	**(52)**	–
– on amortisaion	－攤銷	43(g)	**(4)**	–
– deferred taxes	－遞延稅項	43(g)	**69**	–
Fair value reserve (available-for-sale financial assets):	公平價值儲備（可供出售金融資產）：			
– net change in fair value	－公平價值變動	43(g)	**–**	1,458
– fair value changes reclassified to income statement on disposal	－於出售時轉入收益表的公平價值變動	43(g)	**–**	(1,320)
– deferred taxes	－遞延稅項	43(g)	**–**	(65)
Hedging reserve (cash flow hedges):	對沖儲備（現金流對沖）：			
– effective portion of changes in fair value of hedging instruments	－對沖工具公平價值變動的有效部分	43(h)	**(1)**	20
– fair value change reclassified from income statement	－轉自收益表的公平價值變動	43(h)	**5**	13
Share of changes in equity of associates	應佔聯營公司權益的變動	43(j)	**(42)**	(54)
Exchange differences arising from translation of accounts/disposal of overseas branches, subsidiaries and associates	從海外分行、附屬公司及聯營公司的賬項折算／出售所產生的匯兑差額		**(1,908)**	2,818
Other comprehensive income	其他全面收益		**(2,576)**	2,915
Total comprehensive income	全面收益總額		**3,978**	13,430
Total comprehensive income attributable to:	全面收益總額可歸屬於：			
Owners of the parent	本集團股東		**3,928**	12,206
Non-controlling interests	非控股權益		**50**	1,224
			3,978	13,430

The notes on pages 177 to 366 form part of these financial statements.

第177至366頁之附註屬本財務報表之一部分。

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
綜合財務狀況表

As at 31st December, 2018 *2018年12月31日*

		Notes 附註	2018 HK$ Mn 港幣百萬元	2017 Restated 重報 HK$ Mn 港幣百萬元
ASSETS	資產			
Cash and balances with banks and other financial institutions	現金及在銀行和其他金融機構的結存	25	**48,106**	55,696
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款	26	**60,373**	58,583
Trade bills	貿易票據	27	**14,646**	13,909
Trading assets	交易用途資產	28	**3,483**	6,956
Derivative assets	衍生工具資產	47(b)(ii)	**10,211**	11,335
Loans and advances to customers	客戶貸款及墊款	29	**498,284**	470,339
Investment securities	投資證券	30	**144,729**	134,425
Investments in associates	聯營公司投資	32	**9,129**	9,429
Fixed assets	固定資產	34	**13,165**	12,750
– Investment properties	–投資物業		**5,249**	5,107
– Other properties and equipment	–其他物業及設備		**7,916**	7,643
Goodwill and intangible assets	商譽及無形資產	33	**1,940**	1,959
Deferred tax assets	遞延稅項資產	37(b)	**481**	602
Other assets	其他資產	35	**34,904**	32,959
Total Assets	資產總額		**839,451**	808,942
EQUITY AND LIABILITIES	股東權益及負債			
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘		**27,490**	26,981
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值	36	**1,335**	3,110
– At amortised cost	–攤銷成本		**26,155**	23,871
Deposits from customers	客戶存款		**574,114**	571,684
Trading liabilities	交易用途負債	38(a)	**–**	11
Derivative liabilities	衍生工具負債	47(b)(ii)	**9,496**	12,077
Certificates of deposit issued	已發行存款證		**58,490**	36,466
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值	36	**9,462**	11,655
– At amortised cost	–攤銷成本		**49,028**	24,811
Current taxation	本期稅項	37(a)	**1,437**	1,160
Debt securities issued	已發行債務證券		**564**	1,007
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值	36	**407**	851
– At amortised cost	–攤銷成本		**157**	156
Deferred tax liabilities	遞延稅項負債	37(b)	**483**	551
Other liabilities	其他負債	38(b)	**51,444**	45,378
Loan capital – at amortised cost	借貸資本–攤銷成本	39	**12,358**	12,413
Total Liabilities	負債總額		**735,876**	707,728
Share capital	股本	41	**39,925**	37,527
Reserves	儲備	43	**51,901**	51,955
Total equity attributable to owners of the parent	歸屬於本集團股東權益總額		**91,826**	89,482
Additional equity instruments	額外股本工具	42	**8,894**	8,894
Non-controlling interests	非控股權益	44	**2,855**	2,838
Total Equity	股東權益總額		**103,575**	101,214
Total Equity and Liabilities	股東權益及負債總額		**839,451**	808,942

Approved and authorised for issue by the Board on 27th February, 2019.

董事會於2019年2月27日核准及授權發布。

Chairman and Chief Executive **David LI Kwok-po**
Director **Meocre LI Kwok-wing**

主席兼行政總裁 **李國寶**
董事 **李國榮**

The notes on pages 177 to 366 form part of these financial statements.

第177至366頁之附註屬本財務報表之一部分。

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
綜合權益變動表

For the year ended 31st December, 2018 *截至2018年12月31日止年度*

		Share capital 股本 HK$ Mn 港幣百萬元	General reserve 一般儲備 HK$ Mn 港幣百萬元	Revaluation reserve of bank premises 行址重估儲備 HK$ Mn 港幣百萬元	Capital reserve 資本儲備 HK$ Mn 港幣百萬元	Exchange revaluation reserve 匯兌重估儲備 HK$ Mn 港幣百萬元	Capital reserve – staff share options issued 資本儲備–已發行僱員認股權 HK$ Mn 港幣百萬元	Fair value reserve 公平價值儲備 HK$ Mn 港幣百萬元	Hedging reserve 對沖儲備 HK$ Mn 港幣百萬元	Liability credit reserve 負債信貸儲備 HK$ Mn 港幣百萬元	Other reserves[1] 其他儲備[1] HK$ Mn 港幣百萬元	Retained profits 留存溢利 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元	Additional equity instruments 額外股本工具 HK$ Mn 港幣百萬元	Non-controlling interests 非控股權益 HK$ Mn 港幣百萬元	Total equity 權益總額 HK$ Mn 港幣百萬元
At 1st January, 2018	於2018年1月1日	37,527	14,060	1,757	230	487	135	1,454	11	-	4,931	28,890	89,482	8,894	2,838	101,214
Impact of adopting HKFRS 9 at 1st January, 2018 *(Note 3)*	於2018年1月1日因採納《香港財務報告準則》第9號之影響*(附註3)*	-	-	-	-	-	-	(162)	-	(6)	-	(32)	(200)	-	-	(200)
Restated balance at 1st January, 2018	於2018年1月1日已重報後的結餘	37,527	14,060	1,757	230	487	135	1,292	11	(6)	4,931	28,858	89,282	8,894	2,838	101,014
Changes in equity	權益變動															
Profit for the year	年度內溢利	-	-	-	-	-	-	-	-	-	-	6,509	6,509	-	45	6,554
Other comprehensive income	其他全面收益	-	-	(5)	-	(1,913)	-	(628)	4	3	(42)	-	(2,581)	-	5	(2,576)
Total comprehensive income	全面收益總額	-	-	(5)	-	(1,913)	-	(628)	4	3	(42)	6,509	3,928	-	50	3,978
Shares issued in lieu of dividend *(Note 41)*	以股代息發行的股份*(附註41)*	2,313	-	-	-	-	-	-	-	-	-	-	2,313	-	-	2,313
Shares issued under Staff Share Option Schemes *(Note 41)*	根據僱員認股計劃發行的股份*(附註41)*	73	-	-	-	-	-	-	-	-	-	-	73	-	-	73
Equity settled share-based transaction *(Note 43(f))*	以股份為基礎作支付之交易*(附註43(f))*	-	-	-	-	-	35	-	-	-	-	-	35	-	-	35
Transfer	轉賬	12	(6)	-	703	-	(12)	-	-	-	74	(771)	-	-	-	-
Distribution/Dividends declared or approved during the year	年度內的分派及已宣布或核准派發股息	-	-	-	-	-	-	-	-	-	-	(3,805)	(3,805)	-	(53)	(3,858)
Change of ownership in subsidiaries *(Note 44)*	附屬公司之擁有權變動*(附註44)*	-	-	-	-	-	-	-	-	-	-	-	-	-	55	55
Decrease in non-controlling interests arising from capital reduction of a subsidiary *(Note 44)*	一附屬公司減本而導致非控股權益減少*(附註44)*	-	-	-	-	-	-	-	-	-	-	-	-	-	(35)	(35)
At 31st December, 2018	於2018年12月31日	39,925	14,054	1,752	933	(1,426)	158	664	15	(3)	4,963	30,791	91,826	8,894	2,855	103,575

1. *Other reserves include statutory reserve and other reserves.*

1. *其他儲備包括法定儲備及其他儲備。*

The notes on pages 177 to 366 form part of these financial statements.

第177至366頁之附註屬本財務報表之一部分。

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
綜合權益變動表（續）

For the year ended 31st December, 2017　截至2017年12月31日止年度

		Share capital 股本 HK$ Mn 港幣百萬元	General reserve 一般儲備 HK$ Mn 港幣百萬元	Revaluation reserve of bank premises 行址重估儲備 HK$ Mn 港幣百萬元	Capital reserve 資本儲備 HK$ Mn 港幣百萬元	Exchange revaluation reserve 匯兌重估儲備 HK$ Mn 港幣百萬元	Capital reserve – staff share options issued 資本儲備－已發行僱員認股權 HK$ Mn 港幣百萬元	Fair value reserve 公平價值儲備 HK$ Mn 港幣百萬元	Hedging reserve 對沖儲備 HK$ Mn 港幣百萬元	Liability credit reserve 負債信貸儲備 HK$ Mn 港幣百萬元	Other reserves[2] 其他儲備[2] HK$ Mn 港幣百萬元	Retained profits 留存溢利 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元	Additional equity instruments 額外股本工具 HK$ Mn 港幣百萬元	Non-controlling interests 非控股權益 HK$ Mn 港幣百萬元	Total equity 權益總額 HK$ Mn 港幣百萬元
At 1st January, 2017	於2017年1月1日	35,490	14,035	1,728	230	(2,275)	124	1,381	(22)	–	5,293	22,447	78,431	5,016	3,189	86,636
Changes in equity	權益變動															
Profit for the year	年度內溢利	–	–	–	–	–	–	–	–	–	–	9,347	9,347	–	1,168	10,515
Other comprehensive income	其他全面收益	–	–	45	–	2,762	–	73	33	–	(54)	–	2,859	–	56	2,915
Total comprehensive income	全面收益總額	–	–	45	–	2,762	–	73	33	–	(54)	9,347	12,206	–	1,224	13,430
Issue of additional equity instruments[1]	發行額外股本工具[1]	–	–	–	–	–	–	–	–	–	–	–	–	3,878	–	3,878
Shares issued in lieu of dividend *(Note 41)*	以股代息發行的股份*（附註41）*	1,927	–	–	–	–	–	–	–	–	–	–	1,927	–	–	1,927
Shares issued under Staff Share Option Schemes *(Note 41)*	根據僱員認股計劃發行的股份*（附註41）*	93	–	–	–	–	–	–	–	–	–	–	93	–	–	93
Equity settled share-based transaction *(Note 43(f))*	以股份為基礎作支付之交易*（附註43(f)）*	–	–	–	–	–	36	–	–	–	–	–	36	–	–	36
Transfer	轉賬	17	25	(16)	–	–	(25)	–	–	–	(308)	307	–	–	–	–
Distribution/Dividends declared or approved during the year	年度內的分派及已宣布或核准派發股息	–	–	–	–	–	–	–	–	–	–	(3,211)	(3,211)	–	(1,422)	(4,633)
Change of ownership in subsidiaries *(Note 44)*	附屬公司之擁有權變動*（附註44）*	–	–	–	–	–	–	–	–	–	–	–	–	–	(18)	(18)
Decrease in non-controlling interests arising from capital reduction of a subsidiary *(Note 44)*	一附屬公司減本而導致非控股權益減少*（附註44）*	–	–	–	–	–	–	–	–	–	–	–	–	–	(135)	(135)
At 31st December, 2017	於2017年12月31日	37,527	14,060	1,757	230	487	135	1,454	11	–	4,931	28,890	89,482	8,894	2,838	101,214

1. *In 2017, 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. *Other reserves include statutory reserve and other reserves.*

The notes on pages 177 to 366 form part of these financial statements.

1. *在2017年，本行發行港幣38.92億元（5億美元）無到期日非累積後償額外一級資本工具（「額外一級資本工具」）。直接發行成本港幣1,400萬元經已入賬，並已從股本工具中扣除。*

2. *其他儲備包括法定儲備及其他儲備。*

第177至366頁之附註屬本財務報表之一部分。

CONSOLIDATED CASH FLOW STATEMENT
綜合現金流量表

For the year ended 31st December, 2018 截至2018年12月31日止年度

		Notes 附註	2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
OPERATING ACTIVITIES	**經營業務活動**			
Profit for the year before taxation	年度內除稅前溢利		**8,060**	11,724
Adjustments for:	調整：			
Charge for impairment losses on financial instruments	金融工具減值損失支銷		**1,188**	1,744
Charge for impairment losses on intangible assets	無形資產減值損失支銷	*33(b)*	**5**	650
Charge for impairment losses on assets held for sale	持有作出售資產減值損失支銷		**–**	63
Charge for impairment losses on associate	聯營公司減值損失支銷		**397**	–
Share of profits less losses of associates	應佔聯營公司溢利減虧損		**(566)**	(388)
Net profit on sale of held-to-maturity investments	出售持至到期投資之淨溢利		**–**	(6)
Net profit on sale of financial assets at FVOCI	出售通過全面收益以反映公平價值金融資產之淨溢利		**(62)**	–
Net profit on sale of available-for-sale financial assets	出售可供出售金融資產之淨溢利		**–**	(1,057)
Net profit on disposal of subsidiaries and associates	出售附屬公司及聯營公司之淨溢利		**(1)**	(2)
Net profit on sale of disposal groups and assets held for sale	出售出售組別及持有作出售資產之淨溢利		**(56)**	(183)
Net profit on sale of discontinued operations	出售已終止經營業務之淨溢利		**–**	(4,084)
Net loss on disposal of fixed assets	出售固定資產之淨虧損		**9**	22
Interest expense on certificates of deposit, debt securities and loan capital issued	已發行存款證、債務證券及借貸資本利息支出		**1,340**	1,531
Depreciation on fixed assets	固定資產折舊	*34*	**473**	466
Dividend income from equity securities at FVOCI	通過全面收益以反映公平價值股份證券股息收入	*12*	**(23)**	–
Dividend income from available-for-sale financial assets	可供出售金融資產股息收入	*12*	**–**	(34)
Amortisation of intangible assets	無形資產攤銷	*13*	**14**	32
Amortisation of premium/discount on certificates of deposit, debt securities and loan capital issued	已發行存款證、債務證券及借貸資本的溢價／折扣攤銷		**524**	309
Revaluation gains on certificates of deposit, debt securities and loan capital issued	重估已發行存款證、債務證券及借貸資本盈利		**(97)**	(169)
Valuation gains on investment properties	重估投資物業盈利	*34*	**(465)**	(522)
Equity settled share-based payment expenses	以股份為基礎作支付費用	*13,43(f)*	**35**	36
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	**營運資金變動前的經營溢利**		**10,775**	10,132

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
綜合現金流量表(續)

For the year ended 31st December, 2018 *截至2018年12月31日止年度*

		Notes 附註	2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
(Increase)/decrease in operating assets:	經營資產(增)/減額:			
Cash and balances with banks with original maturity beyond three months	原本期限為3個月以上的現金及其他銀行存款的結存		**8,361**	(953)
Placements with and advances to banks and other financial institutions with original maturity beyond three months	原本期限為3個月以上的銀行及其他金融機構存款及墊款		**(2,888)**	7,000
Trade bills	貿易票據		**(710)**	(1,970)
Trading assets	交易用途資產		**2,933**	(3,002)
Financial assets designated at fair value through profit or loss	指定為通過損益以反映公平價值的金融資產		**1,495**	(615)
Derivative assets	衍生工具資產		**1,124**	(2,397)
Loans and advances to customers	客戶貸款及墊款		**(28,705)**	(21,892)
Debt securities at amortised cost	攤銷成本債務證券		**(1,336)**	–
Held-to-maturity debt securities	持至到期債務證券		**–**	(3,475)
Debt securities at FVOCI	通過全面收益以反映公平價值債務證券		**(12,661)**	–
Available-for-sale debt securities	可供出售債務證券		**–**	(5,447)
Debt securities mandatorily measured at FVTPL	強制按通過損益以反映公平價值計量債務證券		**(1,953)**	–
Other assets	其他資產		**(1,725)**	2,737
Increase/(decrease) in operating liabilities:	經營負債增/(減)額:			
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘		**509**	506
Deposits from customers	客戶存款		**2,430**	35,895
Trading liabilities	交易用途負債		**(11)**	(39)
Derivative liabilities	衍生工具負債		**(2,581)**	4,095
Other liabilities	其他負債		**5,856**	(4,067)
Exchange adjustments	匯兑調整		**1,660**	(2,382)
NET CASH (OUTFLOW)/INFLOW FROM OPERATIONS	**經營活動現金(流出)/流入淨額**		**(17,427)**	14,126
Income tax paid	已付所得稅			
Hong Kong profits tax paid	已付香港利得稅		**(625)**	(812)
Outside Hong Kong profits tax paid	已付海外利得稅		**(568)**	(649)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(用於)/源自經營活動之現金淨額**		**(18,620)**	12,665

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
綜合現金流量表(續)

For the year ended 31st December, 2018 *截至2018年12月31日止年度*

		Notes 附註	2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
INVESTING ACTIVITIES	**投資活動**			
Dividends received from associates	收取聯營公司股息		**49**	83
Dividends received from non-trading equity securities	收取非交易用途股份證券股息		**23**	34
Purchase of non-trading equity securities	購入非交易用途股份證券		**(2,428)**	(4,723)
Proceeds from sale of non-trading equity securities	出售非交易用途股份證券所得款項		**2,550**	5,328
Purchase of fixed assets	購入固定資產		**(657)**	(409)
Purchase of investment properties	購入投資物業		**(7)**	–
Proceeds from disposal of other properties and equipment	出售其他物業及設備所得款項		**28**	27
Proceeds from sale of disposal groups and assets held for sale	出售出售組別及持有作出售資產所得款項		**137**	653
Proceeds from sale of discontinued operations	出售已終止經營業務所得款項		**–**	5,947
Proceeds from disposal of associate	出售聯營公司所得款項		**11**	–
Increase of shareholding in associates	增加聯營公司權益		**(304)**	(2,612)
Change of ownership in subsidiaries	附屬公司之擁有權變動		**–**	(18)
Decrease in non-controlling interests arising from capital reduction of a subsidiary	一附屬公司減本而導致非控股權益減少		**(35)**	(135)
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	**(用於)/源自投資活動之現金淨額**		**(633)**	4,175
FINANCING ACTIVITIES	**融資活動**			
Ordinary dividends paid	支付普通股股息		**(832)**	(2,106)
Distribution to Hybrid/Additional Tier 1 issue holders	派發予混合/額外一級資本工具持有人	*20(c),43(k)*	**(713)**	(600)
Issue of ordinary share capital	發行普通股股本	*41*	**73**	93
Issue of additional equity instruments	發行額外股本工具		**–**	3,892
Issue of certificates of deposit	發行存款證		**107,441**	74,007
Issue of debt securities	發行債務證券		**114**	1,367
Redemption of certificates of deposit issued	贖回已發行存款證		**(85,576)**	(67,055)
Redemption of debt securities issued	贖回已發行債務證券		**(565)**	(7,617)
Redemption of loan capital	贖回已發行借貸資本		**–**	(8,580)
Interest paid on certificates of deposit and debt securities issued	支付已發行存款證及債務證券利息		**(626)**	(769)
Interest paid on loan capital	支付借貸資本利息		**(617)**	(920)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	**源自/(用於)融資活動之現金淨額**		**18,699**	(8,288)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**現金及等同現金項目淨(減)/增額**		**(554)**	8,552
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	**於1月1日之現金及等同現金項目**	*48(a)*	**89,980**	75,841
Effect of foreign exchange rate changes	匯率變動的影響		**(3,406)**	5,587
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	**於12月31日之現金及等同現金項目**	*48(a)*	**86,020**	89,980
Cash flows from operating activities included:	源自經營業務活動的現金流量包括:			
Interest received	利息收入		**24,710**	21,300
Interest paid	利息支出		**12,547**	10,423
Dividend received	股息收入		**73**	79

The notes on pages 177 to 366 form part of these financial statements.

第177至366頁之附註屬本財務報表之一部分。

NOTES TO THE FINANCIAL STATEMENTS
財務報表附註

1. PRINCIPAL ACTIVITIES 主要業務

The Bank and its subsidiaries (the "Group") are engaged in the provision of banking and related financial services, and business, corporate and investor services.

本行及其附屬公司(「本集團」)的主要業務為提供銀行及有關的金融服務、以及商務、企業及投資者服務。

2. SIGNIFICANT ACCOUNTING POLICIES 主要會計政策

(a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable HKFRS, which collective term includes all applicable individual HKFRS, HKAS and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Listing Rules. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(a) 符合指引聲明

本財務報表乃按照香港會計師公會頒布所有適用的《香港財務報告準則》，其整體已包括個別適用的《香港財務報告準則》、《香港會計準則》及詮釋，以及香港一般採用的會計原則及《公司條例》的要求。本財務報表亦符合聯交所《上市規則》有關的披露規定。本集團採納的主要會計政策簡列如下。

香港會計師公會已頒布數項新增及經修訂的《香港財務報告準則》，並於本年度本集團的會計期首次生效或可被提早採納。附註3提供因首次應用該等準則而引致會計政策變動的資料，而該等資料只包括與本集團有關而須反映在本期及去年會計期的財務報表。

(b) Basis of Preparation of the Financial Statements

The financial statements for the year ended 31st December, 2018 comprise the Group and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is historical cost except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as trading, designated or mandatorily measured at fair value through profit or loss and measured at fair value through other comprehensive income (2017: available-for-sale) (Note 2(h)(ii));
- derivative financial instruments (Notes 2(l) and 2(k)); and
- investment properties (Note 2(o)(ii)).

The preparation of financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(b) 財務報表編製基準

截至2018年12月31日止年度的財務報表包括本集團及其應佔聯營公司之權益。

除以下資產及負債是以公平價值列賬外，本財務報表是以原值成本作為計量基準。有關詳情載列於下列會計政策：

- 分類作交易用途、指定或強制通過損益以反映公平價值及通過全面收益以反映公平價值的金融工具(2017年：可供出售)(附註2(h)(ii))；
- 衍生金融工具(附註2(l)及2(k))；及
- 投資物業(附註2(o)(ii))。

按《香港財務報告準則》之要求，在編製財務報表時，管理層須作判斷、估計及假設從而影響政策實施及資產和負債、及收入與支出之呈報金額。有關估計及假設乃按在既定情況下可合理地相信，根據過往之經驗及其他因素，作出判斷那些未能從其他來源確定的資產及負債的賬面值。實際結果可能與此等估計存在差異。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

有關估計及假設須持續作檢討。若修訂只影響該修訂期，會計估計的修訂於該修訂期內確認；或如該修訂影響本期及未來會計期，則於修訂期及未來會計期內確認。

Details of judgements made by management in the application of HKFRS that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 54.

在附註54內，管理層已解釋實施對財務報表有重大影響的《香港財務報告準則》所作的詳細判斷及不明朗估計的主要來源。

(c) Basis of Consolidation

These consolidated financial statements cover the consolidated position of the Bank and all subsidiaries unless otherwise stated and the Group's interest in associates. For information required to be reported in accordance with the Banking (Disclosures) Rules, the basis of consolidation is set out in the Note 1 in the Unaudited Supplementary Financial Information.

(c) 綜合基準

除另外陳述外，本綜合財務報表包括本行及其所有附屬公司及本集團所佔聯營公司之權益的綜合狀況。根據《銀行業(披露)規則》所要求匯報的資料，所採納的綜合基準已在未經審核補充財務資料附註1列載。

(i) Subsidiaries and Non-controlling interests

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries made up to 31st December each year. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

(i) 附屬公司及非控股權益

本綜合財務報表包括本行及其所有附屬公司截至各相關年度之12月31日止的財務報表。附屬公司為本集團所控制之實體。本集團基於對有關實體之權利、參與度及權力並可運用此等條件以影響其所得回報，則視為本集團對該實體擁有控制權。在評估是否有控制權時，本集團只考慮實質的權力(由本集團及其他人士所擁有)。

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

附屬公司之投資由控制權生效日起至控制權失效日止在綜合財務報表內計算。在編製綜合財務報表時，集團之間的結餘，交易及現金流及任何因集團之間交易所產生的未實現溢利均被抵銷。跟未實現盈利相同，因集團之間交易所產生的未實現虧損亦同樣被抵銷，但只局限於未有減值證據。

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

非控股權益指無論是直接或間接並不歸屬於本行之附屬公司的權益部分，及本集團並未與該等權益持有者達成附加協議，致令本集團整體上對該等權益產生符合金融負債定義的法定義務。就每一業務合併而言，本集團可選擇按公平價值或非控股權益按比例應佔該附屬公司的可辨識淨資產以計量非控股權益。

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the net profit and total comprehensive income for the year between non-controlling interests and equity shareholders of the Bank.

非控股權益在綜合財務狀況表內的股東權益中列示，但與可歸屬於本集團股東權益分開。非控股權益佔本集團之業績，在綜合收益表內以分配年度溢利之形式列示，而在綜合全面收益表則以分配年度全面收益總額予非控股權益與及可歸屬於本集團股東權益之形式列示。

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

本集團將不導致喪失控股權之附屬公司權益的變動按權益交易方式入賬，即只調整在綜合權益內之控股及非控股權益的金額以反映其相關權益的變動，但不調整商譽及確認盈虧。

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(h)) or, when appropriate, the cost on initial recognition of an investment in an associate (Note 2(c)(ii)), and is offset against the gain or loss on the loss of control of that subsidiary.

當本集團喪失對一附屬公司之控股權，將按出售該附屬公司之所有權益入賬，而所產生的盈虧確認為損益。任何在喪失控股權日仍保留該前度附屬公司之權益按公平價值確認，而此金額被視為初始確認一金融資產(附註2(h))的公平價值，或(如適用)按成本初始確認一聯營公司投資(附註2(c)(ii))，及當喪失對該附屬公司控股權時與盈虧沖銷。

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost less any impairment losses, if any (Note 2(r)).

在本行的財務狀況表中，附屬公司投資是以成本減除任何減值損失(附註2(r))列賬。

(ii) Associates

The consolidated financial statements include the attributable share of the results and reserves of associates based on financial statements prepared at dates not earlier than three months prior to 31st December each year. An associate is a company in which the Group or the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

(ii) 聯營公司

本綜合財務報表包括根據截至每年的12月31日止之前不超過三個月的財務報表所編製應佔聯營公司的業績及儲備。聯營公司是指本集團或本行可對其管理發揮重大影響力，包括參予其財務及經營政策的決策，但並不控制或共同控制其管理層。

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment see (Note 2(q) and 2(r)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the associates and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the associate's other comprehensive income is recognised in the consolidated statement of comprehensive income.

聯營公司投資是以權益會計法在綜合財務報表內入賬。根據權益會計法，投資的入賬方法是先以成本另調整本集團於購入後應佔該聯營公司的可辨識淨資產所超出成本之任何金額。往後，需調整在收購後本集團應佔聯營公司淨資產之變動及在(附註2(q)和2(r))所載有關投資的減值損失。任何超出於收購日之成本、本集團應佔聯營公司收購後和已除稅的業績及年度內的任何減值損失均在綜合收益表內確認，而本集團應佔聯營公司收購後和已除稅之其他全面收益項目則在綜合全面收益表內確認。

When the Group's share of losses exceeds its interest in the associates, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

除本集團對該聯營公司所作具法律或推定義務或替該公司償付的承擔外，當本集團應佔該聯營公司的虧損超出本集團應佔該聯營公司之權益時，超出的虧損將不被確認，而本集團應佔該聯營公司之權益將被減值至零。因此，本集團應佔該聯營公司權益即按權益會計法計算投資賬面值，及實質上構成本集團應佔該聯營公司淨資產的長期權益。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except when unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

本集團與聯營公司交易而產生之未實現溢利及虧損，按本集團應佔該聯營公司之權益為限作沖銷。若有證據顯示未實現虧損屬資產轉讓的減值損失，則須立即於損益賬內確認。

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former associate at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(h)).

當本集團喪失對一聯營公司之重大影響力，將按出售該聯營公司之所有權益入賬，而所產生的盈虧確認為損益。任何在喪失控股權日仍保留該前度聯營公司之權益按公平價值確認，而此金額被視為初始確認一金融資產(附註2(h))的公平價值。

The Bank accounts for the results of associates to the extent of dividends received. Investments in associates are stated in the Bank's statement of financial position at cost less any impairment losses (Note 2(r)).

本行按照已收取股息計算應佔聯營公司業績。在本行的財務狀況表中，聯營公司投資是以成本減除任何減值損失(附註2(r))列賬。

An associate is considered material if it is material to either income statement or statement of financial position of the Group in two consecutive years.

若連續兩年對於本集團的收益表或財務狀況表有重大影響，該聯營公司會被視為重大。

(d) Translation of Foreign Currencies

Foreign currencies transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the end of the reporting period. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences relating to investments at fair value through profit or loss (FVTPL) and derivative financial instruments are included in gains less losses from trading securities or financial instruments at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the income statement. Differences arising on translation of available-for-sale equity instruments (before 1st January, 2018) or equity investments which an election has been made to present subsequent changes in fair value in other comprehensive income (from 1st January, 2018) are recognised in other comprehensive income and accumulated separately in equity.

(d) 外幣換算

年度內的外幣交易按交易日的匯率折算為港幣。以外幣為單位的貨幣性資產及負債按報告期結束日的匯率折算為港幣。匯兑盈虧則計入收益表內。

以原值成本列賬但以外幣為單位的非貨幣性資產及負債按交易日的匯率折算為港幣。以外幣為單位及按公平價值列賬的非貨幣性資產及負債按釐定其公平價值日的匯率折算。

有關通過損益以反映公平價值投資及衍生金融工具的匯兑差額分別包括於交易用途證券淨盈虧或指定通過損益以反映公平價值投資淨盈虧。其他有關貨幣性資產及負債的匯兑差額則於收益表之外幣買賣溢利項下列示。因折算可供出售股份證券(2018年1月1日以前)或已選擇將往後公平價值變動在其他全面收益列示(由2018年1月1日起)的股份證券所產生的差額則於其他全面收益內確認，並在股東權益內分開累計。

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items of statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after 1st January, 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1st January, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

海外業務之業績按交易日相約的匯率折算為港幣。資產負債表項目，財務狀況表的項目中，包括於2005年1月1日或以後因收購海外業務而在綜合時所產生的商譽，按報告期結束日的匯率折算為港幣。產生的匯兌差額直接在其他全面收益內確認，並在股東權益之匯兌儲備內分開累計。因於2005年1月1日以前收購海外業務而在綜合時所產生的商譽按收購海外業務日的匯率折算。

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income statement when the profit or loss on disposal is recognised.

當確認出售海外業務的損益時，因該海外業務產生的累計匯兌差額由股東權益計入收益表。

(e) Interest

Policy applicable from 1st January, 2018

Effective interest rate

Interest income and expense for all interest-bearing financial instruments are recognised in the income statement on an accruals basis using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument but not expected credit losses. For financial assets that were purchased or originated credit-impaired on initial recognition, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses (i.e. no expected credit loss provision is required at initial recognition).

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. The transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1st January, 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

(e) 利息

由2018年1月1日起適用的政策

有效利率

所有帶息金融工具的利息收入及支出均按有效利率方法於收益表內以應計基準確認。

有效利率是可準確將金融工具在預計年期內產生之未來現金支出或收入折算為該金融資產的賬面值或該金融負債的攤銷成本的利率。

在計算除信貸不良資產外的金融工具的有效利率時，本集團計及金融工具的所有合約條款，但不計及預期信貸損失，以估計未來現金流。就初始確認時已購買或發起的信貸不良金融資產，使用估計未來現金流(包括預期信貸損失)計算信貸調整有效利率(即在初始確認時無需作出預期信貸損失撥備)。

有效利率的計算包括構成有效利率組成部分的交易成本及費用以及基點支出或收入。交易成本包括金融資產或金融負債的收購或發行直接應佔的增加成本。

攤銷成本及賬面值總額

金融資產或金融負債的「攤銷成本」是金融資產或金融負債於初始確認時計量的金額減本金還款額，加減使用有效利率方法計算的初始確認金額與到期金額之任何差額而計算的累計攤銷，而就金融資產而言，經任何預期信貸損失準備(或2018年1月1日前的減值準備)作調整。

「金融資產的賬面值總額」是金融資產就任何預期信貸損失準備作調整前的攤銷成本。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

Calculation of interest income and expense
In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were purchased or originated credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, please refer to Note 2(h)(vii).

Policy applicable before 1st January, 2018
Effective interest rate
Interest income and expense for all interest-bearing financial instruments were recognised in the income statement on an accruals basis using the effective interest method.

The effective interest rate was the rate that exactly discounted estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Group estimated cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation included all fees and points paid or received between parties to the contract that were an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For impaired loans, the accrual of interest income based on the original terms of the loan was discontinued, but any increase in the present value of impaired loans due to the passage of time was reported as interest income.

(f) Fee and Commission
Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate calculation (Note 2(e)).

Other fee and commission income is recognised in the income statement when the corresponding service is provided. Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If it is uncertain that a loan commitment will result in draw-down of a loan, then the related loan commitment fee is recognised as revenue on a straight-line basis over the commitment period.

計算利息收入及支出
在計算利息收入及支出時，有效利率應用於資產的賬面值總額(當資產並非信貸不良時)或負債的攤銷成本。

然而，就初始確認後成為信貸不良的金融資產而言，透過將有效利率應用於該金融資產的攤銷成本而計算利息收入。若資產不再屬信貸不良，則恢復使用總額基準計算利息收入。

就初始確認時已購買或發起的信貸不良金融資產而言，透過將經信貸調整的有效利率應用於該資產的攤銷成本計算利息收入。即使該資產的信貸風險有所改善，亦不恢復使用總額基準計算利息收入。

有關金融資產屬信貸不良時的資料見附註2(h)(vii)。

2018年1月1日以前適用的政策
有效利率
所有帶息金融工具的利息收入及支出均按有效利率方法於收益表內以應計基準確認。

有效利率方法是一種計算攤銷成本及分配利息收入於相關期間的方法。有效利率是可準確將金融工具在預計年期內產生之未來現金支出或收入折算為現值，或在較短期內折算為該金融工具賬面值的利率(如適用)。當計算有效利率時，本集團在估計現金流須考慮金融工具的所有合約條款，但不包括未來信貸損失。有效利率組成部分的計算包括所有合約對手之間的費用及基點支出或收入、交易成本及其他所有溢價或折扣。

就減值貸款而言，根據貸款原本條款計算的應計利息收入終止，但因隨時間過去令致減值貸款之現值增加則列作利息收入。

(f) 服務費及佣金
有效利率的計算(附註2(e))包括金融資產及金融負債中構成有效利率組成部分的服務費及佣金收入及支出。

其他服務費及佣金收入在有關服務提供時確認在收益表內。因本集團開展或購入金融資產而產生之開立或承擔服務費收入/支出須遞延及確認為有效利率之調整。如不確定會否借出貸款，該相關承擔服務費按承擔期限以直線法列作收入。

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed when the services are received.

其他服務費及佣金支出主要是交易及服務費，並在獲得服務時支銷。

(g) Other Revenue Recognition

Other revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Net income from financial instruments at fair value through profit or loss and net trading income
Net income from financial instruments designated as at FVTPL, net income from non-trading financial assets mandatorily measured at FVTPL (from 1st January, 2018) and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with foreign exchange differences and dividend income attributable to these financial instruments. Coupon interest from these financial assets and financial liabilities measured at FVTPL is accrued and presented as interest income or interest expense.

(ii) Finance income from finance leases
Finance income implicit in finance leases is recognised as interest income over the period of the lease so as to produce an approximately constant periodic rate of return of the outstanding net investment in the leases for each accounting period.

(iii) Rental income from operating leases
Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(iv) Dividend income
Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established unconditionally. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(g) 其他收入確認

其他收入按已收或應收價款的公平價值釐定。假設經濟利益有可能流向本集團及收入和支出(如適用)屬可靠計量的，在收益表內確認收入的方法如下：

(i) 通過損益以反映公平價值金融工具的淨收入及淨交易收入
指定通過損益以反映公平價值金融工具的淨收入，強制通過損益以反映公平價值(由2018年1月1日起)之非交易用途金融資產及淨交易收入包括所有金融資產及金融負債之公平價值變動產生的盈虧(減除應計利息)，以及應歸屬於該等金融工具的匯兑差額及股息收入。由該等通過損益以反映公平價值金融資產及金融負債產生的應計票面利息列作利息收入或利息支出。

(ii) 融資租賃收入
融資租賃隱含財務收入按租賃年期確認為利息收入，以令每個會計年度期間剩餘的淨租賃投資回報大致相同。

(iii) 經營租賃租金收入
除非有更具代表性的基準衡量從租賃資產獲取利益的模式，其經營租賃之租金收入按該租期所涵蓋的年期以等額分期確認為其他經營收入。經營租賃協議所涉及的激勵措施均在收益表中確認為租賃淨收款總額的組成部分。或有租金以賺取該收入的會計期間列作收入。

(iv) 股息收入
非上市投資股息收入在股東收取權被無條件確立時才予以確認。上市投資股息收入則在該投資的股價除息時才被確認。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

(h) Financial Instruments

(i) Initial recognition

The Group initially recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of investment securities classified as measured at FVTPL, fair value through other comprehensive income (FVOCI) (from 1st January, 2018), available-for-sale or held-to-maturity (before 1st January, 2018) financial assets and financial liabilities at FVTPL or debts issued are recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

From the date of initial recognition, any gains and losses arising from changes in fair value of the financial assets or financial liabilities measured at fair value are recorded.

Accrued contractual interests from financial assets and liabilities are presented as accrued interest receivables and payables separately in the financial statements.

(ii) Classification

Financial assets and liabilities – Policy applicable from 1st January, 2018

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(h) 金融工具

(i) 初始確認

當本集團成為金融工具合約其中一方時初始確認金融資產和金融負債。以正常方式購買或出售分類為按通過損益以反映公平價值、通過其他全面收益以反映公平價值(自2018年1月1日起)、可供出售或持至到期(2018年1月1日之前)計量的投資證券、通過損益以反映公平價值的金融資產及金融負債或已發行債務俱按交易日會計法確認。其他金融資產和金融負債則按結算日會計法確認。

金融工具於初始期按公平價值計量，而公平價值大致與交易價相同。如金融資產或金融負債不屬於通過損益以反映公平價值，則包括直接歸屬於購入之金融資產或發行金融負債的交易成本。通過損益以反映公平價值的金融資產或金融負債的交易成本立即作費用支銷。

自初始確認日期起，按公平價值計量的金融資產或金融負債因公平價值變動而產生的任何盈利及虧損均予以記錄。

金融資產/ 負債的應計合約利息在財務報表中作為應計應收/ 應付利息分開列示。

(ii) 分類

金融資產及金融負債 - 由2018年1月1日起適用的政策

金融資產

於初始確認時，金融資產分類為：按攤銷成本、通過其他全面收益以反映公平價值或通過損益以反映公平價值計量。

一項金融資產按攤銷成本計量，其必須符合以下條件及未有指定為通過損益以反映公平價值：

- 該資產是在一個以持有該資產以收取合約現金流為目的之商業模式中持有；及
- 該金融資產的合約條款於指定日期產生符合本金及按本金結餘的利息支付特徵的現金流。

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income – (Note 2(n)). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

一項債務工具按通過其他全面收益以反映公平價值計量，其必須符合以下條件及未有指定為通過損益以反映公平價值：

- 該資產是在一個以收取合約現金流及出售金融資產為目的之商業模式中持有；及
- 該金融資產的合約條款於指定日期產生符合本金及按本金結餘的利息支付特徵的現金流。

非交易用途之股份投資初始確認時，本集團可作出不可撤回的選擇，將其後續公平價值變化確認於其他全面收益 —（附註2(n)）。該選擇是按投資逐項作出。

所有其他金融資產均分類為按通過損益以反映公平價值計量。

此外，於初始確認時，在可消除或明顯減少會計錯配的情況下，本集團可不可撤回地指定在其他情況下符合按攤銷成本或通過其他全面收益以反映公平價值條件的金融資產為通過損益以反映公平價值計量。

商業模式評估

本集團評估在組合層面持有資產的商業模式之目標，因為這最能反映業務管理的方法及向管理層提供資料的方式。所考慮的資料包括：

- 組合的既定政策和目標以及該等政策的實際操作。尤其是，管理層的策略專注於賺取合約利息收入、維持特定的利率曲線、將金融資產的期限與為該等資產提供資金的負債或通過出售資產變現現金流的期限相配；
- 如何評估組合的表現並向本集團的管理層報告；
- 影響商業模式（及該商業模式下持有的金融資產）表現的風險以及如何管理該等風險；

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- 業務管理人員如何得到補償 — 例如，補償是否根據所管理資產的公平價值或所收取的合約現金流釐定；及

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

- 過往期間的出售頻率、銷量和出售時點，出售原因以及其對未來出售活動的預期。然而，銷售活動的資料並非孤立考慮，而是作為關於本集團如何實現既定的金融資產管理目標及如何實現現金流的整體評估的一部分。

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

持作交易用途或管理或按公平值基準評估其表現的金融資產乃按通過損益以反映公平價值計量，因其既非持作收取合約現金流之用，亦非持作收取合約現金流及出售金融資產之用。

Assessment whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

評估合約現金流是否純粹為支付本金及利息
就此項評估而言，「本金」的定義是金融資產在初始確認時的公平價值。「利息」的定義是貨幣的時間價值以及與特定時段內未償還本金有關的信用風險以及其他基本貸款風險和成本(例如流動性風險和管理費用)及利潤率的代價。

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

在評估合約現金流是否純粹為支付本金及利息時，本集團考慮工具的合約條款。這包括評估金融資產是否包含可能改變合約現金流的時點或金額，致使其不符合該項條件。在評估時，本集團考慮：

- contingent events that would change the amount and timing of cash flows;

- 將會改變現金流金額及時點的或有事件；

- leverage features;

- 槓桿特徵；

- prepayment and extension terms;

- 提前還款和延期條款；

- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and

- 限制本集團要求取得指定資產(例如無追索權資產安排)的現金流的條款；及

- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

- 修正金錢時間值代價的特徵(例如定期調整利率)。

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. When (and only when) the Group changes its business model for managing financial assets, it reclassifies all affected financial assets in accordance with the new business model. The reclassification should be applied prospectively from the 'reclassification date', which is defined as, 'the first day of the first reporting period following the change in business model that results in reclassifying financial assets'. Accordingly, any previously recognised gains, losses or interest will not be restated.

If a financial asset is reclassified out of the amortised cost measurement category and into the FVTPL or FVOCI measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss (if reclassification as FVTPL measurement category) or is recognised in other comprehensive income (if reclassification as FVOCI measurement category).

If a financial asset is reclassified out of the FVOCI measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost.

If a financial asset is reclassified out of the FVOCI measurement category and into the FVTPL measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

If a financial asset is reclassified out of the FVTPL measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

If an entity reclassifies a financial asset out of the FVTPL measurement category and into the FVOCI measurement category, the financial asset continues to be measured at fair value and subsequent changes in fair value will be recognised in other comprehensive income.

重新分類

除於本集團改變管理金融資產的商業模式後期間外，金融資產在初始確認後不會作出重新分類。當(並且僅當)本集團更改其管理金融資產的商業模式時，所有受影響的金融資產會根據新商業模式重新分類。重新分類應由「重分類日」前瞻性地應用。「重分類日」定義為「因商業模式變化而重新分類金融資產後的第一個報告期首天」。因此，任何之前確認的收益、虧損或利息不會重報。

如金融資產從按攤銷成本重新分類為通過損益以反映公平價值計量或通過其他全面收益以反映公平價值，則其公平價值會在重分類日計量。金融資產的先前攤銷成本與公平價值之間的差額產生的任何收益或損失會在收益表內確認(如重分類為通過損益以反映公平價值計量)或在其他全面收益內中確認(如果重新分類為通過其他全面收益以反映公平價值)。

如金融資產從通過其他全面收益以反映公平價值重新分類為按攤銷成本，則金融資產會在重分類日按其公平價值重新分類。然而，先前於其他全面收益確認的累計收益或虧損將從權益中扣除，並於重分類日按金融資產的公平值調整。因此，金融資產在重分類日進行計量，就好像它一直以攤餘成本計量一樣。

如金融資產從通過其他全面收益以反映公平價值重新分類為通過損益以反映公平價值計量，則該金融資產會繼續以公平價值計量。先前於其他全面收益確認的累計收益或虧損於重分類日重新分類由權益轉入收益表作為重分類調整。

如金融資產從通過損益以反映公平價值計量重新分類為按攤銷成本，則其在重分類日的公平價值作為新的總賬面值。

如金融資產從通過損益以反映公平價值計量重新分類為通過其他全面收益以反映公平價值，則該金融資產會繼續以公平價值計量，而其後的公平價值變動會在其他全面收益中確認。

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets and liabilities – Policy applicable before 1st January, 2018

The Group classified its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories were: fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Fair value through profit or loss

This category comprised financial assets and financial liabilities held for trading (Note 2(i)) and those designated at fair value through profit or loss upon initial recognition, but excluded those investments in equity instruments that did not have a quoted market price and whose fair value could not be reliably measured.

Financial instruments were designated at fair value through profit or loss upon initial recognition when:

- the assets or liabilities were managed, evaluated and reported internally on a fair value basis;
- the designation eliminated or significantly reduced an accounting mismatch which would otherwise arise; or
- the asset or liability contained an embedded derivative that significantly modified the cash flows that would otherwise be required under the contract and the separation of the embedded derivatives from the financial instrument was not prohibited.

Financial assets and financial liabilities under this category were carried at fair value. Changes in the fair value were included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sales proceeds or the net payment and the carrying value was included in the income statement.

金融負債

本集團將其金融負債(財務擔保及貸款承擔除外)分類為按攤銷成本或按通過損益以反映公平價值計量類別。

在以下任一情況下，本集團已將若干金融負債指定為按通過損益以反映公平價值計量：

- 該負債是按公平價值作內部管理、評估及呈報；或
- 該指定可抵銷或明顯減少可能產生的會計錯配。

金融資產及金融負債－2018年1月1日之前適用的政策

視乎購入資產及引致負債的目的，本集團於初始時分類其金融工具為不同類別。類別為：通過損益以反映公平價值、貸款及應收賬款、持至到期投資、可供出售金融資產及其他金融負債。

通過損益以反映公平價值

此類別包括持有作交易用途(附註2(i))和初始被指定為通過損益以反映公平價值的金融資產及金融負債，但不包括沒有市場報價的股份證券投資，及其公平價值是不能夠可靠計量的。

在以下情況於初始確認為指定為通過損益以反映公平價值的金融工具：

- 該資產或負債是按公平價值作內部管理、評估及呈報；
- 該指定可抵銷或重大地減低可能產生的會計錯配；或
- 該資產或負債包含嵌入衍生工具，而該嵌入衍生工具可重大地改變按合約產生的現金流及將嵌入衍生工具從金融工具內分開是不被禁止的。

屬於此類別的金融資產及金融負債按公平價值入賬。因公平價值變動產生之未實現盈利和虧損計入在期內發生的收益表。於出售或重購時，出售所得或支付淨額與賬面值的差額計入收益表。

Loans and receivables

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than (i) those that the Group intended to sell immediately or in the near term, which would be classified as held for trading; (ii) those that the Group, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or (iii) those where the Group might not recover substantially all of its initial investment, other than because of credit deterioration, which would be classified as available-for-sale. Loans and receivables mainly comprised placements with and advances to banks and other financial institutions, trade bills and loans and advances to customers.

Securities classified as loans and receivables typically comprised securities issued by the same customers with whom the Group had a lending relationship that were not quoted in an active market. Investment decisions for credit substitute securities were subject to the same credit approval processes as loans, and the Group bore the same customer risk as it did for loans extended to those customers. Additionally the yield and maturity terms were generally directly negotiated by the Group with the issuer. These securities included commercial paper, short term debentures and preference shares issued by the borrower.

Loans and receivables and securities classified as loans and receivables were carried at amortised cost using the effective interest method, less impairment losses, if any (Note 2(h)(vii)).

Held-to-maturity investments

Held-to-maturity investments were non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group had the positive intention and ability to hold to maturity, other than (i) those that the Group, upon initial recognition, designates as at fair value through profit or loss or available-for-sale; and (ii) those that met the definition of loans and receivables.

Held-to-maturity investments were carried at amortised cost using the effective interest method less impairment losses, if any (Note 2(h)(vii)).

If, as a result of a change in intention or ability, it was no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value.

貸款和應收賬款

貸款和應收賬款為固定或可確定付款金額及沒有活躍市場報價的非衍生金融資產，但不包括(i)本集團有計劃於短期內出售而被區分為持有作交易用途；(ii)本集團於初始期已指定為通過損益以反映公平價值或可供出售；或(iii)本集團可能不能收回大部分初始投資(但不包括因信貸轉壞的原因)，則須分類為可供出售。貸款和應收賬款主要包括在銀行及其他金融機構的存款、貿易票據及客戶貸款及墊款。

分類為貸款和應收賬款的證券中，較具代表性的包括由客戶發行而在活躍市場沒有報價的證券，而該客戶是本集團在其批發銀行業務中有借貸關係的相同客戶。作出代替信貸之證券的投資決定與貸款的信貸審批程序相同，尤如本集團須承擔等同借款予同一客戶的風險。另外，回報及到期日條款普遍是透過本集團與客戶直接磋商。此類證券包括商業票據、短期債券及由借款人發行的優先股份。

貸款和應收賬款及分類為貸款和應收賬款的證券按有效利率方法計算攤銷成本並減除任何減值損失入賬(附註2(h)(vii))。

持至到期投資

持至到期投資包括有固定或可確定付款金額及有固定期限的非衍生金融資產而本集團有明確意向和能力持至到期日，但不包括(i)本集團於初始期已指定為通過損益以反映公平價值或可供出售，及(ii)符合貸款和應收賬款之定義。

持至到期投資採用有效利率方法計算攤銷成本並減除任何減值損失入賬(附註2(h)(vii))。

若因意向或能力改變而引致不再適合分類為持至到期投資，則將重新分類為可供出售並按公平價值計量。

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

Available-for-sale financial assets

Available-for-sale financial assets were non-derivative financial assets that were designated as available-for-sale or were not classified in any of the other three categories above. They included financial assets intended to be held for an indefinite period of time, but which might be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets were carried at fair value. Unrealised gains and losses arising from changes in the fair value were recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which were recognised in the income statement.

Investments in equity securities that did not have a quoted market price in an active market and whose fair value could not be measured reliably, and derivatives that were linked to and must be settled by delivery of such unquoted equity securities were carried at cost less impairment losses, if any (Note 2(h)(vii)).

When the available-for-sale financial assets were sold, gains or losses on disposal included the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which were previously recognised in other comprehensive income were reclassified from equity to the income statement.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, were measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

可供出售金融資產

可供出售金融資產是被指定為可供出售的非衍生金融資產，或並非分類為以上三種類別的金融資產。它包括計劃作不定期限持有的金融資產，但可能因應流動資金之需要或市場環境轉變而出售。

可供出售金融資產按公平價值列賬。除減值損失和貨幣性資產之外匯盈虧(如債務證券)在收益表內確認外，因公平價值的變動所產生的未實現盈虧於其他全面收益內確認，並在股東權益內分開累計。

在活躍市場中沒有市場報價而其公平價值是不能夠可靠計量的股份證券投資，及與之掛勾及在結算時須交出該無報價股份證券的衍生工具，按成本減除任何減值損失(附註2(h)(vii))列賬。

當出售可供出售金融資產時，出售盈虧包括出售所得款項淨額與賬面值的差額，以及曾經確認為其他全面收益之累計公平價值調整須由股東權益重新分類而轉入收益表。

其他金融負債

除作交易用途及通過損益以反映公平價值的金融負債外，金融負債按有效利率方法計算攤銷成本入賬。

(iii) 計量公平價值之原則

金融工具的公平價值是於報告期結束日根據其市場報價但未減除將來的估計出售成本。

如沒有公眾知悉的最後交易價格或在認可交易所的市場報價，或從經紀／交易員獲得屬於非交易所買賣的金融工具報價，又或該市場並不活躍，此工具的公平價值按估值模式估值，而該估值模式可根據實際市場交易提供可靠的估計價格。

當採用現金流折讓價格模式，估計將來現金流按管理層的最佳估計及採用的貼現率是在報告期結束日適用於相同條款工具的市場利率。當採用其他價格模式時，參數是在報告期結束日的市場價格資料。

(iv) Derecognition

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset, together with substantially all the risks and rewards of ownership, have been transferred.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement. From 1st January, 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in the income statement on derecognition of such securities, as explained in (Note 2(n)).

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

The Group uses the weighted average or first-in first-out method, where appropriate, to determine realised gains and losses to be recognised in the income statement on derecognition.

(iv) 終止確認

當從金融資產獲得現金流的法定權利屆滿或已將重大風險及回報擁有權同時轉移後，本集團終止確認金融資產。

於終止確認金融資產時，資產賬面值(或終止確認部分資產的賬面值)與(i)已收代價(包括任何所得新資產減任何新負債)及(ii)已於其他全面收益確認的任何累計收益或虧損會於收益表內確認。自2018年1月1日起，指定為通過其他全面收益以反映公平價值的股份投資證券在其他全面收益中確認的任何累計收益／虧損均不會在終止確認時在收益表中確認(附註2(n))。

當合約的義務已被履行、取消或期滿，本集團終止確認金融負債。

本集團採用加權平均法或先進先出法(如適用)以釐定在終止確認時須在收益表確認的已實現盈利和虧損。

(v) Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (Note 2(h)(iv)) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the income statement. If such a modification is carried out because of financial difficulties of the borrower (Note 2(h)(vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the income statement.

(v) 修改金融資產及金融負債

若金融資產的條款被修改，本集團會評估經修訂資產的現金流量是否重大不同。如現金流量有重大不同，則原金融資產的現金流量的法定權利被視為已過期。在此情況下，原金融資產會被終止確認(附註2(h)(iv))，並按公平價值確認為新金融資產。

如果按攤銷成本計量的已修訂資產之現金流量並無重大差異，則該修訂不會終止確認該金融資產。在這種情況下，本集團會重新計算金融資產的總賬面值，並將調整總賬面值所產生的金額在收益表內確認為修訂損益。如果由於借款人的財務困難而進行此類修改(附註2(h)(vii))，則將損益與減值損失一併列報。在其他情況下，應列示為利息收入。

當合約條款被修改及已修訂之金融負債的現金流量有重大不同，本集團會終止確認其金融負債。在這種情況下，基於修改後的條款之新金融負債會按公平價值確認。已終止的金融負債與已修改條款的新金融負債的賬面值差額會在收益表內確認。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

(vi) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(vi) 抵銷

只有具法定權利抵銷確認金額及計劃以淨額結算，或同時變賣資產以清償負債，金融資產和金融負債互相抵銷，並在財務狀況表內以淨額列示。

(vii) Impairment

Policy applicable from 1st January, 2018

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued;
- loan commitments issued; and
- contract assets.

No impairment loss is recognised on equity investments.

The Group measures loss allowances for 12-month or lifetime ECL using a 3-stage approach as follows:

(vii) 減值

由2018年1月1日起適用的政策

本集團就以下非通過損益以反映公平價值計量的金融工具的預期信貸損失確認減值準備：

- 屬債務工具的金融資產；
- 租賃應收賬款；
- 已發出的財務擔保合約；
- 已發出的貸款承擔；及
- 合約資產。

無需為股份投資計算減值。

本集團使用3階段法計量12個月或合約期內之預期信貸損失的減值準備如下：

Stage 階段	Description 描述	Impairment Loss Allowance Measurement 減值損失準備計量
1	Performing 履行中	12-month ECL 12個月內之預期信貸損失
2	Performing but with credit risk increased significantly at reporting date since its initial recognition 履行中但於報告日，信貸風險自初始確認以來已顯著增加	Lifetime ECL 合約期內之預期信貸損失
3	Non-performing 不良	Lifetime ECL 合約期內之預期信貸損失

12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

12個月內之預期信貸損失指金融工具在報告日後之12個月內，所有潛在違約事件所導致的信貸損失。

The Group adopts the criteria of stage allocation as follows:–

本集團採納階段分配的準則如下：

HKMA's 5-Grade Asset classification 金管局的5級資產類別		Stage Allocation 階段分配
Pass 合格	General (i.e. do not meet the Bank's criteria of "Significant Increase of Credit Risk") 一般(即不符合本行的「信貸風險顯著增加」的準則)	1
	Meet the Bank's criteria of "Significant Increase of Credit Risk" 符合本行的「信貸風險顯著增加」的準則	2
Special Mention 需要關注		2
Substandard 次級		3
Doubtful 呆滯		
Loss 虧損		

The criteria of "significant increase of credit risk" has taken into consideration of two key factors:

1. The exposure has a significant deterioration of internal or external rating as compared with the rating at the time when the exposure was originated; and

2. The rating of the exposure falls out of the "Low-Credit Risk Threshold" that is equivalent to the globally understood definition of "investment grade".

「信貸風險顯著增加」的準則已計及兩個關鍵因素：

1. 風險的內部或外部評級與風險產生之時的評級相比顯著轉差；及

2. 風險的評級不再屬於相當於普遍理解的「投資級別」定義的「低信貸風險界限」。

Measurement of ECL

ECL are a probability-weighted estimate of credit losses under different economic scenarios. They are measured as:

Exposure at Default x Probability of Default x Loss Given Default

計量預期信貸損失

預期信貸損失是在不同經濟情景中一個信貸損失的概率在加權後的估算值，以如下方法計量：

違約風險承擔 x 違約概率 x 違約損失率

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

信貸不良金融資產

於各報告日，本集團評估按攤銷成本列賬的金融資產及按通過其他全面收益以反映公平價值列賬的債務金融資產是否為信貸不良。當發生一宗或多宗對金融資產的估計未來現金流造成不利影響的事件，則該金融資產屬「信貸不良」。

Evidence that a financial asset is credit-impaired includes but not limited to the following observable data:

- significant financial difficulty of the borrower or issuer;

- a breach of contract such as a default or past due event;

金融資產出現信貸減值的證據包括但不限於以下可觀察數據：

- 借款人或發行人出現重大財政困難；

- 違反合約，如拖欠或逾期事件；

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision on the liabilities side; and
- debt instruments measured at FVOCI: no loss allowance is presented in the statement of financial position because the carrying amount of these assets is their fair value, inclusive of any ECL. However, the loss allowance is recognised in the fair value reserve and disclosed separately.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before 1st January, 2018

At each end of the reporting period, the carrying amount of the Group's assets were reviewed to determine whether there was objective evidence of impairment. If internal and external sources of information indicate such evidence exists, the carrying amount was reduced to the estimated recoverable amount and an impairment loss was recognised in the income statement.

- 本集團根據其他情況下不會考慮的條款重組貸款或墊款；
- 借款人很可能會破產或進行其他財務重組；或
- 因財政困難而導致某擔保失去活躍市場。

因借款人的財政狀況惡化而重訂條款的貸款，除有證據證明無法收取合約現金流的風險已顯著減低且並無其他減值跡象外，通常被視為信貸不良。此外，逾期90日或以上的貸款被視為已減值。

在財務狀況表中列示預期信貸損失的準備

預期信貸損失的損失準備在財務狀況表中按以下方式列示：

- 按攤銷成本計量的金融資產：從資產的賬面值總額中扣除；
- 貸款承擔及財務擔保合約：一般作為負債方面的撥備；及
- 按通過其他全面收益以反映公平價值計量的債務工具：在財務狀況表中並不列示損失準備，因該等資產的賬面值為其公平價值，包括任何預期信貸損失。然而，損失準備在公平價值儲備內確認並單獨披露。

撇銷

若貸款及債務證券無實際可收回的前景，則予撇銷(部分或全部)。當本集團判斷借款人並無資產或收入來源可產生足夠的現金流以償還應撇銷的金額時，一般會如此處理。然而，已撇銷的金融資產仍可能受到執行活動的影響，以遵守本集團收回應收金額的程序。

2018年1月1日以前適用的政策

本集團須於報告期結束日檢討資產的賬面值以判斷是否有客觀減值證據。如對內及對外資料來源均顯示減值證據存在，須減低賬面值至可收回金額，而減值損失於收益表內入賬。

(i) Loans and receivables

The impairment losses of loans and receivables were measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration were not discounted if the effect of discounting was immaterial.

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

The Group first assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, and collectively for financial assets that were not individually significant. If the Group determined that no objective evidence of impairment existed for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Assets that were individually assessed for impairment and for which an impairment loss was or continued to be recognised were not included in a collective assessment of impairment.

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

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

The accuracy of the impairment allowances the Group made depended on how well the Group could estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involved judgement, the Group believed that the impairment allowances on loans and advances to customers were reasonable and supportable.

All loans and receivables were reviewed and analysed periodically. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that could be linked objectively to an event occurring after the write-down, would result in a change in the impairment allowances on loans and receivables and would be charged or credited to the income statement. A reversal of impairment losses was limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

(i) 貸款和應收賬款

貸款和應收賬款的減值損失，是根據資產賬面值及估計未來現金流按資產原本之有效利率(即於初始時確認該等資產之有效利率)折算為現值，以二者之差額計算。如果折算現值後的影響不大，不會折算短期應收賬款。

減值損失準備總額包括兩部分：個別減值準備，及整體減值準備。

本集團首先評估客觀減值證據是否個別存在於個別重大金融資產，及整體存在於非個別重大金融資產。若本集團判斷客觀減值證據並不存在於個別評估金融資產，無論重大與否，本集團將有相同風險特性的金融資產歸類，及作整體減值評估。已作個別減值評估的資產而減值損失已持續確認，該資產不會包括於整體減值評估內。

個別減值準備是根據管理層的最佳估計將可能收回之現金流按原本的有效利率折算為現值。在估計現金流時，管理層須判斷借款人的財政狀況及給予本集團的抵押品或擔保之可變現淨值。並須評估每宗減值資產的自身價值。

當評估所需的整體減值準備時，管理層須考慮的因素包括信貸質素、組合規模、信貸集中、及經濟因素。為求估計所需的準備，本集團根據過往之經驗和現時之經濟情況作假設以模擬潛在損失及判斷所需之參數。

撥備的準確性，須視乎本集團能否在評估個別準備時準確估計交易對手的未來現金流及在判斷整體減值準備時所採用的假設模式及參數。雖然視乎判斷而定，本集團相信貸款損失準備是合理和足夠的。

所有貸款和應收賬款須定期作檢討及分析。在較後期間，任何因估計未來現金流的金額及時間與先前估計的有所轉變，而該轉變是可客觀地與撇銷後發生的事件有關連，從而導致貸款和應收賬款之減值損失準備亦需改變，該轉變會支銷或存入收益表。減值損失之轉回只限於假設該貸款和應收賬款於過往從來未有確認減值損失的賬面值。

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

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

倘再無合理預期可收回時，則貸款及相關的應收利息會被撇銷。

Loans and receivables with renegotiated terms were loans that had been restructured due to deterioration in the borrower's financial position and where the Group had made concessions that it would not otherwise consider. Renegotiated loans and receivables were subject to ongoing monitoring to determine whether they remained impaired or past due.

經重訂條款的貸款和應收賬款是因借款人的財政狀況惡化而須重組的貸款，而本集團已顧及借款人的財政狀況而有所讓步，否則會不作此考慮。經重訂的貸款和應收賬款須持續受監控以判斷它們是否仍然已減值或逾期。

(ii) Held-to-maturity investments

Impairment on held-to-maturity investments was considered at both an individual and collective level. The individual impairment allowance was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at asset's original effective interest rate, where the effect of discounting was material.

(ii) 持至到期投資

持至到期投資之減值按個別及整體層面考慮。當折算的效果是重大的，個別減值準備按資產賬面值，及估計未來現金流按資產原本之有效利率折算為現值，以二者之差額計算減值損失。

All significant assets found not to be individually impaired were then collectively assessed for any impairment that had been incurred but not yet identified. Assets that were not individually significant were then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

如所有重大資產毋須作個別減值，則須為已發生而未被發現的減值作整體評估。非個別重大資產按相同風險特性歸類及作整體減值評估。

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through the income statement. A reversal of impairment losses was limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

若在較後期間，減值損失的金額減少而該減少是可客觀地與確認減值損失後發生的事件有關連，減值損失轉回收益表內。減值損失轉回收益表的金額不能超過假設該資產於往年從來未有確認減值損失的賬面值。

(iii) Available-for-sale financial assets

When there was objective evidence that an available-for-sale financial asset was impaired, the cumulative loss that had been recognised in the fair value reserve was reclassified to the income statement. The amount of the cumulative loss that was recognised in the income statement was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

(iii) 可供出售金融資產

當有客觀證據顯示可供出售金融資產已減值，已直接確認在公平價值儲備內的累計虧損會被轉入收益表內。須於損益賬內入賬的累計虧損金額，是購入成本(減除任何本金償還及攤銷)與現時公平價值二者之差額，再減除往年已於收益表內入賬的減值損失。

For unquoted available-for-sale equity securities that were carried at cost, the impairment loss was measured as the difference between the carrying amount of the equity securities and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, where the effect of discounting was material.

按成本列賬之無報價可供出售股份證券，當折算的效果是重大的，股份證券的賬面值及估計未來現金流按相同金融資產的現時市場回報率折算為現值，以二者之差額計算減值損失。

Impairment losses recognised in the income statement in respect of available-for-sale equity securities were not reversed through the income statement. Any subsequent increase in the fair value of such assets was recognised directly in other comprehensive income.

已確認於收益表之可供出售股份證券的減值損失是不能轉回收益表。其後該資產之公平價值增加則直接確認在其他全面收益。

Impairment losses in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in the income statement.

而可供出售債務證券之公平價值增加，而該增加是可客觀地與已確認減值損失後發生的事件有關連，減值損失可轉回。在此情況下，轉回減值損失於收益表內入賬。

(i) Trading Assets and Liabilities

Trading assets and liabilities are those assets and liabilities which are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Trading assets and liabilities are initially recognised and subsequently measured at fair value through profit or loss.

(i) 交易用途資產及負債

作交易用途的資產和負債包括主要是作短期出售或購入的金融資產和金融負債，或屬於組合一部分並共同管理的可辨識金融工具，及有證據顯示近期有短期出售以賺取利潤的模式。交易資產和負債於初始確認，及其後以公平價值計量且其變動計入當期損益。

(j) Contract Assets

When revenue is recognised by transferring goods or services to a customer before the consideration is received or before payment is due, the Group presents the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is recognised in statement of financial position when there is a right to consideration that is conditional on factors other than the passage of time. The contract asset is transferred to receivables when the right to consideration becomes unconditional. Impairment of a contract asset is measured on the same basis as a financial asset as (Note 2(h)(vii)) above.

(j) 合約資產

若本集團透過向客戶轉讓貨品或服務履約並於客戶支付代價或款項到期前確認收入，則本集團應將該合約列示為合約資產，惟任何列示為應收賬款的金額除外。若獲取代價的權利以除時間流逝以外的因素為條件，則合約資產於財務狀況表中確認。當獲取代價的權利成為無條件時，合約資產將轉至應收賬款。合約資產減值與金融資產(附註2(h)(vii))的計算相同。

As a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. The Group may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less.

視乎實際情況，若本集團在訂立合約時預期實體向客戶轉讓已承諾的貨品或服務之時起至客戶支付該貨品或服務款項時止的期間為一年或以內，則本集團毋須就重大融資組成部分的影響而調整已承諾的代價金額。若本集團原本會確認的資產攤銷期為一年或以內，則本集團可於產生時將獲得合約的增加成本確認為支出。

(k) Hedging

Hedge accounting recognises the offsetting effects on income statement of changes in the fair values of the hedging instrument and the hedged item. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Group discontinues prospectively hedge accounting when (i) the hedging instrument expires or is sold, terminated or exercised; (ii) the hedge no longer meets the criteria for hedge accounting; or (iii) the Group revokes the designation.

(k) 對沖

對沖會計法是確認因用作對沖工具與被對沖項目因公平價值變動而在收益表內產生之相互抵銷損益的影響。於衍生工具開始列作對沖工具及在對沖期間，本集團會評估及記錄用作對沖交易的金融工具是否有效地對沖相關項目的公平價值變動或現金流之風險。當(i) 該用作對沖工具到期或已出售、終止或行使；(ii) 該對沖交易不再符合對沖會計法的要求；或(iii) 本集團取消對沖指定，本集團會停止繼續採用對沖會計法。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, or the foreign currency risk of a committed future transaction, the effective part of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in the income statement.

If the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to the income statement in the same period or periods during which the hedged forecast transaction affects the income statement. When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to the income statement immediately.

(i) 現金流量對沖

當衍生金融工具被指定對沖已確認資產或負債的不既定現金流量，或是甚有可能發生的預計交易，或已承諾未來交易之外滙風險，其重新計量衍生金融工具至公平價值有效對沖部分盈利或虧損會在其他全面收益內確認，並在股東權益中的對沖儲備內分開累計。而無效對沖部份的盈利或虧損則立即在收益表內確認。

如因對沖預計交易而其後須確認為非金融資產或非金融負債，其相關之盈虧由股東權益重新分類並包括在該非金融資產或負債的初始成本或其他賬面值內。如因對沖一項預計交易而其後須確認為金融資產或金融負債，其相關之盈虧由股東權益轉入收益表並計入相同期間或當購入資產或引起負債而影響該期間之收益表(如當確認為利息收入或支出)。

就現金流量對沖而言，除以上兩段政策已涵蓋外，其相關之盈虧由股東權益重新分類並包括在相同期間或受對沖預計交易所影響期間的收益表。當用作對沖工具已到期或出售，終止或行使，或當本集團取消指定對沖關係但對沖預計交易預期仍會發生，截至此期間所累計的盈利或虧損仍保留在股東權益內，直至交易發生時按以上的政策確認。如預計對沖交易不會發生，在股東權益內的累計盈利或虧損會立即由股東權益轉入收益表。

(ii) Fair value hedges

A fair value hedge seeks to offset risks of changes in the fair value of recognised asset or liability that will give rise to a gain or loss being recognised in the income statement.

The hedging instrument is measured at fair value, with fair value changes recognised in the income statement. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of hedging instrument attributable to the risk being hedged. This adjustment is recognised in the income statement to offset the effect of the gain or loss on the hedging instrument.

When a hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting, or the Group revokes designation of the hedge relationship, any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to the income statement as part of the recalculated effective interest rate of the item over its remaining life.

(ii) 公平價值對沖

公平價值對沖用作抵銷已確認資產或負債因公平價值變動產生須在收益表內入賬的盈利和虧損的風險。

對沖工具按公平價值列賬，而公平價值的變動在收益表內入賬。被對沖項目的賬面值按對沖工具所對沖之風險的價格變動予以調整。此調整在收益表內入賬以抵銷對沖工具產生的盈利和虧損。

當用作對沖工具到期或已出售，終止或行使，或當對沖不再符合對沖會計法的要求，或本集團取消對沖指定關係，所有截至此期間內按有效利率方式調整的被對沖項目，會按該項目餘下年期當作重新計算有效利率在收益表內攤銷。

(iii) Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method or regressive analysis as effectiveness testing methodologies. For cash flow hedge relationship, the Group utilises the change in variable cash flow method or the cumulative dollar offset method using the hypothetical derivative approach.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

(iii) 對沖效用測試

為符合對沖會計法，本集團必須進行兩種測試：在開始對沖時進行「預計效用」測試，顯示預期成效極高；在對沖期內持續進行「追溯效用」測試，証明實際有效。

有關各對沖關係之文件載有如何評估對沖效用。本集團採納之對沖效用評估方法，是按照既定風險管理策略而實施。

對於公平價值對沖關係，本集團採用累計價值抵銷法作為效用測試之方法。對於現金流量對沖關係，本集團會測試現金流量的變動或對沖組合的規模是否充足，或以模擬衍生工具方式，運用累計價值抵銷法測試。

就預計效用而言，對沖工具必須被預期為在劃定對沖期間內，能高度有效地抵銷對沖風險之公平價值或現金流量之變動。就實際效用而言，公平價值或現金流量之變動抵銷額在80%至125%範圍才被視為有效。

(l) Derivatives

Derivatives are recognised initially and are subsequently remeasured, at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative, this includes embedded derivatives which are bifurcated from the host contract, when they meet the definition of a derivative on a standalone basis.

Policy applicable from 1st January, 2018

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of HKFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

(l) 衍生工具

衍生工具初始確認及其後按公平價值重新計量。當衍生工具的公平價值為正數時，衍生工具分類為資產；當公平價值為負數時，衍生工具則分類為負債，這包括在獨立基礎上符合衍生工具定義但從主合同分拆的嵌入式衍生工具。

由2018年1月1日起適用的政策

衍生工具可能嵌入另一合同(主合同)。在下列情況下，本集團會分開計算主合同及嵌入的衍生工具：

- 該主合同並非在《香港財務報告準則》第9號所覆蓋的資產；
- 該主合同不是通過損益以反映公平價值計量；
- 嵌入衍生工具的條款如果包含在單獨的合同中，符合衍生工具的定義；及
- 該嵌入衍生工具的經濟特性及風險與主合同並非緊密關連的。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

分離的嵌入式衍生工具按公平價值計量，公平價值的所有變動均在收益內確認，除非他們構成合資格現金流量或淨投資對沖關係的一部分。

Policy applicable before 1st January, 2018

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract was not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative were not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives were measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

2018年1月1日之前適用的政策

衍生工具可能嵌入另一合同(主合同)。在下列情況下，本集團會分開計算主合同及嵌入的衍生工具：

- 該主合同不是通過損益以反映公平價值計量；
- 嵌入衍生工具的條款如果包含在單獨的合同中，符合衍生工具的定義；及
- 該嵌入衍生工具的經濟特性及風險與主合同並非緊密關連的。

分離的嵌入式衍生工具按公平價值計量，公平價值的所有變動均在收益內確認，除非他們構成合資格現金流量或淨投資對沖關係的一部分。

(m) Loans and Advances

Policy applicable from 1st January, 2018

Loans and advances mainly comprise placements with and advances to banks and other financial institutions, trade bills and loans and advances to customers:

- loans and advances measured at amortised cost (Note 2(h)(ii)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL (Note 2(h)(ii)); these are measured at fair value with changes recognised immediately in the income statement;
- loans and advances measured at FVOCI (Note 2(h)(ii)); and
- finance lease receivables (Note 2(s)).

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

(m) 貸款及墊款

由2018年1月1日起適用的政策

貸款和墊款主要包括在銀行及其他金融機構的存款及墊款、貿易票據和客戶貸款及墊款：

- 按攤銷成本計量的貸款和墊款(附註2(h)(ii))；初始以公平價值加上直接相關的交易成本計量，其後以有效利率法按攤銷成本計量；
- 強制性通過損益以反映公平價值計量的貸款及墊款(附註2(h)(ii))；以公平價值計量，其變動立即在收益表內確認；
- 通過其他全面收益以反映公平價值計量的貸款及墊款(附註2(h)(ii))；及
- 融資租賃應收款項(附註2(s))。

當本集團購買金融資產並同時訂立協議以未來日期的固定價格(反向回購或股票借入)轉售資產(或實質上相似的資產)時，該安排將作為貸款及墊款入賬，相關資產不會在本集團財務報表中確認。

Policy applicable before 1st January, 2018

Loans and advances were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Group did not intend to sell immediately or in the near term.

Loans and advances were classified as loans and receivables (Note 2(h)(ii)). They were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Loans and advances also included finance lease receivables in which the Group was the lessor (Note 2(s)).

When the Group purchased a financial asset and simultaneously entered into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement was accounted for as a loan or advance, and the underlying asset was not recognised in the Group's financial statements.

2018年1月1日之前適用的政策

貸款及墊款為固定或可確定付款金額及沒有活躍市場報價，而本集團並不打算立即或在短期內出售的非衍生金融資產。

貸款及墊款分類為貸款和應收賬款(附註2(h)(ii))，初始以公平價值加上直接相關的交易成本計量，其後以有效利率法按攤銷成本計量。

貸款及墊款亦包括本集團為出租人的融資租賃應收款項(附註2(s))。

當本集團購買金融資產並同時訂立協議以未來日期的固定價格(反向回購或股票借入)轉售資產(或實質上相似的資產)時，該安排將作為貸款及墊款入賬，相關資產不會在本集團財務報表中確認。

(n) Investment Securities

Policy applicable from 1st January, 2018

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost (Note 2(h)(ii)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL (Note 2(h)(ii)); these are at fair value with changes recognised immediately in the income statement;
- debt securities measured at FVOCI (Note 2(h)(ii)); and
- equity investment securities designated as at FVOCI (Note 2(h)(ii)).

For debt securities measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in the income statement in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

(n) 投資證券

由2018年1月1日起適用的政策

財務狀況表中的「投資證券」包括：

- 以攤銷成本計量的債務投資證券(附註2(h)(ii))；這些初始按公平價值加上直接相關交易成本計量，其後以有效利率法按攤餘成本計量；
- 債務和股權投資證券強制性通過損益以反映公平價值計量或指定為通過損益以反映公平價值計量(附註2(h)(ii))，其公平價值變動立即在收益表中確認；
- 通過其他全面收益以反映公平價值計量的債務證券(附註2(h)(ii))；及
- 指定為通過其他全面收益以反映公平價值的股權投資證券(附註2(h)(ii))。

就通過其他全面收益以反映公平價值計量的債務證券而言，收益及虧損於其他全面收益確認，惟以下各項會於收益表內確認，與按攤銷成本計量的金融資產相同：

- 以有效利率法計算的利息收入；
- 預期信用損失和轉回；及
- 外匯收益和損失。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the income statement.

當通過其他全面收益以反映公平價值計量的債務證券被終止確認時，以前在其他全面收益中確認的累計收益或虧損將從權益重新分類至收益表內。

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

本集團選擇在其他全面收益中列示非持作買賣的股份工具投資之公平價值變動。該選擇是按個別工具於初始確認時進行，並不可撤銷的。

Gains and losses on such equity instruments are never reclassified to the income statement and no impairment is recognised in the income statement. Dividends are recognised in the income statement unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

此類股份工具的收益和損失不會重新分類至收益表，亦不會在收益表中確認減值。股息在收益表內確認，但若該等股息明確顯示為收回部分投資成本者，會在其他全面收益中確認。其他全面收益中確認的累計收益和損失會轉入出售投資的未分配利潤。

Policy applicable before 1st January, 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale (Note 2(h)(ii)).

2018年1月1日以前適用的政策

投資證券初始按公平價值加上，若非通過損益以反映公平價值計量的投資證券，直接相關交易成本，並其後根據其分類為持有至到期，通過損益以反映公平價值計量或可供出售進行會計處理(附註2(h)(ii))。

(o) Properties

(i) Bank premises are stated in the statement of financial position at cost or at Directors' valuation as of 1989, by reference to an independent professional valuation, less accumulated depreciation and accumulated impairment loss (Note 2(r)).

When a deficit arises on revaluation, it will be charged to the income statement, to the extent that it exceeds the amount held in the bank premises revaluation reserve in respect of that same asset immediately prior to the revaluation; and when a surplus arises on revaluation, it will be credited to the income statement, to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80AA of HKAS 16 "Property, Plant and Equipment" issued by the HKICPA, with the effect that bank premises have not been revalued to fair value at the end of the reporting period.

(ii) Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. Investment properties are valued semi-annually by external independent valuation companies, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued. No allowance has been made in the valuations for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale.

(o) 物業

(i) 行址是按成本或於1989年董事參照獨立專業評估作出的估值，減除累計折舊及減值損失(附註2(r))後於財務狀況表中列賬。

當重估出現虧損時，於收益表支銷的金額，只限於超過以往因重估相同行址而存入行址重估儲備的結餘；當重估出現盈餘時，存入收益表內的金額不可超過以往因重估相同行址曾於收益表支銷的重估虧損。

在編製此等財務報表時，由於可採用香港會計師公會頒布的《香港會計準則》第16號「物業、廠房及設備」第80AA段所載的過渡條款，故行址並未在報告期結束日重估至公平價值。

(ii) 投資物業是持有用作賺取租金收益或資本增值或二者皆是的物業。投資物業按公平價值列賬。投資物業由外來獨立估價公司每半年作估值，該公司擁有適當認可專業資格及對估值物業的所在地和類別有近期經驗。估值並未計算任何抵押、按揭、欠款、及在出售時可能產生的任何費用或稅項。

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in (Note 2(g)(iii)).

因公平價值變動而產生的損益在收益表內入賬。投資物業租金收入按附註2(g)(iii)所載計算。

When a bank property is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the bank property immediately prior to transfer and its fair value is recognised as a revaluation of bank premises as described in (Note 2(o)(i)).

如附註2(o)(i)所載，當一項物業因其用途改變而須轉作投資物業時，該物業於轉賬日前的賬面值與公平價值之差額視作行址重估。

If an investment property becomes owner-occupied, it is reclassified as bank premises and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

如一投資物業轉為自用，該物業須重新分類為行址。於重新分類日的公平價值視作日後作會計用途的成本值。

A property interest under an operating lease is classified and accounted for as an investment property when the Group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in (Note 2(s)).

本集團以經營租賃方式持有用作租金收入或資本增值或二者皆是的物業權益分類為投資物業。此等以經營租賃方式持有的物業權益按公平價值列賬。租金支出按附註2(s)所載入賬。

(iii) Profit or loss on disposal of bank premises and investment properties is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the income statement upon disposal. Any surplus that is included in the bank premises revaluation reserve related to the bank premises disposed is transferred to the general reserve.

(iii) 出售行址及投資物業的損益是以出售所得款項淨額與資產賬面值的差價計算，並在出售時於收益表內入賬。任何有關之重估行址盈餘於出售時從行址重估儲備撥入一般儲備內。

(p) Amortisation and Depreciation

(i) Bank premises

Freehold land is not amortised. Leasehold land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease. Leasehold land is amortised on a straight line basis over the remaining term of the lease. Buildings are depreciated on a straight line basis at rates calculated to write off the cost or valuation of each building over its estimated useful life of 50 years or the remaining lease period of the land on which it is situated, whichever is the shorter.

Investment properties are not depreciated.

(ii) Other fixed assets

Other fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses, which is calculated on a straight line basis to write off the assets over their estimated useful lives from 4 to 20 years.

(p) 攤銷及折舊

(i) 行址

永久業權之土地不予攤銷。用作經營租賃的租賃土地，而其公平價值是不能夠與租賃於初始時已存在之建築物的公平價值分開計量，則當作持有融資租賃入賬。租賃土地以直線法按租賃剩餘年期攤銷。建築物的成本或估值以直線法按其預計使用年限50年或其座落土地剩餘租賃期兩者中的較短期限計算折舊。

投資物業是不予折舊。

(ii) 其他固定資產

其他固定資產是按成本減累計折舊及減值損失於財務狀況表中列賬。該等資產是以直線法按照由4年至20年的預計使用年期計算折舊。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

(q) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (Note 2(r).

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit and loss on disposal.

Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

(q) 商譽

商譽指

(i) 對價轉讓的公平價值、任何被購入者的非控股權益金額及以往本集團曾經持有該被購入者的股東權益公平價值的總和；超出

(ii) 本集團在收購日計量應佔該被購入者之可辨識資產及負債的公平價值淨額。

當(ii)是大於(i)時，此超出金額立即在損益賬確認為一項議價收購的盈利。

商譽按成本減除累計減值損失列賬。因商業合併而產生的商譽被分配予每一現金生產單位，或一組合之現金生產單位，而預計該現金生產單位是可從商業合併中獲得協同效應，以及須每年接受減值測試(附註2(r))。

當出售單一現金生產單位時，計算出售溢利包括任何可歸屬購入商譽的金額。

由內部產生之商譽及品牌的開支按在發生期間內確認為支出。

(r) Impairment of Non-Financial Assets

Internal and external sources of information are reviewed at each end of the reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment (other than properties carried at revalued amounts);
- investments in subsidiaries and associates;
- goodwill; and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(r) 非金融資產減值

在報告期結束日，須檢討對內及對外資料來源以辨識以下資產是否有減值徵兆或，除商譽外，以往已確認之減值損失是否仍然存在或可能已經減少：

- 物業及設備(以重估金額列賬的物業除外)；
- 附屬及聯營公司投資；
- 商譽；及
- 無形資產。

如任何該等徵兆存在，須估計該資產的可收回金額。此外，商譽須每年估計可收回金額以確定是否有減值徵兆。

可收回金額之計算

可收回金額是公平價值減出售成本及使用值二者中之較高者。在評估使用值時，會採用一項當時市場評估的時間值及相對於該資產的風險的稅前折扣率將估計未來現金流量折實為現在價值。當某資產未能大部分地獨立於其他資產產生現金流量，其可收回金額取決於可獨立地產生現金流量的最小資產組合(即單一現金生產單位)。

Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, if measurable, or value in use, if determinable.

減值損失之確認

當資產的賬面值或其所屬的現金生產單位超過可收回金額時，須於收益表內確認減值損失。有關確認現金生產單位減值損失時，首先減低分配予現金生產單位(或其單位群組)之賬面值，其後再按比例減低在該單位(或其單位群組)其他資產的賬面值，但該資產的賬面值不可低過其個別公平價值減出售成本(如可計量的話)或使用值(如可確定的話)。

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

減值損失之轉回

除商譽外的有關資產，如在用來釐定可收回金額的估計發生有利的變化，則減值損失會被轉回。商譽的減值損失不可轉回。

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

減值損失轉回只局限至該資產的賬面值，猶如該等減值損失從未在往年被確認。

Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

減值損失轉回在該被確認的年度計入收益表內。

(s) Leased Assets

Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and rewards of ownership are classified as operating leases.

(i) Assets held under finance leases

The amounts due from lessees in respect of finance leases are recorded in the statement of financial position as advances to customers at the amounts of net investment which represent the total rentals receivable under finance leases less unearned income. Revenue arising from finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in (Note 2(e)).

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the leased assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in (Note 2(p)) except where the asset is classified as an investment property. Impairment losses are accounted for in accordance with the accounting policy as set out in (Note 2(r)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in (Note 2(g)(iii)).

(s) 租賃資產

由承租人承擔絕大部分擁有權的相關風險及報酬的資產租賃列為融資租賃。出租人並未轉讓擁有權的所有風險及報酬的資產租賃列為經營租賃。

(i) 以融資租賃購入的資產

當本行為融資出租人時，按融資租賃而租出資產的投資淨額，即應收租金總額減未賺取收入，在財務狀況表列作客戶貸款。來自融資租賃的收入會根據本行的收入確認政策附註2(e)所載計算。

(ii) 用作經營租賃的資產

除該資產已分類為投資物業，當本集團以經營租賃方式租出資產，該資產根據其性質包括在財務狀況表內，及按附註2(p)所載(如適用者)本集團的折舊會計政策計算折舊。減值損失是根據會計政策附註2(r)所載計算。來自經營租賃的收入是根據本行的收入確認政策附註2(g)(iii)所載計算。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(iii) 經營租賃費用

當本集團使用經營租賃資產，除非有其他更具代表性的基準以衡量從該等經營租賃資產獲得利益的模式，其租賃付款按該租賃期所涵蓋的會計年期以等額分期記入收益表。經營租賃協議所涉及的激勵措施均在收益表中確認為租賃淨付款的組成部分。或有租金在其產生的會計期內在收益表支銷。

(t) Repossession of Assets

In the recovery of impaired loans and advances, the Group may take possession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Group's accounting policy set out in (Note 2(h)(vii)), impairment allowances for impaired loans and advances are maintained after taking into account the net realisable value of the collateral assets, usually resulting in a partial write-off of the loans and advances against impairment allowances. Repossessed assets are reported assets held for sale under other assets if it is highly probable that the future economic benefits will flow to the Group, their carrying amount will be recovered through a sale transaction rather than through continuing use and the assets are available for sale in their present condition. Related loans and advances are then written off.

Repossessed assets are recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the income statement.

(t) 收回資產

在收回減值貸款時，本集團會通過法庭程序或借款人自願交出擁有權收回抵押品資產。根據本集團附註2(h)(vii)所載的會計政策，計算減值貸款之減值準備已顧及抵押品資產之可變現淨值，通常引致須在減值準備內撇銷部分貸款。如大有可能本集團享有未來經濟收益，其賬面值須透過變賣而不是持續使用該資產，及該資產可在現況下出售，收回資產在其他資產的持有作出售資產項下列賬。有關貸款及墊款隨後撇銷。

收回資產按有關貸款的金額或於轉換日已減除出售成本後之公平價值，按兩者之較低者入賬。收回資產毋須計算折舊或攤銷。

在初始期分類及後期再計量所引致的減值損失於收益表確認。

(u) Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

(u) 所得稅

(i) 本年度所得稅包括本期及遞延稅項資產和負債的變動。除該稅款與其他全面收益或股東權益有關而須在其他全面收益或股東權益確認的金額外，本期稅項及遞延稅項資產和負債的變動計入收益表內。

(ii) 本期稅項為年度應課稅收入按報告期結束日已生效或基本上已生效的稅率計算的預計應付稅項，並已包括以往年度的應付稅項的任何調整。

(iii) 遞延稅項資產及負債是因納稅基礎計算的資產及負債與其賬面值之間的差異而分別產生的可扣稅及應課稅的暫時性差異。遞延稅項資產也包括未使用的稅損及稅項抵免。

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing deductible temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

除了若干有限的例外情況外，所有遞延稅項負債及未來可能有應課稅溢利予以抵銷的遞延稅項資產均予確認。未來有應課稅溢利可支持由可扣稅之暫時性差異引致遞延稅項資產之確認，包括現存之應課稅暫時性差異的轉回，但該等差異須屬於同一稅務機關及應課稅實體，以及預計在同期內該可扣稅之暫時性差異轉回或在若干期限內由該遞延稅項資產產生的稅損可以收回或留存。相同標準應用在判斷現時可扣稅暫時性差異能否支持由未使用的稅損或稅免產生的遞延稅項資產確認，即如果是屬於同一稅務機關及應課稅實體，以及預計在某期間內因該稅損或稅免可使用而轉回時，會計入該等差異。

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

在有限例外情況下，不確認遞延稅項資產及負債的暫時性差異包括不可扣稅的商譽、初始時已確認不影響會計及應課稅溢利的資產或負債(須不是商業合併的一部分)、及有關投資附屬公司的暫時性差異，就應課稅差異而言，當本集團可控制該差異轉回的時間而該差異在可見將來不會轉回；而就可扣稅差異而言，除非該差異在可見將來可以轉回。

Where investment properties are carried at their fair value in accordance with the accounting policy set out in (Note 2(o)(ii)), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

當投資物業根據附註2(o)(ii)所載按公平價值列賬，除該物業是需折舊的及以一商業模式持有，而其目的是要透過時間使用而並非出售該物業以獲取隱含於該物業之重大經濟利益，確認遞延稅項的金額按該物業於結算日假設以賬面值出售的稅率計算。在其他情況下，確認遞延稅項的金額是根據預期變現或償還該資產及負債的賬面值的方式，按在報告日已生效或基本上已生效的稅率計算。遞延稅項資產及負債不作折讓。

The carrying amount of a deferred tax asset is reviewed at each end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

於每報告期結束日，本行須重新檢視有關的遞延稅項資產的賬面金額，對預期不再有足夠的應課稅溢利以實現相關稅務利益予以扣減。可轉回之金額不可超過預期將來出現足夠可供扣減的應課稅溢利。

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

由派發股息引起的額外所得稅在有關股息的支付責任獲確立時確認。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Bank or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(iv) 本期稅項與遞延稅項結餘及其變動之金額會分別列示而不會相互抵銷。本行或本集團只在有合法權利對本期稅項資產及負債抵銷及符合以下附帶條件的情況下，才對本期及遞延稅項資產及負債作出抵銷：

- 就本期稅項資產及負債而言，本行或本集團計劃支付淨額或同時間收回資產及償還負債；或
- 有關的遞延稅項資產及負債屬同一稅務機關對以下機構徵收所得稅而產生：
  - 同一個應課稅實體；或
  - 不同的應課稅實體，並預計在未來期間會償還或收回重大遞延稅項負債或資產，該實體計劃以淨額形式變現本期稅項資產及償還本期稅項負債，或同時間變現及償還。

(v) Insurance Reserves and Provisions for Outstanding Claims

Insurance reserves, except those attributable to long term business, represent the proportion of retained premiums written in the year relating to the period of risk from 1st January in the following year to the subsequent date of expiry of policies which is carried forward as a provision for unearned premiums and calculated on a daily basis.

The insurance reserve for long term business is ascertained by actuarial valuation based on the Group's estimates of future deaths, investment returns and administration expenses at each valuation date.

Full provision is made for the estimated cost of claims notified but not settled at the end of the reporting period and for the estimated cost of claims incurred but not reported by that date, after deducting the amounts due from reinsurers. Provision has also been made for the estimated cost of servicing claims notified but not settled at the end of the reporting period and to meet expenses on claims incurred but not reported at the end of the reporting period.

These reserves and provisions are classified as other accounts and provisions.

The Group's operating income from its insurance business is presented as net insurance revenue in the consolidated income statement. The Group follows the relevant accounting policies for the recognition of such operating income. Details of net insurance revenue are set out in Note 11.

(v) 保險基金及未付索償準備

不包括長期業務部分，保險基金指年度內收取但已作保留的保金部分，而有關的風險是屬於下年度1月1日至保單到期日為止，該保留保金視作未賺取保費準備並按每日計算。

長期業務的保險基金是根據本集團之估計未來死亡率、投資回報及於每一估值日之行政費用並按精算估值。

本集團已就在報告期結束日只已通知但未償付以及已發生但未匯報的索償，經扣除了分保人欠款，作出了充足的準備。此外，已就在報告期結束日已通知但未償付的索償及已發生但未匯報索償而引致的估計費用作出了充足的準備。

此等基金及準備分類為其他賬項及準備。

本集團將由保險業務生的經營收入在綜合收益表中以保險業務淨收入列示。本集團根據有關會計政策確認該經營收入。詳情請參閱附註11保險業務淨收入。

(w) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(w) 準備及或然負債

當負債的限期或金額不確定，但有可能因過去事項構成法律或推定義務而須付出經濟利益以償責任，並能對此作可靠估計，此負債便確認為準備。當金額的時間值屬重大的，準備金額須按估計清償負債支出的現值列賬。

倘可能不需要付出經濟利益，或不能對金額作可靠估計，除非付出的機會是極微，則此項責任會視作或然負債披露。如潛在義務的存在須視乎會否發生一項或多項未來事件才獲確定，除非付出經濟利益的機會是極微，此潛在義務亦視作或然負債披露。

(x) Financial Guarantees and Loan Commitments

"Financial guarantees" are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. "Loan commitments" are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

- from 1st January, 2018: at the higher of this amortised amount and the amount of loss allowance (Note 2(h)(vii); and
- before 1st January, 2018: at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

For other loan commitments:

- from 1st January, 2018: the Group recognises loss allowance (Note 2(h)(vii));
- before 1st January, 2018: the Group recognised a provision in accordance with HKAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within other liabilities.

(x) 財務擔保和貸款承諾

「財務擔保」是指要求本集團支付特定款項以償還持有人因其特定債務人在債務工具條款到期時未能支付而產生的損失的合同。「貸款承諾」是在預定的條款和條件下提供信貸的承諾。

已發行的財務擔保或以低於市場利率的貸款承諾初始按公平價值計量，初始公平價值在擔保或承諾期內攤銷。其後計量如下：

- 自2018年1月1日起：按攤銷金額及減值準備金額中的較高者(附註2(h)(vii))；及
- 2018年1月1日之前：按攤銷金額和當合同可行時預期結算負債金額之現值的較高者。

對於其他貸款承諾：

- 自2018年1月1日起：本集團確認減值準備(附註2(h)(vii))；
- 2018年1月1日之前：如果合同被認為是虧損性的，則本集團根據香港會計準則第37號確認準備。

財務擔保和貸款承諾產生的負債包含在其他負債中。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

(y) Employee Benefits

(i) Salaries, bonuses and leave benefits

Employee entitlements to salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are recognised when the absences occur.

(ii) Performance-related bonus plan

Liabilities for performance-related bonus plan, which are due wholly within twelve months after the end of the reporting period, are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Retirement benefits

Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Exempted ORSO Scheme ("MPFEOS") or the Mandatory Provident Fund Scheme ("MPFS"). Both are defined contribution schemes. The employer's monthly contributions to both schemes are at a maximum of 10% of each employee's monthly salary.

The pension schemes covering all the Group's PRC and overseas employees are defined contribution schemes at various funding rates, and are in accordance with local practices and regulations.

The cost of all these schemes is charged to the income statement for the period concerned and the assets of all these schemes are held separately from those of the Group. Under the MPFEOS, the employer's contribution is not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Under the MPFS, the employer's contribution is reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(iv) Share based payments

The option exercise price is equal to the higher of:

(a) the closing price of the Bank's shares in the Stock Exchange's daily quotation sheet on the date of grant of the relevant options; and

(b) an amount equivalent to the average closing price of the Bank's shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant options.

(y) 僱員福利

(i) 薪酬、花紅及假期福利

僱員應享有的薪酬、年終花紅、有薪年假、旅行假期及其他同種類之非金錢性質福利於確立時確認。至報告期結束日已撥備因僱員提供服務所享有之年假的估計負債。

僱員應享有的病假及分娩假於發生時確認。

(ii) 表現獎勵花紅計劃

因僱員提供服務而本集團有現存法律或推定義務於報告期結束日後12個月內須全數支付表現獎勵花紅計劃的負債，對此並能作可靠估計，便須予以確認為負債。

(iii) 退休福利

本集團為其合資格的員工提供退休福利。香港員工可獲得強積金豁免的職業退休計劃或強制性公積金計劃的保障。此兩個計劃同時是定額供款計劃。僱主對兩項計劃的每月供款，上限是每位僱員月薪的10%。

本集團為所有國內及海外員工而設的退休計劃是定額供款計劃，供款率按當地慣例及規定而制定。

上述所有計劃的成本在相關期間的收益表內支銷，而所有此類計劃的資產均與本集團的資產分開處理。在強積金豁免的退休保障計劃中，僱主的供款不會因某些僱員於未完全享有僱主的供款前離開計劃被沒收的供款而減少。而強制性公積金計劃方面，僱主的供款則會因某些僱員於未完全享有僱主的供款前離開計劃被沒收的供款而減少。

(iv) 以股份為基礎作支付

認股權的行使價為以下之較高者：

(a) 於授出認股權當日本行股份在聯交所日報表的收市價；及

(b) 相等於緊接授出有關認股權當日之前五個營業日，本行股份在聯交所日報表的平均收市價。

When the options are exercised, equity is increased by the amount of the proceeds received. The fair value of share options granted to employees is recognised as an expense in the income statement with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the trinomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to those share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

當認股權被行使時，所得款項計入股東權益。授予僱員之認股權的公平價值於收益表內確認為支出，而在股東權益賬內的資本儲備作相應的增加。公平價值乃採用三項式期權定價模式，按認股權授予日計算，並顧及授予認股權的條款。當僱員須符合歸屬期條件才可無條件享有該等認股權，估計公平價值總額在歸屬期內攤分入賬，並已考慮認股權歸屬的或然率。

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged or credited to the income statement for the year of the review unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Bank's shares.

估計可歸屬認股權的數目須在歸屬期內作出檢討。除非原本支出符合資產確認之要求，任何已在往年確認的累積公平價值之所需調整須在檢討期內的收益表支銷或回撥，並在資本儲備作相應調整。在歸屬日，除非因未能符合歸屬條件引致權利喪失純粹與本行股份的市價有關，確認為支出之金額按歸屬認股權的實際數目作調整(並在資本儲備作相應調整)。

The equity amount is recognised in capital reserve until either the option is exercised and new shares allotted (when it is transferred to share capital) or the option expires (when it is released directly to retained profits). For Grantees who do not meet the applicable vesting conditions, the unvested options are forfeited, either in whole or in part. Forfeited share options are cancelled.

屬股東權益金額確認在資本儲備內，直至當認股權被行使及分配新股時(轉入股本)，或當認股權之有效期屆滿時(轉入留存溢利)。對於未能符合適用的歸屬條件的承授人，其未歸屬的認股權會全部或部分被撤銷。被撤銷的認股權會被註銷。

(z) Related Parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(z) 關聯人士

在編製本財務報表時，與本集團關聯人士是指：

(i) 個人或該個人之近親家庭成員，如該個人在以下情況下視為與本集團有關聯：

(a) 可控制或共同控制本集團；

(b) 對本集團有重大影響力；或

(c) 是本集團或本集團之母公司的主要管理人員之成員。

(ii) 在以下任何情況下一實體會視為與本集團有關聯：

(a) 該實體及本集團皆是同一集團成員(即每一間母公司、附屬公司及同系附屬公司與其他有關聯)。

(b) 一實體是另一實體的聯營公司或合營公司(或該聯營公司或合營公司與該另一實體均屬同一集團)。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 主要會計政策(續)

(c) Both entities are joint venture of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in (i).

(g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(h) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(c) 兩個實體是同一第三者的合營公司。

(d) 一實體是一第三者的合營公司而另一實體則是該第三者的聯營公司。

(e) 該實體是提供福利予本集團或與本集團有關聯之實體的僱員離職後之福利計劃。

(f) 該實體受在(i)項中所辨識的個人所控制或共同控制。

(g) 在(i)(a)項中所辨識的個人而該個人對該實體有重大影響力，或該個人是該實體(或是該實體的母公司)的主要管理人員之成員。

(h) 該實體或是其集團中一部分之任何成員，而提供主要管理人員服務予本集團或本集團之母公司。

個人的近親家庭成員指可影響，或受該個人影響，他們與該實體交易的家庭成員。

(aa) Segment Reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(aa) 分部報告

經營分部，及在財務報表列報的每一分部項目金額，是從財務資料中辨識出來的，並定期地提供予本集團的最高行政管理層作為資源分配，以及評核本集團各項業務和區域所在地的表現。

除非分部有相同經濟特性及在產品和服務之性質、生產程序之性質、客戶類別和等級、用作銷售產品和提供服務之方法、及監管環境之性質是相同的，個別重大的營運分部不會在財務報表內合計。如它們擁有以上大部份的標準，並非個別重大的營運分部可能會被合計。

(ab) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash, balances with banks and other financial institutions, treasury bills, other eligible bills and certificates of deposit that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(ab) 現金及等同現金項目

就編製現金流量表而言，現金及等同現金項目包括由購入日起少於3個月到期日的結餘，包括現金、銀行及其他金融機構結餘、國庫債券、及其他受較低風險影響價值及隨時可轉換成預知金額的合格票據及存款證。

(ac) Deposits, Debt Securities Issued and Subordinated Liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Subsequent to initial recognition deposits, debt securities issued and subordinated liabilities are measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

(ac) 存款、已發行債務證券及後償負債

存款、已發行債務證券及後償負債是本集團籌募資金的來源。

本集團按工具合約條款的實質分類資本工具為金融負債或股本工具。

在初始確認後，除本集團指定為通過損益的負債外，存款、已發行債務證券及後償負債按有效利率方式計算攤銷成本。

(ad) Assets Held for Sale

Non-current assets and disposal groups (including both the assets and liabilities of the disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when: (a) their carrying amounts will be recovered principally through sale; (b) they are available for sale in their present condition; and (c) their sale is highly probable.

Immediately before the initial classification as held for sale, the carrying amounts of the asset (or assets and liabilities in the disposal group) are measured in accordance with applicable HKFRSs. On subsequent remeasurement of a disposal group, the carrying amounts of the assets and liabilities that are not within the scope of the measurement requirements of HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with applicable HKFRSs before the fair value less costs to sell of the disposal group is determined.

Income earned and expenses incurred on assets and liabilities of disposal groups held for sale continue to be recognised in the appropriate line items in the income statement until the transaction is complete.

(ad) 持有作出售資產

當(a)其賬面值將主要需通過出售才可收回；(b)它們可以在現況下可供出售；(c)出售之機會率是非常高的，非流動資產及出售組別(包括出售組別的資產和負債)按其賬面值及公平價值減出售成本，兩者之較低者，分類為持有作出售資產。

在被初始分類為持有作出售之前，資產的賬面值(或出售組別的資產和負債)按適用的《香港財務報告準則》計算。而往後在重新計算出售組別時，在未決定出售組別的公平價值減成本前，非在《香港財務報告準則》第5號「持有作出售資產的非流動資產及結束營運」所覆蓋的計算要求的資產和負債之賬面值，按適用的《香港財務報告準則》計算。

出售組別的資產和負債之已賺取收入和已發生支出仍繼續在收益表內之有關項目中確認，直至交易完成。

(ae) Interim Financial Reporting and Impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (Note 2(h)(vii) and Note 2(r)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(ae) 中期財務報告及減值

根據聯交易所《上市規則》，本集團須按《香港會計準則》第34號「中期財務報告」編制有關年度首6個月的中期財務報告。於中期期末，本集團採用等同年末的減值測試、確認、及轉回標準(附註2(h)(vii)至附註2(r))。

已確認於中期期間的減值損失，均不能在較後期間轉回。就算假如該減值只在與該中期期間有關之年底作評估而該減值損失是不會發生、或損失之金額會較小，在此情況下亦不可轉回。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

3. CHANGES IN ACCOUNTING POLICIES 會計政策之變動

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

香港會計師公會頒佈多項新訂《香港財務報告準則》及《香港財務報告準則》之修訂，其於本集團的現行會計期間首次生效。其中，下列變動與本集團的財務報表有關。

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK(IFRIC) 22, Foreign currency transactions and advance consideration

- 《香港財務報告準則》第9號「金融工具」
- 《香港財務報告準則》第15號「與客戶之間的合同產生的收入」
- 香港《國際財務報告準則詮釋委員會詮釋》第22號「外幣交易及預付代價」

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

本集團並未採納任何於本會計期尚未生效的新準則或詮釋。

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to presentation of contract assets and contract liabilities.

本集團受到關於《香港財務報告準則》第9號下金融資產分類及信貸損失計量的影響，並受到關於《香港財務報告準則》第15號下合約資產及合約負債列示的影響。

(a) HKFRS 9 Financial Instruments

(a)《香港財務報告準則》第9號「金融工具」

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

《香港財務報告準則》第9號「金融工具」取代《香港會計準則》第39號「金融工具：確認與計量」。新準則對金融資產的會計處理及金融負債的會計處理的若干方面作出重要變動。

As permitted by HKFRS 9, the Group has elected to continue to apply the hedge accounting requirements of HKAS 39.

在《香港財務報告準則》第9號允許下，本集團已選擇繼續應用《香港會計準則》第39號的對沖會計要求。

As a result of the adoption of HKFRS 9, the Group has adopted consequential amendments to HKAS 1 Presentation of Financial Statements, which require separate presentation in the consolidated income statement of interest revenue calculated using the effective interest method.

由於採納《香港財務報告準則》第9號，本集團已採納《香港財務報告準則》第1號「財務報表披露」之相應修訂，在綜合收益表中的利息收入按有效利率方法分開列示。

Additionally, the Group has adopted consequential amendments to HKFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

另外，本集團已採納《香港財務報告準則》第7號「金融工具：披露」之相應修訂應用有關於2018年的披露，但並未有應用於比較資料。

The key changes to the Group's accounting policies resulting from its adoption of HKFRS 9 are summarised below.

因本集團採納《香港財務報告準則》第9號而導致的本集團主要會計政策變動於下文概述。

Classification of financial assets and financial liabilities

HKFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. Classification of a financial asset under HKFRS 9 is generally based on the business model in which the financial asset is managed and the contractual cash flows of the financial asset. For an equity instrument which is not held for trading at initial recognition, an irrevocable election can be made to present subsequent changes in fair value of the equity instrument in OCI. Cumulative gains and losses recognised in OCI are not recycled to profit or loss upon derecognition of the equity instrument, in contrast to debt instrument measured at FVOCI where recycling of cumulative gains and losses to profit or loss upon derecognition is permitted. For derivatives embedded in contracts where the host is a financial asset in the scope of the standard, they are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. The standard removes the HKAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

金融資產及金融負債的分類

《香港財務報告準則》第9號規定金融資產有三大分類，計量類別分類為：攤銷成本、通過其他全面收益以反映公平價值及通過損益以反映公平價值。《香港財務報告準則》第9號下的金融資產分類一般基於管理金融資產的商業模式及該資產的合約現金流特徵。就初始確認時並非交易用途的股份工具而言，可作出不可撤回的選擇，將其後續的重大公平價值變動確認於其他全面收益。在終止確認股份工具時，在其他全面收益確認的累計盈利及虧損並不轉撥至損益，而按通過其他全面收益以反映公平價值計量的債務工具則相反，於終止確認時其累計盈利及虧損可轉撥至損益。就嵌入衍生工具的合約而言，若其主合約屬該準則範圍下的金融資產，該嵌入衍生工具不可與其主合約分開處理，而是將整個混合金融工具以作分類評估。該準則取消了《香港會計準則》第39號所定義的持至到期、貸款及應收賬款以及可供出售的分類。

HKFRS 9 largely retains the requirements in HKAS 39 for the classification of financial liabilities. Although all fair value changes of liabilities designated under the fair value option were recognised in profit or loss under HKAS 39, fair value changes are generally presented under HKFRS 9 as follows:

《香港財務報告準則》第9號基本上保留了《香港會計準則》第39號中對金融負債分類的要求。雖然根據《香港會計準則》第39號，所有指定為通過損益以反映公平價值作計量的金融負債的公平價值變動於損益內確認，但根據《香港財務報告準則》第9號，公平價值變動一般按以下方式列示：

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

- 因其信貸風險的變動而引致的公平價值變動，需列示於其他全面收益；及
- 公平價值變動總額的的剩餘部份則包括於損益表內。

The following table shows the original measurement categories in accordance with HKAS 39 and the new measurement categories under HKFRS 9 for the Group's financial assets as at 1st January, 2018.

下表顯示本集團於2018年1月1日的金融資產及金融負債根據《香港會計準則》第39號的原有計量類別及根據《香港財務報告準則》第9號的新計量類別。

There is no change in the measurement categories for the Group's financial liabilities between HKAS 39 and HKFRS 9 as at 1st January, 2018.

於2018年1月1日，根據《香港會計準則》第39號及根據《香港財務報告準則》第9號，本集團金融負債的計量類別並未有變動。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED) 會計政策之變動(續)

	Notes 附註	Original classification under HKAS 39 根據《香港會計準則》第39號的原有分類	New classification under HKFRS 9 根據《香港財務報告準則》第9號的新分類	Original carrying amount under HKAS 39 根據《香港會計準則》第39號的原有賬面值 HK$ Mn 港幣百萬元	New carrying amount under HKFRS 9 根據《香港財務報告準則》第9號的新賬面值 HK$ Mn 港幣百萬元
Cash and balances with banks and other financial institutions 現金及在銀行和其他金融機構的結存	25	Loans and receivables 貸款及應收賬款	Amortised cost 攤銷成本	55,696	55,684
Placements with and advances to bank and other financial institutions 在銀行及其他金融機構的存款及墊款	26	Loans and receivables 貸款及應收賬款	Amortised cost 攤銷成本	58,583	58,577
Trade bills 貿易票據	27	Loans and receivables 貸款及應收賬款	Amortised cost 攤銷成本	3,896	3,887
Trade bills[a] 貿易票據[a]	27	Loans and receivables 貸款及應收賬款	FVOCI 通過其他全面收益以反映公平價值	10,013	10,033
Trading assets 交易用途資產	28	FVTPL 通過損益以反映公平價值	FVTPL (mandatory) 通過損益以反映公平價值(強制性)	6,956	6,956
Derivative assets 衍生工具資產	47(b)(ii)	FVTPL 通過損益以反映公平價值	FVTPL (mandatory) 通過損益以反映公平價值(強制性)	11,335	11,335
Loans and advances to customers 客戶貸款及墊款	29	Loans and receivables 貸款及應收賬款	Amortised cost 攤銷成本	470,339	470,738
Investment securities – debt 投資證券－債務	30	FVTPL (designated) 通過損益以反映公平價值(指定)	FVTPL (designated) 通過損益以反映公平價值(指定)	3,125	3,125
Investment securities – debt[b] 投資證券－債務[b]	30	FVTPL (designated) 通過損益以反映公平價值(指定)	FVTPL (mandatory) 通過損益以反映公平價值(強制性)	754	754
Investment securities – debt[c] 投資證券－債務[c]	30	Available-for-sale 可供出售	Amortised cost 攤銷成本	8,512	8,328
Investment securities – debt 投資證券－債務	30	Available-for-sale 可供出售	FVOCI 通過其他全面收益以反映公平價值	100,532	100,532
Investment securities – debt[d] 投資證券－債務[d]	30	Available-for-sale 可供出售	FVTPL (mandatory) 通過損益以反映公平價值(強制性)	7,690	7,690
Investment securities – debt 投資證券－債務	30	Held-to-maturity investments 持至到期投資	Amortised cost 攤銷成本	9,720	9,701
Investment securities – debt[d] 投資證券－債務[d]	30	Held-to-maturity investments 持至到期投資	FVTPL (mandatory) 通過損益以反映公平價值(強制性)	78	81
Investment securities – debt[d] 投資證券－債務[d]	30	Loans and receivables 貸款及應收賬款	FVTPL (mandatory) 通過損益以反映公平價值(強制性)	133	132
Investment securities – equity[b] 投資證券－股份[b]	30	FVTPL (designated) 通過損益以反映公平價值(指定)	FVTPL (mandatory) 通過損益以反映公平價值(強制性)	166	166
Investment securities – equity 投資證券－股份	30	Available-for-sale 可供出售	FVTPL (mandatory) 通過損益以反映公平價值(強制性)	2,697	2,697
Investment securities – equity[e] 投資證券－股份[e]	30	Available-for-sale 可供出售	FVOCI 通過其他全面收益以反映公平價值	345	345
Investment securities – investment fund[b] 投資證券－投資基金[b]	30	FVTPL (designated) 通過損益以反映公平價值(指定)	FVTPL (mandatory) 通過損益以反映公平價值(強制性)	124	124
Investment securities – investment fund 投資證券－投資基金	30	Available-for-sale 可供出售	FVTPL (mandatory) 通過損益以反映公平價值(強制性)	549	549
Other assets (excluding assets held for sale) 其他資產(不包括持有作出售資產)	35	Loans and receivables 貸款及應收賬款	Amortised cost 攤銷成本	32,493	32,436
Total financial assets 金融資產總額				783,736	783,870

a. Certain trade bills are reclassified to FVOCI because they are held within a business model in which they are managed to meet everyday liquidity needs and often results in sales activity that is significant in value. The Group considers that under HKFRS 9 such portfolios of trade bills are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

a. 若干貿易票據的商業模式是透過管理以滿足日常流動資金需求，並通常會導致具重大價值的銷售活動，因此重新分類為通過其他全面收益以反映公平價值。本集團認為，根據《香港財務報告準則》第9號，該等貿易票據組合是同時收取合約現金流及出售為目的之商業模型的金融資產。

b. Before the adoption of HKFRS 9, certain investment securities were designated as at FVTPL because they are managed and their performance is evaluated on a fair value basis or derivatives are held to manage specific risk of these securities and the designation eliminated or significantly reduced an accounting mismatch that would otherwise arise. Under HKFRS 9, these securities meet the criteria of mandatory measurement at FVTPL because the contractual cash flows of these securities are not solely payments of principal and interest on the principal outstanding.

b. 於採納《香港財務報告準則》第9號前，若干投資證券被指定為通過損益以反映公平價值，因其按公平價值基準管理及評定表現，或持有衍生工具以管理該等證券的特定風險，而該指定可消除或明顯減少會計錯配的情況。根據《香港財務報告準則》第9號，該等證券符合強制性按通過損益以反映公平價值計量的準則，因該等證券的合約現金流並非純粹是本金及按本金結餘的利息支付。

c. Certain debt securities are held by the Group in a separate portfolio for long-term yield purposes. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect contractual cash flows. These securities are classified as measured at amortised cost under HKFRS 9.

c. 若干債務證券由本集團在獨立的投資組合中持有以獲取長期收益。該等證券可出售，但預期有關出售的頻率很低。本集團認為，其商業模型是持有資產以收取合約現金流為目的。根據《香港財務報告準則》第9號，該等證券被分類為按攤銷成本計量。

d. Investment securities are held by the Group in a separate portfolio for long-term yield purposes but the contractual cash flows are not solely payments of principal and interest on the principal outstanding. These securities are therefore mandatorily measured at FVTPL under HKFRS 9.

d. 投資證券的合約現金流並非純粹是本金及按本金結餘的利息支付。因此，根據《香港財務報告準則》第9號，該等證券被分類為強制性按通過損益以反映公平價值計量。

e. Certain available-for-sale equity investments held by the Group for strategic purpose have been designated under HKFRS 9 as at FVOCI.

e. 根據《香港財務報告準則》第9號，本集團持有作策略用途的若干可供出售股份投資被指定為按通過其他全面收益以反映公平價值。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED) 會計政策之變動(續)

The following table reconciles the carrying amounts under HKAS 39 to the carrying amounts under HKFRS 9 on transition to HKFRS 9 on 1st January, 2018:

下表為根據《香港會計準則》第39號的賬面值與2018年1月1日過渡至《香港財務報告準則》第9號時根據《香港財務報告準則》第9號的賬面值的對賬：

		HKAS 39 carrying amount 31st December 2017 2017年12月31日根據《香港會計準則》第39號的賬面值 HK$ Mn 港幣百萬元	Reclassification 重新分類 HK$ Mn 港幣百萬元	Remeasurement 重新計量 HK$ Mn 港幣百萬元	HKFRS 9 carrying amount 1st January 2018 2018年1月1日根據《香港財務報告準則》第9號的賬面值 HK$ Mn 港幣百萬元
Financial assets	**金融資產**				
Amortised cost	**攤銷成本**				
Cash and balances with banks and other financial institutions	現金及在銀行和其他金融機構的結存				
Opening balance	期初結餘	55,696			
Remeasurement	重新計量			(12)	
Closing balance	期末結餘				55,684
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款				
Opening balance	期初結餘	58,583			
Remeasurement	重新計量			(6)	
Closing balance	期末結餘				58,577
Trade bills	貿易票據				
Opening balance	期初結餘	13,909			
To Trade Bills at FVOCI	轉至按通過其他全面收益以反映公平價值的貿易票據		(10,013)		
Remeasurement	重新計量			(9)	
Closing balance	期末結餘				3,887
Loans and advances to customers	客戶貸款及墊款				
Opening balance	期初結餘	470,339			
Remeasurement	重新計量			399	
Closing balance	期末結餘				470,738
Investment securities	投資證券				
Opening balance	期初結餘	9,931			
From available-for-sale	轉自可供出售		8,512		
To FVTPL	轉至通過損益以反映公平價值		(211)		
Remeasurement	重新計量			(203)	
Closing balance	期末結餘				18,029
Other assets	其他資產				
Opening balance	期初結餘	32,493			
Remeasurement	重新計量			(57)	
Closing balance	期末結餘				32,436
Total amortised cost	攤銷成本總額				639,351

		HKAS 39 carrying amount 31st December 2017 2017年12月31日根據《香港會計準則》第39號的賬面值 HK$ Mn 港幣百萬元	Reclassification 重新分類 HK$ Mn 港幣百萬元	Remeasurement 重新計量 HK$ Mn 港幣百萬元	HKFRS 9 carrying amount 1st January 2018 2018年1月1日根據《香港財務報告準則》第9號的賬面值 HK$ Mn 港幣百萬元
Financial assets	**金融資產**				
Available-for-sale	**可供出售**				
Investment securities	投資證券				
Opening balance	期初結餘	120,325			
To FVOCI – debt	轉至通過其他全面收益以反映公平價值－債務		(100,528)		
To FVOCI – equity	轉至通過其他全面收益以反映公平價值－股份		(349)		
To FVTPL	轉至通過損益以反映公平價值		(10,936)		
To amortised cost	轉至攤銷成本		(8,512)		
Closing balance	期末結餘				–
Trade Bills at FVOCI	**按通過其他全面收益以反映公平價值的貿易票據**				
Trade Bills	貿易票據				
Opening balance	期初結餘	–			
From amortised cost	轉自攤銷成本		10,013		
Remeasurement	重新計量			20	
Closing balance	期末結餘				10,033
FVOCI – debt	**通過其他全面收益以反映公平價值－債務**				
Investment securities	投資證券				
Opening balance	期初結餘	–			
From available-for-sale	轉自可供出售		100,528		
Closing balance	期末結餘				100,528
FVOCI – equity	**通過其他全面收益以反映公平價值－股份**				
Investment securities	投資證券				
Opening balance	期初結餘	–			
From available-for-sale	轉自可供出售		349		
Closing balance	期末結餘				349
Total FVOCI	通過其他全面收益以反映公平價值總額				110,910
FVTPL	**通過損益以反映公平價值**				
Trading assets	交易用途資產	6,956			6,956
Derivative assets	衍生工具資產	11,335			11,335
Investment securities	投資證券				
Opening balance	期初結餘	4,169			
From available-for-sale	轉自可供出售		10,936		
From amortised cost	轉自攤銷成本		211		
Remeasurement	重新計量			2	
Closing balance	期末結餘				15,318
Total FVTPL	通過損益以反映公平價值總額				33,609

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED) 會計政策之變動(續)

The following table shows the effects of the reclassification of financial assets from HKAS 39 categories into the amortised cost category under HKFRS 9.

下表顯示將金融資產由《香港會計準則》第39號的類別重新分類為《香港財務報告準則》第9號下的攤銷成本類別的影響。

		HK$ Mn 港幣百萬元
Financial assets	**金融資產**	
From available-for-sale financial assets under HKAS 39	**轉自《香港會計準則》第39號下的可供出售金融資產**	
Fair value at 31st December, 2018	於2018年12月31日的公平價值	6,980
Fair value loss that would have been recognised during 2018 in OCI if the financial asset had not been reclassified	若金融資產未被重新分類則於2018年本會在其他全面收益中確認的公平價值虧損	(119)

Impairment of financial assets

HKFRS 9 replaces the 'incurred loss' model in HKAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under HKFRS 9, credit losses are recognised earlier than under HKAS 39.

金融資產的減值

《香港財務報告準則》第9號以「預期信貸損失」模型替代《香港會計準則》第39號中的「已發生損失」模型。新的減值計算模型亦應用於若干貸款承擔及財務擔保合約，但不應用於股份投資。根據《香港財務報告準則》第9號，信貸損失的確認較根據《香港會計準則》第39號的確認為早。

The Group recognises impairment allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued;
- loan commitments issued; and
- contract assets.

本集團就以下非通過損益以反映公平價值計量的金融工具的預期信貸損失確認減值準備：

- 屬債務工具的金融資產；
- 租賃應收賬款；
- 已發出的財務擔保合約；
- 已發出的貸款承擔；及
- 合約資產。

No impairment loss is recognised on equity investments.

無需為股份投資計算減值。

The Group measures impairment allowances for 12-month or lifetime ECL using a 3-stage approach as follows:

本集團使用3階段法計量12個月或合約期內之預期信貸損失的減值準備如下：

Stage 階段	Description 描述	Impairment Loss Allowance Measurement 減值損失準備計量
1	Performing 履行中	12-month ECL 12個月內之預期信貸損失
2	Performing but with credit risk increased significantly at reporting date since its initial recognition 履行中但於報告日，信貸風險自初始確認以來已顯著增加	Lifetime ECL 合約期內之預期信貸損失
3	Non-performing 不良	Lifetime ECL 合約期內之預期信貸損失

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

12個月內之預期信貸損失指金融工具在報告日後之12個月內，所有潛在違約事件所導致的信貸損失。

Measurement of ECL
ECL are a probability-weighted estimate of credit losses under different economic scenarios. They are measured as:

計量預期信貸損失
預期信貸損失是在不同經濟情景中一個信貸損失的概率在加權後的估算值，以如下方法計量：

Exposure at Default x Probability of Default x Loss Given Default

違約風險承擔x違約概率x違約損失率

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

計量預期信貸損失
於各報告日，本集團評估按攤銷成本列賬的金融資產及按通過其他全面收益以反映公平價值列賬的債務金融資產是否為信貸不良。當發生一宗或多宗對金融資產的估計未來現金流造成不利影響的事件，則該金融資產屬「信貸不良」。

Evidence that a financial asset is credit-impaired includes but not limited to the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

金融資產出現信貸減值的證據包括但不限於以下可觀察數據：

- 借款人或發行人出現重大財政困難；
- 違反合約，如拖欠或逾期事件；
- 本集團根據其他情況下不會考慮的條款重組貸款或墊款；或
- 借款人很可能會破產或進行其他財務重組。

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

因借款人的財政狀況惡化而重訂條款的貸款，除有證據證明無法收取合約現金流的風險已顯著減低且並無其他減值跡象外，通常被視為信貸不良。此外，逾期90日或以上的貸款被視為已減值。

Presentation of allowance for ECL in the statement of financial position
Impairment allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision on the liabilities side; and
- debt instruments measured at FVOCI: no impairment allowance is presented in the statement of financial position because the carrying amount of these assets is their fair value, inclusive of any ECL. However, the impairment allowance is recognised in the fair value reserve and disclosed separately.

在財務狀況表中列示預期信貸損失的準備
預期信貸損失的減值準備在財務狀況表中按以下方式列示：

- 按攤銷成本的金融資產：從資產的賬面總額中扣除；
- 貸款承擔及財務擔保合約：一般作為負債方面的撥備；及
- 按通過其他全面收益以反映公平價值計量的債務工具：在財務狀況表中並不列示減值準備，因該等資產的賬面值為其公平價值，包括任何預期信貸損失。然而，減值準備在公平價值儲備內確認並單獨披露。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED) 會計政策之變動(續)

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

撇銷

若貸款及債務證券無實際可收回的前景，則予撇銷(部分或全部)。當本集團判斷借款人並無資產或收入來源可產生足夠的現金流以償還應撇銷的金額時，一般會如此處理。然而，本集團對已撇銷的金融資產會繼續追收債務的工作，以遵守本集團收回應收金額的程序。

The following table reconciles the closing impairment allowance for financial assets in accordance with HKAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 31st December, 2017 to the opening ECL allowance determined in accordance with HKFRS 9 as at 1st January, 2018.

下表為2017年12月31日根據《香港會計準則》第39號的期末金融資產減值準備及根據《香港會計準則》第37號*「準備、或然負債及或然資產」*的貸款承擔及財務擔保合約的撥備與2018年1月1日根據《香港財務報告準則》第9號的期初預期信貸減值準備的對賬。

		31st December 2017 (HKAS 39/ HKAS 37) 2017年12月31日 (《香港會計準則》第39號／《香港會計準則》第37號) HK$ Mn 港幣百萬元	Reclassification 重新分類 HK$ Mn 港幣百萬元	Remeasurement 重新計量 HK$ Mn 港幣百萬元	1st January 2018 (HKFRS 9) 2018年1月1日 (《香港財務報告準則》第9號) HK$ Mn 港幣百萬元
Loans and receivables and held-to-maturity investments under HKAS 39/financial assets at amortised cost under HKFRS 9	根據《香港會計準則》第39號的貸款及應收賬款以及持至到期投資／根據《香港財務報告準則》第9號的按攤銷成本計量的金融資產	3,454	–	(297)	3,157
Available-for-sale debt securities under HKAS 39 reclassified to amortised cost under HKFRS 9	根據《香港會計準則》第39號的可供出售債務證券重新分類為根據《香港財務報告準則》第9號的按攤銷成本計量	–	–	58	58
		3,454	–	(239)	3,215
Available-for-sale debt securities under HKAS 39/debt securities at FVOCI under HKFRS 9	根據《香港會計準則》第39號的可供出售債務證券／根據《香港財務報告準則》第9號按通過其他全面收益以反映公平價值的債務證券	–	–	212	212
Loans and receivables at amortised cost under HKAS 39 reclassified to FVOCI under HKFRS 9	根據《香港會計準則》第39號按攤銷成本計量的貸款及應收賬款重新分類為根據《香港財務報告準則》第9號的通過其他全面收益以反映公平價值	–	–	18	18
		3,454	–	(9)	3,445
Loan commitments and financial guarantee contracts issued	已發行貸款承擔及財務擔保合約	–	–	164	164
Total	總額	3,454	–	155	3,609

Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below.

- Information relating to comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1st January, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 and therefore is not comparable to the information presented for 2018 under HKFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
  - If a debt security had low credit risk at the date of initial application of HKFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The following table analyses the impact, net of tax, of transition of HKFRS 9 on reserve and retained earnings. The impact relates to liability credit reserve, the fair value reserve and retained earnings. There is no impact on other component of equity.

過渡

因採納《香港財務報告準則》第9號修訂的會計政策變動除以下所列者外已作出追溯性修訂。

- 以往年度的比較數字並未重報。採納《香港財務報告準則》第9號引致的金融資產及金融負債之賬面值差異於2018年1月1日的留存溢利及儲備中確認。因此，就2017年列示的資料並無反映《香港財務報告準則》第9號的規定，故不可與根據《香港財務報告準則》第9號就2018年列示的資料比較。

- 已根據初始應用日的事實及情況作如下評估。
  - 釐定持有的金融資產的商業模式。
  - 指定及撤回之前指定部分金融資產及金融負債為通過損益以反映公平價值分類。
  - 指定部分非交易用途的股份工具為通過其他全面收益以反映公平價值。
  - 於指定為通過損益以反映公平價值的金融負債中，釐定因應金融負債的信貸風險改變確認於其他全面收益會否於損益中造成或擴大會計錯配。
  - 若債務證券於《香港財務報告準則》第9號的初始應用日的信用風險低，則本集團已假定該資產的信用風險自從初始確認以來未有顯著增加。

下表分析過渡至《香港財務報告準則》第9號對儲備及留存溢利的影響(扣除稅項)。該影響涉及負債信貸儲備、公平價值儲備及留存溢利，對其他股東權益部份並無影響。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註（續）

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED) 會計政策之變動（續）

		Impact of adopting HKFRS 9 at 1st January 2018 於2018年1月1日採納《香港財務報告準則》第9號的影響 HK$ Mn 港幣百萬元
Liability credit reserve	**負債信貸儲備**	
Closing balance under HKAS 39 (31st December, 2017)	根據《香港會計準則》第39號的期末結餘（2017年12月31日）	–
Change of credit risk for financial liabilities designated at FVTPL	指定為通過損益以反映公平價值的金融負債的信貸風險變動	(6)
Opening balance under HKFRS 9 (1st January, 2018)	根據《香港財務報告準則》第9號的期初結餘（2018年1月1日）	(6)
Fair value reserve	**公平價值儲備**	
Closing balance under HKAS 39 (31st December, 2017)	根據《香港會計準則》第39號的期末結餘（2017年12月31日）	1,454
Reclassification of investment securities (debt) from AFS to amortised cost	將投資證券（債務）由可供出售重新分類為按攤銷成本	(105)
Reclassification of investment securities (debt, equity and investment fund) from AFS to FVTPL	將投資證券（債務、股份及投資基金）由可供出售重新分類為通過損益以反映公平價值	(270)
Reclassification of trade bills from amortised cost to FVOCI	將貿易票據由按攤銷成本重新分類為通過其他全面收益以反映公平價值	15
Recognition of expected credit losses under HKFRS 9 for debt financial assets at FVOCI	根據《香港財務報告準則》第9號確認按通過其他全面收益以反映公平價值的債務金融資產的預期信貸損失	198
Opening balance under HKFRS 9 (1st January, 2018)	根據《香港財務報告準則》第9號的期初結餘（2018年1月1日）	1,292
Retained earnings	**留存溢利**	
Closing balance under HKAS 39 (31st December, 2017)	根據《香港會計準則》第39號的期末結餘（2017年12月31日）	28,890
Reclassification under HKFRS 9	根據《香港財務報告準則》第9號的重新分類	278
Own credit risk of financial liabilities	金融負債的自身信貸風險	6
Recognition of expected credit losses under HKFRS 9 (including loan commitments and financial guarantee contracts)	根據《香港財務報告準則》第9號確認預期信貸損失（包括貸款承擔及財務擔保）	(243)
Impact from investment in associates	聯營公司投資的影響	(73)
Opening balance under HKFRS 9 (1st January, 2018)	根據《香港財務報告準則》第9號的期初結餘（2018年1月1日）	28,858

(b) HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles. Except for the change in presentation of contract assets and liabilities, the adoption of HKFRS 15 does not have any material impact on the financial position and there is no transitional impact to retained earnings. Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. The contract asset is transferred to receivables when the right to consideration becomes unconditional. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For the relevant disclosure on contract assets and liabilities, please refer to Notes 35 and 38.

(b)《香港財務報告準則》第15號「與客戶之間的合同產生的收入」

《香港財務報告準則》第15號制訂一個確認來自客戶合約收入及若干費用的綜合架構。《香港財務報告準則》第15號取代涵蓋來自銷售貨品及提供服務而產生的收入的《香港會計準則》第18號*「收入」*，以及規定建造合約的會計處理的《香港會計準則》第11號*「建造合約」*。

本集團對新準則進行評估，認為現有與客戶之間的合同產生的收入之會計處理方法與新準則是一致的。除合約資產及負債的列示變動外，採納《香港財務報告準則》第15號對本集團的財務狀況並無任何重大影響，亦不會對留存溢利構成過渡性影響。根據《香港財務報告準則》第15號，僅當本集團擁有代價的無條件權利時方確認應收賬款。若本集團於收到合約內承諾的貨品及服務的代價或無條件享有該代價之前確認相關收入，則該項收取代價的權利被分類為合約資產。當收取代價的權利成為無條件時，合約資產轉至應收賬款。同樣，當客戶支付代價或被合約要求支付的代價且該款項已到期應付時，在本集團確認相關收入前，會確認合約負債(而非應付款項)。有關合約資產及合約負債之披露，請參閱附註35及38。

(c) HK(IFRIC) 22, Foreign Currency Transactions and Advance Consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

(c) 香港《國際財務報告準則詮釋委員會詮釋》第22號「外幣交易及預付代價」

該詮釋就初始確認實體以外幣收取或支付預付代價的交易的相關資產、支出或收入(或其中的部分)時為釐定所使用的匯率而釐定「交易日期」提供指引。

該詮釋澄清，「交易日期」為初始確認支付或收取預付代價所產生的非貨幣資產或負債之日。若於確認相關項目前有多項支出或收入，則各項支出或收入的交易日期應按此方法釐定。採納香港《國際財務報告準則詮釋委員會詮釋》第22號對本集團的財務狀況及財務業績並無任何重大影響。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

4. BANK-LEVEL STATEMENT OF FINANCIAL POSITION 銀行層面之財務狀況表

		2018 HK$ Mn 港幣百萬元	2017 Restated 重報 HK$ Mn 港幣百萬元
ASSETS	資產		
Cash and balances with banks and other financial institutions	現金及在銀行和其他金融機構的結存	**16,072**	18,082
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款	**49,204**	37,639
Trade bills	貿易票據	**6,696**	6,824
Trading assets	交易用途資產	**1,376**	3,018
Derivative assets	衍生工具資產	**1,862**	1,839
Loans and advances to customers	客戶貸款及墊款	**349,943**	321,007
Investment securities	投資證券	**97,365**	95,762
Amounts due from subsidiaries	附屬公司欠款	**12,882**	10,967
Investments in subsidiaries	附屬公司投資	**18,466**	18,218
Investments in associates	聯營公司投資	**4,756**	4,756
Fixed assets	固定資產	**9,589**	8,904
– Investment properties	–投資物業	**5,179**	4,996
– Other properties and equipment	–其他物業及設備	**4,410**	3,908
Goodwill and intangible assets	商譽及無形資產	**1,460**	1,460
Deferred tax assets	遞延稅項資產	**98**	84
Other assets	其他資產	**8,573**	6,673
Total Assets	資產總額	**578,342**	535,233
EQUITY AND LIABILITIES	股東權益及負債		
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘	**19,091**	19,203
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值	**1,335**	3,110
– At amortised cost	–攤銷成本	**17,756**	16,093
Deposits from customers	客戶存款	**403,200**	372,362
Trading liabilities	交易用途負債	**–**	11
Derivative liabilities	衍生工具負債	**1,839**	2,452
Certificates of deposit issued	已發行存款證	**43,786**	33,856
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值	**9,462**	11,655
– At amortised cost	–攤銷成本	**34,324**	22,201
Amounts due to subsidiaries	欠附屬公司款項	**2,642**	2,866
Current taxation	本期稅項	**1,371**	1,071
Debt securities issued	已發行債務證券	**564**	1,007
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值	**407**	851
– At amortised cost	–攤銷成本	**157**	156
Deferred tax liabilities	遞延稅項負債	**297**	396
Other liabilities	其他負債	**6,932**	6,626
Loan capital	借貸資本	**14,936**	15,141
– Designated at fair value through profit or loss	–指定為通過損益以反映公平價值	**2,578**	2,728
– At amortised cost	–攤銷成本	**12,358**	12,413
Total Liabilities	負債總額	**494,658**	454,991
Share capital	股本	**39,925**	37,527
Reserves	儲備	**34,865**	33,821
Total equity attributable to owners of the Bank	歸屬於本行股東權益總額	**74,790**	71,348
Additional equity instruments	額外股本工具	**8,894**	8,894
		83,684	80,242
Total Equity and Liabilities	股東權益及負債總額	**578,342**	535,233

Approved and authorised for issue by the Board on 27th February, 2019.

董事會於2019年2月27日核准及授權發布。

Chairman and Chief Executive Director **David LI Kwok-po**
Meocre LI Kwok-wing

主席兼行政總裁 **李國寶**
董事 **李國榮**

5. INTEREST INCOME 利息收入

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Loans, deposits with banks and financial institutions, and trade bills	貸款、在銀行和其他金融機構的存款、及貿易票據	**21,472**	18,269
Investment securities	投資證券		
– at amortised cost or FVOCI (2017: held-to-maturity or available-for-sale)	–按攤銷成本或通過其他全面收益以反映公平價值(2017:持至到期或可供出售)	**3,609**	3,022
– designated at FVTPL	–指定為通過損益以反映公平價值	**109**	174
– mandatory at FVTPL	–強制按通過損益以反映公平價值	**269**	–
Trading assets	交易用途資產	**139**	164
		25,598	21,629

The above included HK$25,058 million (2017: HK$21,509 million) interest income, before hedging effect, for financial assets that are not recognised at fair value through profit or loss.

在不包括對沖影響前,來自非按公平價值確認損益的金融資產之利息收入為港幣250.58億元(2017年:港幣215.09億元)。

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.

就已對沖利率風險的交易而言,作為帶息金融資產的合格對沖工具或可個別地與帶息金融資產共同管理的利率合約所產生的定期支出及收入首先抵銷,淨額與其相關金融資產產生的利息收入合併。

For the year ended 31st December 2018, interest income accrued on impaired financial assets was HK$233 million (2017: HK$351 million).

截至2018年12月31日止年度,減值金融資產的應計利息為港幣2.33億元(2017年:港幣3.51億元)。

6. INTEREST EXPENSE 利息支出

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Customer deposits, deposits of banks and other financial institutions	客戶存款、銀行及其他金融機構的存款		
– at amortised cost	–攤銷成本	**10,725**	8,341
– designated at FVTPL	–指定為通過損益以反映公平價值	**22**	3
Certificates of deposit and debt securities issued	已發行存款證及債務證券		
– at amortised cost	–攤銷成本	**955**	519
– designated at FVTPL	–指定為通過損益以反映公平價值	**275**	185
Subordinated notes carried at amortised cost	按攤銷成本列賬的後償票據	**634**	745
Other borrowings	其他借款	**28**	4
		12,639	9,797

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

6. INTEREST EXPENSE (CONTINUED) 利息支出(續)

The above included HK$12,336 million (2017: HK$9,700 million) interest expense, before hedging effect, for financial liabilities that are not recognised at fair value through profit or loss.

在不包括對沖影響前，來自非按公平價值確認損益的金融負債之利息支出為港幣123.36億元(2017年：港幣97.00億元)。

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.

就已對沖利率風險的交易而言，作為帶息金融負債的合格對沖工具或可個別地與帶息金融負債共同管理的利率合約所產生的定期支出及收入首先抵銷，淨額與其相關金融負債產生的利息支出合併。

7. FEE AND COMMISSION INCOME 服務費及佣金收入

Fee and commission income is disaggregated by services:

服務費及佣金收入分類如下：

		2018	2017
		HK$ Mn 港幣百萬元	Restated[Note] 重報[註] HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Credit cards	信用卡	**1,125**	1,012
Loans, overdrafts and guarantees	貸款、透支及擔保	**746**	706
Other retail banking services	其他零售銀行服務	**343**	364
Trade finance	貿易融資	**342**	316
Trust and other fiduciary activities	信託及其他代理業務	**310**	277
Securities and brokerage	證券及經紀	**279**	267
Investment products	投資產品	**122**	89
Financial consultancy	財務諮詢	**66**	37
Sale of third party insurance policies	銷售第三者的保單	**44**	89
Others	其他	**436**	400
Total fee and commission income	服務費及佣金收入總額	**3,813**	3,557
of which:	其中：		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not measured at FVTPL	由非持作交易用途或指定為通過損益以反映公平價值列賬之金融資產或負債所產生之淨服務費收入(不包括用作計算有效利率之金額)	**2,678**	2,523
Fee income	服務費收入	**3,813**	3,557
Fee expenses	服務費支出	**(1,135)**	(1,034)

Note: To better reflect the income nature, certain fee and commission income for 2017 has been reclassified among the categories of other retail banking services, trust and other fiduciary activities, securities and brokerage and other services.

註：為更準確反映收入性質，2017年度的若干其他零售銀行服務、信託及其他代理業務、證券及經紀和其他服務類別的服務費及佣金收入已經重新分類。

8. NET TRADING PROFITS 交易溢利淨額

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Profit/(Loss) on dealing in foreign currencies and funding swaps	外幣買賣及外匯掉期溢利／(虧損)	**624**	(1,180)
(Loss)/Profit on trading securities	交易用途證券(虧損)／溢利	**(44)**	755
Net gain on derivatives	衍生工具淨盈利	**365**	906
Loss on other dealing activities	其他交易業務虧損	**(1)**	–
Dividend income from trading equity securities	交易用途股份證券的股息收入	**50**	45
		994	526

9. NET RESULT FROM OTHER FINANCIAL INSTRUMENTS AT FVTPL 通過損益以反映公平價值其他金融工具的淨表現

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Net (loss)/gain from financial instruments designated at FVTPL	指定為通過損益以反映公平價值金融工具的淨(虧損)／盈利	**(45)**	35
Net loss from financial instruments mandatorily measured at FVTPL (other than those included in net trading profits)	強制按通過損益以反映公平價值計量金融工具的淨虧損(除已包括在交易溢利淨額內)	**(241)**	–
		(286)	35

10. NET HEDGING PROFIT/(LOSS) 對沖溢利／(虧損)淨額

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Fair value hedges	公平價值對沖		
– Net gain on hedged items attributable to the hedged risk	–可歸屬於被對沖項目之對沖風險產生的淨盈利	**224**	57
– Net loss on hedging instruments	–用作對沖工具的淨虧損	**(181)**	(59)
		43	(2)

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the years 2018 and 2017 (see Note 47(b)(iii)(b)).

於2018年及2017年，因現金流對沖所產生並已在本集團收益表內確認之無效部分是不重大的(詳見附註47(b)(iii)(b))。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

11. NET INSURANCE REVENUE 保險業務淨收入

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
(a) Net insurance revenue	(a) 保險業務淨收入		
Net interest income	淨利息收入	**530**	453
Net trading profits	交易溢利淨額	**10**	45
Net profit from financial instruments designated at FVTPL	指定為通過損益以反映公平價值金融工具的淨溢利	**–**	52
Net loss from financial instruments mandatory at FVTPL	來自強制按通過損益以反映公平價值金融工具的淨虧損	**(372)**	–
Net insurance premium (b)	淨保費 (b)	**4,890**	4,332
Other operating income	其他經營收入	**–**	6
		5,058	4,888
Net insurance claims and expenses (c)	保險索償及支出淨額 (c)	**(4,781)**	(4,733)
		277	155
Operating expenses	經營支出	**(2)**	(4)
Impairment loss on financial instruments	金融資產減值損失	**(7)**	(2)
Net profit on sale of available-for-sale financial assets	出售可供出售金融資產淨溢利	**–**	538
Net profit on sale of debt investment securities at FVOCI	出售通過其他全面收益以反映公平價值債務投資證券的淨溢利	**27**	–
		295	687
(b) Net insurance premium	(b) 淨保費		
Gross insurance premium income *(Note)*	保費收入總額*(註)*	**4,954**	4,395
Reinsurers' share of gross insurance premium income	保費收入總額之分保份額	**(64)**	(63)
		4,890	4,332
(c) Net insurance claims and expenses	(c) 保險索償及支出淨額		
Claims, benefits and surrenders paid	已付索償、利益及退保	**2,869**	3,137
Movement in provisions	準備金變動	**1,796**	1,564
		4,665	4,701
Reinsurers' share of claim, benefits and surrenders paid	已付索償、利益及退保之分保份額	**(376)**	(938)
Reinsurers' share of movement in provisions	準備金變動之分保份額	**327**	809
		(49)	(129)
		4,616	4,572
Net insurance commission expenses	保險佣金支出淨額	**165**	161
		4,781	4,733

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.

註：保費收入總額指由長期業務及一般保險業務產生的已收取和應收取之保費總額，並已扣除折扣及回報。

12. OTHER OPERATING INCOME 其他經營收入

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Dividend income from available-for-sale financial assets	可供出售金融資產股息收入	–	34
Dividend income from equity securities measured at FVOCI	按通過其他全面收益以反映公平價值計量的股份證券股息收入	**23**	–
Rental from safe deposit boxes	保險箱租金收入	**110**	88
Rental income on properties *(Note 34(ii))*	物業租金收入*(附註34(ii))*	**178**	165
Others	其他	**103**	95
		414	382

13. OPERATING EXPENSES 經營支出

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Contributions to defined contribution plan*	定額供款公積金供款*		
– Hong Kong	–香港	**147**	140
– Outside Hong Kong	–香港以外	**239**	221
Equity settled share-based payment expenses *(Note 43(f))*	以股份為基礎作支付的費用*(附註43(f))*	**35**	36
Salaries and other staff costs	薪金及其他員工成本	**4,654**	4,371
Total staff costs	員工成本總額	**5,075**	4,768
Premises and equipment expenses excluding depreciation	不包括折舊的物業及設備支出		
– Rental of premises	–物業租金	**517**	561
– Maintenance, repairs and others	–保養、維修及其他	**588**	568
Total premises and equipment expenses excluding depreciation	不包括折舊的物業及設備支出總額	**1,105**	1,129
Depreciation on fixed assets *(Note 34)*	固定資產折舊*(附註34)*	**473**	466
Amortisation of intangible assets *(Note 33(b))*	無形資產攤銷*(附註33(b))*	**14**	32

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

13. OPERATING EXPENSES (CONTINUED) 經營支出(續)

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Other operating expenses	其他經營支出		
– Legal and professional fees	–法律及專業服務費	**410**	394
– Communications, stationery and printing	–通訊、文具及印刷	**268**	263
– Advertising expenses	–廣告費	**251**	254
– Internet platform charges	–互聯網平台費用	**183**	–
– Business promotions and business travel	–業務推廣及商務旅遊	**127**	138
– Card related expenses	–有關信用卡支出	**127**	41
– Stamp duty, withholding taxes and value added taxes	–印花稅、預提稅及增值稅	**118**	182
– Insurance expenses	–保險費	**82**	78
– Audit fee	–核數師酬金	**18**	17
– Membership fees	–會員費	**17**	17
– Donations	–捐款	**10**	4
– Bank charges	–銀行收費	**10**	10
– Bank licence	–銀行牌照費	**4**	4
– Others	–其他	**271**	270
Total other operating expenses	其他經營支出總額	**1,896**	1,672
Total operating expenses**	經營支出總額**	**8,563**	8,067

* *Forfeited contributions totalling HK$23 million (2017: HK$25 million) were utilised to reduce the Group's contribution during the year. There were no forfeited contributions available for reducing future contributions at the year end (2017: Nil).*

** *Included in operating expenses are direct operating expenses of HK$8 million (2017: HK$9 million) in respect of investment properties which generated rental income during the year.*

* *年度內沒收之供款共港幣2,300萬元(2017年:港幣2,500萬元)已被用作減少本集團的供款。於年末並無任何被沒收而可用作減低將來之供款(2017年:無)。*

** *年度內經營支出中包括由有租金收益的投資物業產生的直接經營支出,金額為港幣800萬元(2017年:港幣900萬元)。*

14. IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS 金融工具減值損失

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Loans and advances to customers	客戶貸款及墊款	**1,159**	1,738
Others	其他	**29**	6
		1,188	1,744

15. NET PROFIT ON SALE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS 出售可供出售金融資產之淨溢利

		2017[Note註] HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務	
Net revaluation gain transferred from reserves *(Note 43(g))*	由儲備轉撥的重估盈利淨額*(附註43(g))*	1,320
Loss arising in current year	年度內產生的虧損	(263)
		1,057

Note: 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.

註：於2018年1月1日過渡至《香港財務報告準則》第9號時，本集團部份可供出售金融資產需將重新分類為「通過損益以反映公平價值」，其任何未實現損益需由重估儲備撥入至2018年1月1日的留存溢利期初結餘，且於出售時不能重新分類至收益表內。因此，本集團決定於可行情況下於2017年底前出售相關可供出售金融資產。

16. NET PROFIT ON SALE OF FINANCIAL ASSETS AT FVOCI 出售通過全面收益以反映公平價值金融資產之淨溢利

		2018 **HK$ Mn 港幣百萬元**
CONTINUING OPERATIONS	持續經營業務	
Net profit on sale of debt securities	出售債務證券之淨溢利	
– Net revaluation gain transferred from reserves *(Note 43(g))*	–由儲備轉撥的重估盈利淨額*(附註43(g))*	**52**
– Profit arising in current year	–年度內產生的溢利	**10**
		62

17. NET LOSS ON DISPOSAL OF FIXED ASSETS 出售固定資產之淨虧損

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Net loss on disposal of bank premises, furniture, fixtures and equipment	出售行址、傢俬、裝修及設備之淨虧損	**(9)**	(22)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

18. INCOME TAX 所得稅

(a) Taxation in the consolidated income statement represents:

(a) 綜合收益表內的稅項為:

		2018 HK$ Mn 港幣百萬元	2017 Restated 重報 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務		
Current tax – Hong Kong	本期稅項–香港		
Tax for the year	本年度稅項	**829**	695
Under-provision in respect of prior years	往年度撥備不足	**48**	36
		877	731
Current tax – outside Hong Kong	本期稅項–香港以外		
Tax for the year	本年度稅項	**618**	308
Over-provision in respect of prior years	往年度撥備過剩	**(4)**	(67)
		614	241
Deferred tax	遞延稅項		
Origination and reversal of temporary differences *(Note 37(b))*	暫時性差異的產生及轉回 *(附註37(b))*	**15**	223
		1,506	1,195

The provision for Hong Kong profits tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.

香港利得稅稅款是以年度預計應課稅溢利按稅率16.5%(2017年:16.5%)計算。

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

海外分行及附屬公司的稅款亦按其經營所在國家現行稅率計算。

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

(b) 稅項支出與會計溢利按適用稅率計算稅項的對賬：

		2018 HK$ Mn 港幣百萬元	2017 Restated 重報 HK$ Mn 港幣百萬元
Profit before tax	除稅前溢利	**8,060**	7,565
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	根據相關國家適用之利得稅稅率按除稅前溢利計算的名義稅款	**1,407**	1,362
Tax effect of non-deductible expenses	不可扣減支出的稅項影響	**407**	571
Tax effect of non-taxable revenue	毋須課稅收入的稅項影響	**(330)**	(633)
Tax effect of tax losses not recognised	未確認的稅損的稅項影響	**1**	–
Recognition of deferred tax assets on prior year tax losses	往年度稅損確認為遞延稅項資產	**(4)**	(50)
Under-provision/(Write back of over-provision) in respect of prior years	往年度撥備不足／（過剩的回撥）	**44**	(31)
Others	其他	**(19)**	(24)
Actual tax expense charged to income statement	於收益表支銷的實際稅項	**1,506**	1,195

19. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT 可歸屬於本集團股東溢利

The consolidated profit attributable to owners of the parent includes a profit of HK$5,299 million (2017: HK$8,562 million) which has been dealt with in the financial statements of the Bank.

可歸屬於本集團股東綜合溢利包括已計入本行財務報表內的溢利港幣52.99億元（2017年：港幣85.62億元）。

Reconciliation of the above amount to the Bank's profit for the year

本行年度內溢利與上述金額之對賬

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Amount of consolidated profit attributable to equity holders dealt with in the Bank's financial statements	已計入本行財務報表之可歸屬於本集團股東綜合溢利	**5,299**	8,562
Final dividends from subsidiaries and associates attributable to the profits of the previous financial year and general reserves, approved and paid during the year	來自往年度附屬公司及聯營公司溢利及一般儲備之末期股息，並在年度內核准及派發	**338**	819
Bank's profit for the year	本行年度內溢利	**5,637**	9,381

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

20. DISTRIBUTION/DIVIDENDS 分派/股息

(a) Dividends attributable to the year

(a) 應屬本年度股息

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Interim dividend declared and paid of HK$0.51 per share on 2,808 million shares (2017: HK$0.68 per share on 2,726 million shares) *(Note 43(k))*	已宣布派發及支付中期股息予28.08億股每股港幣0.51元(2017年:27.26億股每股港幣0.68元)*(附註43(k))*	**1,432**	1,854
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$0.60 per share (2017: HK$0.28 per share) *(Note 43(k))*	已支付在報告期結束日後及本行股票過戶登記截止日前根據認股計劃發行股份屬上年度每股港幣0.60元的第二次中期股息(2017年:每股港幣0.28元)*(附註43(k))*	**1**	–
Second interim dividend of HK$0.32 per share on 2,846 million shares (2017: HK$0.60 per share on 2,765 million shares)	第二次中期股息予28.46億股每股港幣0.32元(2017年:27.65億股每股港幣0.60元)	**910**	1,659
Special dividend of HK$0.35 per share on 2,846 million shares	特別股息予28.46億股每股港幣0.35元	**996**	–
		3,339	3,513

The total dividend attributable to the year is HK$1.18 per share (2017: HK$1.28 per share). The second interim dividend and the special dividend have not been recognised as a liability at the end of the reporting period.

應屬本年度股息為每股港幣1.18元(2017年:每股港幣1.28元)。於報告期結束日該第二次中期股息及特別股息並未確認為負債。

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

(b) 於年度核准及支付屬上年度股息

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Second interim dividend in respect of the previous financial year, approved and paid during the year, of HK$0.60 per share on 2,765 million shares (2017: HK$0.28 per share on 2,703 million shares) *(Note 43(k))*	年度內核准及支付予27.65億股每股港幣0.60元(2017年:27.03億股每股港幣0.28元)的上年度第二次中期股息*(附註43(k))*	**1,659**	757

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

(c) 派發予混合/額外一級資本工具持有人

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Interest paid or payable on the Hybrid Tier 1 capital instruments *(Note 43(k))*	已付或應付予混合一級資本工具持有人的利息*(附註43(k))*	**212**	211
Amount paid on the Additional Tier 1 capital instruments *(Note 43(k))*	已付予額外一級資本工具的款項*(附註43(k))*	**501**	389
		713	600

21. EARNINGS PER SHARE 每股盈利

(a) Basic earnings per share

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$5,796 million and HK$5,796 million (2017: HK$8,747 million and HK$5,698 million) respectively after the distribution of HK$713 million (2017: HK$600 million) to Hybrid/Additional Tier 1 issue holders, and on the weighted average of 2,805 million (2017: 2,728 million) ordinary shares outstanding during the year, calculated as follows:

(a) 每股基本盈利

每股基本盈利乃按照已扣減派發予混合／額外一級資本工具持有人港幣7.13億元(2017年：港幣6.00億元)後之年度內綜合溢利及來自持續經營業務之可歸屬於本集團股東溢利，分別為港幣57.96億元及港幣57.96億元(2017年：港幣87.47億元及港幣56.98億元)及年度內已發行普通股份的加權平均數28.05億股(2017年：27.28億股)計算。

Weighted average number of ordinary shares

普通股份的加權平均數

		2018 **Number of shares** **股份數目** **Mn 百萬**	2017 Number of shares 股份數目 Mn 百萬
Issued ordinary shares at 1st January	於1月1日的已發行普通股	**2,765**	2,703
Effect of share options exercised and shares issued in lieu of dividends	已行使認股權及以股代息發行新股的影響	**40**	25
Weighted average number of ordinary shares at 31st December	於12月31日普通股份的加權平均數	**2,805**	2,728

(b) Diluted earnings per share

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$5,796 million and HK$5,796 million (2017: HK$8,747 million and HK$5,698 million) respectively after the distribution of HK$713 million (2017: HK$600 million) to Hybrid/Additional Tier 1 issue holders, and on 2,805 million (2017: 2,730 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

(b) 每股攤薄盈利

每股攤薄盈利乃按照已扣減派發予混合／額外一級資本工具持有人港幣7.13億元(2017年：港幣6.00億元)後之年度內綜合溢利及來自持續經營業務之可歸屬於本集團股東溢利，分別為港幣57.96億元及港幣57.96億元(2017年：港幣87.47億元及港幣56.98億元)及就年度內所有具備潛在攤薄影響的普通股作出調整得出的普通股份的加權平均數28.05億股(2017年：27.30億股)計算。

Weighted average number of ordinary shares (diluted)

普通股份的加權平均數(攤薄)

		2018 **Number of shares** **股份數目** **Mn 百萬**	2017 Number of shares 股份數目 Mn 百萬
Weighted average number of ordinary shares at 31st December	於12月31日普通股份的加權平均數	**2,805**	2,728
Effect of deemed issue of ordinary shares under the Bank's share option schemes for nil consideration	假設按認股權計劃發行但不計價款的普通股份之影響	**–**	2
Weighted average number of ordinary shares (diluted) at 31st December	於12月31日普通股份的加權平均數(攤薄)	**2,805**	2,730

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

22. DIRECTORS' REMUNERATION 董事酬金

Directors' remuneration disclosed pursuant to section 383(1) of the Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

根據《公司條例》第383(1)條及《公司(披露董事利益資料)規則》第2部之規定披露董事酬金如下:

		Directors' fees 袍金 HK$ Mn 港幣百萬元	Salaries, allowances and benefits in kind 薪金、津貼及實物收益 HK$ Mn 港幣百萬元	Discretionary bonuses 酌情花紅 HK$ Mn 港幣百萬元	Share options *(Note)* 認股權 *(附註)* HK$ Mn 港幣百萬元	Retirement scheme contributions 退休計劃供款 HK$ Mn 港幣百萬元	2018 Total 總額 HK$ Mn 港幣百萬元
Chairman and Chief Executive	**主席兼行政總裁**						
Dr. the Hon. Sir David LI Kwok-po	李國寶爵士	0.6	11.3	22.7	10.7	1.0	46.3
Executive Directors and Deputy Chief Executives	**執行董事兼副行政總裁**						
Mr. Adrian David LI Man-kiu	李民橋先生	0.4	4.1	4.9	3.5	0.4	13.3
Mr. Brian David LI Man-bun	李民斌先生	0.4	4.1	4.9	3.5	0.4	13.3
Non-executive Directors	**非執行董事**						
Prof. Arthur LI Kwok-cheung	李國章教授	0.5	–	–	–	–	0.5
Mr. Aubrey LI Kwok-sing	李國星先生	0.5	–	–	–	–	0.5
Mr. Winston LO Yau-lai	羅友禮先生	0.4	–	–	–	–	0.4
Mr. Stephen Charles LI Kwok-sze	李國仕先生	0.4	–	–	–	–	0.4
Dr. Isidro FAINÉ CASAS	范禮賢博士	0.5	–	–	–	–	0.5
Dr. Peter LEE Ka-kit	李家傑博士	0.5	–	–	–	–	0.5
Dr. Daryl NG Win-kong	黃永光博士	0.5	–	–	–	–	0.5
Mr. Masayuki OKU	奧正之先生	0.5	–	–	–	–	0.5
Independent Non-executive Directors	**獨立非執行董事**						
Dr. Allan WONG Chi-yun	黃子欣博士	0.9	–	–	–	–	0.9
Dr. the Hon. Rita FAN HSU Lai-tai	范徐麗泰博士	0.5	–	–	–	–	0.5
Mr. Meocre LI Kwok-wing	李國榮先生	1.1	–	–	–	–	1.1
Dr. the Hon. Henry TANG Ying-yen	唐英年博士	0.9	–	–	–	–	0.9
The Hon. CHAN Kin-por	陳健波議員	0.8	–	–	–	–	0.8
Dr. Delman LEE	李國本博士	0.7	–	–	–	–	0.7
		10.1	19.5	32.5	17.7	1.8	81.6

		Directors' fees 袍金 HK$ Mn 港幣百萬元	Salaries, allowances and benefits in kind 薪金、津貼及實物收益 HK$ Mn 港幣百萬元	Discretionary bonuses 酌情花紅 HK$ Mn 港幣百萬元	Share options *(Note)* 認股權 *(附註)* HK$ Mn 港幣百萬元	Retirement scheme contributions 退休計劃供款 HK$ Mn 港幣百萬元	2017 Total 總額 HK$ Mn 港幣百萬元
Chairman and Chief Executive	**主席兼行政總裁**						
Dr. the Hon. Sir David LI Kwok-po	李國寶爵士	0.6	10.9	23.1	11.3	1.0	46.9
Executive Directors and Deputy Chief Executives	**執行董事兼副行政總裁**						
Mr. Adrian David LI Man-kiu	李民橋先生	0.3	3.9	5.0	3.7	0.4	13.3
Mr. Brian David LI Man-bun	李民斌先生	0.3	3.9	5.0	3.7	0.4	13.3
Non-executive Directors	**非執行董事**						
Prof. Arthur LI Kwok-cheung	李國章教授	0.5	–	–	–	–	0.5
Mr. Aubrey LI Kwok-sing	李國星先生	0.5	–	–	–	–	0.5
Mr. Stephen Charles LI Kwok-sze	李國仕先生	0.3	–	–	–	–	0.3
Dr. Isidro FAINÉ CASAS	范禮賢博士	0.4	–	–	–	–	0.4
Dr. Peter LEE Ka-kit	李家傑博士	0.4	–	–	–	–	0.4
Mr. Masayuki OKU	奧正之先生	0.4	–	–	–	–	0.4
Independent Non-executive Directors	**獨立非執行董事**						
Dr. Allan WONG Chi-yun	黃子欣博士	0.9	–	–	–	–	0.9
Mr. Winston LO Yau-lai	羅友禮先生	0.8	–	–	–	–	0.8
Dr. Daryl NG Win-kong	黃永光博士	0.7	–	–	–	–	0.7
Dr. the Hon. Rita FAN HSU Lai-tai	范徐麗泰博士	0.4	–	–	–	–	0.4
Mr. Meocre LI Kwok-wing	李國榮先生	0.9	–	–	–	–	0.9
Dr. the Hon. Henry TANG Ying-yen	唐英年博士	0.8	–	–	–	–	0.8
The Hon. CHAN Kin-por	陳健波議員	0.5	–	–	–	–	0.5
Dr. Delman LEE	李國本博士	0.4	–	–	–	–	0.4
		9.1	18.7	33.1	18.7	1.8	81.4

Note: The share options were granted to Executive Directors under the Bank's Staff Share Option Schemes. The values of share options represented the fair value of the share options on the Grant Date without actual cash payment. The details of these benefits in kind are disclosed under the paragraph "Information on Share Options" in the Report of the Directors and Note 40.

附註：執行董事是根據本行的僱員認股計劃獲授予認股權。認股權金額是指該等認股權於授予日的公平價值，而並非是屬於現金支付。有關此等實物收益的詳情列載於董事會報告書的「認股權資料」及附註40內。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

23. FIVE TOP-PAID EMPLOYEES 5名薪酬最高的僱員

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Salaries and other emoluments	薪金及其他酬金	**30**	29
Performance-related bonuses	表現獎勵花紅	**42**	43
Share options	認股權	**25**	26
Pension contributions	退休金供款	**2**	2
		99	100

The remuneration of the five top-paid employees is within the following bands:

5名薪酬最高的僱員的金額範圍如下：

	2018 Number of Employees 僱員人數	2017 Number of Employees 僱員人數
HK$ 港幣元		
9,000,001 – 9,500,000	**–**	–
13,000,001 – 13,500,000	**4**	4
46,000,001 – 46,500,000	**1**	–
46,500,001 – 47,000,000	**–**	1

Included in the emoluments of the five top-paid employees were the emoluments of 3 (2017: 3) Directors and 2 (2017: 2) senior management members. Their director's emoluments have been included in Note 22 above.

5名薪酬最高的僱員中包括3位(2017年：3位)董事及2位(2017年：2位)高層管理人員。他們的董事酬金已包括於上述附註22內。

24. SEGMENT REPORTING 分部報告

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 eight reportable segments.

本集團按分處管理其業務，而分處則由業務及地區混合組成。分部資料的列報與內部匯報予本集團的高層管理人員作為資源分配及表現評核的方式是一致的。本集團列報以下八個可匯報分部。

(a) Business segments

The Group has identified the following eight reportable segments.

(a) 營業分部

本集團已辨識以下八個可匯報分部。

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

個人銀行包括在香港之分行營運、個人電子網絡銀行、消費貸款、按揭貸款及信用卡業務。

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

企業銀行包括在香港之企業借貸及銀團貸款、資產融資、商業貸款及證券業務貸款。

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

財資市場包括在香港之財資運作及證券買賣。

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

財富管理包括提供予在香港之私人銀行業務及相關資產。

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

金融機構包括在香港之全球同業間的銀行代理行及金融貿易業務。

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

其他香港銀行業務主要包括在香港之保險業務、信託業務、證券及期貨經紀、放債人業務及企業財務諮詢。

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

中國內地業務主要包括在香港支援中國內地業務的後勤單位、所有在中國內地經營的附屬公司及聯營公司，但不包括在中國內地經營資料處理及其他後勤支援之附屬公司。

Overseas operations include the back office unit for overseas banking operations in Hong Kong, Macau Branch, Taiwan Branch and all branches, subsidiaries and associates operated in overseas.

國際業務包括在香港支援國際銀行業務的後勤單位、所有在海外經營的分行包括澳門及台灣、附屬公司及聯營公司。

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.

其他業務包括與地產有關的業務、香港業務之後勤單位、投資物業、行址及在香港之其他附屬公司的業績(除已包括在其他香港銀行業務內的附屬公司)。

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:

在評估分部表現及分配分部間的資源時，集團的高層管理人員根據以下基準監控可歸屬於每一可匯報分部之業績、資產及負債：

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.

分部資產包括所有有形資產、無形資產及金融資產(聯營公司之權益除外)、遞延稅項資產及其他企業資產。分部負債包括存款、金融負債及可歸屬於個別分部的其他負債。

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. Other than reporting inter-segment income, assistance provided by one segment to another, including sharing of assets, is not measured.

收入與支出按有關分部所產生的利息及服務費用和佣金收入、及由有關分部引致的支出或可歸屬於有關分部產生之折舊或攤銷來分配予可匯報分部。除滙報分部間的收入外，由一分部提供協助予另一分部，包括分享資產，並未計算在內。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註（續）

24. SEGMENT REPORTING (CONTINUED) 分部報告（續）

(a) Business segments (continued) (a) 營業分部（續）

		2018											
		Hong Kong banking operations 香港銀行業務											
		Personal banking 個人銀行 HK$ Mn 港幣百萬元	Corporate banking 企業銀行 HK$ Mn 港幣百萬元	Treasury markets 財資市場 HK$ Mn 港幣百萬元	Wealth management 財富管理 HK$ Mn 港幣百萬元	Financial institutions 金融機構 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Mainland China operations 中國內地業務 HK$ Mn 港幣百萬元	Overseas operations 國際業務 HK$ Mn 港幣百萬元	Total reportable segments 可匯報分部總額 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Inter-segment elimination 分部間之交易抵銷 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務												
Net interest income/(expense)	淨利息收入／(支出)	4,053	1,916	(121)	425	18	167	3,800	1,593	11,851	1,103	5	12,959
Non-interest income/(expense)	非利息收入／(支出)	841	451	(41)	349	23	491	1,138	281	3,533	925	(345)	4,113
Operating income	經營收入	4,894	2,367	(162)	774	41	658	4,938	1,874	15,384	2,028	(340)	17,072
Operating expenses	經營支出	(1,597)	(202)	(149)	(209)	(12)	(416)	(3,386)	(683)	(6,654)	(2,249)	340	(8,563)
Operating profit/(loss) before impairment losses	未扣除減值損失之經營溢利／(虧損)	3,297	2,165	(311)	565	29	242	1,552	1,191	8,730	(221)	–	8,509
Impairment losses on financial instruments	金融工具的減值損失	(149)	(129)	(43)	7	(1)	(6)	(1,033)	166	(1,188)	–	–	(1,188)
Impairment losses on intangible assets	無形資產減值損失	–	–	–	–	–	–	(5)	–	(5)	–	–	(5)
Impairment losses on associate	聯營公司減值損失	–	–	–	–	–	–	–	(397)	(397)	–	–	(397)
Operating profit/(loss) after impairment losses	已扣除減值損失後之經營溢利／(虧損)	3,148	2,036	(354)	572	28	236	514	960	7,140	(221)	–	6,919
Profit/(Loss) on sale of fixed assets, financial assets measured at FVOCI	出售固定資產、按通過其他全面收益以反映公平價值計量金融資產之溢利／(虧損)	(8)	–	51	–	–	5	4	1	53	–	–	53
Profit/(Loss) on sale of disposal groups and assets held for sale	出售出售組別及持有作出售資產之溢利／(虧損)	–	–	–	–	–	–	(2)	11	9	47	–	56
Profit/(Loss) on disposal of subsidiaries/associates	出售附屬／聯營公司之淨溢利	–	–	–	–	–	–	2	(1)	1	–	–	1
Valuation gains on investment properties	重估投資物業盈利	–	–	–	–	–	–	–	–	–	465	–	465
Share of profits less losses of associates	應佔聯營公司溢利減虧損	–	–	–	–	–	(1)	118	449	566	–	–	566
Profit/(Loss) before taxation	除稅前溢利／(虧損)	3,140	2,036	(303)	572	28	240	636	1,420	7,769	291	–	8,060
Depreciation for the year	年度內折舊	(65)	(1)	(5)	(2)	–	(11)	(202)	(30)	(316)	(157)	–	(473)
Segment assets	分部資產	103,770	149,307	177,221	24,170	7,041	21,770	288,354	111,576	883,209	16,306	(69,881)	829,634
Investments in associates	聯營公司投資	–	–	–	–	–	52	3,637	5,440	9,129	–	–	9,129
Other assets – Assets held for sale	其他資產 –持有作出售資產	–	–	–	–	–	268	49	363	680	8	–	688
Total assets	資產總額	103,770	149,307	177,221	24,170	7,041	22,090	292,040	117,379	893,018	16,314	(69,881)	839,451
Segment liabilities	分部負債	336,654	795	59,743	23,378	20	17,925	240,872	101,181	780,568	2,477	(47,176)	735,869
Other liabilities – Liabilities held for sale	其他負債 –持有作出售負債	–	–	–	–	–	7	–	–	7	–	–	7
Total liabilities	負債總額	336,654	795	59,743	23,378	20	17,932	240,872	101,181	780,575	2,477	(47,176)	735,876
Capital expenditure incurred during the year	年度內資本開支	157	–	8	–	–	15	130	19	329	335	–	664

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註（續）

		2017											
		Hong Kong banking operations 香港銀行業務											
		Personal banking 個人銀行 HK$ Mn 港幣百萬元	Corporate banking 企業銀行 HK$ Mn 港幣百萬元	Treasury markets 財資市場 HK$ Mn 港幣百萬元	Wealth management 財富管理 HK$ Mn 港幣百萬元	Financial institutions 金融機構 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Mainland China operations 中國內地業務 HK$ Mn 港幣百萬元	Overseas operations 國際業務 HK$ Mn 港幣百萬元	Total reportable segments 可匯報分部總額 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Inter-segment elimination 分部間之交易抵銷 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
CONTINUING OPERATIONS	持續經營業務												
Net interest income	淨利息收入	3,352	1,934	19	380	21	237	3,834	1,515	11,292	540	–	11,832
Non-interest income	非利息收入	816	376	20	452	19	914	742	246	3,585	884	(348)	4,121
Operating income	經營收入	4,168	2,310	39	832	40	1,151	4,576	1,761	14,877	1,424	(348)	15,953
Operating expenses	經營支出	(1,603)	(190)	(219)	(201)	(11)	(447)	(3,034)	(605)	(6,310)	(2,105)	348	(8,067)
Operating profit/(loss) before impairment losses	未扣除減值損失之經營溢利／(虧損)	2,565	2,120	(180)	631	29	704	1,542	1,156	8,567	(681)	–	7,886
Impairment losses on financial instruments	金融工具的減值損失	(158)	(405)	(2)	(1)	–	(9)	(1,151)	(14)	(1,740)	(4)	–	(1,744)
Impairment losses on assets held for sale	持有作出售資產減值損失	–	–	–	–	–	–	(63)	–	(63)	–	–	(63)
Impairment losses on intangible assets	無形資產減值損失	–	–	–	–	–	–	(650)	–	(650)	–	–	(650)
Operating profit/(loss) after impairment losses	已扣除減值損失後之經營溢利／(虧損)	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	出售固定資產、持至到期投資及可供出售金融資產之溢利／(虧損)	(14)	14	1,027	–	–	16	(5)	–	1,038	3	–	1,041
Profit/(Loss) on sale of disposal groups and assets held for sale	出售出售組別及持有作出售資產之溢利／(虧損)	–	–	–	–	–	4	(13)	–	(9)	192	–	183
Profit on disposal of subsidiaries/associates	出售附屬／聯營公司之溢利	–	–	–	–	–	–	–	–	–	2	–	2
Valuation gains on investment properties	重估投資物業盈利	–	–	–	–	–	–	–	1	1	521	–	522
Share of profits less losses of associates	應佔聯營公司溢利減虧損	–	–	–	–	–	4	92	292	388	–	–	388
Profit/(Loss) before taxation	除稅前溢利／(虧損)	2,393	1,729	845	630	29	719	(248)	1,435	7,532	33	–	7,565
Depreciation for the year	年度內折舊	(62)	(1)	(5)	(3)	–	(13)	(202)	(34)	(320)	(146)	–	(466)
Segment assets	分部資產	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	聯營公司投資	–	–	–	–	–	54	3,414	5,961	9,429	–	–	9,429
Other assets – Assets held for sale	其他資產 –持有作出售資產	–	–	–	–	–	351	76	39	466	–	–	466
Total assets	資產總額	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	分部負債	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	其他負債 –持有作出售負債	–	–	–	–	–	9	–	–	9	–	–	9
Total liabilities	負債總額	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	年度內資本開支	146	–	–	–	–	13	95	24	278	131	–	409

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註（續）

24. SEGMENT REPORTING (CONTINUED) 分部報告（續）

(b) Geographical segments

The information concerning geographical analysis has been classified by the location of the principal operations of the entities and branches of the Bank responsible for reporting the results or booking the assets or, by the location where the subsidiaries or business units with special risks associated with operations originate.

(b) 地區分部

按地區分部之資料是根據負責報告業績或將資產入賬之實體或本行之分行的主要業務所在地點，或按與附屬公司或業務單位之營運有特殊風險關連的所在地點予以劃分。

		2018					
		Hong Kong 香港 HK$ Mn 港幣百萬元	Mainland China 中國內地 HK$ Mn 港幣百萬元	Other Asian Countries and Regions 其他亞洲國家及地區 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Inter-segment elimination 分部間之交易抵銷 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Operating income (from continuing operations)	經營收入（來自持續經營業務）	10,145	5,296	783	1,188	(340)	17,072
Profit before taxation (from continuing operations)	除稅前溢利（來自持續經營業務）	5,122	993	876	1,069	–	8,060
Total assets	資產總額	517,016	275,778	50,093	66,445	(69,881)	839,451
Total liabilities	負債總額	440,989	240,882	42,285	58,896	(47,176)	735,876
Contingent liabilities and commitments	或然負債及承擔	73,927	104,219	7,063	11,010	–	196,219
Capital expenditure during the year	年度內資本開支	520	132	8	4	–	664

		2017					
		Hong Kong 香港 HK$ Mn 港幣百萬元	Mainland China 中國內地 HK$ Mn 港幣百萬元	Other Asian Countries and Regions 其他亞洲國家及地區 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Inter-segment elimination 分部間之交易抵銷 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Operating income (from continuing operations)	經營收入（來自持續經營業務）	9,672	4,798	747	1,084	(348)	15,953
Profit/(loss) before taxation (from continuing operations)	除稅前溢利／（虧損）（來自持續經營業務）	6,095	(64)	643	891	–	7,565
Total assets	資產總額	478,507	286,990	53,802	59,205	(69,562)	808,942
Total liabilities	負債總額	404,785	251,946	45,898	52,158	(47,059)	707,728
Contingent liabilities and commitments	或然負債及承擔	77,693	124,792	7,851	8,732	–	219,068
Capital expenditure during the year	年度內資本開支	305	87	12	5	–	409

25. CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS *(Note 48(a))*
現金及在銀行和其他金融機構的結存*(附註48(a))*

		2018 HK$ Mn 港幣百萬元	2017 Restated[Note] 重報[註] HK$ Mn 港幣百萬元
Cash in hand	現金	**1,284**	1,288
Balances with central banks	在中央銀行的結存	**36,854**	47,083
Balances with banks and other financial institutions	在銀行和其他金融機構的結存	**9,973**	7,325
		48,111	55,696
Less: Impairment allowances *(Note 45(a)(x))*	減：減值準備*(附註45(a)(x))*	**(5)**	–
– Stage 1	–第一階段	**(5)**	–
– Stage 2	–第二階段	**–**	–
– Stage 3	–第三階段	**–**	–
		48,106	55,696

Note: To better reflect the transaction nature, reverse repurchase transactions with banks and other financial institutions of HK$4,974 million was reclassified to Placements with and advances to banks and other financial institutions from Cash and balances with banks and other financial institutions. Corresponding restatements have also been reflected in Consolidated Statement of Financial Position, Notes 4, 26, 45(a), 45(d) and 48(a).

註：由於須更準確地反映交易的性質，與銀行及其他金融機構的逆回購交易港幣49.74億元已由現金及在銀行和其他金融機構的結存重新分類為在銀行及其他金融機構的存款及墊款。相關重報亦已在綜合財務狀況表及附註4、26、45(a)、45(d)和48(a)內反映。

26. PLACEMENTS WITH AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS *(Note 48(a))*
在銀行及其他金融機構的存款及墊款*(附註48(a))*

		2018 HK$ Mn 港幣百萬元	2017 Restated 重報 HK$ Mn 港幣百萬元
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款		
Maturing	到期期限		
– within one month	–1個月內	**43,962**	47,996
– after one month but within one year	–1個月至1年內	**16,343**	10,587
– after one year	–1年後	**78**	–
		60,383	58,583
Less: Impairment allowances *(Note 45(a)(x))*	減：減值準備*(附註45(a)(x))*	**(10)**	–
– Stage 1	–第一階段	**(10)**	–
– Stage 2	–第二階段	**–**	–
– Stage 3	–第三階段	**–**	–
		60,373	58,583
Of which:	其中：		
Placements with and advances to central banks	在中央銀行的存款及墊款	**–**	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

27. TRADE BILLS 貿易票據

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
At amortised cost	攤銷成本	**2,886**	13,910
Less: Impairment allowances *(Note 45(a)(x))*	減：減值準備*(附註45(a)(x))*	**(4)**	(1)
– Stage 1	–第一階段	**(3)**	–
– Stage 2	–第二階段	**–**	–
– Stage 3	–第三階段	**(1)**	–
– Individual	–個別	**–**	(1)
		2,882	13,909
At FVOCI	通過其他全面收益以反映公平價值	**11,764**	–
		14,646	13,909

28. TRADING ASSETS 交易用途資產

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Treasury bills (including Exchange Fund Bills) *(Note 48(a))*	國庫債券(包括外匯基金票據)*(附註48(a))*	**270**	2,218
Debt securities *(Note 48(a))*	債務證券*(附註48(a))*	**1,861**	1,781
Equity securities	股份證券	**1,352**	2,953
Investment funds	投資基金	**–**	4
		3,483	6,956

29. LOANS AND ADVANCES TO CUSTOMERS 客戶貸款及墊款

(a) Loans and advances to customers (a) 客戶貸款及墊款

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Loans and advances to customers at amortised cost	按攤銷成本計量的客戶貸款及墊款	**500,631**	473,776
Less: Impairment allowances *(Note 45(a)(x))*	減：減值準備*(附註45(a)(x))*	**(2,347)**	(3,437)
– Stage 1	–第一階段	**(431)**	–
– Stage 2	–第二階段	**(855)**	–
– Stage 3	–第三階段	**(1,061)**	–
– Individual	–個別	**–**	(1,059)
– Collective	–整體	**–**	(2,378)
		498,284	470,339

(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.

(b) 客戶貸款及墊款－按行業分類

按行業分類的客戶墊款總額及有抵押墊款的百分比是按照金管局所採用的類別和定義。

		2018		2017	
		Gross advances 墊款總額 HK$ Mn 港幣百萬元	% of gross advances covered by collateral 有抵押墊款的百分比 % 百分率	Gross advances 墊款總額 HK$ Mn 港幣百萬元	% of gross advances covered by collateral 有抵押墊款的百分比 % 百分率
Loans for use in Hong Kong	在香港使用的貸款				
Industrial, commercial and financial	工商金融				
– Property development	－物業發展	26,427	59.34	20,280	70.18
– Property investment	－物業投資	40,218	90.48	37,359	92.71
– Financial concerns	－金融企業	14,944	69.20	12,489	66.06
– Stockbrokers	－股票經紀	1,928	67.61	6,899	90.20
– Wholesale and retail trade	－批發與零售業	6,839	53.30	8,831	63.00
– Manufacturing	－製造業	1,903	51.42	2,123	40.31
– Transport and transport equipment	－運輸與運輸設備	5,111	64.32	4,976	65.45
– Recreational activities	－娛樂活動	35	91.59	176	71.30
– Information technology	－資訊科技	668	3.38	2,747	1.26
– Others	－其他	20,196	72.96	25,876	67.63
– Sub-total	－小計	118,269	73.07	121,756	74.48
Individuals	個人				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	－購買「居者有其屋計劃」、「私人參建居屋計劃」及「租者置其屋計劃」樓宇的貸款	1,048	100.00	1,064	100.00
– Loans for the purchase of other residential properties	－購買其他住宅物業的貸款	55,292	100.00	42,803	100.00
– Credit card advances	－信用卡墊款	4,496	0.00	4,644	0.00
– Others	－其他	39,909	88.91	34,034	87.14
– Sub-total	－小計	100,745	91.14	82,545	89.07
Total loans for use in Hong Kong	在香港使用的貸款總額	219,014	81.38	204,301	80.37
Trade finance	貿易融資	3,733	56.18	3,934	70.33
Loans for use outside Hong Kong*	在香港以外使用的貸款*	277,884	46.84	265,541	54.34
Total advances to customers	客戶墊款總額	500,631	62.02	473,776	65.70

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

* *在香港以外使用的貸款包括以下在中國內地使用的貸款。*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

29. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED) 客戶貸款及墊款(續)

(b) Loans and advances to customers – by industry sectors (continued) (b) 客戶貸款及墊款－按行業分類(續)

		2018		2017	
		Gross advances 墊款總額 HK$ Mn 港幣百萬元	% of gross advances covered by collateral 有抵押墊款的百分比 % 百分率	Gross advances 墊款總額 HK$ Mn 港幣百萬元	% of gross advances covered by collateral 有抵押墊款的百分比 % 百分率
Property development	物業發展	45,304	49.98	44,416	54.04
Property investment	物業投資	24,020	95.23	29,176	92.32
Financial concerns	金融企業	30,924	5.70	33,431	6.24
Wholesale and retail trade	批發與零售業	9,057	55.60	13,058	58.37
Manufacturing	製造業	6,673	26.08	7,176	30.41
Loans for the purchase of other residential properties	購買其他住宅物業的貸款	13,879	99.97	15,181	99.94
Others	其他	55,159	19.96	38,716	33.62
		185,016	42.67	181,154	50.24

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:

以下按行業分類並佔客戶墊款總額百分之十或以上的墊款中已個別減值的貸款、以及相關資料如下：

		2018 HK$ Mn港幣百萬元	2017 HK$ Mn港幣百萬元
(i) Property development	(i) 物業發展		
a. Individually impaired loans	a. 已個別減值的貸款	749	316
b. Specific provisions	b. 特殊準備	–	–
c. Collective provisions	c. 整體準備	249	420
d. New provision charged to income statement	d. 於收益表支銷的準備	188	92
e. Written off	e. 撇銷	50	26
(ii) Property investment	(ii) 物業投資		
a. Individually impaired loans	a. 已個別減值的貸款	150	792
b. Specific provisions	b. 特殊準備	94	113
c. Collective provisions	c. 整體準備	314	425
d. New provision charged to income statement	d. 於收益表支銷的準備	310	197
e. Written off	e. 撇銷	264	118
(iii) Loans for purchase of residential properties	(iii) 購買其他住宅物業的貸款		
a. Individually impaired loans	a. 已個別減值的貸款	278	296
b. Specific provisions	b. 特殊準備	8	3
c. Collective provisions	c. 整體準備	201	214
d. New provision charged to income statement	d. 於收益表支銷的準備	158	12
e. Written off	e. 撇銷	8	4
(iv) Financial concerns	(iv) 金融企業		
a. Individually impaired loans	a. 已個別減值的貸款	–	1
b. Specific provisions	b. 特殊準備	–	1
c. Collective provisions	c. 整體準備	103	409
d. New provision charged to income statement	d. 於收益表支銷的準備	41	166
e. Written off	e. 撇銷	–	–

The specific provisions represent lifetime expected credit loss provisions (2017: individual impairment allowance) for credited impaired exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions (2017: collective impairment allowance) for non-credit impaired exposures.

特殊準備指減值信貸風險在合約期內內的預期信貸損失準備(2017年:個別減值準備)及整體準備指非減值信貸風險在12個月及合約期內內的預期信貸損失準備(2017年:整體減值準備)。

(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. The analysis of impairment provisions follow the terminology used by the HKMA. The specific provisions represent lifetime expected credit loss provisions (2017: individual impairment allowance) for credit impaired exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions (2017: collective impairment allowance) for non-credit impaired exposures.

(c) 客戶貸款及墊款－按區域分類

客戶墊款總額按國家或區域的分類,是根據交易對手的所在地,並已顧及轉移風險因素。一般而言,有關墊款的債權獲得並非交易對手所在地的國家的一方擔保,或該債權的履行對象是某銀行的海外分行,而該銀行的總辦事處並非設於交易對手的所在地,風險便確認為由一個國家轉移到另一個國家。減值準備之分析是按照金管局所採用的術語。特殊準備指減值信貸風險在合約期內內的預期信貸損失準備(2017年:個別減值準備)及整體準備指非減值信貸風險在12個月及合約期內內的預期信貸損失準備(2017年:整體減值準備)。

		2018				
		Total advances to customers 客戶墊款總額 HK$ Mn 港幣百萬元	Advances overdue for over three months 逾期3個月以上的客戶墊款 HK$ Mn 港幣百萬元	Impaired advances to customers 減值客戶墊款 HK$ Mn 港幣百萬元	Specific provisions 特殊準備 HK$ Mn 港幣百萬元	Collective provisions 整體準備 HK$ Mn 港幣百萬元
Hong Kong	香港	225,656	367	559	224	260
Mainland China	中國內地	203,377	2,405	2,515	776	871
Other Asian Countries and Regions	其他亞洲國家及地區	27,634	121	396	61	117
Others	其他	43,964	–	21	–	38
Total	總額	500,631	2,893	3,491	1,061	1,286
% of total advances to customers	佔客戶墊款總額的百分比			0.70%		
Market value of collateral held against impaired advances to customers	減值客戶墊款抵押品市值			2,414		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

29. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED) 客戶貸款及墊款(續)

(c) Loans and advances to customers – by geographical areas (continued) (c) 客戶貸款及墊款－按區域分類(續)

		2017				
		Total advances to customers 客戶墊款總額 HK$ Mn 港幣百萬元	Advances overdue for over three months 逾期3個月以上的客戶墊款 HK$ Mn 港幣百萬元	Impaired advances to customers 減值客戶墊款 HK$ Mn 港幣百萬元	Specific provisions 特殊準備 HK$ Mn 港幣百萬元	Collective provisions 整體準備 HK$ Mn 港幣百萬元
Hong Kong	香港	207,523	1,746	1,997	336	498
Mainland China	中國內地	203,128	2,039	2,758	682	1,721
Other Asian Countries and Regions	其他亞洲國家及地區	27,456	191	390	41	68
Others	其他	35,669	1	32	–	91
Total	總額	473,776	3,977	5,177	1,059	2,378
% of total advances to customers	佔客戶墊款總額的百分比			1.09%		
Market value of collateral held against impaired advances to customers	減值客戶墊款抵押品市值			4,329		

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.

減值貸款及墊款是個別出現客觀減值證據而須個別評估的貸款。以上按國家或區域分類的資料，是根據交易對手的所在地並已顧及轉移風險因素。

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.

抵押品包括任何具公平價值及可隨時出售的有形抵押品。這些抵押品包括(但不限於)現金及存款、股票及債券、物業按揭及其他固定資產如器材及設備之押記。倘抵押品價值高於客戶貸款及墊款總額，則只計入最高達貸款及墊款總額的抵押品金額。

(d) Loans and advances to customers – net investment in finance leases

Loans and advances to customers include net investment in equipment leased under finance leases. The total minimum lease payments receivable under finance leases and their present values at the year end are as follows:

(d) 客戶貸款及墊款－融資租賃的淨投資額

客戶貸款及墊款包括以融資租賃形式租出的設備。根據融資租賃應收的最低租賃付款總額，及其現值如下：

		2018			2017		
		Present value of the minimum lease payments 最低租賃付款現值 HK$ Mn 港幣百萬元	**Interest income relating to future periods 相關未來利息收入 HK$ Mn 港幣百萬元**	**Total minimum lease payments 最低租賃付款總額 HK$ Mn 港幣百萬元**	Present value of the minimum lease payments 最低租賃付款現值 HK$ Mn 港幣百萬元	Interest income relating to future periods 相關未來利息收入 HK$ Mn 港幣百萬元	Total minimum lease payments 最低租賃付款總額 HK$ Mn 港幣百萬元
Amounts receivable:	應收賬款：						
Within one year	1年以內	**250**	**73**	**323**	366	78	444
After one year but within five years	1年以後至5年內	**699**	**229**	**928**	871	234	1,105
After five years	5年以後	**2,109**	**397**	**2,506**	2,252	385	2,637
		3,058	**699**	**3,757**	3,489	697	4,186
Less: Impairment allowances	減：減值準備	**(11)**			(11)		
Net investment in finance leases	融資租賃的淨投資額	**3,047**			3,478		

The net investment in finance leases is carried on the statement of financial position as loans and advances to customers. No accrual is made for the interest income relating to future periods.

融資租賃的淨投資額被視作客戶貸款及墊款在財務狀況表中列賬，未來期間的利息收入並無計算。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

30. INVESTMENT SECURITIES 投資證券

		2018				
		Mandatorily measured at FVTPL 強制按通過損益以反映公平價值計量 HK$ Mn 港幣百萬元	Designated at FVTPL 指定為通過損益以反映公平價值 HK$ Mn 港幣百萬元	Measured at FVOCI 按通過其他全面收益以反映公平價值計量 HK$ Mn 港幣百萬元	Measured at amortised cost 按攤銷成本計量 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Treasury bills (including Exchange Fund Bills) *(Note 48(a))*	國庫債券(包括外滙基金票據)*(附註48(a))*	–	–	26,594	1,915	28,509
Certificates of deposits held *(Note 48(a))*	持有存款證*(附註48(a))*	–	–	1,191	1,109	2,300
Debt securities *(Note 48(a))*	債務證券*(附註48(a))*	10,663	1,630	81,574	15,997	109,864
Equity securities	股份證券	2,513	–	688	–	3,201
Investment funds	投資基金	855	–	–	–	855
		14,031	1,630	110,047	19,021	144,729

Debt securities were designated as at FVTPL on initial recognition when the Group held derivatives for managing specific risk of the debt securities, and the designation therefore eliminated or significantly reduced an accounting mismatch that would otherwise arise.

當本集團持有衍生工具以管理債務證券的特定風險時，該等證券會被指定為通過損益以反映公平價值，而該指定可消除或明顯減少會計錯配的情況。

Equity securities designated at FVOCI

At 1st January, 2018, the Group designated certain equity securities as shown in the following table at FVOCI. In 2017, these investments were classified as available-for-sale and measured at fair value. The FVOCI designation was made because the investments are expected to be held for long-term strategic purposes.

指定為通過全面收益以反映公平價值的股份證券

於2018年1月1日，本集團指定若干在下表所列示的股份證券為通過其他全面收益以反映公平價值。於2017年，該等投資分類為可供出售及按公平價值計量。作出通過其他全面收益以反映公平價值的指定是由於預期持有該等投資作長期策略用途。

		2018	
		Fair value 公平價值 HK$ Mn 港幣百萬元	Dividend income recognised 已確認股息收入 HK$ Mn 港幣百萬元
Aberdeen Restaurant Enterprises Limited	香港仔飲食企業有限公司	2	–
EPS Company (Hong Kong) Limited	易辦事(香港)有限公司	47	7
Joint Electronic Teller Services Ltd.	銀聯通寶有限公司	18	2
Nova Credit Limited	諾華誠信有限公司	11	–
OTC Clearing Hong Kong Limited	香港場外結算有限公司	14	–
TransUnion Limited	環聯資訊有限公司	70	11
China International Payment Service Corporation	跨境銀行間支付清算(上海)有限責任公司	35	–
China UnionPay Co., Ltd.	中國銀聯股份有限公司	481	2
Euroclear Plc	歐洲結算系統	8	1
Society For World-Wide Interbank Financial Telecommunication	環球銀行金融電信協會	2	–
		688	23

None of these strategic investments was disposed of during 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

在2018年度內沒有出售該等策略投資，亦沒有將該等投資的累計盈利及虧損於股東權益內轉賬。

		2017				
		Designated at FVTPL 指定為通過損益以反映公平價值 HK$ Mn 港幣百萬元	Available-for- sale 可供出售 HK$ Mn 港幣百萬元	Held-to-maturity 持至到期 HK$ Mn 港幣百萬元	Loans and receivables *(Note 35)* 貸款及應收賬款 *(附註35)* HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Treasury bills (including Exchange Fund Bills) *(Note 48(a))*	國庫債券(包括外滙基金票據) *(附註48(a))*	–	27,024	1,699	–	28,723
Certificates of deposits held *(Note 48(a))*	持有存款證*(附註48(a))*	–	1,150	1,269	–	2,419
Debt securities *(Note 48(a))*	債務證券*(附註48(a))*	3,879	88,560	6,830	133	99,402
Equity securities	股份證券	166	3,042	–	–	3,208
Investment funds	投資基金	124	549	–	–	673
		4,169	120,325	9,798	133	134,425

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

31. INVESTMENTS IN SUBSIDIARIES 附屬公司投資

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary.

以下摘要只包括對本集團的業績、資產或負債有重大影響的附屬公司。此等股份屬普通股份。

Details of these companies are as follows:

此等公司的詳情如下：

Name of company 公司名稱	Place of incorporation and operation 註冊及營業地點	Issued and paid-up capital 已發行及繳足股本	% Held by The Bank 銀行所佔權益	% Held by The Group 集團所佔權益	Nature of business 業務性質
Ample Delight Limited 承悅有限公司	Hong Kong 香港	HK$港幣450,000,000元		100%	Investment holding 投資控股
Bank of East Asia (Trustees) Limited 東亞銀行(信託)有限公司	Hong Kong 香港	HK$港幣150,000,000元	100%		Trustee service 信託服務
BEA Consortium GS Investors L.P.	BVI 英屬處女群島	NIL		100%	Acting as a limited partner for the purpose of making investment in private equity fund 出任有限責任合夥人用作投資私募基金
BEA Life Limited 東亞人壽保險有限公司	Hong Kong 香港	HK$港幣500,000,000元	100%		Life insurance 人壽保險
BEA Union Investment Management Limited 東亞聯豐投資管理有限公司	Hong Kong 香港	HK$港幣374,580,000元	51%		Asset management 資產管理
Blue Cross (Asia-Pacific) Insurance Limited 藍十字(亞太)保險有限公司	Hong Kong 香港	HK$港幣625,000,000元	100%		Insurance 保險
Central Town Limited 滙中興業有限公司	Hong Kong 香港	HK$港幣2元	100%		Property investment 物業投資
Century Able Limited 階潤有限公司	Hong Kong 香港	HK$港幣929,752,849元		100%	Investment holding 投資控股

Name of company 公司名稱	Place of incorporation and operation 註冊及營業地點	Issued and paid-up capital 已發行及繳足股本	% Held by The Bank 銀行 所佔權益	% Held by The Group 集團 所佔權益	Nature of business 業務性質
Chongqing Liangjiang New Area Credit Gain Finance Company Limited 重慶兩江新區領達小額貸款有限公司	PRC 中華人民共和國	US$50,000,000美元	100%		Micro-finance loan 小額貸款
Corona Light Limited	BVI 英屬處女群島	HK$港幣929,752,849元		100%	Investment holding 投資控股
Credit Gain Finance Company Limited 領達財務有限公司	Hong Kong 香港	HK$港幣640,000,000元	100%		Money lenders 放債人
Crystal Gleaming Limited	BVI 英屬處女群島	HK$港幣929,752,849元	100%		Investment holding 投資控股
Dragon Jade Holdings Company Limited 卓領控股有限公司	Hong Kong 香港	HK$港幣1,127,510,000元	100%		Investment holding 投資控股
East Asia Digital Information Services (Guangdong) Limited *(Note 1)* 東亞數據信息服務(廣東)有限公司 *(附註1)*	PRC 中華人民共和國	US$3,000,000美元		100%	Servicing 服務
*East Asia Holding Company, Inc.	U.S.A. 美國	US$5美元	100%		Bank holding company 銀行控股公司
East Asia Securities Company Limited 東亞證券有限公司	Hong Kong 香港	HK$港幣25,000,000元	100%		Securities broking 證券買賣

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

31. INVESTMENTS IN SUBSIDIARIES (CONTINUED) 附屬公司投資(續)

Name of company 公司名稱	Place of incorporation and operation 註冊及營業地點	Issued and paid-up capital 已發行及繳足股本	% Held by The Bank 銀行 所佔權益	% Held by The Group 集團 所佔權益	Nature of business 業務性質
Innovate Holdings Limited	BVI 英屬處女群島	US$1美元(Ordinary普通股) US$318,345,000美元 (with a liquidation preference of US$1,000 per share 附有每股1,000美元之清盤優先權)	100%		Special purpose vehicle company specially set up for BEA's Hybrid Tier 1 issue 為東亞銀行混合一級資本而成立之特定目的投資工具公司
Shenzhen Credit Gain Finance Company Limited *(Note 1)* 深圳市領達小額貸款有限公司 *(附註1)*	PRC 中華人民共和國	CNY人民幣300,000,000元	100%		Micro-finance loan 小額貸款
Skyray Holdings Limited	BVI 英屬處女群島	HK$港幣450,000,000元	100%		Investment holding 投資控股
Speedfull Limited	BVI 英屬處女群島	HK$港幣450,000,000元		100%	Investment holding 投資控股
The Bank of East Asia (China) Limited *(Note 1)* 東亞銀行(中國)有限公司 *(附註1)*	PRC 中華人民共和國	CNY人民幣12,160,000,000元	100%		Banking and related financial services 銀行及有關的金融服務

* *Companies audited by auditors other than KPMG are with net assets and total income constituting approximately 0.6% and 0.1% respectively of the related consolidated totals.*

Notes:

1. *Represents a wholly foreign owned enterprise registered under the PRC laws.*

2. *The above subsidiaries have no non-controlling interests material to the Group except for Innovate Holdings Limited.*

* *非由畢馬威會計師事務所審核的已審核附屬公司財務報表之資產淨額及收入總額分別佔相關綜合總額的0.6%及0.1%。*

附註：

1. *指一根據中華人民共和國法例註冊之全資擁有外資企業。*

2. *除Innovate Holdings Limited外、以上附屬公司之非控制性權益對本集團並不重大。*

The following table lists out the information relating to Innovate Holdings Limited, the only subsidiary of the Group which has a material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

下表列載本集團內唯一有重大非控制性權益之附屬公司，Innovate Holdings Limited。以下之財務摘要是指並未沖銷任何集團之間交易的金額。

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Non-current assets	非流動資產	**2,493**	2,487
Net assets	淨資產	**2,493**	2,487
Carrying amount of NCI	非控制性權益之賬面值	**2,493**	2,487
Revenue	收入	**–**	–
Profit for the year	年度溢利	**–**	–
Total comprehensive income	全面收益總額	**–**	–
Profit allocated to NCI	分配予非控制性權益之溢利	**–**	–
Dividend paid or payable to NCI	已付或應付予非控制性權益之股息	**212**	211

Details on the accounting treatment of the above NCI are set out in Notes 20(c) and 44.

以上非控制性權益的會計處理方法之詳情已在附註20(c)及44內列載。

32. INVESTMENTS IN ASSOCIATES 聯營公司投資

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Share of net assets	應佔淨資產	**8,743**	8,539
Goodwill	商譽	**783**	890
		9,526	9,429
Less: Impairment allowances	減：減值準備	**(397)**	–
		9,129	9,429

Loans to associates amounting to HK$78 million (2017: Nil) are included under placements with and advances to banks and other financial institutions.

已包括在在銀行及其他金融機構的存款及墊款的聯營公司貸款為港幣7,800萬元(2017年：無)。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

32. INVESTMENTS IN ASSOCIATES (CONTINUED) 聯營公司投資(續)

The following list contains only the particulars of principal associates. None are considered individually material to the Group:

以下列載只包括本集團的主要聯營公司，而它們個別地對本集團沒有重大影響：

Name of company 公司名稱	Place of incorporation and operation 註冊及營業地點	% of ordinary shares 普通股 held by The Bank 銀行所佔權益	% of ordinary shares 普通股 held by The Group 集團所佔權益	Nature of business 業務性質
Listed 上市				
AFFIN Bank Berhad *(Note)* *(附註)*	Malaysia 馬來西亞	23.52%		Banking and related financial business 銀行及有關金融業務
Unlisted 非上市				
Brilliance-BEA Auto Finance Co., Ltd. 華晨東亞汽車金融有限公司	PRC 中華人民共和國		22.5%	Auto finance and other related financial businesses 汽車貸款及其他有關金融業務
Dolford Property Holdings Limited	BVI 英屬處女群島		30%	Investment holding 投資控股
East Asia Qianhai Securities Company Limited 東亞前海證券有限責任公司	PRC 中華人民共和國	49%		Securities business 證券業務
Guotong Trust Co., Ltd 國通信託有限責任公司	PRC 中華人民共和國	19.99%		Trust and other financial businesses 信託及其他金融業務
Industrial and Commercial Bank of China (Canada) 中國工商銀行(加拿大)有限公司	Canada 加拿大	20%		Banking services 銀行服務
Industrial and Commercial Bank of China (USA) N.A. 中國工商銀行(美國)	U.S.A. 美國		20%	Banking services 銀行服務
Million Fortune Development (Shenzhen) Co., Ltd. 寰裕置業(深圳)有限公司	PRC 中華人民共和國		25%	Property development 物業發展
PRASAC Microfinance Institution Limited	Cambodia 柬埔寨	21%		Financial services 金融服務
PT. Bank Resona Perdania *(Note 56)* *(附註56)*	Indonesia 印尼		30%	Banking and related financial services 銀行及有關金融服務

Note: Following the reorganization of AFFIN Group in 2017, AFFIN Holdings Berhad ("AFFIN Holdings") completed the distribution of all its shares in AFFIN Bank Berhad ("AFFIN Bank") to its shareholders on the basis of 1 ordinary share in AFFIN Bank for each ordinary share in AFFIN Holdings on 30th January, 2018. AFFIN Bank was listed on Bursa Malaysia on 2nd February, 2018, in place of AFFIN Holdings.

附註：隨著AFFIN集團的重組，AFFIN Holdings Berhad已在2018年1月30日完成以一對一的比例，向其股東派發同等數量的AFFIN Bank Berhad股票。AFFIN Bank Berhad於2018年2月2日在馬來西亞股票交易所掛牌，並取代AFFIN Holdings Berhad的上市地位。

The fair value of the Group's investment in AFFIN Bank Berhad ("AFFIN") based on the quoted market price had been persistently below the carrying amount for a period of time. As a result, the Group performed an impairment test on the investment using a value-in-use ("VIU") methodology and this demonstrated that the recoverable amount of the investment was HK$3,438 million and an impairment charge of HK$397 million was recorded in 2018. The VIU calculation uses discounted cash flow projections based on AFFIN's latest forecast of financial results and estimates made by the Group's management. Discount rate of 10% which is based on a Capital Asset Pricing Model calculation for AFFIN is used in the VIU calculation.

本集團投資予AFFIN Bank Berhad(「AFFIN」)按市場報價的公允價值持續低於賬面值一段時間。因此,本集團對此項投資以採用使用價值計算方法進行減值測試,測試顯示此項投資的可收回金額為港幣34.38億元,而2018年的減損損失為為港幣3.97億元。使用價值計算方法採用的折現現金流預測數值,是本集團以AFFIN的最新財務業績預測為依據。在價值計算方法中使用基於AFFIN的資本資產定價模型計算的10%的折現率。

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Aggregate information of associates that are not individually material	個別不重大聯營公司之總和資料		
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	個別不重大聯營公司在綜合財務報表之總和賬面值	**9,129**	9,429
Aggregate amounts of the Group's share of those associates'	本集團佔該等聯營公司之總和金額		
Profit from continuing operations	源自持續營運溢利	**566**	388
Post-tax profit or loss from discontinued operations	源自已停止營運之除稅後溢利或虧損	**–**	–
Other comprehensive income	其他全面收益	**(352)**	485
Total comprehensive income	全面收益總額	**214**	873
Reconciliation of carrying amounts to the Group's total interest in the associates	賬面值與本集團於聯營公司的權益對賬		
Carrying amount of material associates	重大聯營公司之賬面值	**–**	–
Carrying amount of individually immaterial associates	個別不重大聯營公司之賬面值	**9,129**	9,429
Interest in associates in the consolidated financial statements	在綜合財務報表中聯營公司權益	**9,129**	9,429

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

33. GOODWILL AND INTANGIBLE ASSETS 商譽及無形資產

Goodwill and intangible assets include goodwill arising on business combinations and acquired intangible assets. Acquired intangible assets are amortised over their estimated economic useful life.

商譽及無形資產包括因業務合併產生的商譽及購入無形資產。購入無形資產按其估計經濟使用期攤銷。

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Goodwill	商譽	**1,474**	1,474
Acquired intangible assets	購入無形資產	**466**	485
		1,940	1,959

(a) Goodwill

(a) 商譽

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
At 1st January and 31st December	於1月1日及12月31日	**1,474**	1,474

Impairment tests for cash-generating units containing goodwill

包含商譽的現金生產單位之減值測試

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to business segments as follows:

本集團按業務分部分配商譽予可辨識的現金生產單位如下：

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Personal banking	個人銀行	**849**	849
Corporate banking	企業銀行	**453**	453
Treasury markets	財資市場	**158**	158
Others	其他	**14**	14
		1,474	1,474

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

現金生產單位的可收回金額則根據使用價值計算。計算方法按照管理層已核准的5年財務預算的現金流作估計。超過5年期間的現金流按下述的估計利率作推斷。增長率不可超過該現金生產單位所經營業務的長期平均增長率。

The discount rate used for value-in-use calculations is 7.9% (2017: 8.6%) and the long-term growth rate is 2.6% (2017: 1.9%).

用於計算使用價值的折扣率為7.9%(2017年：8.6%)及長期增長率為2.6%(2017年：1.9%)。

Management determined the budgeted net profit based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the internal forecasts.

管理層根據過往表現及預計市場發展以釐定預算淨溢利。所採用的加權平均增長率與內部預測是一致的。

(b) Intangible assets (other than goodwill)

Intangible assets consist of building naming rights only. Intangible assets are stated at cost less accumulated amortisation and impairment loss (Note 2(r)).

Amortisation of intangible assets with finite useful lives is charged to the income statement over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available to use and their estimated useful lives are as follows:

Naming rights: Over the shorter of the lease period of building or land

Both the period and method of amortisation are reviewed annually.

(b) 無形資產(商譽除外)

無形資產只包括建築物命名權。無形資產按成本減除累計攤銷及減值損失列賬(附註2(r))。

有限定可用期的無形資產按其估計可用期於收益表內攤銷。以下有限定可用期的無形資產由可供使用日起按以下的估計可用期攤銷:

命名權按建築物或土地兩者較短的租賃期

每年須檢討其期限及攤銷方法。

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Cost	成本		
At 1st January	於1月1日	**1,404**	1,402
Exchange adjustments	匯兌調整	**(1)**	2
At 31st December	於12月31日	**1,403**	1,404
Accumulated amortisation	累計攤銷		
At 1st January	於1月1日	**(269)**	(237)
Amortisation charge for the year *(Note 13)*	年度內攤銷*(附註13)*	**(14)**	(32)
Exchange adjustments	匯兌調整	**1**	–
At 31st December	於12月31日	**(282)**	(269)
Impairment allowance	減值準備		
At 1st January	於1月1日	**(650)**	–
Charge for the year*	年度內支銷*	**(5)**	(650)
At 31st December	於12月31日	**(655)**	(650)
Carrying amount at 31st December	於12月31日賬面值	**466**	485

* *Being impairment loss made on the naming rights of a building partially owned and occupied by BEA China on the Mainland which reflected the diminution in value following a change in government policy regulating advertising billboards in 2017.*

* *該減值損失主要由於一座位於中國內地而部份樓面由東亞中國擁有及使用的大廈,其命名權的價值因政府於2017年頒布規管廣告招牌之政策而下跌。*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

34. FIXED ASSETS 固定資產

		Investment properties 投資物業 HK$ Mn 港幣百萬元	Bank premises 行址 HK$ Mn 港幣百萬元	2018 Furniture, fixtures and equipment 傢俬、裝修及設備 HK$ Mn 港幣百萬元	Sub-total 小計 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Cost or valuation	成本或估值					
At 1st January, 2018	於2018年1月1日	5,107	8,193	5,149	13,342	18,449
Additions	增置	7	9	648	657	664
Revaluation surplus	重估盈餘	465	–	–	–	465
Disposals	出售	–	(30)	(179)	(209)	(209)
Revaluation surplus on bank premises upon transfer to investment properties *(Note 43(b))*	行址重估盈餘轉入投資物業 *(附註43(b))*	–	8	–	8	8
Transfer from bank premises to investment properties	由行址轉入投資物業	64	(64)	–	(64)	–
Transfer from investment properties to bank premises	由投資物業轉入行址	(394)	394	–	394	–
Less: Elimination of accumulated depreciation on revalued bank premises	減：抵銷行址重估的累計折舊	–	(1)	–	(1)	(1)
Transfer to asset classified as assets held for sale	轉至分類為持有作出售資產	–	(49)	–	(49)	(49)
Exchange adjustments	匯兌調整	–	(223)	(95)	(318)	(318)
At 31st December, 2018	於2018年12月31日	5,249	8,237	5,523	13,760	19,009
Accumulated depreciation and amortisation	累計折舊及攤銷					
At 1st January, 2018	於2018年1月1日	–	1,874	3,825	5,699	5,699
Charge for the year *(Note 13)*	年度內支銷*(附註13)*	–	157	316	473	473
Elimination of accumulated depreciation on revalued bank premises	抵銷行址重估的累計折舊	–	(1)	–	(1)	(1)
Transfer to asset classified as assets held for sale	轉至分類為持有作出售資產	–	(23)	–	(23)	(23)
Written off on disposal	出售時撇銷	–	(14)	(158)	(172)	(172)
Exchange adjustments	匯兌調整	–	(60)	(72)	(132)	(132)
At 31st December, 2018	於2018年12月31日	–	1,933	3,911	5,844	5,844
Net book value at 31st December, 2018	賬面淨值 於2018年12月31日	5,249	6,304	1,612	7,916	13,165
The gross amounts of the above assets are stated:	上述資產的總額列示如下：					
At cost	按成本	–	7,458	5,523	12,981	12,981
At Directors' valuation – 1989	按董事估值 —1989年	–	779	–	779	779
At professional valuation – 2018	按專業估值 —2018年	5,249	–	–	–	5,249
		5,249	8,237	5,523	13,760	19,009

		Investment properties 投資物業 HK$ Mn 港幣百萬元	Bank premises 行址 HK$ Mn 港幣百萬元	2017 Furniture, fixtures and equipment 傢俬、裝修及設備 HK$ Mn 港幣百萬元	Sub-total 小計 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Cost or valuation	成本或估值					
At 1st January, 2017	於2017年1月1日	4,467	7,961	4,871	12,832	17,299
Additions	增置	–	4	405	409	409
Revaluation surplus	重估盈餘	522	–	–	–	522
Disposals	出售	–	(29)	(242)	(271)	(271)
Revaluation surplus on bank premises transferred to investment properties *(Note 43(b))*	行址重估盈餘轉入投資物業 *(附註43(b))*	–	44	–	44	44
Transfer from bank premises to investment properties	由行址轉入投資物業	117	(117)	–	(117)	–
Less: Elimination of accumulated depreciation on revalued bank premises	減：抵銷行址重估的累計折舊	–	(8)	–	(8)	(8)
Transfer to asset classified as assets held for sale	轉至分類為持有作出售資產	–	–	(34)	(34)	(34)
Reclassification	重新分類	–	(6)	6	–	–
Exchange adjustments	匯兌調整	1	344	143	487	488
At 31st December, 2017	於2017年12月31日	5,107	8,193	5,149	13,342	18,449
Accumulated depreciation and amortisation	累計折舊及攤銷					
At 1st January, 2017	於2017年1月1日	–	1,660	3,649	5,309	5,309
Charge for the year *(Note 13)*	年度內支銷*(附註13)*	–	157	309	466	466
Elimination of accumulated depreciation on revalued bank premises	抵銷行址重估的累計折舊	–	(8)	–	(8)	(8)
Transfer to asset classified as assets held for sale	轉至分類為持有作出售資產	–	–	(25)	(25)	(25)
Reclassification	重新分類	–	(1)	1	–	–
Written off on disposal	出售時撇銷	–	(9)	(213)	(222)	(222)
Exchange adjustments	匯兌調整	–	75	104	179	179
At 31st December, 2017	於2017年12月31日	–	1,874	3,825	5,699	5,699
Net book value at 31st December, 2017	賬面淨值 於2017年12月31日	5,107	6,319	1,324	7,643	12,750
The gross amounts of the above assets are stated:	上述資產的總額列示如下：					
At cost	按成本	–	7,414	5,149	12,563	12,563
At Directors' valuation – 1989	按董事估值－1989年	–	779	–	779	779
At professional valuation – 2017	按專業估值－2017年	5,107	–	–	–	5,107
		5,107	8,193	5,149	13,342	18,449

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

34. FIXED ASSETS (CONTINUED) 固定資產(續)

Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

物業公平價值之釐定

(i) 公平價值分級

根據《香港財務報告準則》第十三號*「釐定公平價值」*三級公平價值分級之分類定義，下表列示本集團於報告期末按重覆發生基準以釐定物業之公平價值。分類予每一分級之公平價值釐定取決於以下所採用的估值模式的參數之可觀察性及重要性：

第一級估值： 釐定公平價值只採用第一級參數，即於釐定日在活躍市場相同資產或負債的未經調整報價。

第二級估值： 釐定公平價值採用第二級參數，即不符合第一級的可觀察參數，及未採用重要的非可觀察參數。非可觀察參數是指沒有市場資料之參數。

第三級估值： 釐定公平價值採用重要的非可觀察參數。

		Fair value at 31st December, 2018 於2018年12月31日之公平價值 HK$ Mn 港幣百萬元	Fair value measurements as at 31st December, 2018 categorised into 於2018年12月31日釐定公平價值之分類 Level 1 第一級 HK$ Mn 港幣百萬元	Level 2 第二級 HK$ Mn 港幣百萬元	Level 3 第三級 HK$ Mn 港幣百萬元
Recurring fair value measurement	**重覆發生的公平價值釐定**				
Investment properties	投資物業				
Commercial – Hong Kong	商業－香港	**5,234**	**–**	**–**	**5,234**
Commercial – Others	商業－其他	**15**	**–**	**–**	**15**
		5,249	**–**	**–**	**5,249**

		Fair value at 31st December, 2017 於2017年12月31日之公平價值 HK$ Mn 港幣百萬元	Fair value measurements as at 31st December, 2017 categorised into 於2017年12月31日釐定公平價值之分類 Level 1 第一級 HK$ Mn 港幣百萬元	Level 2 第二級 HK$ Mn 港幣百萬元	Level 3 第三級 HK$ Mn 港幣百萬元
Recurring fair value measurement	**重覆發生的公平價值釐定**				
Investment properties	投資物業				
Commercial – Hong Kong	商業－香港	5,092	–	–	5,092
Commercial – Others	商業－其他	15	–	–	15
		5,107	–	–	5,107

During the years ended 31st December, 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

截至2018年及2017年12月31日止年度，沒有第一級和第二級兩者之間的轉移，亦未有第三級的轉入或轉出。本集團的政策是只確認於滙報期期末公平價值分級之間發生的轉移。

All of the Group's investment properties were revalued by independent valuers as at 31st December, 2018 and 2017.

於2018年及2017年12月31日，所有本集團的投資物業均由獨立估值師估價。

Investment properties in Hong Kong were valued at HK$5,234 million (2017: HK$5,092 million) as at 31st December, 2018 by an independent valuer, Savills Valuation and Professional Services Limited, Chartered Surveyors, who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The valuation has been incorporated in the financial statements as at 31st December, 2018 and it was performed on an open market value basis. Details of valuation techniques are described below:

於2018年12月31日，香港投資物業的估值為港幣52.34億元(2017年：港幣50.92億元)。該等物業由獨立估值師－特許測量師第一太平戴維斯，其僱員具香港測量師學會會士資歷並對估值物業的所在地及類別有近期經驗。估值是以公開市場價值為基礎，並已計入2018年12月31日之賬項內。估值模式詳述如下：

(ii) Information about Level 3 fair value measurements

(ii) 有關第三級釐定公平價值資料

	Valuation techniques 估值模式	Unobservable input 非可觀察輸入參數
Investment properties 投資物業	Income capitalisation approach 收入還原法	Market rental 市場租金
		Capitalisation rate 還原率
	Direct comparison approach 直接比較法	Premium (discount) on quality of the buildings 樓宇質素溢價(折扣)

Investment properties not under construction

The fair value of investment properties is determined by adoption of the Income Capitalisation Approach whereby the existing rental income of all lettable units of the property are capitalised for their respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the valuation date. Upon expiry of the existing tenancies, each unit is assumed to be let at its market rent as at the valuation date, which in turn capitalised at the market yield as expected by investors for each type of property. Due consideration has been given to expectations of the renewals of Government lease upon its expiry. The summation of the capitalised value of the term income for the leased portion, the capitalised value of the reversion income as appropriately deferred for the leased portion and the capitalised value for the vacant portion provides the market value of the property.

非正在建築中的投資物業

投資物業的公平價值是按採納收入還原法計算，其方法是將現時物業已出租單位之租金收入按其分別未到期租約條款還原，而空置單位則假設於估價日每一單位可按市值租金租出，再根據投資者預期每一類別物業之市場回報來還原。其中已顧及並預期政府之租約於期限屆滿後可續約。出租部分期間收入之還原值、已適當遞延出租部分之歸還收入的還原值及空置部分之還原值之總和計算出物業的市場價值。

The market rentals of all lettable units are made (a) by reference to the rentals fetched in the property and/or (b) by reference to the lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yields achieved in analysed market sales transactions and the market expectation from property investors. This expected return reflects implicitly the quality of the investment, the expectation of the potential for future rental growth and capital appreciation, operating costs, risk factor and the like.

所有已租出單位市場租金之計算是(a)參考由物業賺取的租金及／或(b)參考鄰近所租出之類同物業。採納之還原率是參考分析市場出售交易得出之回報及物業投資者對市場的預期。此預期回報已潛在地反映投資的質素、預期未來租金增長和資本增值的潛力、營運成本、風險因素及其他。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

34. FIXED ASSETS (CONTINUED) 固定資產(續)

As a supporting approach to the Income Capitalisation Approach, the Direct Comparison Approach is also adopted as a check for the valuation. Comparable sales transactions of similar properties in the locality are collected and analysed each in terms of a price per square footage. The collected comparables are then adjusted to take account of the discrepancies between the property and comparables in terms of time, location, age, building quality and the like.

除收入還原法外，亦採納直接比較法以核實估值。在鄰近可比較類同物業之出售交易會被收集及分析，以計算每一平方呎的價值。已收集之比較資料根據物業及可比較資料的差異，並按時間、位置、樓齡、樓宇質素及其他作調整。

The fair value measurement is positively correlated to the market rental and negatively correlated to the capitalisation rate.

釐定公平價值與市場租金有正面相互關聯及與還原率有負面相互關聯。

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

期間該等第三級公平價值釐定之餘額變動如下：

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Investment properties – Commercial – Hong Kong	投資物業－商業－香港		
At 1st January	於1月1日	**5,092**	4,454
Additions	增置	**7**	–
Transfer from bank premises to investment properties	由行址轉入投資物業	**64**	117
Transfer from investment properties to bank premises	由投資物業轉入行址	**(394)**	–
Revaluation surplus	重估盈餘	**465**	521
At 31st December	於12月31日	**5,234**	5,092
Investment properties – Commercial – Others	投資物業－商業－其他		
At 1st January	於1月1日	**15**	13
Revaluation surplus	重估盈餘	**–**	1
Exchange adjustments	匯兑調整	**–**	1
At 31st December	於12月31日	**15**	15

Fair value adjustment of investment properties is recognised in the line item "valuation gains on investment properties" on the face of the consolidated income statement.

投資物業的公平價值調整在綜合收益表上之「重估投資物業盈利」項下確認。

All the gains recognised in the income statement for the year arise from the properties held at the end of the reporting period.

所有確認於年度收益表之盈利均源自於報告期結束日持有之物業。

The net book value of bank premises and investment properties comprises:

行址及投資物業的賬面淨值包括：

		2018		2017	
		Investment properties 投資物業 HK$ Mn 港幣百萬元	**Bank premises 行址 HK$ Mn 港幣百萬元**	Investment properties 投資物業 HK$ Mn 港幣百萬元	Bank premises 行址 HK$ Mn 港幣百萬元
Freeholds	永久業權				
Held outside Hong Kong	在香港以外地區	**15**	**619**	15	634
Leaseholds	租借地				
Held in Hong Kong	在香港				
On long lease (over 50 years)	長期租約(50年以上)	**4,618**	**1,665**	4,497	1,363
On medium-term lease (10 – 50 years)	中期租約(10至50年)	**616**	**1,168**	595	1,204
Held outside Hong Kong	在香港以外地區				
On long lease (over 50 years)	長期租約(50年以上)	**–**	**14**	–	15
On medium-term lease (10 – 50 years)	中期租約(10至50年)	**–**	**2,807**	–	3,064
On short-term lease (below 10 years)	短期租約(10年以下)	**–**	**31**	–	39
		5,249	**6,304**	5,107	6,319

The Group leases out investment properties under operating leases. The leases typically run for an initial period from 1 to 10 years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

集團以經營租賃形式租出投資物業。租賃年期通常由1年至10年，到期日後可再續約但其他條款須另議。所有租約並不包括或有租金。

Rental income receivable from investment properties held for use under operating leases amounted to HK$178 million in 2018 (2017: HK$165 million). There was no contingent rental recognised during the year 2018 (2017: Nil).

於年內，以經營租賃形式租出的投資物業之應收租金為港幣1.78億元(2017年：港幣1.65億元)。2018年年度內未有確認或有租金(2017年：無)。

The total future minimum lease payments of bank premises and investment properties held for use under non-cancellable operating leases are receivable as follows:

以不可撤銷經營租賃作出租的行址及投資物業的未來最低應收租賃付款總額如下：

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Within one year	1年以內	**158**	152
After one year but within five years	1年以後至5年內	**121**	164
After five years	5年以後	**–**	–
		279	316

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

35. OTHER ASSETS 其他資產

		2018 HK$ Mn 港幣百萬元	2017 Restated[Note] 重報[註] HK$ Mn 港幣百萬元
Accrued interest	應計利息	**3,466**	2,578
Customer liabilities under acceptances	承兌客戶負債	**21,747**	18,309
Other accounts*	其他賬項*	**9,294**	11,622
Less: Impairment allowances *(Note 45(a)(x))*	減：減值準備*(附註45(a)(x))*	**(291)**	(16)
– Stage 1	–第一階段	**(27)**	–
– Stage 2	–第二階段	**(6)**	–
– Stage 3	–第三階段	**(258)**	–
– Individual	–個別	**–**	(14)
– Collective	–整體	**–**	(2)
		34,216	32,493
Assets held for sale *(Note 56)*	持有作出售資產*(附註56)*	**688**	466
		34,904	32,959

* *Include nil contract assets (1/1/2018: nil) from contracts with customers under HKFRS 15.*

Note: HK$133 million of debt securities classified as loans and receivables were represented in Investment Securities (see Note 30) in order to conform to current year's presentation.

* *包括由《香港財務報告準則》第15號所產生的合約資產為無(於2018年1月1日：無)。*

註：由於須符合今年的呈報方式，分類為貸款及應收賬款的債務證券港幣1.33億元已在投資證券(詳見附註30)項下列示。

36. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS
指定為通過損益以反映公平價值的金融負債

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘	**1,335**	3,110
Certificates of deposits issued	已發行存款證	**9,462**	11,655
Debt securities issued	已發行債務證券	**407**	851
		11,204	15,616

Financial liabilities above have been designated as at FVTPL when the Group holds related derivatives at FVTPL, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise.

當本集團持有指定為通過損益以反映公平價值的相關衍生工具，以上金融負債被指定為通過損益以反映公平價值，而該指定可消除或明顯減少會計錯配的情況。

The amount of change, during the period and cumulatively, in the fair value of financial liabilities designated at FVTPL that is attributable to changes in the credit risk of these liabilities and recognised in other comprehensive income is set out below.

在期內及累計結餘，下表列示指定為通過損益以反映公平價值的金融負債的公平價值變動及在其他全面收益表內確認的金額，而該變動是歸屬於該等負債的信貸風險。

		2018 HK$ Mn港幣百萬元
Balance at 1st January	於1月1日結餘	**(6)**
Recognised in other comprehensive income during the year	年內在其他全面收益表內確認的金額	**3**
Balance at 31st December	於12月31日結餘	**(3)**

None of the liabilities designated as at FVTPL was derecognised during the year ended 31st December, 2018 and there was no transfer of cumulative gain or loss within equity during the year.

截至2018年12月31日止年度內並未有指定為通過損益以反映公平價值的負債被終止確認，亦未有將其累計盈利或虧損在股東權益內轉賬。

The change in fair value attributable to changes in credit risk on financial liabilities is calculated using the difference between the fair value of the financial liabilities at the reporting date and the present value computed with adjusted asset swap spread.

計算可歸屬於金融負債信貸風險的公平價值變動是採用近期發行相同債務的可觀察信用利差，然後根據集團實體稍後所發行高級債務的信用違約掉期之可觀察利差變動作調整。

The carrying amount of financial liabilities designated as at FVTPL was HK$57 million lower than the contractual amount due at maturity (2017: HK$56 million lower).

於2018年，指定為通過損益以反映公平價值金融負債的賬面值較其到期日之合約金額低於港幣5,700萬元(2017年：低於港幣5,600萬元)。

37. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION 財務狀況表內的所得稅

(a) Current taxation in the statement of financial position represents: (a) 資產負債表內的本期稅項為：

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Provision for Hong Kong profits tax for the year	本年度香港利得稅準備	**829**	695
Provisional profits tax paid	已付暫繳利得稅	**(652)**	(664)
		177	31
Balance of profits tax provision relating to prior years	以往年度利得稅準備餘額	**915**	809
Taxation outside Hong Kong	在香港以外稅項	**345**	320
		1,437	1,160

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

37. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)
財務狀況表內的所得稅(續)

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

(b) 遞延稅項資產及負債確認

確認於綜合財務狀況表中遞延稅項(資產)／負債的組成部分及年內之變動如下：

		2018						
Deferred tax arising from:		Depreciation allowances in excess of related depreciation	Revaluation of properties	Impairment losses on financial assets	Revaluation of financial assets at FVOCI	Tax losses	Others	Total
遞延稅項源自：		超過有關折舊的折舊免稅額	物業重估	金融資產的減值損失	通過其他全面收益以反映公平價值金融資產重估	稅損	其他	總額
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元
At 1st January, 2018	於2018年1月1日	218	100	(569)	136	–	64	(51)
Impact of adopting HKFRS 9	因採納《香港財務報告準則》第9號之影響	–	–	68	8	–	–	76
Restated balance at 1st January, 2018	於2018年1月1日已重報後的結餘	218	100	(501)	144	–	64	25
Charged/(credited) to income statement *(Note 18(a))*	收益表內支銷／(存入)*(附註18(a))*	71	–	(196)	(9)	–	149	15
(Credited)/charged to reserves *(Notes 43(b) and (g))*	儲備內(存入)／支銷*(附註43(b)及(g))*	–	13	–	(64)	–	–	(51)
Exchange and other adjustments	匯兌及其他調整	–	–	22	3	–	(12)	13
At 31st December, 2018	於2018年12月31日	289	113	(675)	74	–	201	2

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Deferred tax arising from: 遞延稅項源自：		2017 Depreciation allowances in excess of related depreciation 超過有關折舊的折舊免稅額 HK$ Mn 港幣百萬元	Revaluation of properties 物業重估 HK$ Mn 港幣百萬元	Impairment losses on financial assets 金融資產的減值損失 HK$ Mn 港幣百萬元	Revaluation of available-for-sale securities 可供出售證券重估 HK$ Mn 港幣百萬元	Tax losses 稅損 HK$ Mn 港幣百萬元	Others 其他 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
At 1st January, 2017	於2017年1月1日	218	101	(784)	72	(16)	86	(323)
Charged/(credited) to income statement *(Note 18(a))*	收益表內支銷／(存入)*(附註18(a))*	–	–	250	–	1	(28)	223
(Credited)/charged to reserves *(Notes 43(b) and (g))*	儲備內(存入)／支銷*(附註43(b)及(g))*	–	(1)	–	65	–	–	64
Transfer to asset classified as assets held for sale *(Note 56)*	轉至分類為持有作出售資產*(附註56)*	–	–	6	–	17	2	25
Exchange and other adjustments	匯兌及其他調整	–	–	(41)	(1)	(2)	4	(40)
At 31st December, 2017	於2017年12月31日	218	100	(569)	136	–	64	(51)

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Net deferred tax assets recognised on the statement of financial position	確認於財務狀況表的遞延稅項資產淨額	**(481)**	(602)
Net deferred tax liabilities recognised on the statement of financial position	確認於財務狀況表的遞延稅項負債淨額	**483**	551
		2	(51)

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$102 million (2017: HK$338 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Under the current tax legislation, the expiry dates of the tax losses were as follows:

(c) 未確認遞延稅項資產

由於可能未來沒有適用於有關稅務機關及實體的應課稅溢利以彌補有關虧損，本集團並未確認累計稅損港幣1.02億元(2017年：港幣3.38億元)為遞延稅項資產。根據現時稅務條例，該等稅損的到期日如下：

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Expiring within 5 years	於五年內到期	**3**	–
No expiry date	無到期日	**99**	338
		102	338

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

38. OTHER LIABILITIES 其他負債

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
(a) Trading liabilities	(a) 交易用途負債		
Shares sold	股份空倉	–	11
(b) Other liabilities	(b) 其他負債		
Accrued interest payable	應計應付利息	**3,279**	3,187
Acceptance draft payable	應付承兑票據	**21,747**	18,309
Impairment allowances *(Note 45(a)(x))*	減值準備*(附註45(a)(x))*	**111**	–
– Financial guarantee contracts issued	–已發出財務擔保合約	**15**	–
– Loan commitments issued	–已發出貸款承擔	**96**	–
Liabilities held for sale *(Note 56)*	持有作出售負債*(附註56)*	**7**	9
Other accounts*	其他賬項*	**26,300**	23,873
		51,444	45,378

* *Include contract liabilities of HK$633 million (1/1/2018: HK$508 million) from contracts with customers under HKFRS 15.*

* *包括由《香港財務報告準則》第15號所產生的合約負債港幣6.33億元(於2018年1月1日:港幣5.08億元)。*

39. LOAN CAPITAL 借貸資本

			2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Subordinated notes, at amortised cost with fair value hedge adjustments		按攤銷成本及經公平價值對沖調整後列賬的後償票據		
USD600 million fixed rate subordinated notes due 16th July, 2020	(1)	在2020年7月16日到期的定息6億美元後償票據 (1)	**4,710**	4,769
USD500 million fixed rate subordinated notes due 20th November, 2024	(2)	在2024年11月20日到期的定息5億美元後償票據 (2)	**3,878**	3,876
USD500 million fixed rate subordinated notes due 3rd November, 2026	(3)	在2026年11月3日到期的定息5億美元後償票據 (3)	**3,770**	3,768
			12,358	12,413

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during the years ended 31st December, 2018 and 2017.

截至2018及2017年12月31日止年度內本集團對其所發行之債務證券的本金和利息並無違約或不履行。

(1) Two tranches of loan capital of face value totalling HK$4,699 million (USD600 million) and carrying amount totalling HK$4,710 million (2017: HK$4,769 million) were issued on 16th July, 2010 (USD450 million) and on 23rd July, 2010 (USD150 million) by the Bank. These subordinated notes carrying a coupon rate of 6.125% qualifying as Tier 2 capital are listed on the Singapore Stock Exchange and will mature on 16th July, 2020. The notes are under fair value hedge accounting and hedge ineffectiveness of HK$4 million loss was recorded in 2018 (2017: HK$6 million loss).

(1) 兩宗票面值總額港幣46.99億元(6億美元)及賬面值總額港幣47.10億元(2017年:港幣47.69億元)的借貸資本,是指由本行於2010年7月16日(4.5億美元)及於2010年7月23日(1.5億美元)發行年息6.125%,並評定為二級資本的後償票據。該票據於新加坡交易所上市,並將於2020年7月16日到期。在2018年,因採用公平價值對沖會計法而錄得的無效對沖部分虧損為港幣400萬元(2017年:港幣600萬元虧損)。

(2) Loan capital of face value of HK$3,916 million (USD500 million) and carrying amount of HK$3,878 million (2017: HK$3,876 million) represents 4.25% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 20th November, 2014 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 20th November, 2024. The notes are under fair value hedge accounting and hedge ineffectiveness of HK$1 million profit was recorded in 2018 (2017: HK$2 million profit).

(2) 票面值港幣39.16億元(5億美元)及賬面值港幣38.78億元(2017年:港幣38.76億元)的借貸資本,是指由本行於2014年11月20日發行年息4.25%,並評定為二級資本的後償票據(按歐洲形式中期票據計劃發行)。該等票據於聯交所上市,並將於2024年11月20日到期。在2018年,因採用公平價值對沖會計法而錄得的無效對沖部分溢利港幣100萬元(2017年:港幣200萬元溢利)。

(3) Loan capital of face value of HK$3,916 million (USD500 million) and carrying amount of HK$3,770 million (2017: HK$3,768 million) represents 4% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 3rd November, 2016 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 3rd November, 2026. The notes are under fair value hedge accounting and hedge ineffectiveness of HK$1 million loss was recorded in 2018 (2017: HK$1 million profit).

(3) 票面值港幣39.16億元(5億美元)及賬面值港幣37.70億元(2017年:港幣37.68億元)的借貸資本,是指由本行於2016年11月3日發行年息4%,並評定為二級資本的後償票據(按歐洲形式中期票據計劃發行)。該等票據於聯交所上市,並將於2026年11月3日到期。在2018年,因採用公平價值對沖會計法而錄得的無效對沖部分虧損港幣100萬元(2017年:港幣100萬元溢利)。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

40. EQUITY SETTLED SHARE-BASED TRANSACTIONS 以股份為基礎作支付的交易

The Bank has adopted Staff Share Option Schemes whereby the Board of the Bank may at its discretion grant to any employees, including Executive Director(s) and Chief Executive, of the Group options to subscribe for ordinary shares of the Bank. Except as provided otherwise in the rules of the relevant Scheme(s), share options granted under the 2011 Scheme and 2016 Scheme may be exercised beginning on the Vesting Date and ending on the fifth anniversary of the Vesting Date. All options were granted for nil consideration.

本行所採納的僱員認股計劃是董事會可酌情授出認股權予本集團之任何僱員，包括執行董事及行政總裁，以認購本行普通股股份。除有關計劃的規則另有規定外，根據2011年及2016年僱員認股計劃所授予的認股權的行使期限為歸屬日開始至歸屬日的第5周年止。所有認股權均以不計價款形式發出。

(a) Particulars of share options:

(i) Share options granted in years 2011 to 2017:

(a) 認股權詳情：

(i) 在2011年至2017年所授予的認股權：

Date of grant 授予日期	Tranche 部分	Vesting period 有效期	Exercise period 行使期	Exercise price per share 每股行使價 HK$港幣元
05/5/2011	T2	05/5/2011 – 04/5/2013	05/5/2013 – 05/5/2018	32.00
05/5/2011	T3	05/5/2011 – 04/5/2014	05/5/2014 – 05/5/2019	32.00
10/5/2012	T1	10/5/2012 – 09/5/2013	10/5/2013 – 10/5/2018	28.99
10/5/2012	T2	10/5/2012 – 09/5/2014	10/5/2014 – 10/5/2019	28.99
10/5/2012	T3	10/5/2012 – 09/5/2015	10/5/2015 – 10/5/2020	28.99
03/5/2013	T1	03/5/2013 – 02/5/2014	03/5/2014 – 03/5/2019	31.40
03/5/2013	T2	03/5/2013 – 02/5/2015	03/5/2015 – 03/5/2020	31.40
03/5/2013	T3	03/5/2013 – 02/5/2016	03/5/2016 – 03/5/2021	31.40
02/5/2014	T1	02/5/2014 – 01/5/2015	02/5/2015 – 02/5/2020	32.50
02/5/2014	T2	02/5/2014 – 01/5/2016	02/5/2016 – 02/5/2021	32.50
02/5/2014	T3	02/5/2014 – 01/5/2017	02/5/2017 – 02/5/2022	32.50
04/5/2015	T1	04/5/2015 – 03/5/2016	04/5/2016 – 04/5/2021	34.15
04/5/2015	T2	04/5/2015 – 03/5/2017	04/5/2017 – 04/5/2022	34.15
04/5/2015	T3	04/5/2015 – 03/5/2018	04/5/2018 – 04/5/2023	34.15
08/4/2016	T1	08/4/2016 – 07/4/2017	08/4/2017 – 08/4/2022	28.45
08/4/2016	T2	08/4/2016 – 07/4/2018	08/4/2018 – 08/4/2023	28.45
08/4/2016	T3	08/4/2016 – 07/4/2019	08/4/2019 – 08/4/2024	28.45
07/4/2017	T1	07/4/2017 – 06/4/2018	07/4/2018 – 07/4/2023	32.25
07/4/2017	T2	07/4/2017 – 06/4/2019	07/4/2019 – 07/4/2024	32.25
07/4/2017	T3	07/4/2017 – 06/4/2020	07/4/2020 – 07/4/2025	32.25

(ii) Share options granted in year 2018:

(ii) 在2018年所授予的認股權：

Date of grant 授予日期	Tranche 部分	Vesting period 有效期	Exercise period 行使期	Exercise price per share 每股行使價 HK$港幣元
10/4/2018	T1	10/4/2018 – 09/4/2019	10/4/2019 – 10/4/2024	32.25
10/4/2018	T2	10/4/2018 – 09/4/2020	10/4/2020 – 10/4/2025	32.25
10/4/2018	T3	10/4/2018 – 09/4/2021	10/4/2021 – 10/4/2026	32.25

(b) The number and weighted average exercise prices of share options are as follows:

(b) 已行使認股權的數目及加權平均行使價如下：

		2018		2017	
		Weighted average exercise price 加權平均行使價 HK$港幣元	**Number of options 認股權數目 Mn百萬**	Weighted average exercise price 加權平均行使價 HK$港幣元	Number of options 認股權數目 Mn百萬
Outstanding at the beginning of the year	年初結餘	**31.64**	**34**	31.40	32
Exercised during the year	年度內行使	**31.17**	**(2)**	30.14	(3)
Granted during the year	年度內授予	**32.25**	**6**	32.25	6
Lapsed during the year	年度內失效	**31.73**	**–**	32.00	(1)
Outstanding at the end of the year	年末結餘	**31.78**	**38**	31.64	34
Exercisable at the end of the year	年末可供行使	**31.85**	**25**	31.85	21

The weighted average share price at the date of exercise for share options exercised during the year was HK$34.16 (2017: HK$34.72).

年度內於行使認股權當日的加權平均股價為港幣34.16元(2017年：港幣34.72元)。

The options outstanding at 31st December, 2018 had an exercise price from HK$28.45 to HK$34.15 (2017: from HK$28.45 to HK$34.15) and a weighted average remaining contractual life of 3.69 years (2017: 3.91 years).

於2018年12月31日，尚未行使認股權的行使價由港幣28.45元至港幣34.15元(2017年：由港幣28.45元至港幣34.15元)，及剩餘合約年期之加權平均數為3.69年(2017年：3.91年)。

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a trinomial lattice model. The contractual life of the option is used as an input into this model.

(c) 認股權的公平價值及假設

獲得服務以換取認股權的公平價值按授予認股權的公平價值計量。授予認股權之估計公平價值按三項式期權定價模式。認股權的合約年期為該定價模式的參數。

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財務報表附註(續)

40. EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED) 以股份為基礎作支付的交易(續)

		2018	2017
Fair value at measurement date	於計量日的公平價值		
– Tranche 1	–部分1	**HK$港幣4.96元**	HK$港幣4.46元
– Tranche 2	–部分2	**HK$港幣5.17元**	HK$港幣4.65元
– Tranche 3	–部分3	**HK$港幣5.32元**	HK$港幣4.77元
Share price	股價	**HK$港幣32.25元**	HK$港幣31.95元
Exercise price	行使價	**HK$港幣32.25元**	HK$港幣32.25元
Expected volatility (expressed as weighted average volatility used in the modelling under trinomial lattice model)	預計波幅(以三項式期權定價模式內採用的加權平均波幅)	**19.45%**	18.76%
Option life	認股權年期		
– Tranche 1	–部分1	**6 years年**	6 years年
– Tranche 2	–部分2	**7 years年**	7 years年
– Tranche 3	–部分3	**8 years年**	8 years年
Expected dividends	預計股息	**3.71%–5.15%**	3.13%–3.29%
Risk-free interest rate (based on Exchange Fund Notes)	無風險利率(根據外匯基金票據)	**1.71%**	1.22%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

預計波幅是根據過往之波幅(以認股權的加權剩餘年期計算),再調整因公眾知悉的資訊影響未來波幅的預計變動。預計股息按過往的股息。主觀輸入假設的變動可能重大影響公平價值的估計。

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

認股權的授予須符合服務條件。該服務條件並未納入計算於授予日獲得服務的公平價值。授予認股權與市場情況並無關係。

41. SHARE CAPITAL 股本

		2018		2017	
		No. of shares 股份數目 Mn百萬	**HK$ Mn 港幣百萬元**	No. of shares 股份數目 Mn百萬	HK$ Mn 港幣百萬元
Ordinary shares, issued and fully paid:	已發行及繳足普通股:				
At 1st January	於1月1日	**2,765**	**37,527**	2,703	35,490
Shares issued under Staff Share Option Schemes	根據僱員認股計劃發行的股份	**3**	**73**	3	93
Transfer of the fair value of options from capital reserve – share options issued *(Note 43(f))*	認股權的公平價值轉自資本儲備 –已發行認股權*(附註43(f))*	**–**	**12**	–	17
Shares issued in lieu of dividend	以股代息發行的股份	**78**	**2,313**	59	1,927
At 31st December	於12月31日	**2,846**	**39,925**	2,765	37,527

Pursuant to the approved Staff Share Option Schemes (the "Schemes"), options to purchase ordinary shares in the Bank were granted to eligible employees. Except as provided otherwise in the rules of the relevant Scheme(s), share options granted under 2011 Scheme will be exercisable during the period beginning on the Vesting Date and ending on the fifth anniversary of the Vesting Date.

根據已核准的僱員認股權計劃(「計劃」)，認股權授予合格僱員以認購本行的普通股股份。除在有關計劃的規則另有規定外，根據2011僱員認股計劃所授予的認股權的行使期限則由歸屬日開始至歸屬日的第5周年止。

Shares issued under Staff Share Option Schemes

During the year, options were exercised to subscribe for 3 million ordinary shares in the Bank at a consideration of HK$73 million which was credited to share capital account. HK$12 million has been transferred from the capital reserve to the share capital account in accordance with policy set out in Note 2(y)(iv).

根據僱員認股權計劃發行的股份

年度內，已行使認股權以認購本行普通股300萬股之代價為港幣7,300萬元，並已存入股本。根據會計政策附註2(y)(iv)所載，已由資本儲備轉撥港幣1,200萬元往股本內。

42. ADDITIONAL EQUITY INSTRUMENTS 額外股本工具

				2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Additional Tier 1 Capital Securities		額外一級資本工具			
USD650 million undated non-cumulative subordinated capital securities	(1)	6.50億美元無到期日非累積後償資本證券	(1)	**5,016**	5,016
USD500 million undated non-cumulative subordinated capital securities	(2)	5億美元無到期日非累積後償資本證券	(2)	**3,878**	3,878
				8,894	8,894

(1) On 2nd December, 2015, the Bank issued undated non-cumulative subordinated capital securities with a face value of US$650 million (equivalent to HK$5,016 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.50% coupon until the first call date on 2nd December, 2020. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.834% per annum. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up.

(1) 於2015年12月2日，本行發行面值6.5億美元(扣除有關發行成本後等值港幣50.16億元)無到期日非累積後償資本工具「額外一級資本工具」。該額外一級資本工具是無到期日及附帶5.50%息率，直至2020年12月2日的第一次收回日。如該額外一級資本工具並非按相等於當時五年期美國庫券息率加年息3.834%之固定利率贖回，息率將會按每五年重新釐定。本行可自行決定是否取消支付利息。如出現一項無法經營事件並將會持續，該額外一級資本工具將會被撇銷。該額外一級資本工具在發生清盤事件時比普通股有優先權。

The first scheduled coupon payment date was 2nd June, 2016 and the coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

第一次預定利息支付日為2016年6月2日，而利息將按每半年支付。本行有權取消支付利息(但須受該額外一級資本工具已列載之條款及細則所規限)及已取消之利息是不可累積的。除非下次預定利息經已支付，本行是禁止宣布派發股息予普通股股東。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

42. ADDITIONAL EQUITY INSTRUMENTS (CONTINUED) 額外股本工具(續)

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

如金管局通知本行並認為本行如不撇銷本金將無法繼續經營，該額外一級資本工具之本金將會按與經金管局協商後或接受其指令下撇銷。

The Bank has a call option to redeem all the outstanding capital securities from 2nd December, 2020 or any subsequent coupon payment date, but subject to restriction as set out in the terms and conditions.

由2020年12月2日起或以後任何利息支付日，本行可行使購入權以贖回所有現存的資本工具，但須受已列載之條款及細則所規限。

(2) On 18th May, 2017, the Bank issued undated non-cumulative subordinated capital securities with a face value of US$500 million (equivalent to HK$3,878 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.625% coupon until the first call date on 18th May, 2022. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.682% per annum. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up.

(2) 於2017年5月18日，本行發行面值5億美元(扣除有關發行成本後等值港幣38.78億元)無到期日非累積後償資本工具「額外一級資本工具」。該額外一級資本工具是無到期日及附帶5.625%息率，直至2022年5月18日的第一次收回日。如該額外一級資本工具並非按相等於當時五年期美國庫券息率加年息3.682%之固定利率贖回，息率將會按每五年重新釐定。本行可自行決定是否取消支付利息。如出現一項無法經營事件並將會持續，該額外一級資本工具將會被撇銷。該額外一級資本工具在發生清盤事件時比普通股有優先權。

The first scheduled coupon payment date was 18th November, 2017 and the coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

第一次預定利息支付日為2017年11月18日，而利息將按每半年支付。本行有權取消支付利息(但須受該額外一級資本工具已列載之條款及細則所規限)及已取消之利息是不可累積的。除非下次預定利息經已支付，本行是禁止宣布派發股息予普通股股東。

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

如金管局通知本行並認為本行如不撇銷本金將無法繼續經營，該額外一級資本工具之本金將會按與經金管局協商後或接受其指令下撇銷。

The Bank has a call option to redeem all the outstanding capital securities from 18th May, 2022 or any subsequent coupon payment date, but subject to restriction as set out in the terms and conditions.

由2022年5月18日起或以後任何利息支付日，本行可行使購入權以贖回所有現存的資本工具，但須受已列載之條款及細則所規限。

43. RESERVES 儲備

		The Group 集團		The Bank 銀行	
		2018	2017	**2018**	2017
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	**HK$ Mn 港幣百萬元**	HK$ Mn 港幣百萬元
(a) General reserve	(a) 一般儲備				
At 1st January	於1月1日	**14,060**	14,035	**13,460**	13,444
Transferred from property revaluation reserve on disposals	出售後轉自物業重估儲備	**–**	16	**–**	16
Transfer (to)/from retained profits	(撥入)/撥自留存溢利	**(6)**	9	**–**	–
At 31st December	於12月31日	**14,054**	14,060	**13,460**	13,460
(b) Revaluation reserve on bank premises	(b) 行址重估儲備				
At 1st January	於1月1日	**1,757**	1,728	**1,746**	1,739
Recognition of deferred tax assets/(liabilities) *(Note 37(b))*	確認遞延稅項資產/(負債) *(附註37(b))*	**(13)**	1	**(13)**	1
Transferred to general reserve on disposals	出售後轉入一般儲備	**–**	(16)	**–**	(16)
Revaluation surplus on bank premises transferred to investment properties *(Note 34)*	行址重估盈餘轉入投資物業 *(附註34)*	**8**	44	**28**	22
At 31st December	於12月31日	**1,752**	1,757	**1,761**	1,746
(c) Statutory reserves	(c) 法定儲備				
At 1st January	於1月1日	**4,891**	5,199	**–**	–
Transfer from/(to) retained profits	撥自/(撥入)留存溢利	**74**	(308)	**–**	–
At 31st December	於12月31日	**4,965**	4,891	**–**	–
(d) Capital reserve	(d) 資本儲備				
At 1st January	於1月1日	**230**	230	**–**	–
Transfer from retained profits	撥自留存溢利	**703**	–	**–**	–
At 31st December	於12月31日	**933**	230	**–**	–
(e) Exchange revaluation reserve	(e) 匯兌重估儲備				
At 1st January	於1月1日	**487**	(2,275)	**127**	(64)
Exchange adjustments	匯兌調整	**(1,913)**	2,762	**(130)**	191
At 31st December	於12月31日	**(1,426)**	487	**(3)**	127
(f) Capital reserve – staff share options issued	(f) 資本儲備 –已發行僱員認股權				
At 1st January	於1月1日	**135**	124	**135**	124
Transfer of the fair value of options to share capital *(Note 41)*	認股權公平價值撥入股本 *(附註41)*	**(12)**	(17)	**(12)**	(17)
Forfeited options transferred to retained profits	已註銷認股權轉入留存溢利	**–**	(8)	**–**	(8)
Additions	增加	**35**	36	**35**	36
At 31st December	於12月31日	**158**	135	**158**	135

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

43. RESERVES (CONTINUED) 儲備(續)

		The Group 集團		The Bank 銀行	
		2018	2017	**2018**	2017
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	**HK$ Mn 港幣百萬元**	HK$ Mn 港幣百萬元
(g) Fair value reserve	(g) 公平價值儲備				
At 1st January	於1月1日	**1,454**	1,381	**1,126**	1,260
Impact of adopting HKFRS 9 *(Note 3)*	因採納《香港財務報告準則》第9號之影響*(附註3)*	**(162)**	–	**(85)**	–
Restated balance at 1st January	於1月1日已重報後的結餘	**1,292**	1,381	**1,041**	1,260
Changes in fair value of securities	證券的公平價值變動	**(636)**	1,458	**(549)**	842
Reversal upon disposal *(Notes 15 and 16)*	於出售時轉回*(附註15及16)*	**(52)**	(1,320)	**(20)**	(870)
Recognition of deferred tax assets/(liabilities) *(Note 37(b))*	確認遞延稅項資產/(負債)*(附註37(b))*	**64**	(65)	**137**	(103)
Amortisation	攤銷	**(4)**	–	**(4)**	(3)
At 31st December	於12月31日	**664**	1,454	**605**	1,126
(h) Hedging reserve	(h) 對沖儲備				
At 1st January	於1月1日	**11**	(22)	**–**	–
Changes in fair value of hedging instruments	對沖工具的公平價值變動	**(1)**	20	**–**	–
Fair value change reclassified from income statement	轉自收益表的公平價值變動	**5**	13	**–**	–
At 31st December	於12月31日	**15**	11	**–**	–
(i) Liability credit reserve	(i) 負債信貸儲備				
At 1st January	於1月1日	**–**	–	**–**	–
Impact of adopting HKFRS 9 *(Note 3)*	因採納《香港財務報告準則》第9號之影響*(附註3)*	**(6)**	–	**(134)**	–
Restated balance at 1st January	於1月1日已重報後的結餘	**(6)**	–	**(134)**	–
Changes in fair value arising from changes in own credit risk	自身信貸變動產生的公平價值變動	**3**	–	**84**	–
At 31st December	於12月31日	**(3)**	–	**(50)**	–
(j) Other reserves	(j) 其他儲備				
At 1st January	於1月1日	**40**	94	**–**	–
Share of changes in equity of associates	應佔聯營公司權益的變動	**(42)**	(54)	**–**	–
At 31st December	於12月31日	**(2)**	40	**–**	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

		The Group 集團		The Bank 銀行	
		2018	2017	**2018**	2017
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	**HK$ Mn 港幣百萬元**	HK$ Mn 港幣百萬元
(k) Retained profits	(k) 留存溢利				
At 1st January	於1月1日	**28,890**	22,447	**17,227**	10,838
Impact of adopting HKFRS 9 *(Note 3)*	因採納《香港財務報告準則》第9號之影響*(附註3)*	**(32)**	–	**(337)**	–
Restated balance at 1st January	於1月1日已重報後的結餘	**28,858**	22,447	**16,890**	10,838
Net profit for the year	年度內溢利	**6,509**	9,347	**5,637**	9,381
Transfer from/(to) general reserve	撥自/(撥入)一般儲備	**6**	(9)	**–**	–
Transfer to capital reserve	撥入資本儲備	**(703)**	–	**–**	–
Transfer (to)/from statutory reserve	(撥入)/撥自法定儲備	**(74)**	308	**–**	–
Forfeited options transferred to retained profits	已註銷認股權轉入留存溢利	**–**	8	**–**	8
Dividends *(Note 20)*	股息*(附註20)*				
– Interim dividend	–中期股息	**(1,432)**	(1,854)	**(1,432)**	(1,854)
– Second interim dividend in respect of prior year	–上年度第二次中期股息	**(1,660)**	(757)	**(1,660)**	(757)
– Hybrid Tier 1 capital instruments	–混合一級資本工具	**(212)**	(211)	**–**	–
– Additional Tier 1 capital instruments	–額外一級資本工具	**(501)**	(389)	**(501)**	(389)
At 31st December	於12月31日	**30,791**	28,890	**18,934**	17,227
(l) Total reserves	(l) 儲備總額	**51,901**	51,955	**34,865**	33,821

General reserve was set up from the transfer of retained earnings and the realised revaluation surplus on disposal of properties.

一般儲備的建立，包括來自留存溢利及出售物業時的已實現重估盈餘。

Revaluation reserve on bank premises and exchange revaluation reserve have been set up and are dealt with in accordance with the accounting policies adopted for the revaluation of bank premises and foreign currency translation.

行址及匯兑重估儲備的建立及處理是根據重估行址和外幣折算所採用的會計政策。

Statutory reserves are set up to satisfy the statutory requirements of certain overseas subsidiaries and associates mainly for the purpose of covering unidentified potential losses on risk assets in addition to those recognised under the prevailing accounting requirements in their jurisdictions.

法定儲備是用作滿足若干海外附屬公司及聯營公司之法定要求，主要用途為除按當地現行會計要求下已確認而需額外涵蓋風險資產的不可辨別之可能損失。

Capital reserve represents the capitalisation of subsidiaries' and associates' reserves.

資本儲備指附屬公司及聯營公司儲備的資本化發行。

Capital reserve – staff share options issued comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Bank recognised in accordance with the accounting policy adopted for share based payment in Note 2(y)(iv).

資本儲備(已發行僱員認股權)包括根據已採納有關附註2(y)(iv)所載以股份為基礎作支付的會計政策確認授予本行僱員之實際或估計未行使認股權數目的公平價值。

43. RESERVES (CONTINUED) 儲備(續)

Fair value reserve comprises the cumulative net change in the fair value of FVOCI (2017: available-for-sale) securities held until the securities are derecognised and is dealt with in accordance with the accounting policies in Notes 2(h).

公平價值儲備包括持有通過全面收益以反映公平價值(2017年:可供出售)證券直至證券被終止確認的累計公平價值變動淨額,有關處理的會計政策已詳載於附註2(h)。

Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

對沖儲備包括用作現金流對沖工具的有關對沖交易之累計公平價值變動淨額的有效部分。

Liability credit reserve includes the cumulative changes in the fair value of the financial liabilities designated as at FVTPL that are attributable to changes in the credit risk of these liabilities other than those recognised in profit or loss.

負債信貸儲備包括指定通過損益以反映公平價值金融負債的累計公平價值變動,而有關於該等負債引致的信貸風險變動並非在收益表內確認。

Other reserves represent share of changes in equity of associates in respect of investment revaluation reserve and revaluation reserve of bank premises.

其他儲備包括應佔聯營公司權益之投資重估儲備及重估行址儲備的變動。

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the HKMA. As at 31st December, 2018, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK$5,112 million (2017: HK$4,062 million).

為符合《銀行業條例》有關審慎監管的規定,本行需在規管儲備中維持超過已確認減值損失的可能貸款及投資減值損失金額。經諮詢金管局後,儲備的變動已直接在留存溢利內劃定。於2018年12月31日,該要求的影響是要限制本行可派發予本集團股東的儲備,金額為港幣51.12億元(2017年:港幣40.62億元)。

At 31st December, 2018 the aggregate amount of reserves available for distribution to equity holders of the Bank was HK$23,946 million (2017: HK$24,928 million). After the end of the reporting period the directors declared a second interim dividend of HK$0.32 per ordinary share (2017: HK$0.60 per share), amounting to HK$910 million (2017: HK$1,659 million) and a special dividend of HK$0.35 per ordinary share, amounting to HK$996 million. The dividend has not been recognised as a liability at the end of the reporting period.

於2018年12月31日,可派發予本行股東的儲備總額為港幣239.46億元(2017年:港幣249.28億元)。在報告期結束日後董事宣布派發第二次中期股息每股普通股港幣0.32元(2017年:每股港幣0.60元),總額達港幣9.10億元(2017年:港幣16.59億元)以及特別股息每股普通股港幣0.35元,總額為港幣9.96億元。於報告期結束日並未確認該等股息為負債。

44. NON-CONTROLLING INTERESTS 非控股權益

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
At 1st January	於1月1日	**2,838**	3,189
– final dividend in respect of previous year	–上年度末期股息	**(53)**	(31)
– interim dividend in respect of current year	–本年度中期股息	**–**	(1,391)
Decrease in non-controlling interests arising from capital reduction of a subsidiary	–附屬公司減本而導致非控股權益減少	**(35)**	(135)
Change of ownership in subsidiaries	附屬公司之擁有權變動	**55**	(18)
Other comprehensive income	其他全面收益	**5**	56
Profit for the year	年度內溢利	**45**	1,168
At 31st December	於12月31日	**2,855**	2,838

The non-controlling interests include HK$2,493 million (2017: HK$2,487 million) of Hybrid Tier 1 capital instruments.

The Hybrid Tier 1 capital instruments comprising step-up subordinated notes ("Notes") of face value HK$2,493 million (USD318 million) and carrying amount of HK$2,578 million at bank level (2017: face value HK$2,487 million (USD318 million) and carrying amount of HK$2,728 million at bank level) and non-cumulative preference shares ("Innovate Preference Shares") of HK$2,578 million (USD318 million) (2017: HK$2,487 million (USD318 million)) were issued respectively by the Bank and by Innovate Holdings Limited, a wholly owned subsidiary of the Bank, on 5th November, 2009. The Notes bear a fixed interest rate of 8.5% per annum and will mature on 5th November, 2059. The Innovate Preference Shares are perpetual securities on which no dividend is payable. The Notes and the Innovate Preference Shares are listed, and traded together as units, on the Singapore Stock Exchange. The Hybrid Tier 1 capital instruments are qualified as Additional Tier 1 capital of the Bank and the Group. In the consolidated financial statements, the Notes are eliminated and the Innovate Preference Shares are classified as non-controlling interests.

非控股權益包括港幣24.93億元(2017年：港幣24.87億元)的混合一級資本工具。

混合一級資本工具包括分別由本行發行面值港幣24.93億元(3.18億美元)及在銀行層面之賬面值港幣25.78億元(2017年：面值港幣24.87億元(3.18億美元)及銀行層面之賬面值港幣27.28億元)步陞後償票據(「票據」)及由本行一全資附屬公司Innovate Holdings Limited所發行賬面值港幣25.78億元(3.18億美元)(2017年：賬值港幣24.87億元(3.18億美元))非累積優先股份(「Innovate」優先股)，發行日期為2009年11月5日。該票據之固定利率為年息8.5%，並將於2059年11月5日到期。Innovate優先股份是毋須支付股息的無到期日證券。該票據及Innovate優先股份是於新加坡交易所上市及以單位組合形式交易。混合一級資本工具已被評定為本行及本集團的額外一級資本。在綜合財務報表中，票據已被抵銷及Innovate優先股份則被分類為非控股權益。

45. PRINCIPAL RISK MANAGEMENT 主要風險管理

This section presents information on the Group's management of principal risks.

本部分載述有關本集團主要風險管理的資料。

The Group has established an effective risk governance and management framework in line with the requirements set out by the HKMA and other regulators. This framework is built around a structure that enables 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.

根據香港金融管理局及其他監管機構的規定，本集團已建立一個有效的風險管治及管理架構。該架構的構造讓董事會及高層管理人員能夠以適當授權和制衡方式履行其風險管理的相關職責。此等職責包括根據本集團的業務策略及目標設定風險偏好、制定風險政策以管理上述策略的執行，並設立風險審批、控制、監控及補救的程序及限制。

The RIC stands at the highest level of the Group's risk governance structure under the Board. It consists of four INEDs (including the Chairman of the Committee) and two NEDs. The RIC 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.

風險委員會為本集團僅次於董事會的最高風險管治機構，成員包括四名獨立非執行董事(包括委員會主席)及兩名非執行董事。風險委員會直接監督本集團機構風險偏好的制定，並設定本集團因應其財務能力、策略性指引、當前市場情況及監管要求而可承擔的風險水平。

The RIC 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 their business functions. Through the Group's management committees at executive level, including Crisis Management Committee, Risk Management Committee, Credit Committee, Asset and Liability Management Committee, and Operational Risk Management Committee – and with overall co-ordination of the Risk Management Division – the RIC regularly reviews the Group's risk management framework and ensures that all important risk-related tasks are performed according to established policies and with appropriate resources.

風險委員會亦確保本集團的風險偏好獲反映於政策及程序上，讓高層管理人員及相關的分處主管加以採用，以行使其業務職能。透過本集團行政層面的各個管理委員會，包括危機管理委員會、風險管理委員會、信貸委員會、資產負債管理委員會及營運風險管理委員會，並在風險管理處的整體協調下，風險委員會定期檢討本集團的風險管理架構，確保根據現有政策及運用適當資源執行所有與風險相關的重要任務。

The Crisis Management Committee and Risk Management Committee comprise the Senior Management and the Group Chief Risk Officer.

危機管理委員會及風險管理委員會由高層管理人員和集團風險總監組成。

The Credit Committee, Asset and Liability Management Committee, and Operational Risk Management Committee comprise the Senior Management, the Group Chief Risk Officer and where appropriate senior executives from the relevant areas.

信貸委員會、資產負債管理委員會及營運風險管理委員會由高層管理人員、集團風險總監及(在適當情況下)其他有關方面的高級行政人員組成。

The Group has implemented an ERM 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.

本集團已推行企業風險管理架構。此企業風險管理架構旨在全面有效地識別及管理潛在風險、實踐金管局對本集團作為一間具本地系統重要性銀行在風險管理方面的更高期望，以及鞏固「三道防線」風險管理模式。

The Group has adopted the "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/department 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 as to the effectiveness of the Group's risk management framework including risk governance arrangements.

The Group Chief Risk Officer co-ordinates 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.

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. The Group's major risk management policies and control limits are approved by the Board and are monitored and regularly reviewed and enhanced on a regular basis to cater for market changes, statutory requirements, and best practice in risk management processes. The Board has delegated the responsibility for ongoing risk management to the RIC and the management committees. Significant risk management-related issues must be reported to the Board, which oversees risk management. Moreover, on a daily basis, the Group Chief Risk Officer is responsible for overseeing the Group's risk management issues which include, but are not limited to, the risk management infrastructure, strategies, appetites, culture, and resources.

為確保風險管理於本集團內有關的角色與責任能明確分工，本集團已採納「三道防線」風險管理框架。「三道防線」模式概述如下：

- 第一道防線為「風險負責人」，由總行各分處／部門主管及各重要附屬公司主管，連同其屬下職員組成，主要負責其業務單位的日常風險管理，包括特定風險管理機制及具體程序的設立及執行。

- 第二道防線為「風險監控人」，由總行指定的分處／部門主管組成。在其本身所屬分處／部門的支援下，風險監控人負責制定風險管理管治架構、獨立監督風險及輔助各管理委員會監控風險管理。

- 第三道防線為稽核處。稽核處負責為本集團風險管理架構(包括風險管治安排)的有效性提供保證。

集團風險總監協調本集團所有風險管理相關事務，與各風險監控人就風險管理政策的制定緊密協作，並透過與所有風險監控人及風險負責人的職能工作關係，在集團層面監督風險。

本集團面臨可能影響其品牌、營運及財務狀況的各類風險。在企業風險管理架構下，主要風險包括信貸風險、利率風險、市場風險、流動性風險、營運風險、信譽風險、策略性風險、法律風險、合規風險、科技風險、持續業務運作風險及新產品及業務風險。

本集團已制定政策，以識別、衡量、監察、控制及匯報各類風險，並於適當的情況下調配資本以抵禦該等風險。本集團的主要風險管理政策及控制限額由董事會批准，並且受到監控及定期檢討，以符合市場轉變及法定要求，及達致風險管理程序的最佳做法。董事會已將持續管理風險的責任授予風險委員會及有關的管理委員會。與重要風險管理相關的事項須上報至監督風險管理的董事會。此外，集團風險總監的日常職責為監督集團風險管理相關事項，包括但不限於風險管理基礎架構及策略、風險偏好、風險管治文化及有關資源。

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

Stress testing is an integral part of the Group's risk management. The Group regularly performs stress-tests on the principal risks, where appropriate, to assess the potential impact of stressed business conditions (including hypothetical situations such as a significant economic downturn in Mainland China and Hong Kong) on the Group's financial positions, in particular, capital adequacy, profitability, and liquidity. Whenever necessary, a prompt management response will be developed and executed to mitigate potential impacts.

壓力測試為本集團風險管理的重要部分。本集團定期對相關的主要風險進行壓力測試，評估受壓營商環境(包括中國內地及香港出現嚴重經濟下滑等假設情景)對本集團的財務狀況，尤其是資本充足、盈利能力及流動性可能產生的影響。有需要時，管理層亦會果斷制定並執行應對措施以減低潛在影響。

(a) Credit risk management

Credit risk is the risk of loss arising from a borrower or counterparty failing to meet its obligations.

The Credit Committee is responsible for managing all credit risk-related issues of the Group, while the Credit Risk Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to credit risk. The Group identifies and manages credit risk by defining the target market segment, formulating appropriate credit policies, carrying out credit assessment and monitoring of asset quality. Credit risk control limits are set for different levels. Risk, return, and market situation are considered when setting all limits. Active limit monitoring is undertaken.

In evaluating the credit risk associated with an individual customer or counterparty, financial strength and repayment ability are always the primary considerations. Credit risk may be mitigated by obtaining collateral from the customer or counterparty.

The Group has established policies, procedures, and rating systems to identify, measure, monitor, control, and report on credit risk. In this connection, guidelines for management of credit risk have been laid down in the Group's Credit Risk Management Manual. These guidelines stipulate delegated lending authorities, credit underwriting criteria, credit monitoring processes, an internal rating structure, credit recovery procedures and a provisioning policy. They are reviewed and enhanced on an ongoing basis to cater for market changes, statutory requirements, and best practices in risk management processes.

(a) 信貸風險管理

信貸風險是指因借款人或交易對手未能履行其責任而導致損失的風險。

信貸委員會負責管理所有與本集團信貸風險有關的事項，而本集團風險管理處轄下的信貸風險管理部則負責監察與信貸風險有關的活動。本集團透過設定目標市場、制定適當的信貸政策、進行信貸評核，以及監控資產素質，來識別和管理信貸風險。信貸風險控制限額設有不同層次。釐定所有限額時會考慮風險、回報及市場情況，並且採用積極限額監控程序。

在評估與個別客戶或交易對手相關的信貸風險時，其財政實力以及還款能力是主要的考慮因素。此外，客戶或交易對手所提供的抵押品亦有助減低信貸風險。

本集團已制定多項政策、程序及評級系統，以識別、衡量、監察、控制及匯報信貸風險。在此方面，本集團已將信貸風險管理指引詳列於集團的信貸風險管理手冊內，對信貸權限授權、授信標準、信貸監控程序、內部評級架構、信貸追收程序及撥備政策訂下規定。本集團持續檢討和改善該等指引，以配合市場轉變及有關法定要求，及達致風險管理程序的最佳做法。

The Group's credit risk management for the major types of credit risk is depicted as follows:

(i) Corporate and bank credit risk
The Group has laid down policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate and bank customers, the Group has different internal rating systems that are applied to each counterparty. For exposure classified as Specialised Lending in particular, supervisory slotting criteria are adopted. To monitor credit concentration risk, the Group has preset limits for exposures to individual industries and for borrowers and groups of borrowers. The Group also has a review process to ensure that the level of review and approval is proper and will depend on the size of the facility and rating of the credit.

The Group undertakes on-going credit analysis and monitoring at several levels. The policies are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The overall portfolio risk as well as individual impaired loans and potential impaired loans are monitored on a regular basis.

(ii) Retail credit risk
The Group's retail credit policy and approval process are designed for the fact that there are high volumes of relatively homogeneous and small value transactions in each retail loan category. The design of internal rating system and formulation of credit policies are primarily based on the demographic factors and the loss experience of the loan portfolios. The Group monitors its own and industry experience to determine and periodically revise product terms and desired customer profiles.

(iii) Credit risk of treasury transactions
The credit risk of the Group's treasury transactions is managed in the same way as the Group manages its corporate and bank credit risk. The Group applies an internal rating system to its counterparties and sets individual counterparty limits.

(iv) Credit–related commitment
The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

本集團就下列各類主要信貸風險實行信貸風險管理：

(i) 企業及銀行信貸風險
本集團已制訂多項政策及程序，以評估特定交易對手或交易的潛在信貸風險，以及決定批核有關交易與否。就企業及銀行客戶而言，本集團已制定適用於所有交易對手的內部評級系統。專門性借貸的風險承擔則採用監管分類準則。為監控信貸集中的風險，本集團已就個別行業及不同的借款人和借款人團體預設風險承擔限額。本集團亦已釐定檢討程序，確保按照貸款的規模和信貸評級，為貸款進行適當的檢討和審批。

本集團持續進行多個層次的信貸分析和監控。有關政策旨在盡早發現需要特別監控的交易對手、行業或產品的風險承擔。交易組合的整體風險和個別減值貸款及潛在減值貸款，均定期予以監控。

(ii) 零售信貸風險
本集團的零售信貸政策和審批程序是因應各類零售貸款中均有大量類似的小額交易而制定的。在設計內部評級系統和制訂信貸政策時，本集團的主要考慮因素包括人口結構因素和有關貸款組合過往的損失。本集團監控本身和行業狀況以釐定和定期修訂產品條款和目標客戶組合。

(iii) 財資交易的信貸風險
本集團採用企業及銀行信貸風險的管理方法，管理本集團財資交易的信貸風險，包括引用內部評級系統處理交易對手及設定個別交易對手的風險限額。

(iv) 與信貸有關的承諾
與信貸有關的承諾和或有事項的風險，本質上與提供貸款予客戶時的信貸風險相同。因此，有關交易必須符合客戶申請貸款時所要達到的信貸申請、組合保存和抵押要求。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)

(v) Master netting arrangements

To mitigate credit risks, the Group enters into master netting arrangements with same counterparties. Netting agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the statement of financial position.

The following tables present details of financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

(a) 信貸風險管理(續)

(v) 淨額結算總安排

本集團與其相同對手簽訂淨額結算總安排以減低信貸風險。若發生違約事件，根據淨額結算協議，所有與該對手之交易會終止及所有結餘金額以淨額結算。除發生違約事件外，所有與對手之交易會以總額結算及在財務狀況表中的資產和負債通常不會互相抵銷。

下表列示受抵銷、具法律效力之淨額結算總安排及相近協議約束的金融工具詳情。

		2018				
		Gross amounts of recognised financial assets 已確認金融資產總額 HK$ Mn 港幣百萬元	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position 於綜合財務狀況表中抵銷之已確認金融負債總額 HK$ Mn 港幣百萬元	Net amounts of financial assets presented in the consolidated statement of financial position 於綜合財務狀況表中列示的金融資產淨額 HK$ Mn 港幣百萬元	Related financial instruments that are not set off 未有於相關金融工具中抵銷之金額 HK$ Mn 港幣百萬元	Net amount 淨額 HK$ Mn 港幣百萬元
Assets	**資產**					
Derivative assets	衍生工具資產	**20**	**–**	**20**	**(19)**	**1**
Other assets	其他資產	**441**	**(423)**	**18**	**–**	**18**
Total	總額	**461**	**(423)**	**38**	**(19)**	**19**

		2018				
		Gross amounts of recognised financial liabilities 已確認金融負債總額 HK$ Mn 港幣百萬元	Gross amounts of recognised financial assets set off in the consolidated statement of financial position 於綜合財務狀況表中抵銷之已確認金融資產總額 HK$ Mn 港幣百萬元	Net amounts of financial liabilities presented in the consolidated statement of financial position 於綜合財務狀況表中列示的金融負債淨額 HK$ Mn 港幣百萬元	Related financial instruments that are not set off 未有於相關金融工具中抵銷之金額 HK$ Mn 港幣百萬元	Net amount 淨額 HK$ Mn 港幣百萬元
Liabilities	**負債**					
Derivative liabilities	衍生工具負債	**48**	**-**	**48**	**(19)**	**29**
Other liabilities	其他負債	**423**	**(423)**	**-**	**-**	**-**
Total	總額	**471**	**(423)**	**48**	**(19)**	**29**

		2017				
		Gross amounts of recognised financial assets 已確認金融資產總額 HK$ Mn 港幣百萬元	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position 於綜合財務狀況表中抵銷之已確認金融負債總額 HK$ Mn 港幣百萬元	Net amounts of financial assets presented in the consolidated statement of financial position 於綜合財務狀況表中列示的金融資產淨額 HK$ Mn 港幣百萬元	Related financial instruments that are not set off 未有於相關金融工具中抵銷之金額 HK$ Mn 港幣百萬元	Net amount 淨額 HK$ Mn 港幣百萬元
Assets	**資產**					
Derivative assets	衍生工具資產	38	–	38	(34)	4
Other assets	其他資產	1,164	(763)	401	–	401
Total	總額	1,202	(763)	439	(34)	405

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)
(v) Master netting arrangements (continued)

(a) 信貸風險管理(續)
(v) 淨額結算總安排(續)

		2017				
		Gross amounts of recognised financial liabilities 已確認金融負債總額 HK$ Mn 港幣百萬元	Gross amounts of recognised financial assets set off in the consolidated statement of financial position 於綜合財務狀況表中抵銷之已確認金融資產總額 HK$ Mn 港幣百萬元	Net amounts of financial liabilities presented in the consolidated statement of financial position 於綜合財務狀況表中列示的金融負債淨額 HK$ Mn 港幣百萬元	Related financial instruments that are not set off 未有於相關金融工具中抵銷之金額 HK$ Mn 港幣百萬元	Net amount 淨額 HK$ Mn 港幣百萬元
Liabilities	**負債**					
Derivative liabilities	衍生工具負債	69	–	69	(34)	35
Other liabilities	其他負債	763	(763)	–	–	–
Total	總額	832	(763)	69	(34)	35

The tables below reconcile the "net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the derivative assets, other assets, derivative liabilities and other liabilities presented in the consolidated statement of financial position.

下表即上述在綜合財務狀況表列賬的金融資產及金融負債淨額與在綜合財務狀況表列賬的衍生工具資產、其他資產、衍生工具負債及其他負債之對賬。

		2018		2017	
		Derivative assets 衍生工具資產 HK$ Mn 港幣百萬元	**Other assets 其他資產 HK$ Mn 港幣百萬元**	Derivative assets 衍生工具資產 HK$ Mn 港幣百萬元	Other assets 其他資產 HK$ Mn 港幣百萬元
Net amount of financial assets after offsetting as stated above	如上述抵銷後的金融資產淨額	**20**	**18**	38	401
Financial assets not in scope of offsetting disclosure	不在披露範疇的金融資產	**10,191**	**35,177**	11,297	32,574
Impairment allowances	減值準備	**–**	**(291)**	–	(16)
		10,211	**34,904**	11,335	32,959

		2018		2017	
		Derivative liabilities 衍生工具負債 HK$ Mn 港幣百萬元	**Other liabilities 其他負債 HK$ Mn 港幣百萬元**	Derivative liabilities 衍生工具負債 HK$ Mn 港幣百萬元	Other liabilities 其他負債 HK$ Mn 港幣百萬元
Net amount of financial liabilities after offsetting as stated above	如上述抵銷後的金融負債淨額	**48**	**–**	69	–
Financial liabilities not in scope of offsetting disclosure	不在披露範疇的金融負債	**9,448**	**51,444**	12,008	45,378
		9,496	**51,444**	12,077	45,378

(vi) Concentrations of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's credit portfolio is diversified along geographic, industry and product sectors. For analysis of loans and advances to customers by industry sectors and geographical areas, please refer to Notes 29(b) and 29(c) respectively.

The Group monitors its credit concentration risk by adopting appropriate risk control measures, such as setting limits on exposures to different industries and loan portfolios.

(vi) 信貸集中的風險

信貸集中的風險源於交易對手團體受到地區、經濟或行業因素的影響，而該等團體的整體信貸風險承擔對本集團的總體風險承擔至關重要。本集團的信貸組合分散覆蓋不同地區、行業和產品。有關按行業分類及區域分類的客戶貸款及墊款，請分別參閱附註29(b)及29(c)。

本集團一直採用適當的風險控制措施，例如就不同行業和貸款組合釐定限額，以監控信貸集中的風險。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)

(vii) Maximum exposure

The maximum exposure to credit risk at the end of the reporting period without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

(a) 信貸風險管理(續)

(vii) 最高風險

於報告期結束日並未計算任何抵押品或其他信貸提升的最高信貸風險，即指每一項已減除任何減值準備的金融資產在財務狀況表的賬面值。最高風險摘要如下：

		2018	2017 Restated 重報
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元
Cash and balances with banks and other financial institutions	現金及在銀行和其他金融機構的結存	**46,822**	54,408
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款	**60,373**	58,583
Trade bills	貿易票據	**14,646**	13,909
Trading assets	交易用途資產	**2,131**	3,999
Derivative assets	衍生工具資產	**10,211**	11,335
Loans and advances to customers	客戶貸款及墊款	**498,284**	470,339
Investment securities	投資證券	**140,673**	130,544
Other assets	其他資產	**34,617**	32,710
Financial guarantees and other credit related contingent liabilities	財務擔保及其他與信貸有關的或然負債	**18,509**	14,626
Loan commitments and other credit related commitments	貸款承擔及其他與信貸有關的承擔	**177,710**	204,442
		1,003,976	994,895

Note: The 2017 comparative figures have been restated to conform to current year's presentation of Consolidated Statement of Financial Position.

註：2017年的比較數字經已重報以符合本年度綜合財務狀況表的呈報方式。

(viii) Credit quality analysis

Credit quality of loans and advances

The following table sets out information about the credit quality of loans and advances to customers. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

(viii) 信貸質素分析

貸款及墊款的信貸質素

下表載列貸款及墊款的信貸質素分析。除特別指明者外，表格內的金額為賬面總額。

		2018								2017	
		12-month ECL 12個月內之預期信貸損失		Lifetime ECL not credit-impaired 非信貸不良的合約期內之預期信貸損失		Lifetime ECL credit-impaired 信貸不良的合約期內之預期信貸損失		Total 總額		Total 總額	
		Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元
Loans and advances to customers at amortised cost	**按攤銷成本的客戶貸款及墊款**										
– Grades 1 – 15: Pass	– 1 – 15級：合格	465,980	1,124	25,413	100	–	–	491,393	1,224	463,082	963
– Grades 16 – 17: Special Mention	– 16 – 17級：需要關注	–	–	5,747	29	–	–	5,747	29	5,517	23
– Grade 18: Substandard	– 18級：次級	–	–	–	–	1,226	17	1,226	17	1,392	5
– Grade 19: Doubtful	– 19級：呆滯	–	–	–	–	1,718	109	1,718	109	3,003	42
– Grade 20: Loss	– 20級：虧損	–	–	–	–	547	187	547	187	782	2
Total gross carrying amount	賬面值總額	465,980	1,124	31,160	129	3,491	313	500,631	1,566	473,776	1,035
Impairment allowances	減值準備	(431)	(1)	(855)	(4)	(1,061)	(191)	(2,347)	(196)	(3,437)	–
Carrying amount	賬面值	465,549	1,123	30,305	125	2,430	122	498,284	1,370	470,339	1,035

Credit quality of financial assets other than loans and advances

The following tables set out the credit analysis for debt instruments other than loans and advances to customers, measured at amortised cost and FVOCI (2017: available-for-sale). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts/fair value. For loan commitment and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

除貸款及墊款外的金融資產的信貸質素

下表載列除貸款及墊款外並按攤銷成本及通過其他全面收益以反映公平價值(2017年：可供出售)計量的債務工具的信貸分析。除特別指明者外，就金融資產而言，表格內的金額為賬面總額／公平價值。就貸款承擔及財務擔保合約而言，表格內的金額分別為所承擔或擔保的金額。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)
(viii) Credit quality analysis (continued)

(a) 信貸風險管理(續)
(viii) 信貸質素分析(續)

		2018								2017	
		12-month ECL 12個月內之預期信貸損失		Lifetime ECL not credit-impaired 非信貸不良的合約期內之預期信貸損失		Lifetime ECL credit-impaired 信貸不良的合約期內之預期信貸損失		Total 總額		Total 總額	
		Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元
Trade bills at amortised cost	**按攤銷成本的貿易票據**										
– Grades 1 – 15: Pass	– 1 – 15級：合格	2,816	45	69	–	–	–	2,885	45	13,909	44
– Grades 16 – 17: Special Mention	– 16 – 17級：需要關注	–	–	–	–	–	–	–	–	–	–
– Grade 18: Substandard	– 18級：次級	–	–	–	–	–	–	–	–	–	–
– Grade 19: Doubtful	– 19級：呆滯	–	–	–	–	1	–	1	–	1	–
– Grade 20: Loss	– 20級：虧損	–	–	–	–	–	–	–	–	–	–
Total gross carrying amount	賬面總額	2,816	45	69	–	1	–	2,886	45	13,910	44
Impairment allowances	減值準備	(3)	–	–	–	(1)	–	(4)	–	(1)	–
Carrying amount	賬面值	2,813	45	69	–	–	–	2,882	45	13,909	44

		2018								2017	
		12-month ECL 12個月內之預期信貸損失		Lifetime ECL not credit-impaired 非信貸不良的合約期內之預期信貸損失		Lifetime ECL credit-impaired 信貸不良的合約期內之預期信貸損失		Total 總額		Total 總額	
		Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元
Trade bills at FVOCI	**按通過其他全面收益以反映公平價值的貿易票據**										
– Grades 1 – 15: Pass	– 1 – 15級：合格	11,541	2	223	–	–	–	11,764	2	–	–
Total carrying amount at fair value	賬面值總額 – 按公平價值	11,541	2	223	–	–	–	11,764	2	–	–
Impairment allowances	減值準備	(5)	–	–	–	–	–	(5)	–	–	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註（續）

		2018								2017	
		12-month ECL 12個月內之預期信貸損失		Lifetime ECL not credit-impaired 非信貸不良的合約期內之預期信貸損失		Lifetime ECL credit-impaired 信貸不良的合約期內之預期信貸損失		Total 總額		Total 總額	
		Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元
Placements with and advances to banks and other financial institutions	**在銀行及其他金融機構的存款及墊款**										
– Grades 1 – 15: Pass	– 1 – 15級：合格	60,224	127	159	–	–	–	60,383	127	58,583	39
Total gross carrying amount	賬面值總額	60,224	127	159	–	–	–	60,383	127	58,583	39
Impairment allowances	減值準備	(10)	–	–	–	–	–	(10)	–	–	–
Carrying amount	賬面值	60,214	127	159	–	–	–	60,373	127	58,583	39

		2018				2017
		12-month ECL 12個月內之預期信貸損失 HK$ Mn 港幣百萬元	Lifetime ECL not credit-impaired 非信貸不良的合約期內之預期信貸損失 HK$ Mn 港幣百萬元	Lifetime ECL credit-impaired 信貸不良的合約期內之預期信貸損失 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Loan commitments	**貸款承擔**					
– Grades 1 – 15: Pass	– 1 – 15級：合格	111,004	5,822	–	116,826	145,259
– Grades 16 – 17: Special Mention	– 16 – 17級：需要關注	–	58	–	58	167
Total	總額	111,004	5,880	–	116,884	145,426
Impairment allowances	減值準備	(56)	(40)	–	(96)	–
Financial guarantee contracts	**財務擔保合約**					
– Grades 1 – 15: Pass	– 1 – 15級：合格	25,136	2,101	–	27,237	28,187
– Grades 16 – 17: Special Mention	– 16 – 17級：需要關注	–	7	–	7	3
Total	總額	25,136	2,108	–	27,244	28,190
Impairment allowances	減值準備	(10)	(5)	–	(15)	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)

(viii) Credit quality analysis (continued)

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate and bank lending risk and risk gradings are applied to the counterparties with individual counterparty limits set.

At the end of the reporting period, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, Moody's Investor Services, or equivalent, is as follows:

(a) 信貸風險管理(續)

(viii) 信貸質素分析(續)

資金交易的信貸風險管理方法，與本集團管理其企業及銀行借貸的方法一致及風險級別是適用於設有個別對手限額的對手。

於報告期結束日，按照外部信貸評級機構，穆迪投資服務，或相同等級的評級機構，所指定之債務證券投資的信貸質素分析如下：

		2018								2017	
		12-month ECL 12個月內之預期信貸損失		Lifetime ECL not credit-impaired 非信貸不良的合約期內之預期信貸損失		Lifetime ECL credit-impaired 信貸不良的合約期內之預期信貸損失		Total 總額		Total 總額	
		Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元
Debt investment securities at amortised cost (2017: held-to-maturity and loans and receivables)	按攤銷成本的債務投資證券(2017年：持至到期及貸款及應收賬款)										
Aaa	Aaa	-	-	-	-	-	-	-	-	-	-
Aa1 to Aa3	Aa1 至 Aa3	2,695	2	-	-	-	-	2,695	2	2,571	1
A1 to A3	A1 至 A3	6,007	103	-	-	-	-	6,007	103	5,074	99
Baa1 to Baa3	Baa1 至 Baa3	2,546	32	-	-	-	-	2,546	32	1,193	10
Below Baa3	Baa3 以下	1,492	20	-	-	-	-	1,492	20	567	8
Unrated	無評級	6,347	76	28	1	-	-	6,375	77	526	6
Total gross carrying amount	賬面值總額	19,087	233	28	1	-	-	19,115	234	9,931	124
Impairment allowances	減值準備	(93)	(1)	(1)	-	-	-	(94)	(1)	-	-
Carrying amount	賬面值	18,994	232	27	1	-	-	19,021	233	9,931	124

		2018								2017	
		12-month ECL 12個月內之預期信貸損失		Lifetime ECL not credit-impaired 非信貸不良的合約期內之預期信貸損失		Lifetime ECL credit-impaired 信貸不良的合約期內之預期信貸損失		Total 總額		Total 總額	
		Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元	Principal 本金 HK$ Mn 港幣百萬元	Accrued interest 應計利息 HK$ Mn 港幣百萬元
Debt investment securities at FVOCI (2017: available-for-sale)	通過其他全面收益以反映公平價值的債務投資證券(2017年:可供出售)										
Aaa	Aaa	5,566	8	–	–	–	–	5,566	8	6,957	11
Aa1 to Aa3	Aa1至Aa3	19,355	7	–	–	–	–	19,355	7	22,722	24
A1 to A3	A1至A3	41,890	627	–	–	–	–	41,890	627	36,299	458
Baa1 to Baa3	Baa1至Baa3	31,302	336	–	–	–	–	31,302	336	32,796	346
Below Baa3	Baa3以下	1,157	15	–	–	–	–	1,157	15	1,794	20
Unrated	無評級	9,856	130	233	3	–	–	10,089	133	16,166	178
Total carrying amount at fair value	賬面值總額–按公平價值	109,126	1,123	233	3	–	–	109,359	1,126	116,734	1,037
Impairment allowances	減值準備	(257)	(3)	(6)	–	–	–	(263)	(3)	–	–

The following table sets out the credit analysis for non-trading financial assets measured at FVTPL.

下表載列按通過損益以反映公平價值計量的非交易金融資產的信貸分析。

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Debt securities	**債務證券**		
Aaa	Aaa	**159**	163
Aa1 to Aa3	Aa1至Aa3	**2,564**	1,039
A1 to A3	A1至A3	**1,736**	1,686
Baa1 to Baa3	Baa1至Baa3	**6,551**	376
Below Baa3	Baa3以下	**258**	–
Unrated	無評級	**1,025**	615
Total carrying amount at fair value	賬面值總額–按公平價值	**12,293**	3,879

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)

(viii) Credit quality analysis (continued)

The following table sets out the credit analysis for trading debt securities.

(a) 信貸風險管理(續)

(viii) 信貸質素分析(續)

下表載列作交易用途債務證券的信貸分析。

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Debt securities	**債務證券**		
Aaa	Aaa	–	–
Aa1 to Aa3	Aa1至Aa3	**24**	61
A1 to A3	A1至A3	**1,856**	3,761
Baa1 to Baa3	Baa1至Baa3	**125**	117
Below Baa3	Baa3以下	–	–
Unrated	無評級	**126**	60
Total carrying amount at fair value	賬面值總額－按公平價值	**2,131**	3,999

The following table shows the credit quality of the counterparties to which there were exposures arising from derivative asset transactions.

下表載列由衍生工具資產交易所產生之對手信貸質素分析如下。

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Derivative assets	**衍生工具資產**		
Aa1 to Aa3	Aa1至Aa3	**255**	664
A1 to A3	A1至A3	**4,102**	2,214
Baa1 to Baa3	Baa1至Baa3	**3,975**	4,620
Below Baa3	Baa3以下	**215**	56
Unrated	無評級	**1,664**	3,781
Total carrying amount at fair value	賬面值總額－按公平價值	**10,211**	11,335

Cash and balances with banks and other financial institutions

The Group held cash and balances with banks and other financial institutions of HK$48,111 million at 31st December, 2018 (31st December, 2017: HK$55,696 million), of which 98% of cash and balances with banks and other financial institutions counterparties that are rated at investment grade, based on Moody's Investor Services, or equivalent ratings.

現金及在銀行和其他金融機構的結存

於2018年12月31日，本集團持有現金及在銀行和其他金融機構的結存為港幣481.11億元(2017年12月31日：港幣556.96億元)。基於穆迪投資服務或相當的評級，其中98%的現金及在銀行和其他金融機構交易對手的結存評級為投資評級。

(ix) Details of key areas in measurement of ECLs

The Group adopts a forward-looking "expected credit loss" model for measuring and recognising impairment loss to meet the requirement of HKFRS 9.

The impairment requirements of HKFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- Assessing whether the credit risk of an asset has increased significantly since initial recognition; and
- Incorporating forward-looking information into the measurement of ECLs.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

The Group has established a framework to determine whether the credit risk on a particular financial asset has increased significantly since initial recognition (see Note 2(h)(vii)). The framework aligns with the Group's internal credit risk management process.

Credit risk grades

For majority of the Group's portfolios, the Group assigns each exposure to a credit risk grade that is determined according to the predicted level of the risk of default. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

(ix) 「預期信貸損失」估算中主要之處的詳述

本集團採納一套具前瞻性的「預期信貸損失」模型以估算和確認《香港財務報告準則》第9號要求的減值。

《香港財務報告準則》第9號的減值規定具複雜性並需要管理層作出判斷，估算及假設，特別是在以下將會詳述之處：

- 評估金融資產的信貸風險會否較初始承擔時明顯增加，及
- 整合前瞻性資料以作估算預期信貸損失。

「預期信貸損失」估算的關鍵輸入是以下變量：

- 違責或然率(PD)；
- 違責損失率(LGD)；及
- 違責風險承擔(EAD)。

本集團已建立機制以確定某一金融資產的信貸風險是否較初始承擔時明顯增加(詳見附註2(h)(vii))。此機制與本集團的內部信貸風險管理程序吻合。

信用風險等級

對於本集團大多數信貸組合，本集團為每一個信貸風險承擔根據違約風險的預測而配定一個信貸風險評級。信用風險等級使用表明違約風險的定性和定量因素來定義。這些因素取決於風險承擔的性質和借款人的類型。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)

(ix) Details of key areas in measurement of ECLs (continued)

The table below provides the 12-month Probability of default ("PD") range for each credit risk grade of retail and non-retail portfolios. The table also provides an indicative mapping of how the Group's internal credit risk grades relate to PD and, for the non-retail portfolio, to external credit ratings of Standard & Poor's.

(a) 信貸風險管理(續)

(ix) 「預期信貸損失」估算中主要之處的詳述(續)

下表提供了零售和非零售投資組合的每個信用風險等級的12個月違責或然率範圍。該表還提供了本集團非零售信貸組合的內部信用風險等級與標準普爾的外部信用評級的指示性參考。

Credit risk grade 信用風險等級	Remarks on default risk 違約風險的備註	12-month PD range 12個月PD範圍	External Rating Benchmark 外部評級基準
1–3	Minimal to low risk 極小至低的風險	0.0000% to 至 0.0857%	AAA to 至 A-
4–8	Moderate risk 適度風險	0.0857% to 至 0.4290%	BBB+ to 至 BBB-
9–11	Substantial risk 略高風險	0.4290% to 至 1.6500%	BB+ to 至 BB-
12–15	High risk 高風險	1.6500% to 至 8.3531%	B+ to 至 B-
16–17	Very high risk 很高風險	8.3531% to 至 100%	CCC+ to 至 C
18–20	Default 違約	100%	D

For the remaining portfolios without credit risk grade assignment, references of peer bank PD estimates of similar portfolios and the long-run average default rate of the portfolios are used.

對於餘下沒有信用風險等級分配的信貸組合，我們使用類似信貸組合的同行銀行違責或然率估計的參考或信貸組合的長期平均違責或然率。

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group also collects historical performance and default information about portfolios of credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios with no internal data available, information from external data sources is used. In particular,

違責或然率的期限結構

信用風險等級是確定違責或然率的期限結構的主要輸入。本集團亦會按司法管轄區或地區收集有關分析的信貸風險承擔，以及產品及借款人類別以及信貸風險評級的歷史表現及違約信息。對於一些沒有內部數據的投資組合，自外部數據源的信息會被使用。特別是，

Portfolio 組合	External data sources 外部數據源
Debt exposures 債務風險承擔	Moody's: Annual default study corporate default and recovery rates
Bank exposures 銀行風險承擔	
Sovereign exposures 主體風險承擔	Moody's: Sovereign default and recovery rates

The Group deploys statistical models to analyse the data collected and generate estimates of PD of exposures expected to change as a result of the passage of time. The estimation of PD term structure makes use of the annual credit risk grade transition for the portfolios with credit risk grade assignment. For the portfolios without credit risk grade assignment and no credit risk grade transition information available, the PD term structure estimation is referenced to forecast of economic index relevant to the portfolio.

本集團採用統計模型分析所收集的數據，並產生預計會因時間推移而發生變化的違責或然率的估計值。具有信用風險等級分配的組合，我們利用信用風險等級的年度轉換以估計對的違責或然率期限結構。對於沒有信用風險等級分配的組合或沒有可用的信用風險等級轉換信息。違責或然率期限結構估計參考了與組合相關的經濟指數預測。

LGD is the magnitude of the likely loss if there is a default. For the retail and corporate portfolio with sufficient historical loss and recovery data, the collateral recovery rates and the LGD estimates can be derived. For portfolios with insufficient historical loss and recovery data, either reference of peer bank LGD estimates of the similar portfolios or external data source are used for derivating the LGD estimates.

如果存在違約，違責損失率是可能損失的幅度。對於具有足夠歷史損失和恢復數據的零售和公司投資組合，可以推導出抵押品回收率和違責損失率估計值。對於歷史損失和恢復數據不足的組合，可以使用同行銀行類似組合的違責損失率估計值或外部數據源來推導違責損失率估計值。

For portfolio with individual assessment of credit risk mitigation measures, collateral values are projected for different economic scenarios so as to reflect the LGD estimates under different economic scenarios. For other portfolios different scenario portfolio LGD are derived by benchmarking to a corresponding LGDs within a long period of historical LGDs.

對於單獨評估信用風險緩解措施的組合，預測不同經濟情景的抵押品價值，以反映不同經濟情景下的違約損失率估計。對於其他組合，不同情景組合違責損失率通過在長期歷史期間對相應的違責損失率進行基準測試而得出。

EAD represents the expected exposure in the event of a default. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments or undrawn limit of retail revolving products, the EAD is the potential future amounts that may be drawn under the contract. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. The EAD estimates are adopted the parameters suggested by BASEL or statistical model based on historical data.

違責風險承擔表示發生違約時的預期風險。金融資產的違責風險承擔是其違約時的總賬面金額。對於貸款承諾或零售周轉產品的未提取限額，違責風險承擔是可能根據合同提取的未來潛在金額。對於財務擔保，違責風險承擔表示財務擔保到期時的擔保風險金額。違責風險承擔估計採用BASEL建議的參數或基於歷史數據的統計模型。

Significant increase in credit risk

Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade when the risk of asset changes. The Group primarily identifies whether a significant increase in credit risk under HKFRS 9 has occurred for an exposure by comparing:

- the credit risk grade at the reporting date; with
- the credit risk grade at the initial recognition of the exposure.

The Group deems the credit risk of a particular exposure to have increased significantly since initial recognition if the current credit risk grade deteriorates by a pre-determined number of notches. The criteria for determining the number of notches may vary by portfolio and include a backstop based on delinquency.

As a backstop, and as required by HKFRS 9, the Group presumptively considers that a significantly increase in credit risk occurs no later than when an asset is more than 30 days past due.

明顯增加的信貸風險

信貸風險承擔會持續受監控並在其風險程度有所改變時被調配至不同的信貸風險評級。在《香港財務報告準則》第9號下，集團識別一個資產的信貸風險是否明顯增加主要透過比較該資產：

- 於結算日的信貸風險評級；和
- 於初始承擔時的信貸風險評級 。

如某一資產的現行信貸風險評級已較本集團初始承擔時的評級轉差了超過一個指定數量的級別，本集團視該資產的信貸風險已有明顯增加。不同的資產組合會以不同的級別數量作為衡量標準，並以逾期情況作為預設的基本標準。

在《香港財務報告準則》第9號下，作為一個基本標準，本集團預設某一已逾期超過30日的資產為.信貸風險已經明顯增加。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)

(ix) Details of key areas in measurement of ECLs (continued)

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular review to confirm that:

- the criteria are capable of identifying significant increase in credit risk before an exposure is in default;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Incorporating forward-looking information into the measurement of ECLs

The Group has identified key drivers of systematic credit risk for each portfolio of financial assets based on analysis of historical data in which relationship between macro-economic indicators and the systematic credit risk is exhibited.

The Group formulates economic forward looking scenarios for the view of the future direction of major economic indicators such as GDP, unemployment rate, inflation rate and other economic indicators specific to particular portfolio.

For each portfolio, the key drivers under forward looking scenarios are applied for estimating the systematic credit risk component of an obligor's Probability of Default ("PD") used in calculating ECLs. In addition to PD, relevant macro-economic indicators are used for projection of the collateral value for recovery rate estimates used in ECL calculation.

The Group adopts the use of three economic scenarios. In each region/country where the Group operates, the Group formulates probability for each scenario and forecast the major macro-economic indicators to reflect the Group's forward-looking view on the future business outcomes in that particular region/country under each scenario.

The forecasts of baseline scenario are based on advice from the in-house economic experts and considerations of a variety of actual and forecast information, such as economic data and forecasts published by governmental bodies, monetary authorities in the regions/countries where the Group operates. The Group also take reference from forecasts by international agencies and private sector analysts as far as possible to formulate a more objective forecast, while taken into account the current domestic and international economic developments, and changes in local economic policies. Autoregressive econometric model is applied as a tool to forecast the equity and property prices movements in the regions/countries concerned.

(a) 信貸風險管理(續)

(ix) 「預期信貸損失」估算中主要之處的詳述(續)

本集團監控識別信貸風險增加的衡量標準的有效性，透過定期檢討以確保：

- 衡量標準能在風險承擔違約前識別信貸風險增加
- 風險承擔一般不會從12個月內之預期信貸損失直接轉為不良信貸；及
- 不會導致減值撥備因為風險承擔在計算12個月內之預期信貸損失和合約期內之預期信貸損失中的轉變時出現不必要的波動

整合前瞻性資料以作估算預期信貸損失

本集團根據歷史數據對宏觀經濟指標與系統信用風險之間關係進行分析，確定了各金融資產組合的系統信用風險的關鍵驅動因素。

本集團制定經濟前瞻情景，以了解主要經濟指標的未來方向，例如國內生產總值，失業率，通脹率及特定投資組合的其他經濟指標。

對於每個投資組合，前瞻性情景下的關鍵驅動因素將用於估算債務人的違約概率的系統信用風險部分以用於計算預期信貸損失。除違約概率外，相關的宏觀經濟指標將用於預測抵押品價值以估算回收率並使用作計算預期信貸損失。

本集團會採納使用三個經濟情景。在本集團經營的每個地區／國家，本集團將為每個情景制定情景的可能性並預測主要的宏觀經濟指標，以反映集團在每種情景下，該地區／國家未來業務成果的前瞻性觀點。

基準情景的預測是根據本集團經濟專家的建議和對各種外部實際和預測信息的考慮，例如本集團經營所在地區／國家的政府機構和金融管理局公佈的經濟數據和預測。同時，本集團盡可能參考國際機構及私營機構分析師的預測，以及考慮現時本地及海外經濟發展情況、當地經濟政策的轉變。至於相關地區或國家的股票及樓價指數，則使用自迴歸經濟模型作出估算。

The baseline scenario represents the most-likely outcome that the Group expects. The corresponding probability is reflecting the confidence of the future uncertainties are being captured in the baseline scenario forecast.

基準情景是代表本集團預期中的最具可能性的結果。其相對應的機會率反映了集團在預測基準情景中對未來不確定性的掌握置信度。

The other scenarios are an optimistic scenario and a pessimistic scenario, to capture the less likely, yet possible, upside and downside divergence from the baseline forecast. These scenarios and their probabilities represent the Group's view that in case the future outcome is outside the expectation as in the baseline scenario, how likely it would be optimistic (i.e. unexpectedly good) or pessimistic (i.e. unexpectedly bad) and how unexpectedly good or unexpectedly bad outcomes will be, based on current economic outlook, potential domestic and international economic and political risks affecting the regions/countries the Group has business presence, and the strength of a region/country's fundamentals to weather through crises. Forecasts for these two scenarios are mainly derived based on a modification of the Bank of England's fan chart model, where we assume the divergences from the baseline scenario are derived from historical volatility of the data series. The spread for the pessimistic scenario is greater than that of the optimistic scenario to reflect the Group's prudent view against downside risks.

其他情景是一個樂觀情景和一個悲觀情景。在這些情景中，我們對可能性較低、卻可能發生的上行和下行狀況作出預測。這些情景及其機會率代表了集團的觀點，即當未來結果超出基準情景預期時，經濟將傾向樂觀(即出乎意料的好)或悲觀(即出乎意外的差)的可能性有多大，以及出乎意料的好或意外的壞的結果將會是怎樣，基於當前的經濟前景、潛在的國內外經濟及政治風險，及其對本集團有業務之地區／國家的影響，並且這些地區／國家的經濟面、應付危機的能力。這兩種情景的預測主要是以英倫銀行扇形圖模型為基礎再修改而來。我們假設兩種情景與基準情景的差距來自數據列的歷史波動。其中，悲觀情景的差距大於樂觀情景，反映集團對下行風險持謹慎態度。

The baseline, optimistic and pessimistic scenarios are updated quarterly to timely reflect a change in the current economic sentiment locally and internationally.

基準、樂觀及悲觀情景會每季度更新，以及時反映當地及國際經濟情緒的變化

Baseline Scenario – Hong Kong

Growth momentum is expected to lose steam. There were signs of fatigues in the asset markets with worries over the negative impact on Chinese economy induced by the trade war and worsening affordability of the property market.

基準情景－香港

我們預計經濟增長勢頭將失去動力。資產市場出現疲軟跡象，主要因為市場擔心貿易戰對中國經濟造成的負面影響。房地產市場的負擔能力亦見惡化。

The export sector is clouded by the China-US trade dispute. There are no signs that the economic tension between China and the US will be resolved in the short run. Lingering uncertainties shall upset the financial markets with a knock-on effect on consumer sentiment.

出口行業因中美貿易爭端而蒙上陰影。現時沒有跡象顯示中美之間的經濟緊張局勢將在短期內得到解決。持續的不確定性將擾亂金融市場，對消費者信心造成連鎖反應。

Overall, we estimate that real GDP will grow at 3.3% in 2018, and slow to 2.3% in 2019. Meanwhile, inflation is expected to stay moderate at 2.2%, while the unemployment rate is expected to trend upwards slowly until 2023.

總體而言，我們估計2018年實際本地生產總值將增長3.3%，2019年放緩至2.3%。預計通脹率將維持溫和水平，失業率則逐漸上升至2023年。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)

(ix) Details of key areas in measurement of ECLs (continued)

Baseline Scenario – Mainland China

The economy is facing headwinds. The export growth is expected to decelerate due to the moderating global demand and the global uncertainty including the trade war against the US. At the same time, the government will continue to deleverage, which will limit private investment in the real estate sector. These will weigh on GDP growth in the short to medium term. In response, the government will boost the economy by lowering income taxes and lessening the social security fees, as well as increasing infrastructure investments and encouraging lending to private firms, especially small and medium enterprises. Overall, we expect China's economic slowdown to be gradual between 2019 and 2022.

(a) 信貸風險管理(續)

(ix) 「預期信貸損失」估算中主要之處的詳述(續)

基準情景－中國內地

中國經濟面對的風險升溫。由於全球需求放緩以及包括對美國的貿易戰在內的全球不確定性，出口增長預計將減速。與此同時，政府將繼續去槓桿化，這將限制房地產行業的私人投資，並對中短期國內生產總值增長構成壓力。應對當前風險，政府將通過降低所得稅和降低社會保障費來鼓勵消費和投資，從而推動經濟發展，並且增加基礎設施投資和鼓勵向私營企業，特別是中小企業提供貸款。因此，我們預計中國的經濟放緩將在2019年至2022年之間逐步放緩。

Forecast of Key Macroeconomic Indicators (3 years average (2019 – 2021))

主要宏觀經濟指標預測(3年平均(2019–2021))

Scenario 情景	Macroeconomic Indicator 宏觀經濟指標	Hong Kong 香港	China 中國
Optimistic 樂觀情景	GDP (YoY growth) 國內生產總值增長	4.4%	7.0%
	Inflation Rate 通脹率	3.2%	2.3%
	Unemployment Rate 失業率	2.2%	3.9%
Baseline 基準情景	Real GDP (YoY growth) 國內生產總值增長	2.4%	6.0%
	Inflation Rate 通脹率	2.2%	1.9%
	Unemployment Rate 失業率	3.2%	4.0%
Pessimistic 悲觀情景	GDP (YoY growth) 國內生產總值增長	–0.2%	4.7%
	Inflation Rate 通脹率	1.1%	1.5%
	Unemployment Rate 失業率	4.2%	4.1%

(x) Impairment allowances reconciliation

The following tables show reconciliations from the opening to the closing balance of the impairment allowance by class of financial instrument. The reconciliation is prepared by comparing the position of impairment allowance between 1st January and 31st December at transaction level.

Explanations of 12-month ECL, lifetime ECL and credit-impaired are included in Note 2.

(x) 減值準備對賬

下表列示按金融工具的類別劃分的減值準備的期初結餘與期末結餘的對賬。編製對賬的方法是比較減值準備於1月1日至12月31日期間交易層面的狀況。

關於12個月內之預期信貸損失、合約期內之預期信貸損失及信貸不良的解釋見附註2。

		2018			
		12-month ECL 12個月內之 預期信貸損失 HK$ Mn 港幣百萬元	Lifetime ECL not credit-impaired 非信貸不良的 合約期內之 預期信貸損失 HK$ Mn 港幣百萬元	Lifetime ECL credit-impaired 信貸不良的 合約期內之 預期信貸損失 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Loans and advances to customers	**客戶貸款及墊款**				
Balance at 1st January	於1月1日的結餘	839	1,028	1,177	3,044
Transfer to 12-month ECL	轉至12個月內之預期信貸損失	151	(151)	–	–
Transfer to lifetime ECL not credit-impaired	轉至非信貸不良的合約期內之預期信貸損失	(8)	23	(15)	–
Transfer to lifetime ECL credit-impaired	轉至信貸不良的合約期內之預期信貸損失	(98)	(203)	301	–
New financial assets originated or purchased, assets derecognised, repayments and further lending	源生或購入之新金融資產、撤銷確認資產、還款及進一步貸款	(88)	(230)	376	58
Write-offs	撇銷	–	–	(1,649)	(1,649)
Changes in models	模型變動	(229)	287	17	75
Net remeasurement of impairment allowances (including exchange adjustments)	減值準備的重新計量淨額(包括外匯調整)	(135)	105	1,045	1,015
Balance at 31st December	於12月31日的結餘	432	859	1,252	2,543
Of which:	其中:				
For advance to customers at amortised cost *(Note 29(a))*	就按攤銷成本的客戶墊款*(附註29(a))*	431	855	1,061	2,347
For related accrued interest receivable *(Note 35)*	就相關應收應計利息*(附註35)*	1	4	191	196
		432	859	1,252	2,543

The contractual amount outstanding on loans and advances to customers that were written off during the year ended 31st December 2018 and that are still subject to enforcement activity is HK$1,084 million.

在截至2018年12月31日止年度內已撇銷的客戶貸款及墊款的合約餘額中仍在進行追討的貸款為港幣10.84億元。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued) (a) 信貸風險管理(續)

(x) Impairment allowances reconciliation (continued) (x) 減值準備對賬(續)

		2018			
		12-month ECL 12個月內之預期信貸損失 HK$ Mn 港幣百萬元	Lifetime ECL not credit-impaired 非信貸不良的合約期內之預期信貸損失 HK$ Mn 港幣百萬元	Lifetime ECL credit-impaired 信貸不良的合約期內之預期信貸損失 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Debt securities	**債務證券**				
Balance at 1st January	於1月1日的結餘	277	13	–	290
Transfer to 12-month ECL	轉至12個月內之預期信貸損失	–	–	–	–
Transfer to lifetime ECL not credit-impaired	轉至非信貸不良的合約期內之預期信貸損失	–	–	–	–
Transfer to lifetime ECL credit-impaired	轉至信貸不良的合約期內之預期信貸損失	–	–	–	–
New financial assets originated or purchased, assets derecognised, repayments and further lending	源生或購入之新金融資產、撤銷確認資產、還款及進一步貸款	52	(2)	–	50
Write-offs	撤銷	–	–	–	–
Changes in models	模型變動	61	(1)	–	60
Net remeasurement of impairment allowances (including exchange adjustments)	減值準備的重新計量淨額(包括外匯調整)	(36)	(3)	–	(39)
Balance at 31st December	於12月31日的結餘	354	7	–	361
Of which:	其中:				
For debt securities at amortised cost	就按攤銷成本的債務證券	93	1	–	94
For related accrued interest receivable *(Note 35)*	就相關應收應計利息 *(附註35)*	1	–	–	1
		94	1	–	95
For debt securities at FVOCI	就按通過其他全面收益以反映公平價值的債務證券	257	6	–	263
For related accrued interest receivable	就相關應收應計利息	3	–	–	3
		260	6	–	266

The impairment allowances of debt securities at FVOCI are not recognised in the statement of financial position because the carrying amount of debt securities at FVOCI is their fair value.

按通過其他全面收益以反映公平價值的債務證券的減值準備並不在財務狀況表內確認,因按通過其他全面收益以反映公平價值的債務證券的賬面值是其公平價值。

		2018			
		12-month ECL 12個月內之預期信貸損失 HK$ Mn 港幣百萬元	Lifetime ECL not credit-impaired 非信貸不良的合約期內之預期信貸損失 HK$ Mn 港幣百萬元	Lifetime ECL credit-impaired 信貸不良的合約期內之預期信貸損失 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Others	**其他**				
Balance at 1st January	於1月1日的結餘	220	54	1	275
Transfer to 12-month ECL	轉至12個月內之預期信貸損失	5	(5)	–	–
Transfer to lifetime ECL not credit-impaired	轉至非信貸不良的合約期內之預期信貸損失	(3)	3	–	–
Transfer to lifetime ECL credit-impaired	轉至信貸不良的合約期內之預期信貸損失	–	–	–	–
New financial assets originated or purchased, assets derecognised, repayments and further lending	源生或購入之新金融資產、撤銷確認資產、還款及進一步貸款	1	(30)	–	(29)
Write-offs	撇銷	–	–	–	–
Changes in models	模型變動	(76)	(2)	–	(78)
Net remeasurement of impairment allowances (including exchange adjustments)	減值準備的重新計量淨額（包括外匯調整）	(33)	27	67	61
Balance at 31st December	於12月31日的結餘	114	47	68	229
Of which:	其中：				
For trade bills at FVOCI	就按通過其他全面收益以反映公平價值的貿易票據	5	–	–	5
For related accrued interest receivable	就相關應收應計利息	–	–	–	–
		5	–	–	5
For trade bills at amortised cost *(Note 27)*	就按攤銷成本的貿易票據*（附註27）*	3	–	1	4
For related accrued interest receivable	就相關應收應計利息	–	–	–	–
		3	–	1	4

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)
(x) Impairment allowances reconciliation (continued)

(a) 信貸風險管理(續)
(x) 減值準備對賬(續)

		2018			
		12-month ECL 12個月內之 預期信貸損失 HK$ Mn 港幣百萬元	Lifetime ECL not credit-impaired 非信貸不良的 合約期內之 預期信貸損失 HK$ Mn 港幣百萬元	Lifetime ECL credit-impaired 信貸不良的 合約期內之 預期信貸損失 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
For placements with banks and financial institutions *(Note 26)*	就在銀行和其他金融機構的存款*(附註26)*	10	–	–	10
For related accrued interest receivable	就相關應收應計利息	–	–	–	–
		10	–	–	10
For cash and balances with banks and financial institutions *(Note 25)*	就現金及在銀行和其他金融機構的結存*(附註25)*	5	–	–	5
For related accrued interest receivable	就相關應收應計利息	–	–	–	–
		5	–	–	5
For loan commitments and financial guarantee contracts *(Note 38)*	就貸款承擔和財務擔保合約*(附註38)*	66	45	–	111
For account receivables and other accounts *(Note 35)*	就應收賬款及其他賬項*(附註35)*	25	2	67	94

The impairment allowances of trade bills at FVOCI are not recognised in the statement of financial position because the carrying amount of trade bills at FVOCI is their fair value.

按通過其他全面收益以反映公平價值的貿易票據的減值準備並不在財務狀況表內確認，因按通過其他全面收益以反映公平價值的貿易票據的賬面值是其公平價值。

Movement of impairment allowances for the year 2017 | 2017年減值準備的變動

		Trade bills 貿易票據	Loans and advances to customers 客戶貸款及墊款		Other assets 其他資產	
		Individual 個別	Individual 個別	Collective 整體	Individual 個別	Collective 整體
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元
At 1st January	於1月1日	1	1,715	2,082	85	1
New provisions charged to income statement	收益表內支銷的新準備	–	1,821	361	4	1
Net provisions released back to income statement	撥回收益表的準備淨額	–	(253)	–	(1)	–
Amounts written off	撇銷額	–	(2,310)	(189)	(70)	–
Recoveries	收回額	–	141	–	–	–
Effect of discounting	計算折扣的影響	–	(191)	–	–	–
Transfer to asset classified as assets held for sale *(Note 56)*	轉至分類為持有作出售資產 *(附註56)*	–	–	(10)	–	–
Exchange and other adjustments	匯兌調整	–	136	134	(4)	–
At 31st December	於12月31日	1	1,059	2,378	14	2

(xi) Collateral and other credit enhancements

The Group has established guidelines on the acceptability of various classes of collateral and determined the corresponding valuation parameters. The guidelines and collateral valuation parameters are subject to regular reviews to ensure their effectiveness over credit risk management.

The extent of collateral coverage over the Group's loans and advances to customer depends on the type of customers and the product offered. Types of collateral include residential properties (in the form of mortgages over property), other properties, other registered securities over assets, cash deposits, standby letters of credit and guarantees. Collateral generally is not held over balances and placements with banks and other financial institutions, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The Group takes possession of collateral through court proceedings or voluntary delivery of possession by the borrowers during the course of the recovery of impaired loans and advances. These repossessed assets are reported in the statement of financial position within "other assets" (Note 2(t)). If the recovery from the repossessed assets exceeds the corresponding exposure, the surplus fund is made available either to repay the borrower's other secured loans with lower priority or is returned to the borrower.

(xi) 抵押品及其他信用提升

本集團已制訂可接受不同類別抵押品的指引，並釐定相關估值參數。本集團會定期檢討指引及抵押品估值參數，以確保信貸風險管理的成效。

本集團客戶貸款及墊款的抵押品範圍視乎客戶類別及所提供產品而定。抵押品類別包括住宅物業(以物業按揭形式)、其他物業、其他登記抵押資產、現金存款、備用信用證及擔保。除持有用作反向回購及證券借貸活動的抵押品外，在銀行及其他金融機構的結存及存款，以及銀行貸款及墊款一般不需要抵押品。在收回減值貸款及墊款時，本集團會通過法庭程序或借款人自願交出擁有權收回抵押品。該等收回資產於財務狀況表中以「其他資產」列賬(附註2(t))。倘從收回資產所得之追收額超出相關風險承擔時，則會使用盈餘資金償還借款人優先次序較低的已抵押貸款或退回予借款人。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(a) Credit risk management (continued)

(xi) Collateral and other credit enhancements (continued)

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset-based securities and similar instruments, which are secured by pools of financial assets. However the credit risk may be implicit in the terms or reflected in the fair value of the corresponding instruments.

The Group's preferred agreement for documenting derivatives activity is the ISDA Master Agreement which covers the contractual framework within which dealing activity across a full range of over-the-counter products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults or following other pre-agreed termination events. It is also common for the Group to execute a Credit Support Annex in conjunction with the ISDA Master Agreement with the counterparty under which collateral is passed between the parties to mitigate the market contingent counterparty risk inherent in the outstanding position.

For contingent liabilities and commitments that are unconditionally cancellable (Note 47), the Group will assess the necessity to withdraw the credit line when there is a concern over the credit quality of the customers. Accordingly, the exposure to significant credit risk is considered as minimal. For commitments that are not unconditionally cancellable, the Group assesses the necessity of collateral depending on the type of customer and the product offered.

(a) 信貸風險管理(續)

(xi) 抵押品及其他信用提升(續)

持有用作非貸款及墊款金融資產的抵押品，是按照工具之性質決定。除以一籃子金融資產作抵押的資產融資證券及相同工具外，債務證券、庫券及其他認可票據一般俱屬無抵押的。然而，信貸風險可能隱含於相關工具的條款內或於相關工具的公平價值中反映。

ISDA的主合約為本集團處理衍生交易文件的優先合約，當中涵蓋合約框架，而在合約框架之下，本集團可進行一系列的場外產品交易活動，如其中一方違約或發生其他預先協定的終止事件，則按合約約束參與者以淨額結算合約涵蓋的所有未履行交易。本集團亦會在簽訂ISDA的主合約的同時，與交易對手簽訂信貸附約，據此，抵押品可於訂約方之間轉交，以降低出現在未履約情況下的內在市場或然交易對手風險。

對於或然負債及可無條件取消的承擔(附註47)，如本集團對客戶的信貸質素有疑慮，則會評估是否需要撤回信貸額。因此，本集團面臨重大信貸風險機會視為微乎其微。對於不可無條件取消的承擔，本集團會視乎客戶類別及所提供產品評估是否需要進行抵押。

(b) Market risk management

Market risk is the risk arising from adverse movements in market factors such as interest rates, foreign exchange, equity prices, and commodity prices, which result in profits or losses for the Group. The aim in managing market risk is to reduce the Group's exposure to the volatility inherent in financial instruments.

The Asset and Liability Management Committee deals with all market risk-related issues of the Group. It is also responsible for conducting a regular review of interest rate trends and deciding the corresponding future business strategy. The Asset & Liability Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to market risk.

The use of derivatives for proprietary trading and the sale of derivatives to customers as risk management products are integral parts of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk, as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest rate, foreign exchange, and equity-related contracts, in the form of both over-the-counter derivatives and exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to manage the risk of these and other trading positions.

(b) 市場風險管理

市場風險是指由市場因素，例如利率、外匯、股票價格及商品價格的不利變動而導致本集團溢利或虧損的風險。

資產負債管理委員會負責處理所有與本集團市場風險有關的事項，亦負責定期檢討利率走勢及釐定相應的未來業務策略。本集團風險管理處轄下的資產負債管理部，負責監察與市場風險有關的活動。

透過衍生工具進行自營交易及向客戶出售衍生工具以用作風險管理產品，為本集團其中一項重要業務。此等工具亦用以管理本集團所承受的市場風險，作為本集團資產負債管理的一部分。本集團所採用的衍生工具主要為利率、外匯和股份相關合約，即為場外或場內交易的衍生工具。本集團大部分的衍生工具持倉均為切合客戶需求，以及為此等和其他交易項目而進行對沖。

In this connection, the key types of market risk that must be managed are:

在此方面，本集團必須管理的主要市場風險包括：

(i) Currency risk

The Group's foreign currency positions arise from foreign exchange dealing (including derivatives), commercial banking operations, and structural foreign currency exposures. The Group's non-structural foreign currency exposures are denominated in major currencies, particularly USD and RMB. All foreign currency positions are managed within limits approved by the Board or the Asset and Liability Management Committee.

Structural foreign currency positions, which arise mainly from foreign currency investments in the Group's branches, subsidiaries, and associated companies, are excluded from value-at-risk measurements, as related gains or losses are taken to reserves. Such foreign currency positions are managed with the principal objective of ensuring that the Group's reserves are protected from exchange rate fluctuations. The Group seeks to match its foreign currency denominated assets closely with corresponding liabilities in the same currencies.

The Group had the following net structural positions which were not less than 10% of the total net structural foreign currency position at the end of the reporting period:

(i) 貨幣風險

本集團的外幣持倉源自外匯買賣（包括衍生工具）、商業銀行業務和結構性外匯風險。本集團的非結構性外幣風險主要以美元及人民幣等主要貨幣。所有外幣持倉均維持在董事會或資產負債管理委員會所訂定的限額內。

結構性外匯持倉主要源自於本集團分行、附屬公司和聯營公司的外匯投資，其有關的溢利及虧損因為已撥入儲備，所以未計算在風險值內。管理此等外幣投資的主要目的，是保障本集團的儲備免受匯率波動的影響。本集團盡力將以外幣計值的資產與以同一貨幣計值的負債，保持在相若水平。

於報告期結束日，本集團的以下結構性持倉淨額不低於結構性外幣淨持倉總額10%：

		2018			2017		
		RMB 人民幣 HK$ Mn 港幣百萬元	**MYR 馬幣 HK$ Mn 港幣百萬元**	**USD 美元 HK$ Mn 港幣百萬元**	RMB 人民幣 HK$ Mn 港幣百萬元	MYR 馬幣 HK$ Mn 港幣百萬元	USD 美元 HK$ Mn 港幣百萬元
Net structural position	結構性持倉淨額	**13,829**	**2,226**	**(6,982)**	14,584	2,271	(6,965)

(ii) Interest rate risk in trading book

The Group's trading interest rate positions arise from treasury and dynamic hedging of commercial banking activities. Interest rate risk is managed daily by the Treasury Markets Division of the Group within the limits approved by the Board or the Asset and Liability Management Committee. The instruments used to manage interest rate risk include interest rate swaps and other derivatives.

(ii) 交易賬冊的利率風險

本集團的交易組合中的利率持倉來自財資及商業銀行業務的動態對沖。利率風險由本集團資金市場處按董事會或資產負債管理委員會批准的限額範圍進行日常管理。管理利率風險的工具包括利率掉期和其他衍生工具。

(iii) Equity risk

The Group's equity positions arise from equity investment and dynamic hedging of customer-driven business. Equity risk is managed daily by the Investment Department within the limits approved by the Board, Investment Committee, or the Asset and Liability Management Committee.

(iii) 股份風險

本集團的股份持倉來自股份投資及客戶業務的動態對沖。股份風險由投資部按董事會、投資委員會或資產負債管理委員會批准的限額範圍進行日常管理。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(b) Market risk management (continued)

(iii) Equity risk (continued)

Market risk control limits have been set at varying levels according to the practical requirements of different units. The Board approves the core control limits and has delegated the authority to set detailed control limits to the Asset and Liability Management Committee. Risk, return, and market conditions are considered when setting limits. Active limit monitoring is carried out.

In this connection, the Asset and Liability Management Committee monitors the related market risk arising from the risk-taking activities of the Group, to ensure that overall and individual market risks are within the Group's risk tolerance level. Risk exposures are monitored frequently to ensure that they are within established control limits.

The Group quantifies the market risk of the underlying trading portfolio by means of VaR. VaR is a statistical estimate that measures the potential losses in market value of a portfolio as a result of unfavourable movements in market rates and prices, if positions are held unchanged over a certain horizon time period.

The Group estimates VaR for the Group's trading portfolio by the historical simulation approach, where the VaR is calculated by revaluing the portfolio for each of the market movement scenarios obtained from the historical observation period. This methodology uses movements in market rates and prices over a one-day holding period with a 99% confidence level under a two-year observation period.

Structural foreign exchange positions arising from net investments in branches and subsidiaries are not included in the VaR for the foreign exchange trading position.

The market value of listed shares, the fair value of private equity funds and unlisted equities (collectively the "Unlisted Securities"), are subject to limits and these are managed by the Investment Department of the Group. The Unlisted Securities and listed non-trading equities are not included in the VaR for the equity trading position, and are managed through delegated limits. The limits are subject to regular review by the Asset and Liability Management Committee.

(b) 市場風險管理(續)

(iii) 股份風險(續)

市場風險控制限額設有不同層次以配合各類業務的實際需要。董事會審批核心控制限額並授權資產負債管理委員會審批具體的控制限額。釐定限額時會考慮風險、回報及市場情況等因素，並且採用積極限額監控程序。

在此方面，資產負債管理委員會負責監察本集團承擔市場風險的活動，確保整體及個別市場風險處於本集團的風險承受範圍內。本集團會經常監控風險承擔情況，以確保所承擔風險屬於既定的控制限額內。

本集團運用風險值來量化相關交易組合的市場風險。風險值是統計學上的估計，用來量度於某一時段內持倉維持不變的情況下，因市場息率及價格的不利波動而引致組合的市值潛在虧損。

本集團通過歷史模擬法評估本集團交易組合的風險值，其按從歷史觀察期中截獲的每個市場波動情景對有關組合進行重新估值以計算風險值。該方法是依據1日持倉期、99%置信水平以及過往兩年觀察期來推算市場利率與價格的波動。

由分行及附屬公司的淨投資產生的結構性外匯持倉不包括在計算外匯交易持倉的風險值內。

上市股份的市值、私人股份基金及非上市股份(統稱「非上市證券」)的公平價值均由本集團投資部按限額管理。非上市證券及非交易上市股份是根據特定限額管理，且不包括在交易股份持倉的風險值計算內。資產負債管理委員會須定期檢討該限額。

Value-at-risk statistics *風險值統計*

		2018			
		At 31st December 於12月31日 HK$ Mn 港幣百萬元	**Maximum 最高 HK$ Mn 港幣百萬元**	**Minimum 最低 HK$ Mn 港幣百萬元**	**Mean 平均 HK$ Mn 港幣百萬元**
VaR for total trading activities	交易活動的風險值總額	**35**	**41**	**32**	**37**
VaR for foreign exchange trading positions*	外匯交易持倉的風險值*	**16**	**18**	**7**	**12**
VaR for interest rate trading positions	利率交易持倉的風險值	**4**	**8**	**4**	**6**
VaR for equity trading positions	股份交易持倉的風險值	**20**	**32**	**20**	**25**

		2017			
		At 31st December 於12月31日 HK$ Mn 港幣百萬元	Maximum 最高 HK$ Mn 港幣百萬元	Minimum 最低 HK$ Mn 港幣百萬元	Mean 平均 HK$ Mn 港幣百萬元
VaR for total trading activities	交易活動的風險值總額	38	49	35	40
VaR for foreign exchange trading positions*	外匯交易持倉的風險值*	8	17	5	11
VaR for interest rate trading positions	利率交易持倉的風險值	6	7	2	4
VaR for equity trading positions	股份交易持倉的風險值	30	37	25	30

* *Including all foreign exchange positions but excluding structural foreign exchange positions.*

* *包括所有外匯持倉但不包括結構性外匯持倉。*

		2018			
		At 31st December 於12月31日 HK$ Mn 港幣百萬元	**Maximum 最高 HK$ Mn 港幣百萬元**	**Minimum 最低 HK$ Mn 港幣百萬元**	**Mean 平均 HK$ Mn 港幣百萬元**
Stressed VaR for total trading activities	交易活動的受壓風險值總額	**125**	**166**	**115**	**133**

		2017			
		At 31st December 於12月31日 HK$ Mn 港幣百萬元	Maximum 最高 HK$ Mn 港幣百萬元	Minimum 最低 HK$ Mn 港幣百萬元	Mean 平均 HK$ Mn 港幣百萬元
Stressed VaR for total trading activities	交易活動的受壓風險值總額	138	148	97	122

A stressed VaR measure is intended to replicate a VaR calculation that would be generated on current trading portfolio if the relevant market factors were experiencing a period of stress.

受壓風險值是假設相關市場因素在受壓期間下，模擬計算由現行交易組合產生的風險值。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(c) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

The objectives of operational risk management are to identify, assess, monitor, and report operational risk systematically and effectively; to minimise the operational loss and other impact on the Group; and to comply with the relevant regulatory requirements.

The Operational Risk Management Committee is responsible for overseeing operational risk management of the Group while the Operational Risk Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to operational risk.

The operational risk management tools adopted include operational risk incident reporting, risk control self-assessment, risk indicators, operation manuals, insurance policies, etc.

(c) 營運風險管理

營運風險是指由於內部流程、人員和系統不足或缺陷，或因外部事件而導致損失的風險。

營運風險管理的目的在於有系統及有效地識別、評估、監控及匯報營運風險；減少營運虧損及對本集團的其他影響；以及遵守相關監管規定的要求。

營運風險管理委員會負責監督本集團的營運風險管理，而本集團風險管理處轄下的營運風險管理部則負責監察與營運風險有關的活動。

本集團所採用的營運風險管理工具包括營運風險事件匯報、風險控制自我評估、風險指標、營運手冊、保險政策等。

(d) Liquidity risk management

Liquidity risk is the 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).

The purpose of liquidity risk management is to ensure sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to make new loans and investments as opportunities arise and last but not least, to comply with all the statutory requirements for liquidity risk management, including Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR").

The Group reviews the risk profile through regular assessments of both qualitative and quantitative risk factors to determine its tolerance of prevailing risk levels against applicable risk appetites statement for liquidity risk annually approved by the Board. The Asset and Liability Management Committee is delegated by the Board to oversee the Group's liquidity risk management. The Asset and Liability Management Committee is composed of balanced representation of senior staff from various business units, Treasury, Risk Management and Finance to jointly formulate adequate funding strategies. The Asset and Liability Management Committee sets the strategy, policy, and limits for managing liquidity risk and the means for ensuring that such strategy and policy are implemented. Regular meetings are held to review the compliance status of the monitoring matrix established and the need for any change in strategy and policy. Liquidity is managed daily by the Capital Markets & Liquidity Management Department under the Treasury Markets Division of the Group within the set limits. The Asset & Liability Management Department under the Risk Management Division of the Group is responsible for monitoring the activities relating to liquidity risk. The Internal Audit Division performs periodic reviews to ensure that the liquidity risk management functions are carried out effectively.

(d) 流動性風險管理

流動性風險是指本集團因未能獲得充足資金投入而可能無法履行到期責任的風險(資金流動性風險)；或因市場深度不足或市場失序，本集團非得大幅降低市場價格的情況下無法輕易迅速變現資產的風險(市場流動性風險)。

流動性風險管理是為了確保本集團維持充足的現金流量以履行所有財務承擔，並掌握業務擴展的機會。當中包括確保本集團能夠在即時或合約期滿時滿足提款要求，在借款期滿時能夠還款，掌握貸款和投資的機會，以及符合所有有關流動性風險管理的法定規定，包括流動性覆蓋比率及穩定資金淨額比率。

本集團通過定期評估定性及定量的風險因素檢討風險狀況，根據董事會每年批准的適用於流動性風險的風險偏好釐定其現行風險承受範圍。資產負債管理委員會獲董事會授權，負責監察本集團的流動性風險管理。資產負債管理委員會由各業務單位、司庫、風險管理及財務的管理層出任以共同制定資金戰略方案。資產負債管理委員會制訂管理流動性風險的策略、政策及限額，以及確保執行有關策略與政策的措施。委員會定期舉行會議，檢討各既有監控架構的合規情況，以及是否需要改變策略及政策。流動資金狀況由本集團資金市場處轄下的資本市場及流動資金管理部每日按所訂限額範圍進行管理。本集團風險管理處轄下的資產負債管理部負責監察與流動性風險相關的活動。稽核處會定期作出檢討，確保流動性風險管理功能得以有效執行。

The implementation of LCR and NSFR, imposes a more stringent regulatory regime for liquidity risk management on the Group. To ensure compliance with the enhanced regulatory requirement, internal targets for LCR and NSFR have been set above regulatory required levels, making reference to the Group's liquidity risk appetite. In addition material changes in the LCR and NSFR will be reviewed regularly by the Asset and Liability Management Committee together with proposed mitigation actions to cope with adverse changes arising from, but not limited to, composition of the deposit base and remaining tenor to maturity, lending activities with respect to different maturity tenors, and the Group's asset and liability mix strategy. In planning the asset and liability mix strategy, the Group assesses the impact of asset growth and funding structure on the LCR and NSFR with support from relevant business units for the Asset and Liability Management Committee's review and decision.

流動性覆蓋比率及穩定資金淨額比率對本集團的流動性風險管理施加更嚴格的監管制度。為確保遵守提高後的監管要求，本集團於參考其流動性風險偏好後，為流動性覆蓋比率及穩定資金淨額比率設定的內部目標均高於上述監管規定水平。此外，資產負債管理委員會會定期檢閱流動性覆蓋比率及穩定資金淨額比率的重大變動，並提出建議補救措施，以應對來自(但不限於)存款基礎及其餘下到期期限、不同到期期限的貸款活動以及本集團資產及負債組合策略所產生的不利變動。在規劃資產及負債組合策略時，相關業務單位協助本集團評估資產增長及資金結構對流動性覆蓋比率及穩定資金淨額比率的影響，以供資產負債管理委員會檢討和作出決策。

As part of Group efforts to manage the LCR and NSFR effectively, emphasis is placed on strengthening the deposit base by retaining loyal customers and maintaining customer relationships. The Group balances funding among retail, small business, and wholesale funding to avoid concentration in any one source. Professional markets are accessed through the issuance of certificates of deposit, medium-term notes, subordinated debt, money market placement and borrowing for the purposes of providing additional funding, maintaining a presence in local money markets, and optimising asset and liability maturities.

為有效地管理流動性覆蓋比率及穩定資金淨額比率，本集團特別著重存留忠實客戶及維持客戶關係，藉以增強存款基礎。本集團在零售、小企業以及批發市場資金之間保持平衡，避免資金集中於任何一種來源。本集團透過發行存款證、中期票據、後償債項、貨幣市場拆借及借貸進入專業市場，獲取額外資金，以此維持本行於本地金融市場的地位及優化資產及負債的期限。

In addition to observing the statutory LCR and NSFR, the Group has established different liquidity metrics – including but not limited to the loan-to-deposit ratio, cumulative maturity mismatch ratio, funding concentration ratio, intra-group exposure threshold, and cross currency funding ratio – to measure and analyse the Group's liquidity risks. The Group maintains sufficient HQLAs as a liquidity cushion that can be accessed in times of stress. The HQLAs for fulfilling the LCR consist of cash, exchange fund bills and notes, high quality government debt securities and other equivalent liquid marketable assets. The majority of HQLAs are denominated in Hong Kong dollars. Contingent funding sources are maintained to provide strategic liquidity to meet unexpected and material cash outflows.

除了緊守法定的流動性覆蓋比率及穩定資金淨額比率外，本集團已設立不同的流動性指標，以衡量及分析流動性風險，包括(但不限於)貸存比率、累積到期錯配比例、資金集中比率、集團內公司之間風險限額以及跨貨幣資金比率。本集團維持充足的優質流動資產，作為能夠在資金受壓時取用的流動資金緩衝。為滿足流動性覆蓋比率所需的優質流動資產包括：現金、外匯基金票據和債券、優質的政府債務票據，以及其他同等的而可供出售的流動資產，其中大部分優質流動資產以港幣計值。本集團維持應急資金來源，能提供策略性的流動資金，以應付未能預計及大量的資金需求。

Internally, intra-group funding transactions are carried out at arm's length and treated in a manner in line with third-party transactions, with regular monitoring and appropriate control. As a majority of the Group's liquidity risk arises from the maturity mismatch gap between the Group's asset and liability portfolios, the Group manages liquidity risk by conducting cash flow analysis and projections through the regular use of the Bank's management information system. These are carried out on a regular basis to identify funding needs arising from on and off-balance sheet items in a specific time frame over a set of time horizons.

內部方面，集團內公司間的融資交易乃按一般正常公平交易原則進行，處理方式與第三方交易一致，並會定期進行監察及適當控制。由於本集團大部分流動性風險來自資產與負債組合之間的期限錯配差距，本集團會透過使用本行的管理資訊系統，定期對一系列時間內的資產負債表內、外項目進行現金流量分析及預測，確定特定時間組別的資金需要，從而管理流動性風險。

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(d) Liquidity risk management (continued)

The Group also conducts stress testing regularly to analyse liquidity risk. Both on and off-balance sheet items and their impact on cash flow are considered, together with applicable hypothetical and historical assumptions. The assessment and review of market liquidity risk are included in the various control processes, including investment/trading strategy, market risk monitoring, valuation, and portfolio review. Three stress scenarios – namely an institution-specific crisis, a general market crisis, and a crisis involving a combination of the two – are adopted with minimum survival period defined according to the HKMA's Supervisory Policy Manual LM-2, "Sound Systems and Controls for Liquidity Risk Management".

With reference to the stress-testing results, the Group identifies potential vulnerabilities within the Group setting internal limits and formulates a contingency funding policy that sets out the Group's strategy for dealing with any liquidity problem and the procedures for making up cash flow deficits in emergency situations.

The contingency funding policy is designed to be pro-active and pre-emptive, and stipulates the following three stages:

1. The Group utilises early warning indicators, which cover both qualitative and quantitative measures, and monitors both internal and external factors. Should there be any early signs of significant impact on the Group's liquidity position, the Asset and Liability Management Committee is informed. The Asset and Liability Management Committee will consider appropriate remedial actions and will consider employing crisis management if the situation warrants.

2. A Crisis Management Committee, which is chaired by the Chairman and Chief Executive, is formed to handle the crisis. Strategy and procedures for obtaining contingency funding, as well as roles and responsibilities of the parties concerned, are clearly stated.

3. In the final stage, a post-crisis review is carried out to recommend necessary improvements to avoid incidents of a similar nature in the future.

An annual drill test is conducted and the contingency funding policy is subject to regular review in order to accommodate any changes in the business environment. Any significant changes to the contingency funding policy are approved by the Board.

(d) 流動性風險管理(續)

本集團亦會定期進行壓力測試，以分析流動資金風險。透過適用的虛擬及歷史假設，本集團的壓力測試均已考慮資產負債表內外項目及其對現金流量造成的影響。市場流動資金風險的評估及檢討納入各個控制環節，包括投資／交易策略、市場風險監控、估值及組合檢討。三個壓力情景－即個別銀行危機、整體市場危機，以及結合上述兩種情況的綜合危機－均採用金管局監管政策手冊LM-2「穩健的流動性風險管理系統及管控措施」界定的最短存活期。

本集團會參照壓力測試結果，確認集團內的潛在弱點，訂立內部限額，並制訂應急資金政策及計劃，當中載列了本集團處理流動資金問題的策略及於緊急情況下彌補現金流不足的程序。

應急資金政策旨在提供防患未然的積極措施，並訂明以下3個階段：

1. 本集團運用預早警報指標，當中包括質量性及數量性的措施，及監察內部及外在因素。假如有任何早期跡象顯示本集團流動資金狀況將受重大影響，應通知資產負債管理委員會。資產負債管理委員會將考慮適當的補救措施，並在情況需要時會考慮採用危機管理措施。

2. 本集團已設立危機管理委員會，並由主席兼行政總裁擔任該委員會的主席，該委員會專責處理危機，並明確規定取得應急資金的策略及程序，以及有關各方的職務及職責。

3. 於最後階段，本集團會在危機結束後對問題進行檢討，並作出必要改進，避免日後出現同類事件。

為應付商業環境中的任何轉變，本集團每年進行演習測試，並定期檢討應急資金。應急資金政策如有任何重大變動，均須分別取得董事會的批准。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註（續）

Analysis of assets and liabilities by remaining maturity: 資產及負債的剩餘期限分析：

		2018							
		Repayable on demand 即時還款 HK$ Mn 港幣百萬元	Within 1 month 1個月內 HK$ Mn 港幣百萬元	3 months or less but over 1 month 1個月以上至3個月 HK$ Mn 港幣百萬元	1 year or less but over 3 months 3個月以上至1年 HK$ Mn 港幣百萬元	5 years or less but over 1 year 1年以上至5年 HK$ Mn 港幣百萬元	Over 5 years 5年以上 HK$ Mn 港幣百萬元	Undated or overdue 無註明日期或逾期 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Assets	**資產**								
Cash and balances with banks and other financial institutions	現金及在銀行和其他金融機構的結存	27,033	–	–	1,818	–	–	19,255	48,106
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款	–	43,957	15,536	802	78	–	–	60,373
Trade bills	貿易票據	16	5,594	4,760	4,276	–	–	–	14,646
Trading assets	交易用途資產	–	114	148	1,243	402	224	1,352	3,483
Derivative assets	衍生工具資產	–	–	–	–	–	–	10,211	10,211
Loans and advances to customers	客戶貸款及墊款	2,899	56,756	29,843	99,734	191,557	115,674	1,821	498,284
Investment securities	投資證券	–	6,353	9,033	26,354	71,656	27,528	3,805	144,729
Investments in associates	聯營公司投資	–	–	–	–	–	–	9,129	9,129
Fixed assets	固定資產	–	–	–	–	–	–	13,165	13,165
Goodwill and intangible assets	商譽及無形資產	–	–	–	–	–	–	1,940	1,940
Deferred tax assets	遞延稅項資產	–	–	–	–	–	–	481	481
Other assets	其他資產	104	7,154	6,415	13,691	713	195	6,632	34,904
Total assets	資產總額	30,052	119,928	65,735	147,918	264,406	143,621	67,791	839,451
Liabilities	**負債**								
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘	2,691	15,154	5,827	3,818	–	–	–	27,490
Deposits from customers	客戶存款	203,713	118,991	146,031	88,469	16,906	–	4	574,114
– Demand deposits and current accounts	–活期存款及往來賬戶	71,952	–	–	–	–	–	–	71,952
– Savings deposits	–儲蓄存款	130,477	–	–	–	–	–	–	130,477
– Time, call and notice deposits	–定期及通知存款	1,284	118,991	146,031	88,469	16,906	–	4	371,685
Trading liabilities	交易用途負債	–	–	–	–	–	–	–	–
Derivative liabilities	衍生工具負債	–	–	–	–	–	–	9,496	9,496
Certificates of deposit issued	已發行存款證	–	3,236	19,976	35,278	–	–	–	58,490
Current taxation	本期稅項	–	–	–	1,437	–	–	–	1,437
Debt securities issued	已發行債務證券	–	–	–	407	157	–	–	564
Deferred tax liabilities	遞延稅項負債	–	–	–	–	–	–	483	483
Other liabilities	其他負債	883	5,339	7,075	15,971	9,881	3,955	8,340	51,444
Loan capital	借貸資本	–	–	–	–	12,358	–	–	12,358
Total liabilities	負債總額	207,287	142,720	178,909	145,380	39,302	3,955	18,323	735,876
Net gap	淨差距	(177,235)	(22,792)	(113,174)	2,538	225,104	139,666		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(d) Liquidity risk management (continued) (d) 流動性風險管理(續)

		2017(Restated重報)							
		Repayable on demand 即時還款 HK$ Mn 港幣百萬元	Within 1 month 1個月內 HK$ Mn 港幣百萬元	3 months or less but over 1 month 1個月以上至3個月 HK$ Mn 港幣百萬元	1 year or less but over 3 months 3個月以上至1年 HK$ Mn 港幣百萬元	5 years or less but over 1 year 1年以上至5年 HK$ Mn 港幣百萬元	Over 5 years 5年以上 HK$ Mn 港幣百萬元	Undated or overdue 無註明日期或逾期 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Assets	**資產**								
Cash and balances with banks and other financial institutions	現金及在銀行和其他金融機構的結存	26,093	749	936	1,535	–	–	26,383	55,696
Placements with and advances to banks and other financial institutions	在銀行及其他金融機構的存款及墊款	–	47,996	9,361	1,226	–	–	–	58,583
Trade bills	貿易票據	32	3,336	3,853	6,688	–	–	–	13,909
Trading assets	交易用途資產	–	557	220	1,681	1,394	147	2,957	6,956
Derivative assets	衍生工具資產	–	–	–	–	–	–	11,335	11,335
Loans and advances to customers	客戶貸款及墊款	3,674	54,317	30,919	93,731	187,627	96,783	3,288	470,339
Investment securities	投資證券	–	3,674	16,715	26,092	60,431	23,632	3,881	134,425
Investments in associates	聯營公司投資	–	–	–	–	–	–	9,429	9,429
Fixed assets	固定資產	–	–	–	–	–	–	12,750	12,750
Goodwill and intangible assets	商譽及無形資產	–	–	–	–	–	–	1,959	1,959
Deferred tax assets	遞延稅項資產	–	–	–	–	–	–	602	602
Other assets	其他資產	154	4,280	7,443	10,154	1,069	175	9,684	32,959
Total assets	資產總額	29,953	114,909	69,447	141,107	250,521	120,737	82,268	808,942
Liabilities	**負債**								
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘	4,352	9,485	7,026	6,116	2	–	–	26,981
Deposits from customers	客戶存款	220,257	114,771	127,662	88,810	18,552	1,621	11	571,684
– Demand deposits and current accounts	–活期存款及往來賬戶	85,518	–	–	–	–	–	–	85,518
– Savings deposits	–儲蓄存款	133,969	–	–	–	–	–	–	133,969
– Time, call and notice deposits	–定期及通知存款	770	114,771	127,662	88,810	18,552	1,621	11	352,197
Trading liabilities	交易用途負債	–	–	–	–	–	–	11	11
Derivative liabilities	衍生工具負債	–	–	–	–	–	–	12,077	12,077
Certificates of deposit issued	已發行存款證	–	4,096	12,500	19,870	–	–	–	36,466
Current taxation	本期稅項	–	–	–	1,160	–	–	–	1,160
Debt securities issued	已發行債務證券	–	–	117	431	459	–	–	1,007
Deferred tax liabilities	遞延稅項負債	–	–	–	–	–	–	551	551
Other liabilities	其他負債	924	4,250	8,358	12,898	8,940	3,454	6,554	45,378
Loan capital	借貸資本	–	–	–	–	12,413	–	–	12,413
Total liabilities	負債總額	225,533	132,602	155,663	129,285	40,366	5,075	19,204	707,728
Net gap	淨差距	(195,580)	(17,693)	(86,216)	11,822	210,155	115,662		

Note: The 2017 comparative figures have been restated to conform to current year's presentation of Consolidated Statement of Financial Position.

註：2017年的比較數字經已重報以符合本期綜合財務狀況表的呈報方式。

As the trading assets and debt instruments measured at FVOCI (2017: available-for-sale portfolios) may be sold before maturity or deposits from customers may mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows.

由於作交易資產及反映公平價值之債務工具(2017年：可供出售用途的組合)可能於到期前出售或客戶存款可能在到期前未被提取，合約到期日並非代表未來現金流的預計日期。

The following tables provide an analysis of the undiscounted cashflow projection of the financial liabilities of the Group at the end of the reporting period based on the dates of their contractual payment obligations:

下表展示於報告期結束日集團的未經折扣之金融負債的預計現金流按其合約支付債務之日期分析：

		2018							
		Carrying amount 賬面值 HK$ Mn 港幣百萬元	Gross cash outflow 現金流出總額 HK$ Mn 港幣百萬元	Repayable on demand 即時還款 HK$ Mn 港幣百萬元	Less than three months 3個月或以下 HK$ Mn 港幣百萬元	Between three months and one year 3個月以上至1年 HK$ Mn 港幣百萬元	Between one and five years 1年以上至5年 HK$ Mn 港幣百萬元	More than five years 5年以上 HK$ Mn 港幣百萬元	Undated 無註明日期 HK$ Mn 港幣百萬元
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘	27,490	27,649	2,694	21,087	3,868	–	–	–
Deposits from customers	客戶存款	574,114	579,074	203,823	266,826	90,091	18,330	–	4
– Demand deposits and current accounts	–活期存款及往來賬戶	71,952	72,051	72,020	31	–	–	–	–
– Savings deposits	–儲蓄存款	130,477	130,509	130,509	–	–	–	–	–
– Time, call and notice deposits	–定期及通知存款	371,685	376,514	1,294	266,795	90,091	18,330	–	4
Trading liabilities	交易用途負債	–	–	–	–	–	–	–	–
Derivative liabilities	衍生工具負債	9,496	9,496	–	–	–	–	–	9,496
Certificates of deposit issued	已發行存款證	58,490	59,192	–	23,432	35,760	–	–	–
Current taxation	本期稅項	1,437	1,437	–	–	1,437	–	–	–
Debt securities issued	已發行債務證券	564	581	–	1	420	160	–	–
Loan capital	借貸資本	12,358	15,185	–	144	467	13,938	636	–
Interest rate swaps	利率掉期合約	7,947	7,947	–	742	1,888	4,305	1,012	–
Other liabilities	其他負債	51,927	48,648	798	11,057	14,971	9,121	3,878	8,823
Total	總額	743,823	749,209	207,315	323,289	148,902	45,854	5,526	18,323

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(d) Liquidity risk management (continued)

(d) 流動性風險管理(續)

		2017							
		Carrying amount 賬面值 HK$ Mn 港幣百萬元	Gross cash outflow 現金流出總額 HK$ Mn 港幣百萬元	Repayable on demand 即時還款 HK$ Mn 港幣百萬元	Less than three months 3個月或以下 HK$ Mn 港幣百萬元	Between three months and one year 3個月以上至1年 HK$ Mn 港幣百萬元	Between one and five years 1年以上至5年 HK$ Mn 港幣百萬元	More than five years 5年以上 HK$ Mn 港幣百萬元	Undated 無註明日期 HK$ Mn 港幣百萬元
Deposits and balances of banks and other financial institutions	銀行及其他金融機構的存款及結餘	26,981	27,100	4,353	16,597	6,147	3	–	–
Deposits from customers	客戶存款	571,684	576,718	220,341	243,719	90,481	20,504	1,662	11
– Demand deposits and current accounts	–活期存款及往來賬戶	85,518	85,608	85,593	15	–	–	–	–
– Savings deposits	–儲蓄存款	133,969	133,969	133,969	–	–	–	–	–
– Time, call and notice deposits	–定期及通知存款	352,197	357,141	779	243,704	90,481	20,504	1,662	11
Trading liabilities	交易用途負債	11	11	–	–	–	–	–	11
Derivative liabilities	衍生工具負債	12,077	12,077	–	–	–	–	–	12,077
Certificates of deposit issued	已發行存款證	36,466	36,609	–	16,646	19,963	–	–	–
Current taxation	本期稅項	1,160	1,160	–	–	1,160	–	–	–
Debt securities issued	已發行債務證券	1,007	1,036	–	120	443	473	–	–
Loan capital	借貸資本	12,413	15,843	–	144	466	14,276	957	–
Interest rate swaps	利率掉期合約	6,205	6,205	1	540	1,369	3,682	613	–
Other liabilities	其他負債	45,929	42,742	884	11,405	11,933	7,975	3,454	7,091
Total	總額	713,933	719,501	225,579	289,171	131,962	46,913	6,686	19,190

(e) Interest rate risk management

Interest rate risk is the risk resulting from adverse movement in interest rates. The Asset and Liability Management Committee is delegated by the Board to oversee the Group's interest rate risk management, establish the strategy and policy for managing interest rate risk, and determine the means for ensuring that such strategies and policies are implemented. Interest rate risk is managed daily by the Treasury Markets Division of the Group within the limits approved by the Board or the Asset and Liability Management Committee. The Asset & Liability Management Department under the Risk Management Division of the Group is responsible for monitoring the activities relating to interest rate risk. The Internal Audit Division performs periodic reviews to ensure that the interest rate risk management functions are implemented effectively.

Interest rate risk primarily results from the timing differences in the re-pricing of interest-bearing assets, liabilities, and off-balance sheet items in the banking book. In determining the level of interest rate risk, assessments are made for the repricing risk, basis risk, options risk, and yield curve risk. The Group manages the interest rate risk on the banking book primarily by focusing on re-pricing mismatches. Gap analysis provides a static view of the maturity and re-pricing characteristics of the Group's assets, liabilities, and off-balance sheet positions. Re-pricing gap limits are set to control the Group's interest rate risk.

(e) 利率風險管理

利率風險是指不利的利率變動帶來的風險。資產負債管理委員會獲董事會授權，負責監察本集團的利率風險管理，訂立管理利率風險的策略與政策，並制定相應措施，以確保執行有關策略與政策。利率風險由本集團資金市場處按董事會或資產負債管理委員會批核的限額範圍進行日常管理。本集團風險管理處轄下的資產負債管理部，負責監察利率風險相關的活動。稽核處會定期作出檢討，確保利率風險管理功能得以有效執行。

利率風險主要是由銀行賬冊內帶息資產、負債及資產負債表外項目在再定息時的時差所致。釐定利率風險水平時，對重訂息率風險、息率基準風險、期權風險及收益率曲線風險進行評估。本集團管理銀行賬冊上的利率風險主要集中於重訂息率的錯配。差距分析可讓本集團從靜態角度瞭解資產、負債和資產負債表外持倉的到期情況及重訂息率特點。本行設有重訂息率差距限額以控制本集團的利率風險。

Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on the Group's assets, liabilities, and off-balance sheet positions and is performed on a monthly basis. Sensitivity limits are set to control the Group's interest rate risk exposure under both earnings and economic value perspectives. The results are reported to the Asset and Liability Management Committee on a regular basis.

本集團每月進行敏感度分析，以估算利率變動對盈利和經濟價值的影響，當中假設本集團資產、負債和資產負債表外持倉的收益率曲線出現200個基點的利率衝擊。本集團設有敏感度限額，以控制本集團的盈利及經濟價值兩方面的利率風險承擔。有關結果定期向資產負債管理委員會匯報。

Sensitivity analysis on interest rate risk
The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income and economic value change.

利率風險敏感度分析
本集團採用敏感度分析來量度利率變動對淨利息收入及經濟價值變動可能產生的影響。

		2018				2017			
		HKD港元 HK$ Mn 港幣百萬元	**USD美元 HK$ Mn 港幣百萬元**	**RMB人民幣 HK$ Mn 港幣百萬元**	**GBP英鎊 HK$ Mn 港幣百萬元**	HKD港元 HK$ Mn 港幣百萬元	USD美元 HK$ Mn 港幣百萬元	RMB人民幣 HK$ Mn 港幣百萬元	GBP英鎊 HK$ Mn 港幣百萬元
Impact on earnings over the next 12 months if interest rates rise by 200 basis points	倘利率上調200個基點對未來12個月的盈利影響	**1,077**	**237**	**277**	**39**	1,064	158	376	57
Impact on economic value if interest rates rise by 200 basis points	倘利率上調200個基點對經濟價值的影響	**(278)**	**191**	**(301)**	**18**	(334)	145	68	30

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis is based on the following assumptions:

敏感度分析乃依據資產及負債的靜態利率風險狀況作出，僅作風險管理用途。有關分析乃根據以下假設進行：

(i) there is a parallel shift in the yield curve and in interest rates;

(i) 收益率曲線及利率平行移動；

(ii) there are no other changes to the portfolio;

(ii) 組合並無其他變動；

(iii) no loan prepayment is assumed as the majority of loans are on a floating rate basis; and

(iii) 假設沒有提早償還貸款，因大部分貸款屬於浮息貸款；及

(iv) deposits without fixed maturity dates are assumed to be repriced on the next day.

(iv) 假設沒有固定到期日的存款於翌日再定息。

Actual changes in the Group's net interest income and the economic value resulting from the increases in interest rates may differ from the results of this sensitivity analysis.

利率上調而導致本集團淨利息收入及經濟價值的實際變動與敏感度分析的結果可能有所不同。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(f) Strategic risk management

Strategic risk is the 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 technology changes.

The Risk Management Division of the Group monitors the activities under the Group's prevailing interest earning asset mix and funding strategies and regularly reports the status to the Asset and Liability Management Committee, Risk Management Committee, Risk Committee and the Board, where appropriate.

Capital management through projection of the Capital Adequacy Ratio and Internal Capital Adequacy Assessment Process is also conducted to assess the level and structure of capital resources needed to support the risks that the Group tolerates.

(f) 策略性風險管理

策略性風險是指因本集團營運環境變動、不良策略決策、決策實施不當或對工業、經濟或技術變動反應遲緩而對本集團盈利、資本、信譽或地位造成當前或潛在影響的風險。

本集團轄下的風險管理處監控本集團現行生息資產組合及融資策略下的活動，並於適當情況下定期向資產負債管理委員會、風險管理委員會、風險委員會及董事會匯報有關情況。

本集團亦定期透過資本充足比率預計及內部資本充足評估程序進行資本管理，以評估支援本集團在風險可承受水平上所需的資本資源水平及結構。

(g) Legal risk management

Legal risk is the risk of loss arising from unenforceable contracts, lawsuits, or adverse judgements that may disrupt or otherwise negatively affect the operations or financial condition of the Group.

The objective of managing legal risk is to identify, assess, monitor and report on legal risk, and to comply with the relevant legal and regulatory requirements.

The Group provides appropriate training courses conducted by qualified internal personnel and/or external lawyers/professionals, and issues regular reminders to staff members. When dealing with legal matters, the Group engages qualified internal personnel and, when necessary and appropriate, external lawyers with appropriate expertise including counsel and senior counsel for advice.

The Operational Risk Management Committee is responsible for overseeing the management of the Group's legal risk.

(g) 法律風險管理

法律風險是指出現合約未能執行、訴訟或不利審判的情況，可能對本集團的日常運作或財務狀況造成擾亂或負面影響而導致損失的風險。

法律風險管理的目的，在於識別、評估、監控及匯報法律風險，以及遵守相關法律及監管規定的要求。

本集團提供由合資格內部人員及／或外聘律師／專業人士講解的適當培訓課程，並向員工發出定期提示。當處理法律事宜，本集團諮詢合資格內部人士，並於必要及適當的情況下徵詢具備相應專業知識的外聘律師(包括大律師及資深大律師)的意見。

營運風險管理委員會負責監督本集團的法律風險管理。

(h) Reputation risk management

Reputation risk is the 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, result in costly litigation, or lead to a decline in the Group's customer base, business, and/or revenue.

The objective of managing reputation risk is to identify, assess, monitor, report, and mitigate reputation risk, and to ensure compliance with the relevant regulatory requirements.

The Group establishes various policies, guidelines, manuals, and codes to ensure compliance with applicable laws, rules, and regulations, and to ensure that the Group maintains a high standard of corporate governance, which in turn helps to safeguard and enhance the Group's reputation.

(h) 信譽風險管理

信譽風險是指因對本集團一項或多項有關營商規則、行為或財務狀況事件的負面報導而損及本集團信譽的風險。此等負面報導，不管真確與否，有可能影響公眾對本集團的信心，並可能導致高昂的訴訟費用，或令本集團客戶、業務及／或收入減少。

信譽風險管理的目的在於識別、評估、監控、匯報及降低信譽風險，以及確保符合相關監管規定的要求。

本集團制定各項政策、指引、手冊及守則，確保遵守適用法例、規則及規例，同時確保本集團維持高水準的企業管治，藉此保障及提升本集團的信譽。

The Group formulates, and adheres 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 Group. The Guidelines for Incident Response and Management are established for swift response to and management of unexpected incidents. The Media Guidelines are established to ensure effective and consistent delivery of the Group's key messages to the media.

本集團制定並遵從信譽風險管理手冊，該手冊載錄對信譽風險實施系統化管理的方法，包括識別、評估、監控、緩減及控制信譽風險的機制，藉此保護及提升本集團的信譽。本集團已建立事件應對及管理指引，以快速應對並管理未能預期的事件。並已建立媒體指引，以確保有效及一致地將本集團的關鍵信息傳達予媒體。

The Operational Risk Management Committee is responsible for overseeing the management of the Group's reputation risk.

營運風險管理委員會負責監督本集團的信譽風險管理。

(i) Compliance risk management

Compliance risk is the risk of potential losses arising from legal or regulatory sanctions, fines and penalties, financial losses or damage to reputation that the 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 banking activities.

(i) 合規風險管理

合規風險是指因法律及監管制裁、罰金或罰款、財務損失，或因未能遵守適用於本集團銀行業務的法例、規例、規則、相關自律組織標準及行為守則，而導致本集團損失的風險。

The Group establishes 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, which govern the Group's operations. The Group formulates, and adheres 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 Group to manage its compliance risk effectively. Independent regulatory compliance reviews are conducted on major functions of the Group using a risk-based approach.

本集團已制定各項政策、指引及手冊，確保遵守所有適用法例、規則、行為守則、行業標準及有關監管機構發出的規管本集團營運的指引。本集團已制定並遵從集團合規風險管理手冊，該手冊載錄對合規風險實施系統化管理的方法，包括識別、評估、監控、緩減及控制合規風險的機制，藉此令本集團有效地管理合規風險。並採用風險為本的方式對本行主要職能進行獨立合規監察審查。

(j) Technology risk management

Technology risk is the 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.

(j) 科技風險管理

科技風險是指因技術程序、人員及／或計算系統不足或出現故障；或因未經授權使用或破壞技術資源(尤其在涉及網絡安全及電子銀行時)導致本集團損失的風險。

To address increasing cyber security threats, the Group has put in place adequate security resources and proper control measures based on a defined risk appetite level. The Group has developed technology risk related policies and cyber security strategies as well as comprehensive security awareness programmes to strengthen cyber security at all levels.

為應對日漸上升的網絡安全威脅，本集團已根據既定風險偏好級別投入充足的網絡安全資源和實施適當的控制措施。本集團已制定科技風險相關政策及網絡安全策略，以及全面的安全意識計劃，以加強各個級別的網絡安全。

The Group has established a framework for proper management of technology risk. The Board and designated committees at the top level are responsible for overall management of technology risk for the Group. They lead various working teams and the "Three Lines of Defence" to address specific areas of concern.

本集團亦已為科技風險設立妥善管理框架。處於集團頂層的董事會及其指定委員會負責對本集團科技風險的整體管理，統領各工作小組及「三道防線」解決個別領域的問題。

Comprehensive control policies, standards, guidelines, and procedures are maintained to ensure that adequate 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 are all in place.

本集團繼續落實全面的控制政策、標準、指引及程序，確保充分實施與網絡系統及應用程式安全、客戶身份驗證、新產品及服務風險評估、以及資料保密及完整性相關的控制措施。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

45. PRINCIPAL RISK MANAGEMENT (CONTINUED) 主要風險管理(續)

(k) New product and business risk management

New product and business risk is the 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 establishment of a new subsidiary and/or merger and 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.

The Group establishes a robust risk governance structure, supported by comprehensive control guidelines and procedures. A structured process, which ensures that when initiating a new product or business, the potential significant risks are duly assessed, documented, and approved. It also facilitates Senior Management's oversight of new products and businesses.

Each new product launch must go through an approval process, which includes business and financial analysis and risk assessment. New products are reviewed and assessed by the New Products Evaluation Working Group (comprising the department heads of supporting units and representatives of risk controllers), endorsed by the Steering Group (chaired by the Group Chief Risk Officer and comprising the division heads of supporting units), and approved by the Risk Management Committee.

(k) 新產品及業務風險管理

新產品及業務風險是指本集團在新產品推出、現有產品結構性變動及新業務運作(即透過設立新附屬公司及／或合併及收購)時，未充分預先評估其重大潛在風險，而導致本集團損失的風險。此等重大潛在風險包括信貸風險、市場風險、營運風險、流動資金風險、利率風險、法律風險、科技風險、合規風險、策略性風險、信譽風險及持續業務運作風險。

本集團已建立穩健風險管治架構，並以全面的控制指引及程序確保其實施。透過框架內的程序，本集團確保在推出新產品或業務時對潛在重大風險作出適當評估、記錄及審批；其亦有助高級管理層監督新產品及業務。

每一個新產品的推出，須通過審批過程，包括業務和財務分析和風險評估。這些新產品首先由新產品評審工作組審核及評估，並由督導組認可及由風險管理委員會批准。新產品評審工作組由支援職能的部門主管及風險監控代表組成；而督導組的主席為集團風險總監，並由支援職能的處級主管組成。

(l) Business continuity risk management

Business continuity risk is the 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.

To manage business continuity risk, the Group establishes comprehensive policies, guidelines, and manuals. Business impact analysis is conducted and business continuity plans are developed by all individual functional units of the Group.

Annual drills are performed to test preparedness and effectiveness of the business continuity plans.

(l) 持續業務運作風險管理

持續業務運作風險是指事件或危機發生時業務中斷導致損失的風險。業務中斷可能由員工、資訊科技及電訊系統、行址、主要服務提供者、關鍵記錄等相關損失而引致。

為管理持續業務運作風險，本集團已制定全面的政策、指引及手冊。本集團所有個別職能單位均進行業務影響分析及制定業務持續規劃。

本集團每年進行演習以測試業務持續規劃是否備妥及有效。

(m) Capital management

The Group's primary objectives when managing capital are to meet the regulatory requirements and safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing assess to finance at a reasonable cost.

Capital managed by the Group to achieve these objectives includes ordinary share capital, retained profits, other reserves, and non-controlling interests after deductions for goodwill and intangible assets. It also includes subordinated liabilities, impairment allowances and regulatory reserve for general banking risks as allowed under Capital Rules.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The process of allocating capital to specific operations and activities is undertaken by the Asset & Liability Management Committee and is reviewed regularly by the Risk Management Committee, RIC and the Board.

The HKMA supervises the Group on both a consolidated basis and a solo-consolidated basis and, as such, sets capital requirements and receives information of capital adequacy on a regular basis for the Group as a whole. Individual overseas branches and banking subsidiaries are directly regulated by respective domestic banking supervisors, who set and monitor their capital adequacy requirements. In certain jurisdictions, non-banking financial subsidiaries are also subject to the supervision and capital requirements of domestic regulatory authorities.

In implementing current capital requirements the HKMA requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the Group's VaR models and uses its internal gradings as the basis for risk weightings for credit risk. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group monitors its capital structure on the basis of the capital adequacy ratios and there have been no material changes in the Group's policy on the management of capital during the year.

The capital adequacy ratios as at 31st December, 2018 and 31st December, 2017 are computed on the consolidated basis of the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Capital Rules of the Banking Ordinance.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year ended 31st December, 2018 and 31st December, 2017 and the Group's capital ratios are well above the minimum required by the HKMA.

(m) 資本管理

本集團管理資本的主要目的是要符合監管規定及保障本集團可持續經營，藉以不斷為股東提供回報及為其他利益關涉者帶來利益。方法包括依照風險水平釐定產品及服務價格，及以合理的成本提供融資渠道。

以求達至該目的，本集團管理資本包括股本、留存溢利、其他儲備，及非控股權益(已扣除商譽和無形資產)。管理資本亦包括無償負債、減值準備及資本規則所容許的一般銀行業風險的規管儲備。

本集團積極定期檢討及管理資本架構，以期在爭取更高股東回報與維持良好資本的好處和安全之間取得平衡，並且因應經濟情況的轉變調整資本架構。

調配資本至特定業務及活動的程序由資產及負債管理委員會進行，並由風險管理委員會、風險委員會及董事會定期檢討。

金管局按綜合基準及單獨綜合基準以監管本集團，並制訂資本要求及定期收集本集團整體性的資本充足資料。個別海外分行及銀行附屬公司分別由當地的銀行監管機關直接監管，並制訂及監控其資本充足要求。在某些地區，非銀行財務附屬公司是受當地監管機關規管及資本要求。

在實施現行資本要求金管局要求本集團維持特定的總資本對風險資產總額比率。本集團計算其交易組合的市場風險是按本集團風險值模式及採用內部評級作為信貸風險的加權風險基準。銀行營運分類為交易賬或銀行賬，及風險加權資產視乎可反映與資產及資產負債表以外風險不同層面風險之特定要求。

本集團以資本充足比率為基準監察資本架構，年度內本集團資本管理政策並無重大改變。

2018年12月31日及2017年12月31日的資本充足比率是依據金管局為監管目的而制定的，本行及若干附屬公司已按綜合基準計算，並符合《銀行業條例》的《資本規則》。

截至2018年12月31日及2017年12月31日止年度內，本集團及其個別受監管業務已符合所有外間訂立的資本規定，以及本集團俱遠高於金管局所定的最低規定比率。

46. FAIR VALUES OF FINANCIAL INSTRUMENTS 金融工具的公平價值

(a) Financial instruments carried at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following hierarchy of methods:

Level 1 – Quoted market price in an active market for an identical instrument.

Level 2 – Valuation techniques based on observable input. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or counterparty quotations. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and various market recognised option pricing models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, equity prices, foreign currency exchange rates, index prices, historical or implied volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price of the financial instrument that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the reporting date.

(a) 以公平價值列賬的金融工具

公平價值估計是根據金融工具的特性和相關市場資料於某一特定時間作出，因此一般是主觀的。本集團以下列的分級方法計算公平價值：

第一級－參考同一工具在活躍市場取得的市場報價。

第二級－根據可觀察的參數之估值模式。為此級別估值的工具，包括以下方式：就相若工具在活躍市場取得的市場報價；就相若工具在非活躍市場取得的市場報價；或其他估值模式，而該等估值模式所用的參數，是直接或間接可從市場觀察所得的數據。

第三級－根據重要但非可觀察得到的參數之估值模式。為此級別估值的工具，其估值模式所輸入之參數為非可觀察的數據，惟該等非可觀察的數據可以對估值產生重大影響。為此級別估值的工具，也包括在活躍市場取得相若金融工具的市場報價，惟當中需要作出非可觀察之調整或假設，以反映不同金融工具之間的差別。

於活躍市場買賣的金融資產及金融負債，是根據市場報價或交易對手報價以釐定其公平價值。而對於所有其他金融工具，本集團則利用估值模式以釐定公平價值。估值模式包括淨現值及現金流量折現模式、以及其他市場廣泛應用的期權估值模式。用於估值模式之假設及參數包括無風險利率、基準利率、股票價格、外幣兑換率、指數價格、過往或預期波幅及相聯關係。採用估值模式的目的是計量公平價值，藉以在申報日能反映金融工具的價格，而該價格可被視為在正常交易下市場人士當賣出資產時可收取或當轉移負債時須支付之款項。

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

本集團會使用廣泛應用的估值模式，以釐定一般性及較簡單金融工具的公平價值，例如僅使用可觀察市場價格、及毋須管理層耗時判斷及估計之利率及貨幣掉期。可觀察價格及模式的參數，通常可從市場上的上市債務及股份證券、在交易所買賣的衍生工具和簡單的場外交易衍生工具如利率掉期獲取。獲取可觀察市場價格及模式的參數，可以減省管理層需時判斷及估計，也可減少有關釐定公平價值的不穩定因素。是否取得可觀察市場價格及參數，視乎產品及市場性質，並會因金融市場的個別事件和一般情況而有不同變化。

For more complex instruments, the Group uses valuation models, which usually are developed from recognised valuation methodologies. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

至於較複雜的金融工具，本集團會使用通常由已有認受性的估值模式改動而來。部分甚或所有須予輸入模式的重要參數或未能從市場中觀察得出，而必須從市場價格或利率計算、或基於假設而估計而得出。該等須利用重要而非可觀察之參數的估值模式，需要管理層投入較多時間於判斷及估計，始能釐定金融工具的公平價值；而揀選適當的估值模式、為估值之金融工具決定其預期的未來現金流、決定交易對手方違約和提早還款的或然率，以及挑選適用的貼現率等，一般皆需要管理層的判斷和估計。

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation control function, namely Financial Instruments Valuation Group ("FIVG") which comprises control units independent of front office management. Procedures for price verification have been established. Any pricing models to be used would be subject to a rigorous validation and approval process.

本集團已就計算公平價值設立了監控機制。此機制包括擁有產品監控功能並獨立於前線管理人員，稱為金融工具估值群組(「群組」)。價格核實的程序已經確立。任何將被採用的價格模式必須經過嚴格的檢測及審批程序。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

46. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED) 金融工具的公平價值(續)

(a) Financial instruments carried at fair value (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

(a) 以公平價值列賬的金融工具(續)

下表是分析於報告期期末，在公平價值分級內金融工具之公平價值的處理方式：

		2018				2017 (Restated[Note] 重報[註])			
		Level One 第一級 HK$ Mn 港幣百萬元	Level Two 第二級 HK$ Mn 港幣百萬元	Level Three 第三級 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元	Level One 第一級 HK$ Mn 港幣百萬元	Level Two 第二級 HK$ Mn 港幣百萬元	Level Three 第三級 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Recurring fair value measurement	**重覆發生的公平價值釐定**								
Assets	**資產**								
Trade Bills – At FVOCI	貿易票據－通過其他全面收益以反映公平價值	–	11,764	–	11,764	–	–	–	–
Trading assets	交易用途資產	1,371	2,112	–	3,483	3,010	3,946	–	6,956
Derivative assets	衍生工具資產	–	10,211	–	10,211	–	11,335	–	11,335
Investment securities	投資證券								
– Mandatorily measured at FVTPL	－強制按通過損益以反映公平價值計量	2,471	11,251	309	14,031	–	–	–	–
– Designated at FVTPL	－指定通過損益以反映公平價值	–	1,630	–	1,630	179	3,990	–	4,169
– At FVOCI	－通過其他全面收益以反映公平價值	22,125	87,234	688	110,047	–	–	–	–
– Available-for-sale	－可供出售	–	–	–	–	27,676	92,087	562	120,325
		25,967	124,202	997	151,166	30,865	111,358	562	142,785
Liabilities	**負債**								
Trading liabilities	交易用途負債	–	–	–	–	11	–	–	11
Derivative liabilities	衍生工具負債	–	9,496	–	9,496	–	12,077	–	12,077
Financial liabilities designated at fair value through profit or loss	指定為通過損益以反映公平價值的金融負債	–	11,204	–	11,204	–	15,616	–	15,616
		–	20,700	–	20,700	11	27,693	–	27,704

Note: To conform to current year's presentation, the 2017 comparative figures have been restated by reclassifying a portfolio of listed debt securities (i.e. from Level 1 to Level 2) which were primarily traded in over-the-counter market where transactions information were not always observable.

註：為符合本年度的呈報方式，若干2017年度的比較數字已經重報，即將一籃子主要在場外交易市場而其交易信息並非經常可觀察的上市債務證券由第一級估值重新分類為第二級估值。

During the years ended 31st December 2018 and 2017, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

截至2018年及2017年12月31日止之年內，根據第一級及第二級分級方法釐定公平價值之金融工具，兩者之間並無重大的轉移。本集團的政策是只確認於報告期期末公平價值分級之間發生的轉移。

Information about significant unobservable inputs in Level 3 valuations

有關第三級估值的重要非可觀察參數資料

	Valuation technique 估值模式	Significant unobservable input(s) 重要非可觀察參數	Range 幅度
Unlisted equity securities and investment funds 非上市股份證券及投資基金	Net asset value 資產淨值	N/A 不適用	N/A 不適用
	Discounted cash flow model 現金流折扣模式	Discount rate 折扣率	11.8% (2017年: 15.4%)
		Marketability discount 市場性折扣	20% (2017年: 20%)
	Market-comparable approach 市場可類比法	Earnings multiple 盈利倍數	18.24 – 19.90 (2017年: 25.13 – 26.33)
		EV/EBIT 企業價值/稅息前利潤	22.54 – 23.18 (2017年: N/A不適用)
		P/B ratios 市賬率	2018年: N/A不適用 (2017年: 4.11 – 4.39)
		Marketability discount 市場性折扣	50% (2017年: 50%)

The fair values of unlisted equity instruments mandatorily measured at FVTPL or measured at FVOCI (2017: available-for-sale) are estimated using the discounted cash flow model, on the basis of an analysis of the investee's financial position and results, or with reference to multiples of comparable listed companies, such as price/earning ratio of comparables, adjusted for a marketability discount to reflect the fact that the shares are not actively traded. An increase in the ratio/investee's financial position and results in isolation will result in favourable movement in the fair values, while an increase in discount rate/marketability discount in isolation will result in unfavourable movement.

按強制通過損益以反映公平價值或通過其他全面收益以反映公平價值(2017年:可供出售)非上市股份工具的公平價值是採用現金流折扣模式作估算,根據受投資公司的財務狀況及業績之分析,或參考可比較上市公司之倍數(如價格/盈利率的比較),但須計入市場性折扣以反映該股份並非有活躍交易之調整。任何因比率/受投資公司的財務狀況及業績之個別增加對公平價值有正面影響,而因折扣率/市場性折扣之個別增加則對公平價值有負面影響。

Valuation of financial instruments in Level 3 is subject to the same valuation control framework as described above and reviewed regularly by FIVG.

在第三級之金融工具估值是受以上所述之相同估值監控機制及金融工具估值群組的定期檢視。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

46. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED) 金融工具的公平價值(續)

(a) Financial instruments carried at fair value (continued)

(1) Valuation of financial instruments with significant unobservable inputs

Movements in the recognised fair values of instruments with significant unobservable inputs were as follows:

(a) 以公平價值列賬的金融工具(續)

(1) 使用重要而非可觀察之參數的金融工具估值

已列賬並含有重要而非可觀察參數的工具，其公平價值之變動如下：

		2018		2017
		Investment securities mandatorily measured at FVTPL 強制按通過損益以反映公平價值計量的投資證券 HK$ Mn 港幣百萬元	**Investment securities at FVOCI 按通過其他全面收益以反映公平價值的投資證券 HK$ Mn 港幣百萬元**	Available-for-sale financial assets 可供出售金融資產 HK$ Mn 港幣百萬元
Assets	**資產**			
At 1st January	於1月1日	**213**	**349**	493
Purchases	購入	**124**	**43**	42
Settlements	結算	**(13)**	**–**	(86)
Changes in fair value recognised in the income statement	公平價值變動確認於收益表	**(15)**	**–**	(2)
Changes in fair value recognised in the other comprehensive income	公平價值變動確認於其他全面收益	**–**	**296**	114
Exchange adjustments	匯兑調整	**–**	**–**	1
At 31st December	於12月31日	**309**	**688**	562
Total gains for the year included in FVOCI (2017: available-for-sale) fair value reserve of the other comprehensive income for assets held at the end of the reporting period	於報告期結束日持有按通過其他全面收益以反映公平價值(2017年：可供出售)資產而已計入其他全面收益的公平價值儲備之年度內收益或虧損總額	**–**	**296**	114
Total losses for the year included in the income statement for assets held at the end of the reporting period recorded in net results from other financial instruments at FVTPL	於報告期結束日持有之資產而已計入期內收益表之通過損益以反映公平價值金融工具的淨表現之年度內收益或虧損總額	**(15)**	**–**	–

(2) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions

(2) 因重要而非可觀察之假設變動至合理可行之另類假設所產生的影響

		2018			
		Effect recorded in profit or loss 直接記錄於損益上之影響		Effect recorded directly in equity 直接記錄於股東權益上之影響	
		Favourable 有利	(Unfavourable) (不利)	Favourable 有利	(Unfavourable) (不利)
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元
Financial assets	金融資產				
Investment securities mandatorily measured at FVTPL	強制按通過損益以反映公平價值計量的投資證券	26	(26)	–	–
Investment securities at FVOCI	按通過其他全面收益以反映公平價值的投資證券	–	–	57	(57)
		26	(26)	57	(57)

		2017			
		Effect recorded in profit or loss 直接記錄於損益上之影響		Effect recorded directly in equity 直接記錄於股東權益上之影響	
		Favourable 有利	(Unfavourable) (不利)	Favourable 有利	(Unfavourable) (不利)
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元
Financial assets	金融資產				
Available-for-sale financial assets	可供出售金融資產	–	–	47	(47)
		–	–	47	(47)

The fair values of financial instruments are in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The table above shows the sensitivity of fair values due to parallel movement of plus or minus 10 per cent in reasonably possible alternative assumptions.

在若干情況下，計算金融工具的公平價值所使用的估值模式，其含有的假設並非依據在相同工具的當前可觀察市場交易價格，亦非依賴其他可觀察的市場數據。上表顯示公平價值之敏感度，即因轉用至合理可行之另類假定所產生的正、負 10% 的價值的並行變動。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

46. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED) 金融工具的公平價值(續)

(b) Fair values of financial instruments carried at other than fair value

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented below:

(i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the end of the reporting period.

(ii) The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value.

(iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(iv) The fair value of unquoted equity investments is estimated, if possible, using the applicable dividend discount model, or share of net asset value in the investment, or applying a discount to the market value of investments with a lock-up period.

(v) The fair value of unlisted open-ended investment funds is estimated using the net asset value per share as reported by the managers of such funds.

(vi) The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

(b) 以公平價值以外列賬的金融工具公平價值

本集團採用下列方法和重要假定，以釐定如下的金融工具的公平價值：

(i) 不設指定期限的活期存款和儲蓄賬戶的公平價值，乃假定為於報告期結束日可按要求而支付的金額。

(ii) 浮息金融工具的公平價值，乃假定為與其賬面值相若。如此等工具為貸款和非上市債務證券，由於相關的信貸風險影響是在賬面值和公平價值中將減值準備金額減除後才分別予以確認，因此其公平價值不能反映其信貸素質的改變。

(iii) 以攤銷成本入賬的定息貸款和按揭貸款的公平價值，乃在此等貸款按相若貸款所獲提供的目前市場利率批出時，以市場利率比較的方式估計。由於相關的信貸風險影響是在賬面值和公平價值中將減值準備金額減除後才分別予以確認，在決定公平價值總額時，貸款組合內各項貸款的信貸素質的改變均不會予以考慮。

(iv) 非上市股票投資的公平價值是在可能情況下採用適用的股息折扣模式，或應佔投資的淨資產，或為設有禁售期之投資按其市值以折扣計算。

(v) 非上市開放式投資基金的公平價值估計，是基於投資經理所匯報的每股資產淨值作出。

(vi) 已發出的融資擔保之公平價值，是以參考在相若服務的公平交易中所徵收費用之可取得相關資料而釐定；有關的資料也可參考利率差價而估計，亦可以就貸款機構對發出擔保所實際徵收的息率，與在沒有取得擔保之情況下而貸款機構將可能徵收的估計息率作出比較，並在當中取用較可靠的相關資料以釐定公平價值。

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31st December, 2018 and 2017 except as follows:

除下列者外，本集團以成本或攤銷成本入賬的金融工具賬面值，與其於2018年12月31日及2017年同日之公平價值相若。

		2018				
		Carrying amount 賬面值 HK$ Mn 港幣百萬元	**Fair value 公平價值 HK$ Mn 港幣百萬元**	**Level 1 第一級 HK$ Mn 港幣百萬元**	**Level 2 第二級 HK$ Mn 港幣百萬元**	**Level 3 第三級 HK$ Mn 港幣百萬元**
Financial assets	金融資產					
Investment securities at amortised cost	投資證券按攤銷成本	**19,021**	**19,140**	**1,720**	**17,420**	**–**

		2017 (Restated[Note] 重報[註])				
		Carrying amount 賬面值 HK$ Mn 港幣百萬元	Fair value 公平價值 HK$ Mn 港幣百萬元	Level 1 第一級 HK$ Mn 港幣百萬元	Level 2 第二級 HK$ Mn 港幣百萬元	Level 3 第三級 HK$ Mn 港幣百萬元
Financial assets	金融資產					
Held-to-maturity investments	持至到期投資	9,798	9,756	1,429	8,327	–

Note: To conform to current year's presentation, the 2017 comparative figures have been restated by reclassifying a portfolio of listed debt securities (i.e. from Level 1 to Level 2) which were primarily traded in over-the-counter market where transactions information were not always observable.

註： 為符合本年度的呈報方式，若干2017年度的比較數字已經重報，即將一籃子主要在場外交易市場而其交易信息並非經常可觀察的上市債務證券由第一級估值重新分類為第二級估值。

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures level 2 fair values using the following method and there is no change to the valuation technique:

釐定公平價值通常是較具主觀性的，及根據在其一特定時間點按金融工具之特性及相關市場資料而作出。本集團釐定第二級公平價值是採納以下方法及估值模式並無改變：

Level 2 – Valuation techniques based on observable input. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

第二級－估值模式是以可觀察參數為基準。此類別工具估值包括採用：在活躍市場內相近工具有報價的市場價格；在較不活躍之市場內相近工具有報價的價格；或其他估值模式而所有重要參數是直接或間接地由市場資料可觀察到。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

47. OFF-BALANCE SHEET EXPOSURES 資產負債表以外的風險

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

(a) 或然負債及承擔

每項或然負債及承擔主要類別的合約金額摘要如下：

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Contingent liabilities	或然負債		
Direct credit substitutes	直接信貸代替品	**14,629**	12,319
Transaction-related contingencies	與交易有關的或然項目	**883**	817
Trade-related contingencies	與貿易有關的或然項目	**2,997**	1,490
		18,509	14,626
Commitments	承擔		
Commitments that are unconditionally cancellable without prior notice	可無條件取消而毋須事先通知的承擔	**141,668**	170,099
Other commitments with an original maturity	其他承擔的原到期日		
– up to 1 year	–1年或以下	**9,332**	7,766
– over 1 year	–1年以上	**26,710**	26,577
		177,710	204,442
Total	總額	**196,219**	219,068
Credit risk weighted amounts	信貸風險加權金額	**23,531**	31,289

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts does not represent expected future cash flows.

或然負債及承擔是與信貸有關的工具，包括用以提供信貸的承兑票據、信用證、擔保書和承付款項。合約金額是指當合約被完全提取及客戶違約時所承擔風險的金額。由於預期擔保書及承付款項的大部分金額會在未經提取前逾期，合約金額並不代表預計未來現金流量。

(b) Derivatives

(i) Notional amount of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

The following is a summary of the notional amounts of each significant type of derivative for the Group:

(b) 衍生工具

(i) 衍生工具的名義金額

衍生工具是指由一項或多項潛在資產或指數價值釐定價值的財務合約。

集團的每項衍生工具主要類別的名義金額摘要如下：

		2018			
		Qualifying for hedge accounting 符合對沖會計法 HK$ Mn 港幣百萬元	Managed in conjunction with financial instruments designated at fair value through profit or loss 按通過損益以反映公平價值金融工具模式管理 HK$ Mn 港幣百萬元	Others, including held for trading 其他，包括持有作交易用途 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Exchange rate contracts	匯率合約				
Forwards and futures	遠期交易及期貨	1,556	–	42,987	44,543
Swaps	掉期交易	–	6,153	636,012	642,165
Options purchased	購入期權	–	–	18,502	18,502
Options written	沽出期權	–	–	18,638	18,638
Interest rate contracts	利率合約				
Forwards and futures	遠期交易及期貨	–	–	987	987
Swaps	掉期交易	67,215	8,592	334,531	410,338
Equity contracts	股份合約				
Swaps	掉期交易	–	–	5,665	5,665
Options purchased	購入期權	–	–	3,128	3,128
Options written	沽出期權	–	–	3,087	3,087
Others	其他	–	–	266	266
		68,771	14,745	1,063,803	1,147,319

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

47. OFF-BALANCE SHEET EXPOSURES (CONTINUED) 資產負債表以外的風險(續)

(b) Derivatives (continued)

(i) Notional amount of derivatives (continued)

(b) 衍生工具(續)

(i) 衍生工具的名義金額(續)

		2017(Restated 重報)			
		Qualifying for hedge accounting 符合對沖會計法 HK$ Mn 港幣百萬元	Managed in conjunction with financial instruments designated at fair value through profit or loss 按通過損益以反映公平價值金融工具模式管理 HK$ Mn 港幣百萬元	Others, including held for trading 其他,包括持有作交易用途 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Exchange rate contracts	匯率合約				
Forwards and futures	遠期交易及期貨	1,552	–	46,193	47,745
Swaps	掉期交易	–	6,012	608,906	614,918
Options purchased	購入期權	–	–	18,187	18,187
Options written	沽出期權	–	–	18,694	18,694
Interest rate contracts	利率合約				
Forwards and futures	遠期交易及期貨	–	–	758	758
Swaps	掉期交易	60,080	12,164	438,217	510,461
Equity contracts	股份合約				
Swaps	掉期交易	–	–	8,355	8,355
Options purchased	購入期權	–	–	5,247	5,247
Options written	沽出期權	–	–	6,155	6,155
Others	其他	–	–	1,342	1,342
		61,632	18,176	1,152,054	1,231,862

Derivatives arise from futures, forward, swap and option transactions undertaken by the Group and the Bank in the foreign exchange, interest rate and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting period; they do not represent amounts at risk.

衍生工具是由本集團及本行在外匯、利率及股票市場進行期貨、遠期、掉期及期權交易而產生。這些工具的名義金額指在報告期結束日仍未完成的交易量,但並不代表所承受風險的金額。

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

前述資產負債表以外風險的公平價值及信貸風險加權金額如下。這些金額並未計入雙邊淨額安排的影響。

(ii) Fair value and credit risk weighted amounts of derivatives

(ii) 衍生工具之公平價值及信貸風險加權金額

		2018			2017		
		Fair value 公平價值		Credit risk weighted amounts* 信貸風險加權金額*	Fair value 公平價值		Credit risk weighted amounts* 信貸風險加權金額*
		Assets 資產 HK$ Mn 港幣百萬元	Liabilities 負債 HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	Assets 資產 HK$ Mn 港幣百萬元	Liabilities 負債 HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元
Exchange rate contracts	匯率合約						
Forwards and futures	遠期交易及期貨	**534**	**483**	**387**	559	958	537
Swaps	掉期交易	**5,913**	**5,470**	**2,118**	7,667	8,560	2,914
Options purchased	購入期權	**336**	**11**	**313**	580	9	779
Options written	沽出期權	**–**	**227**	**25**	–	72	–
Interest rate contracts	利率合約						
Forwards and futures	遠期交易及期貨	**–**	**13**	**–**	3	–	–
Swaps	掉期交易	**2,919**	**2,803**	**414**	2,255	1,924	455
Equity contracts	股份合約						
Swaps	掉期交易	**309**	**306**	**–**	110	116	–
Options purchased	購入期權	**198**	**113**	**122**	135	59	92
Options written	沽出期權	**–**	**53**	**–**	11	359	–
Others	其他	**2**	**17**	**363**	15	20	349
		10,211	**9,496**	**3,742**	11,335	12,077	5,126

* *The Bank adopted the Foundation Internal Ratings Based ("IRB") approach according to Capital Rules for calculating the credit risk weighted amount as at 31st December, 2018 and 31st December, 2017.*

* *根據《資本規則》，本行採納「基礎內部評級基準計算法」計算於2018年12月31日及2017年12月31日之信貸風險之風險加權金額。*

The tables above give the contractual or notional amounts, fair value and credit risk weighted amounts of off-balance sheet transactions. The fair value is calculated for the purposes of deriving the credit risk weighted amounts. These are assessed in accordance with the Capital Rules. Fair value represents the cost of replacing all contracts which have a positive value when marked to market.

上表列出資產負債表以外交易的合約或名義金額、公平價值及信貸風險加權金額。公平價值是用來計算信貸風險加權金額。該等金額是按照《資本規則》作評估。公平價值是指重置所有按市場價值計算差額時附有正值的合約成本。

Fair value is a close approximation of the credit risk for these contracts as at the end of the reporting period. The credit risk weighted amount refers to the amount as computed in accordance with the Capital Rules.

公平價值是在報告期結束日該等合約的略計信貸風險。信貸風險加權金額是指按照《資本規則》計算。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

47. OFF-BALANCE SHEET EXPOSURES (CONTINUED) 資產負債表以外的風險(續)

(b) Derivatives (continued)

(iii) Hedge accounting

(a) Fair value hedges of interest rate risk

The Group uses interest rate swaps to hedge its exposure to changes in the fair values of certain fixed rate subordinated notes issued and fixed rate debt securities investment and loans and advances in respect of a benchmark interest rate. Pay-floating/receive-fixed interest rate swaps are matched to specific issuances of fixed rate subordinated notes or pay-fixed/receive-floating interest rate swaps are matched to fixed rate debt securities investment and loans and advances with terms that closely align with the critical terms of the hedged item.

The Group's approach to managing market risk, including interest rate risk, is discussed in Note 45(b). Interest rate risk to which the Group applies hedge accounting arises from fixed rate subordinated notes issued and fixed rate debt securities investment and loans and advances, whose fair value fluctuates when benchmark interest rates change. The Group hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of a fixed rate debt security or loan are significantly influenced by changes in the benchmark interest rate. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Group minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties and requiring the counterparties to post collateral (see Note 45(a)(xi)).

Before fair value hedge accounting is applied by the Group, the Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Group evaluates whether the fair values of the hedged item and the hedging instrument respond similarly to similar risks. The Group further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the fair value of the hedged item.

The Group establishes a hedge ratio by aligning the par amount of the hedged fixed-rate loan or note and the notional amount of the interest rate swap designated as a hedging instrument. Under the Group policy, in order to conclude that a hedge relationship is effective, all of the following criteria should be met.

- The regression co-efficient (R squared), which measures the correlation between the variables in the regression, is at least 0.8.
- The slope of the regression line is within a 0.8-1.25 range.
- The confidence level of the slope is at least 95%.

(b) 衍生工具(續)

(iii) 對沖會計

(a) 利率風險的公平價值對沖

本集團以利率掉期合約對沖若干其發行的定息後償票據、持有的定息債券投資及貸款和墊款因基準利率而導致的公平價值轉變的風險。對沖以支付浮動／收取固定利率掉期合約與定息後償票據的特定發行配對或以支付固定利率／收取浮動利率掉期合約與定息債券和貸款配對，其條款與被對沖項目的關鍵條款一致。

本集團管理市場風險的方法，包括利率風險詳述於附註45(b)。本集團採用對沖會計的利率風險來其發行定息後償票據、定息債券投資及貸款和墊款，其公平價值在基準利率變動時波動。因定息債券及貸款和墊款的公平價值變動受基準利率變動的顯著影響，本集團僅在基準利率範圍內對沖利率風險。對沖會計適用於符合對沖會計條件的經濟對沖關係。

通過使用衍生金融工具對沖利率變動的風險，本集團亦面對衍生工具交易對手的信貸風險，而該風險並未被被對沖項目抵銷。本集團通過與高質量交易對手進行交易，要求交易對手提供抵押品，減低衍生工具交易對手的信用風險(詳見附註45(a)(xi))。

在本集團採用公平價值對沖會計法前，本集團根據被對沖項目和對沖工具的定性特徵評估和支持對沖風險評估的定量分析，以確定被對沖項目與對沖工具之間是否存在經濟關係。本集團在評估經濟關係的存在時，會考慮被對沖項目及對沖工具的關鍵條款是否一致。本集團評估被對沖項目和對沖工具的公平價值是否對類似風險反應相似。本集團使用回歸分析評估對沖工具是否預期及非常有效地抵銷被對沖項目的公平價值變動以進一步支持定性評估。

本集團通過調整對沖定息貸款或票據的面值與指定為對沖工具的利率掉期合約的名義金額來確定對沖比率。根據本集團政策，有效對沖關係應滿足以下所有條件：

- 測量回歸中變量之間相關性的回歸係數(R平方)至少為0.8。
- 回歸線的斜率在0.8-1.25範圍內。
- 斜率的置信水平至少為95%。

In these hedge relationships, the main sources of ineffectiveness are:

在這些對沖關係中，無效對沖部份的主要來源是：

– the effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and

– 交易對手和本集團自身信用風險對利率掉期合約公平價值的影響未能反映在利率變動導致的被對沖項目的公平價值中；及

– differences in maturities of the interest rate swap and the loans or the debt securities.

– 利率掉期和相關貸款或債券的到期日之差異。

At 31st December, 2018, the Group held the following interest rate swaps as hedging instruments in fair value hedges of interest risk:

於2018年12月31日，本集團持有以下利率掉期合約作為利率風險公平價值對沖的對沖工具：

		Maturity 到期日		
		Less than 1 year 少於1年	**1–5 years 1–5年**	**More than 5 years 多於5年**
Risk category	風險類別			
Interest rate risk	利率風險			
Hedge of subordinated notes issued	對沖已發行的後償債券			
Nominal amount (in millions of HKD)	名義金額(港幣百萬元)	**3,916**	**8,615**	**–**
Average fixed interest rate	平均固定利率	**4.25%**	**5.18%**	**–**
Hedge of debt securities investment	對沖債務證券投資			
Nominal amount (in millions of HKD)	名義金額(港幣百萬元)	**4,311**	**36,000**	**14,034**
Average fixed interest rate	平均固定利率	**2.18%**	**2.28%**	**2.69%**
Hedge of loans and advances	對沖貸款及墊款			
Nominal amount (in millions of HKD)	名義金額(港幣百萬元)	**–**	**125**	**214**
Average fixed interest rate	平均固定利率	**–**	**2.78%**	**3.96%**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

47. OFF-BALANCE SHEET EXPOSURES (CONTINUED) 資產負債表以外的風險(續)

(b) Derivatives (continued)

(iii) Hedge accounting (continued)

(a) Fair value hedges of interest rate risk (continued)

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

(b) 衍生工具(續)

(iii) 對沖會計(續)

(a) 利率風險的公平價值對沖(續)

指定為對沖工具及無效對沖金額如下:

	2018						
	Nominal amount 名義金額	Carrying amount 賬面值 Assets 資產	Carrying amount 賬面值 Liabilities 負債	Line item in the consolidated statement of financial position where the hedging instrument is included 包含對沖工具的綜合財務狀況表的項目	Change in fair value used for calculating hedge ineffectiveness 公平價值變動以計算無效對沖部份	Ineffectiveness recognised in profit or loss 於損益表內確認的無效對沖部份	Line item in consolidated income statement that includes hedge ineffectiveness 包含無效對沖部份的綜合收益表的項目
In millions of HKD 港幣百萬元							
Interest rate risk 利率風險							
Interest rate swaps – hedge of subordinated notes issued 利率掉期–對沖已發行後償票據	12,531	181	(103)	Derivative assets (liabilities) 衍生工具資產(負債)	(104)	(4)	Net hedging profit/(loss) 淨對沖盈利/(虧損)
Interest rate swaps – hedge of debt securities 利率掉期–對沖債務證券投資	54,345	695	(539)	Derivative assets (liabilities) 衍生工具資產(負債)	(77)	47	Net hedging profit/(loss) 淨對沖盈利/(虧損)
Interest rate swaps – hedge of loans and advances 利率掉期–對沖貸款及墊款	339	9	(2)	Derivative assets (liabilities) 衍生工具資產(負債)	–	–	Net hedging profit/(loss) 淨對沖盈利/(虧損)

The amounts relating to items designated as hedged items were as follows:

指定為被對沖項目金額如下：

	2018						
	Carrying amount 賬面值		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item 包含於被對沖項目賬面值的累計公平價值對沖調整		Line item in the consolidated statement of financial position where the hedged item is included 包含被對沖項目的綜合財務狀況表的項目	Change in value used for calculating hedge ineffectiveness 公平價值變動以計算無效對沖部份	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses 包含於財務狀況表的已終止調整對沖盈利及虧損的被對沖項目之累計公平價值對沖調整餘額
	Assets 資產	Liabilities 負債	Assets 資產	Liabilities 負債			
In millions of HKD *港幣百萬元*							
Subordinated notes issued 已發行後償票據	–	12,358	–	(150)	Loan capital 借貸資本	100	–
Debt securities investment 債務證券投資	54,222	–	(379)	–	Investment securities 投資證券	124	–
Loans and advances 貸款及墊款	338	–	(2)	–	Loans and advances to customers 客戶貸款及墊款	–	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

47. OFF-BALANCE SHEET EXPOSURES (CONTINUED) 資產負債表以外的風險(續)

(b) Derivatives (continued)

(iii) Hedge accounting (continued)

(a) Fair value hedges of interest rate risk (continued)

Comparative information under HKAS 39

The following is a summary of the fair values of derivatives under fair value hedge:

(b) 衍生工具(續)

(iii) 對沖會計(續)

(a) 利率風險的公平價值對沖(續)

《香港會計準則》第39號比較信息

公平價值對沖下衍生工具的公平價值摘要如下：

		2017	
		Assets 資產	Liabilities 負債
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元
Fair value hedged derivatives	公平價值對沖衍生工具		
Interest rate contracts	利率合約	750	418

The Group's fair value hedge principally consists of interest rate swaps that are used to protect against changes in the fair value of fixed rate long-term financial instruments due to movements in market interest rates.

本集團的公平價值對沖主要包括利率掉期，用於抵禦因市場利率變動而導致的定息長期金融工具公平價值變動。

(b) Cash flow hedges of foreign currency risk

The Group uses exchange rate forward contracts to hedge against the variability in cash flows of certain debt securities investments denominated in US dollar held by the insurance subsidiaries. The Group hedges foreign exchange rate risk to the extent of variability in functional currency equivalent cash flows (i.e. in HK dollar) from principal payment of the debt securities attributable to movements in US dollar/HK dollar. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

The Group determines the amount of the exposure to which it applies hedge accounting by assessing the potential impact of changes in foreign currency exchange rates on the future cash flows from the debt securities investments denominated in US dollar that will result in a reduction of functional currency equivalent cash flow to meet the obligation of insurance policies at maturity. This assessment is performed using analytical techniques, such as cash flow sensitivity analysis.

As noted above for fair value hedges, the Group exposes itself to credit risk of the counterparties to the derivatives, which is not offset by the hedged items. This exposure is managed similarly to that for fair value hedges.

The Group determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Group evaluates whether the cash flows of the hedged item and the hedging instrument respond similarly to the hedged risk, such as the notional amount, maturity and underlying currencies.

(b) 外匯風險的現金流對沖

本集團使用匯率遠期合約對沖保險附屬公司持有的若干以美元計值的債券投資的現金流量變動。本集團因應美元／港元變動所導致債務證券本金支付以功能貨幣(即以港元計算)計算的等值現金流量進行外匯風險對沖。對沖會計適用於符合對沖會計條件的經濟對沖關係。

本集團通過評估外匯變動對以美元計價的債券投資的未來現金流量可能導致相應功能貨幣減少的潛在影響，確定其應用對沖會計的風險金額現金流量，以滿足到期保險單的責任。該評估使用分析技術進行，例如現金流敏感度分析。

如上文對於公平價值對沖所述，本集團面對衍生工具交易對手的信用風險，而該風險未有被被對沖項目抵銷。這種風險與公平價值對沖的風險管理類似。

本集團根據對這些項目的定性特徵的評估以及支持的對沖風險的定量分析，以確定被對沖項目的現金流量與對沖工具之間是否存在經濟關係。本集團在評估經濟關係的存在時，會考慮被對沖項目及對沖工具的關鍵條款是否一致。本集團評估被對沖項目和對沖工具的現金流量是否就對沖風險的反應相似，例如以名義金額，到期日及相關貨幣評估。

The Group assesses hedge effectiveness using the hypothetical derivative method, which creates a derivative instrument to serve as a proxy for the hedged transaction. The terms of the hypothetical derivative match the critical terms of the hedged item and it has a fair value of zero at inception. The dollar offset ratio, being the periodic change in fair value of the hypothetical exchange rate forward contract attributable to changes in forward rate is calculated to assess whether the hedge can achieve 0.8 – 1.25 cumulative dollar offset on each reporting date.

本集團採用模擬衍生工具方法評估對沖效用，該方法建立一衍生工具作為對沖交易的代理。模擬衍生工具的條款與被對沖項目的關鍵條款一致，並且在開始時其公平價值為零。價值抵銷比率，即由遠期利率變動引起的模擬匯率遠期合約的公平價值的周期性變化，計算以評估對沖是否可在每個報告日期實現0.8–1.25的累計價值抵銷。

At 31st December, 2018, the Group held the following instruments to hedge exposures to changes in foreign currency:

於2018年12月31日，本集團持有以下工具對沖外匯變動風險：

		Maturity 到期日		
		Less than 1 year 少於1年	1–5 years 1–5年	More than 5 years 多於5年
Foreign currency risk	外匯風險			
Exchange rate forward contracts (HKD: USD)	匯率遠期合約(港幣：美元)			
Nominal amount (in millions of HKD)	名義金額(港幣百萬元)	–	1,556	–
Average forward price	平均遠期金額	–	7.71	–

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

指定為對沖工具及無效對沖金額如下：

	2018									
	Nominal amount 名義金額	Carrying amount 賬面值 Assets 資產	Carrying amount 賬面值 Liabilities 負債	Line item in the consolidated statement of financial position where the hedging instrument is included 包含對沖工具的綜合財務狀況表的項目	Changes in fair value used for calculating hedge ineffectiveness 公平價值變動以計算無效對沖部份	Changes in the value of the hedging instrument recognised in OCI 確認於其他全面收益的對沖工具公平價值變動	Hedge ineffectiveness recognised in profit or loss 確認於收益表的無效對沖部份	Line item in consolidated income statement that includes hedge ineffectiveness 包含對沖無效的綜合收益表的項目	Amount reclassified from the hedged reserve to profit or loss 由對沖儲備計入收益表金額	Line item in consolidated income statement affected by the reclassification 受轉入影響的綜合收益表項目
In millions of HKD 港幣百萬元										
Currency rate risk 外匯風險										
Exchange rate forward contracts (HKD:USD) 匯率遠期合約(港幣：美元)	1,556	-	(11)	Derivative assets (liabilities) 衍生工具資產(負債)	1	(1)	-	Net insurance revenue 淨保險收入	(5)	Net insurance revenue 淨保險收入

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

47. OFF-BALANCE SHEET EXPOSURES (CONTINUED) 資產負債表以外的風險(續)

(b) Derivatives (continued)

(iii) Hedge accounting (continued)

(b) Cash flow hedges of foreign currency risk (continued)

The amounts relating to items designated as hedge items were as follows:

(b) 衍生工具(續)

(iii) 對沖會計(續)

(b) 外匯風險的現金流對沖(續)

指定為被對沖項目金額如下:

	2018			
	Line item in the consolidated statement of financial position where the hedged item is included 包含被對沖項目的綜合財務狀況表的項目	**Change in value used for calculating hedge ineffectiveness 公平價值變動以計算無效對沖部分**	**Cash flow hedge reserve 現金流對沖儲備**	**Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied 不再應用對沖會計法的現金流對沖儲備餘額**
In millions of HKD 港幣百萬元				
Currency rate risk 外匯風險				
Debt securities investment 債務證券投資	**Investment securities 投資證券**	**4**	**15**	**–**

Comparative information under HKAS 39

The following is a summary of the fair values of derivatives under cash flow hedge:

《香港會計準則》第39號比較信息

現金流對沖下衍生工具的公平價值摘要如下:

		2017	
		Assets 資產 HK$ Mn 港幣百萬元	Liabilities 負債 HK$ Mn 港幣百萬元
Cash flow hedged derivatives	現金流對沖衍生工具		
Exchange rate contracts	匯率合約	–	10

The Group's cash flow hedge principally consists of foreign exchange contracts that are used to hedge against the variability in cash flows of certain debt securities subject to foreign exchange rate movement.

本集團之現金流對沖主要包括外滙合約,其作用是對沖若干受外幣滙率波動影響現金流改變的債務證券。

The time periods in which the hedged cash flows are expected to occur and affect the consolidated statement of comprehensive income are as follows:

影響綜合全面收益表及所對沖之現金流預期會發生的期間如下：

		Within one year 1年以內 HK$ Mn 港幣百萬元	Over one year but within five years 1年以上至5年 HK$ Mn 港幣百萬元	Over five years 5年以上 HK$ Mn 港幣百萬元
At 31st December, 2017	於2017年12月31日			
Cash inflows from assets	來自資產的現金流入	–	1,552	–
Cash outflows from liabilities	來自負債的現金流出	–	–	–
Net cash inflows	淨現金流入	–	1,552	–

(iv) Remaining life of derivatives

The following table provides an analysis of the notional amounts of derivatives of the Group by relevant maturity grouping based on the remaining periods to settlement at the end of the reporting period.

(iv) 衍生工具之剩餘期限

下表分析在報告期結束日本集團根據到期期限歸類之剩餘結算期限有關衍生工具的名義金額。

		Notional amounts with remaining life of 剩餘期限的名義金額							
		2018				2017			
		1 year or less 1年或以下 HK$ Mn 港幣百萬元	Over 1 year to 5 years 1年以上至5年 HK$ Mn 港幣百萬元	Over 5 years 5年以上 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元	1 year or less 1年或以下 HK$ Mn 港幣百萬元	Over 1 year to 5 years 1年以上至5年 HK$ Mn 港幣百萬元	Over 5 years 5年以上 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
Interest rate derivatives	利率衍生工具	187,106	209,736	14,483	411,325	281,490	217,826	11,903	511,219
Currency derivatives	貨幣衍生工具	706,653	15,936	1,259	723,848	678,735	19,947	862	699,544
Other derivatives	其他衍生工具	7,611	4,535	–	12,146	15,634	3,904	1,561	21,099
		901,370	230,207	15,742	1,147,319	975,859	241,677	14,326	1,231,862

(c) Capital commitments

Capital commitments outstanding at 31st December and not provided for in the financial statements were as follows:

(c) 資本承擔

於12月31日未償付但並未在財務報表中提撥準備的資本承擔如下：

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Expenditure authorised and contracted for	已核准支出並已簽約	284	242
Expenditure authorised but not contracted for	已核准支出但未簽約	161	215
		445	457

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

47. OFF-BALANCE SHEET EXPOSURES (CONTINUED) 資產負債表以外的風險(續)

(d) Operating lease commitments

At 31st December, 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

(d) 經營租賃承擔

於2018年12月31日，在不可撤銷的經營租賃內，未來最低應付租賃款項總額如下：

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Properties	物業		
Within one year	1年以內	**423**	425
After one year but within five years	1年至5年內	**581**	538
After five years	5年以後	**72**	112
		1,076	1,075

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Equipment	設備		
Within one year	1年以內	**4**	4
After one year but within five years	1年至5年內	**5**	3
		9	7

The Group lease certain properties and equipment under operating leases. The leases run for an initial period of one to twenty five years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually adjusted annually to reflect market rentals. None of the leases includes contingent rentals.

本集團以經營租賃形式租入若干物業和設備。租賃年期由1年至25年，到期日後可再續約但其他條款須另議。租賃付款金額通常每年調整以反映市值租金。所有租約並不包括或有租金。

(e) Contingencies

The Group receives legal claims against it arising in the normal courses of business. The Group considers none of these matters as material. Where appropriate the Group recognises provisions for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation.

(e) 或有事項

本集團收到正常業務過程中產生的法律索賠。本集團認為這些事項均不重大。在適當情況下，本集團在很可能需要經濟利益流出並且可以對該責任作出可靠估計時確認負債準備。

48. NOTES ON CONSOLIDATED CASH FLOW STATEMENT 綜合現金流量表附註

(a) Cash and cash equivalents

(i) Components of cash and cash equivalents in the consolidated cash flow statement

(a) 現金及等同現金項目

(i) 在綜合現金流量表內現金及等同現金項目的組成部分

		2018 HK$ Mn 港幣百萬元	2017 Restated 重報 HK$ Mn 港幣百萬元
Cash and balances with banks and other financial institutions with original maturity within three months	原本期限為3個月以內之現金及在銀行和其他金融機構的結存	**28,179**	27,397
Placements with and advances to banks and other financial institutions with original maturity within three months	原本期限為3個月以內在銀行及其他金融機構的存款及墊款	**55,071**	56,163
Treasury bills with original maturity within three months	原本期限為3個月以內的國庫債券	**1,541**	4,583
Certificates of deposit held with original maturity within three months	原本期限為3個月以內之持有的存款證	**1,109**	1,269
Debt securities with original maturity within three months	原本期限為3個月以內的債務證券	**114**	564
Add: Cash and balances with banks and other financial institutions included in "Assets held for sale" *(Note 56)*	加：包括在「持有作出售資產」*(附註56)*的現金及在銀行和其他金融機構的結存	**6**	4
		86,020	89,980

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

48. NOTES ON CONSOLIDATED CASH FLOW STATEMENT (CONTINUED) 綜合現金流量表附註(續)

(a) Cash and cash equivalents (continued)
(ii) Reconciliation with the consolidated statement of financial position

(a) 現金及等同現金項目(續)
(ii) 與綜合財務狀況表的對賬

		2018 HK$ Mn 港幣百萬元	2017 Restated 重報 HK$ Mn 港幣百萬元
Cash and balances with banks and other financial institutions *(Note 25)*	現金及在銀行及其他金融機構的結存*(附註25)*	**48,106**	55,696
Placements with and advances to banks and other financial institutions *(Note 26)*	在銀行及其他金融機構的存款及墊款*(附註26)*	**60,373**	58,583
Treasury bills, certificates of deposit held and debt securities	國庫債券、持有存款證及債務證券		
– trading assets *(Note 28)*	–交易用途資產*(附註28)*	**2,131**	3,999
– investment securities *(Note 30)*	–投資證券*(附註30)*	**140,673**	130,544
		142,804	134,543
Add: Cash and balances with banks and other financial institutions included in "Assets held for sale" *(Note 56)*	加：包括在「持有作出售資產」*(附註56)*的現金及在銀行和其他金融機構的結存	**6**	4
Amounts shown in the consolidated statement of financial position	在綜合財務狀況表出現的金額	**251,289**	248,826
Less: Amounts with an original maturity of beyond three months	減：原本期限為3個月以上的金額	**(145,337)**	(130,547)
Cash balance with central bank subject to regulatory restriction	受規管限制的在中央銀行的現金結存	**(19,932)**	(28,299)
Cash and cash equivalents in the consolidated cash flow statement	在綜合現金流量表內的現金及等同現金項目	**86,020**	89,980

Note: The 2017 comparative figures have been restated to conform to current year's presentation of Consolidated Statement of Financial Position.

註： 2017年的比較數字經已重報以符合本年度綜合財務狀況表的呈報方式。

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

(b) 源自融資活動產生的負值之對賬

下表列載本集團由融資活動產生的負值之變動，包括現金及非現金之變動。源自融資活動產生的負值指在本集團的綜合現金流量表內分類為由融資活動產生的現金流或未來現金流產生的負債。

		Certificates of deposit issued 已發行存款證 HK$ Mn 港幣百萬元	Debt securities issued 已發行債務證券 HK$ Mn 港幣百萬元	Loan capital 借貸資本 HK$ Mn 港幣百萬元	Certificates of deposit issued accrued interest payable 已發行存款證之應計利息 HK$ Mn 港幣百萬元	Debt securities issued accrued interest payable 已發行債務證券之應計利息 HK$ Mn 港幣百萬元	Loan capital accrued interest payable 借貸資本之應計利息 HK$ Mn 港幣百萬元	Interest rate swaps held to hedge borrowings (assets) 持有作對沖借款的利率掉期合約(資產) HK$ Mn 港幣百萬元	Interest rate swaps held to hedge borrowings liabilities 持有作對沖借款的利率掉期合約負債 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
At 1st January 2018	**於2018年1月1日**	36,466	1,007	12,413	59	7	176	(220)	162	50,070
Changes from financing cash flows	**源自融資現金流的變動**									
Issue of certificates of deposit	發行存款證	107,441	–	–	–	–	–	–	–	107,441
Issue of debt securities	發行債務證券	–	114	–	–	–	–	–	–	114
Redemption of certificates of deposit issued	贖回已發行存款證	(85,576)	–	–	–	–	–	–	–	(85,576)
Redemption of debt securities issued	贖回已發行債務證券	–	(565)	–	–	–	–	–	–	(565)
Redemption of loan capital	贖回已發行借貸資本	–	–	–	–	–	–	–	–	–
Interest paid on loan capital	支付借貸資本利息	–	–	–	–	–	(627)	–	–	(627)
Interest paid on certificates of deposit issued	支付已發行存款證利息	–	–	–	(1,080)	–	–	–	–	(1,080)
Interest paid on debt securities issued	支付已發行債務證券利息	–	–	–	–	(18)	–	–	–	(18)
Total changes from financing cash flows	源自融資現金流的變動總額	21,865	(451)	–	(1,080)	(18)	(627)	–	–	19,689
Exchange adjustments	滙兌調整	(352)	7	30	–	–	–	–	–	(315)
Changes in fair value	公平價值變動	5	(1)	–	–	–	–	(43)	(14)	(53)
Revaluation under hedge accounting	對沖會計法的重估	–	–	(101)	–	–	–	90	34	23
Interest expenses	利息支出	506	2	16	1,179	16	627	–	–	2,346
Total other changes	其他變動總額	159	8	(55)	1,179	16	627	47	20	2,001
At 31st December 2018	**於2018年12月31日**	58,490	564	12,358	158	5	176	(173)	182	71,760

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

48. NOTES ON CONSOLIDATED CASH FLOW STATEMENT (CONTINUED) 綜合現金流量表附註(續)

(b) Reconciliation of liabilities arising from financing activities (continued)

(b) 源自融資活動產生的負值之對賬(續)

		Certificates of deposit issued 已發行存款證 HK$ Mn 港幣百萬元	Debt securities issued 已發行債務證券 HK$ Mn 港幣百萬元	Loan capital 借貸資本 HK$ Mn 港幣百萬元	Certificates of deposit issued accrued interest payable 已發行存款證之應計利息 HK$ Mn 港幣百萬元	Debt securities issued accrued interest payable 已發行債務證券之應計利息 HK$ Mn 港幣百萬元	Loan capital accrued interest payable 借貸資本之應計利息 HK$ Mn 港幣百萬元	Interest rate swaps held to hedge borrowings (assets) 持有作對沖借款的利率掉期合約(資產) HK$ Mn 港幣百萬元	Interest rate swaps held to hedge borrowings liabilities 持有作對沖借款的利率掉期合約負債 HK$ Mn 港幣百萬元	Total 總額 HK$ Mn 港幣百萬元
At 1st January 2017	**於2017年1月1日**	28,857	7,154	20,608	97	42	261	(434)	760	57,345
Changes from financing cash flows	**源自融資現金流的變動**									
Issue of certificates of deposit	發行存款證	74,007	–	–	–	–	–	–	–	74,007
Issue of debt securities	發行債務證券	–	1,367	–	–	–	–	–	–	1,367
Redemption of certificates of deposit issued	贖回已發行存款證	(67,055)	–	–	–	–	–	–	–	(67,055)
Redemption of debt securities issued	贖回已發行債務證券	–	(7,617)	–	–	–	–	–	–	(7,617)
Redemption of loan capital	贖回已發行借貸資本	–	–	(8,580)	–	–	–	–	–	(8,580)
Interest paid on loan capital	支付借貸資本利息	–	–	–	–	–	(920)	–	–	(920)
Interest paid on certificates of deposit issued	支付已發行存款證利息	–	–	–	(663)	–	–	–	–	(663)
Interest paid on debt securities issued	支付已發行債務證券利息	–	–	–	–	(106)	–	–	–	(106)
Total changes from financing cash flows	源自融資現金流的變動總額	6,952	(6,250)	(8,580)	(663)	(106)	(920)	–	–	(9,567)
Exchange adjustments	滙兌調整	396	97	512	–	–	–	–	–	1,005
Changes in fair value	公平價值變動	(27)	2	–	–	–	–	56	(635)	(604)
Revaluation under hedge accounting	對沖會汴法的重估	–	–	(144)	–	–	–	158	37	51
Interest expenses	利息支出	288	4	17	625	71	835	–	–	1,840
Total other changes	其他變動總額	657	103	385	625	71	835	214	(598)	2,292
At 31st December 2017	**於2017年12月31日**	36,466	1,007	12,413	59	7	176	(220)	162	50,070

49. ASSETS PLEDGED AS SECURITY 用作抵押品的資產

The following assets have been pledged as collateral for own liabilities at the end of the reporting period.

於報告期結束日，以下資產經已用作本身負債之抵押品。

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Secured liabilities	有抵押負債	**8,000**	6,588
Assets pledged:	抵押資產：		
Loans and advances to customers	客戶貸款及墊款	**812**	1,056
Investment securities	投資證券		
– designated at FVTPL	－指定為通過損益以反映公平價值	**319**	1,189
– at FVOCI	－通過其他全面收益以反映公平價值	**6,301**	–
– available-for-sale financial assets	－可供出售金融資產	**–**	4,448
– at amortised cost	－按攤銷成本	**272**	–
– held-to-maturity investments	－持至到期投資	**–**	194
		7,704	6,887

The following balances with banks have been pledged as collateral for securities borrowings and margin deposits of derivatives.

以下的銀行結餘已用作證券借貸及衍生工具孖展按金之抵押品。

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Cash collateral for borrowed securities	用作證券借貸的現金抵押品	**5**	83
Margin accounts for open futures and forward contracts	用作開立期貨及遠期合約的孖展賬戶	**2,351**	1,211
		2,356	1,294

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

此等交易之條款是按一般及慣常標準借款及證券借貸交易進行。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

50. LOANS TO DIRECTORS AND ENTITIES CONNECTED WITH DIRECTORS 董事及與董事有關連實體的貸款

The aggregate of loans to directors of the Bank and entities connected with directors disclosed pursuant to Section 383(1)(d) of the Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

根據《公司條例》第383(1) (d)條及《公司(披露董事利益資料)規則》第3部規定,本行董事及與董事有關連實體之貸款總額披露如下:

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Aggregate amount of relevant loans outstanding at 31st December	相關貸款於12月31日的結欠總額		
By the Bank	由銀行借出	**929**	1,776
By subsidiaries	由附屬公司借出	**2**	4
		931	1,780
The maximum aggregate amount of relevant loans outstanding during the year	年度內相關貸款之最高結欠總額		
By the Bank	由銀行借出	**2,164**	5,385
By subsidiaries	由附屬公司借出	**4**	7
		2,168	5,392

There was no interest due but unpaid nor any impairment allowance made against these loans at 31st December, 2018 and 2017.

於2018年12月31日及2017年12月31日,沒有逾期未償付利息,亦未有對該等貸款作減值準備。

51. MATERIAL RELATED PARTY TRANSACTIONS 關聯人士的重大交易

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Bank's directors as disclosed in Note 22 and certain of the highest paid employees as disclosed in Note 23, is as follows:

(a) 主要管理人員薪酬

本集團之主要管理人員薪酬,已包括在附註22中所披露支付予本行董事及在附註23中所披露支付予本行若干最高薪酬僱員的金額如下:

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Short-term employee benefits	短期僱員福利	**169**	165
Post-employment benefits	僱員退休福利	**7**	7
Equity compensation benefits	股份補償福利	**35**	35
		211	207

(b) The Group maintains certain retirement benefit schemes for its staff as per Note 2(y)(iii). In 2018, the total amount of contributions the Group made to the schemes was HK$167 million (2017: HK$159 million).

(b) 本集團為其職員提供若干退休保障計劃，並已於附註2(y)(iii)披露。於2018年內，本集團對該等計劃的供款總數為港幣1.67億元(2017年：港幣1.59億元)。

The Group enters into a number of transactions with the Group's related parties, including its associates, and key management personnel and their close family members and companies controlled or significantly influenced by them. The transactions include accepting deposits from and extending credit facilities to them. All interest rates in connection with the deposits taken and credit facilities extended are under terms and conditions normally applicable to customers of comparable standing.

本集團與其關聯人士進行多項交易，該等人士包括聯營公司、及主要行政人員與其直系親屬、及受該等人士所控制或具有重大影響力的公司。該等交易包括接受該等人士存款及為他們提供信貸。所有存款及信貸的利率，均按照給予一般相若水平客戶的條款。

The interest received from and interest paid to the Group's related parties for the year, outstanding balances of amounts due from and due to at the year end, and maximum outstanding balance of amounts due from and due to them during the year are aggregated as follows:

年度內，本集團從關聯人士所收取與支付予他們的利息，及在年末關聯人士的欠款及欠關聯人士的款項，及在年度內關聯人士最高欠款及欠關聯人士的最高款項現總結如下：

		Key management personnel 主要管理人員		Associates 聯營公司	
		2018	2017	**2018**	2017
		HK$ Mn 港幣百萬元	HK$ Mn 港幣百萬元	**HK$ Mn 港幣百萬元**	HK$ Mn 港幣百萬元
Interest income	利息收入	**55**	103	**46**	19
Interest expense	利息支出	**33**	24	**4**	1
Amounts due from	關聯人士的欠款	**3,109**	4,547	**1,128**	454
Amounts due to	欠關聯人士的款項	**2,349**	2,672	**226**	78
Maximum amounts due from	關聯人士的最高欠款	**3,638**	6,452	**1,789**	808
Maximum amounts due to	欠關聯人士的最高款項	**5,674**	7,077	**1,058**	516
Committed facilities to	給予信貸承諾	**1,474**	1,751	**1,448**	401

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

52. EQUITY COMPENSATION PLANS 股份補償計劃

The Bank has adopted Staff Share Option Schemes whereby the Board may at its discretion grant to any employees of the Group, including Executive Director and Chief Executive, options to subscribe for ordinary shares of the Bank. All options were granted for nil consideration.

本行所採納的僱員認股計劃是董事會可酌情發出認股權予本集團之任何僱員，包括執行董事及行政總裁，以認購本行普通股股份。所有認股權均以無計價款形式發出。

(a) Particulars of share options

(a) 認股權詳情

Date of grant 授予日期	Vesting period 有效期	Exercise period 行使期	Exercise price per share 每股行使價 HK$港幣元
05/5/2011(T2)	05/5/2011 – 04/5/2013	05/5/2013 – 05/5/2018	32.00
05/5/2011(T3)	05/5/2011 – 04/5/2014	05/5/2014 – 05/5/2019	32.00
10/5/2012(T1)	10/5/2012 – 09/5/2013	10/5/2013 – 10/5/2018	28.99
10/5/2012(T2)	10/5/2012 – 09/5/2014	10/5/2014 – 10/5/2019	28.99
10/5/2012(T3)	10/5/2012 – 09/5/2015	10/5/2015 – 10/5/2020	28.99
03/5/2013(T1)	03/5/2013 – 02/5/2014	03/5/2014 – 03/5/2019	31.40
03/5/2013(T2)	03/5/2013 – 02/5/2015	03/5/2015 – 03/5/2020	31.40
03/5/2013(T3)	03/5/2013 – 02/5/2016	03/5/2016 – 03/5/2021	31.40
02/5/2014(T1)	02/5/2014 – 01/5/2015	02/5/2015 – 02/5/2020	32.50
02/5/2014(T2)	02/5/2014 – 01/5/2016	02/5/2016 – 02/5/2021	32.50
02/5/2014(T3)	02/5/2014 – 01/5/2017	02/5/2017 – 02/5/2022	32.50
04/5/2015(T1)	04/5/2015 – 03/5/2016	04/5/2016 – 04/5/2021	34.15
04/5/2015(T2)	04/5/2015 – 03/5/2017	04/5/2017 – 04/5/2022	34.15
04/5/2015(T3)	04/5/2015 – 03/5/2018	04/5/2018 – 04/5/2023	34.15
08/4/2016(T1)	08/4/2016 – 07/4/2017	08/4/2017 – 08/4/2022	28.45
08/4/2016(T2)	08/4/2016 – 07/4/2018	08/4/2018 – 08/4/2023	28.45
08/4/2016(T3)	08/4/2016 – 07/4/2019	08/4/2019 – 08/4/2024	28.45
07/4/2017(T1)	07/4/2017 – 06/4/2018	07/4/2018 – 07/4/2023	32.25
07/4/2017(T2)	07/4/2017 – 06/4/2019	07/4/2019 – 07/4/2024	32.25
07/4/2017(T3)	07/4/2017 – 06/4/2020	07/4/2020 – 07/4/2025	32.25
10/4/2018(T1)	10/4/2018 – 09/4/2019	10/4/2019 – 10/4/2024	32.25
10/4/2018(T2)	10/4/2018 – 09/4/2020	10/4/2020 – 10/4/2025	32.25
10/4/2018(T3)	10/4/2018 – 09/4/2021	10/4/2021 – 10/4/2026	32.25

(b) Movement of share options during the year

(b) 年內認股權之變動

2018			Number of share options 認股權數目				
Date of grant 授予日期	Tranche 部分	Exercise price per share 每股行使價 HK$港幣元	Outstanding at 1/1/2018 於2018年1月1日尚未行使	Granted 已授予	Exercised 已行使	Lapsed/ Cancelled 已失效／已註銷	Outstanding at 31/12/2018 於2018年12月31日尚未行使
05/5/2011	T2	32.00	1,489,000	–	1,489,000	–	–
05/5/2011	T3	32.00	1,890,000	–	–	–	1,890,000
10/5/2012	T1	28.99	582,000	–	582,000	–	–
10/5/2012	T2	28.99	1,114,000	–	–	–	1,114,000
10/5/2012	T3	28.99	1,172,000	–	–	–	1,172,000
03/5/2013	T1	31.40	1,114,000	–	–	–	1,114,000
03/5/2013	T2	31.40	1,164,000	–	50,000	–	1,114,000
03/5/2013	T3	31.40	1,890,000	–	50,000	–	1,840,000
02/5/2014	T1	32.50	1,942,000	–	130,000	–	1,812,000
02/5/2014	T2	32.50	1,942,000	–	–	–	1,942,000
02/5/2014	T3	32.50	1,953,500	–	–	–	1,953,500
04/5/2015	T1	34.15	2,030,000	–	–	–	2,030,000
04/5/2015	T2	34.15	2,030,000	–	–	–	2,030,000
04/5/2015	T3	34.15	2,040,000	–	–	34,254	2,005,746
08/4/2016	T1	28.45	1,064,000	–	–	–	1,064,000
08/4/2016	T2	28.45	2,083,000	–	61,736	25,264	1,996,000
08/4/2016	T3	28.45	2,096,500	–	–	–	2,096,500
07/4/2017	T1	32.25	2,130,000	–	–	–	2,130,000
07/4/2017	T2	32.25	2,130,000	–	–	–	2,130,000
07/4/2017	T3	32.25	2,140,000	–	–	–	2,140,000
10/4/2018	T1	32.25	–	2,225,000	–	–	2,225,000
10/4/2018	T2	32.25	–	2,225,000	–	–	2,225,000
10/4/2018	T3	32.25	–	2,237,500	–	–	2,237,500
Total 總額			33,996,000	6,687,500	2,362,736	59,518	38,261,246

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

52. EQUITY COMPENSATION PLANS (CONTINUED) 股份補償計劃(續)

(b) Movement of share options during the year (continued)

(b) 年內認股權之變動(續)

2017 Date of grant 授予日期	Tranche 部分	Exercise price per share 每股行使價 HK$港幣元	Number of share options 認股權數目 Outstanding at 1/1/2017 於2017年1月1日尚未行使	Granted 已授予	Exercised 已行使	Lapsed 已失效	Outstanding at 31/12/2017 於2017年12月31日尚未行使
05/5/2011	T1	32.00	1,880,000	–	386,000	1,494,000	–
05/5/2011	T2	32.00	1,930,000	–	441,000	–	1,489,000
05/5/2011	T3	32.00	1,940,000	–	50,000	–	1,890,000
10/5/2012	T1	28.99	1,164,000	–	582,000	–	582,000
10/5/2012	T2	28.99	1,164,000	–	50,000	–	1,114,000
10/5/2012	T3	28.99	1,172,000	–	–	–	1,172,000
03/5/2013	T1	31.40	1,214,000	–	100,000	–	1,114,000
03/5/2013	T2	31.40	1,515,000	–	351,000	–	1,164,000
03/5/2013	T3	31.40	1,890,000	–	–	–	1,890,000
02/5/2014	T1	32.50	1,942,000	–	–	–	1,942,000
02/5/2014	T2	32.50	1,992,000	–	50,000	–	1,942,000
02/5/2014	T3	32.50	2,003,500	–	50,000	–	1,953,500
04/5/2015	T1	34.15	2,030,000	–	–	–	2,030,000
04/5/2015	T2	34.15	2,030,000	–	–	–	2,030,000
04/5/2015	T3	34.15	2,040,000	–	–	–	2,040,000
08/4/2016	T1	28.45	2,083,000	–	1,019,000	–	1,064,000
08/4/2016	T2	28.45	2,083,000	–	–	–	2,083,000
08/4/2016	T3	28.45	2,096,500	–	–	–	2,096,500
07/4/2017	T1	32.25	–	2,130,000	–	–	2,130,000
07/4/2017	T2	32.25	–	2,130,000	–	–	2,130,000
07/4/2017	T3	32.25	–	2,140,000	–	–	2,140,000
Total 總額			32,169,000	6,400,000	3,079,000	1,494,000	33,996,000

(c) The following share options were forfeited and cancelled during the year ended 31st December, 2018 (2017: Nil):

(c) 截至2018年12月31止年度內(2017年:無)被撤銷並註銷的認股權如下:

Date of grant **授予日期**	**Tranche** **部分**	**No. of share options forfeited and cancelled** **被撤銷並註銷的認股權數目**	**Exercise price per share** **每股行使價 HK$港幣元**
04/5/2015	T3	34,254	34.15
08/4/2016	T2	25,264	28.45

(d) Details of share options exercised

(d) 已行使認股權詳情

Exercise period 行使期間	Date of grant 授予日期	Number of share options 認股權數目	
		2018	2017
February 2月	05/5/2011 (T1)	**–**	150,000
	05/5/2011 (T2)	**1,339,000**	–
	10/5/2012 (T1)	**100,000**	–
	03/5/2013 (T2)	**–**	301,000
	03/5/2013 (T3)	**50,000**	–
	02/5/2014 (T1)	**50,000**	–
March 3月	05/5/2011 (T1)	**–**	20,000
	05/5/2011 (T2)	**70,000**	–
	10/5/2012 (T1)	**165,000**	–
	03/5/2013 (T2)	**50,000**	–
	02/5/2014 (T1)	**80,000**	–
April 4月	05/5/2011 (T2)	**80,000**	–
	10/5/2012 (T1)	**317,000**	–
	08/4/2016 (T2)	**61,736**	–
May 5月	05/5/2011 (T1)	**–**	216,000
	10/5/2012 (T1)	**–**	10,000
	08/4/2016 (T1)	**–**	50,000
June 6月	10/5/2012 (T1)	**–**	50,000
	08/4/2016 (T1)	**–**	87,000
August 8月	05/5/2011 (T2)	**–**	105,000
September 9月	05/5/2011 (T2)	**–**	336,000
	05/5/2011 (T3)	**–**	50,000
	10/5/2012 (T1)	**–**	522,000
	10/5/2012 (T2)	**–**	40,000
	02/5/2014 (T2)	**–**	50,000
	02/5/2014 (T3)	**–**	50,000
	08/4/2016 (T1)	**–**	882,000
October 10月	03/5/2013 (T1)	**–**	100,000
	03/5/2013 (T2)	**–**	50,000
November 11月	10/5/2012 (T2)	**–**	10,000
		2,362,736	3,079,000

53. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD
毋須調整的報告期結束日後的事件

After the end of the reporting period the directors declared a second interim dividend and a special dividend. Further details are disclosed in Note 20(a).

董事於報告期結束日後擬派發第二次中期股息及特別股息。詳情已在附註20(a)作披露。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

54. ACCOUNTING ESTIMATES AND JUDGEMENTS 會計估計及判斷

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

在編製本綜合財務報表時，管理層經已作出若干對應用本集團會計政策及所匯報的資產、負債、收入及支出之金額披露有影響的判斷、估計和假定。最終結果與該等估計可能不儘相同。

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

估計及相關假定會定期作檢討。估計之修改不會被追溯確認。

(a) Key sources of estimation uncertainty

Notes 33, 40 and 46 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options granted and fair values of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) 估計不穩定因素的主要來源

附註33、40和46載述有關商譽減值、已授予股權的公平價值和金融工具的公平價值的假設及其風險因素。估計不穩定因素的其他主要來源如下：

(i) Impairment losses

Applicable to 2018 only

Note 45(a)(ix): impairment of financial instruments involves determining inputs into the ECL measurement model, including incorporation of forward-looking information.

Note 32: impairment testing of investments in associates involves significant judgement in determining the value in use, and in particular estimating the present values of cash flows expected to arise from continuing to hold the investment.

Applicable to 2017 only

Loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgement as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment includes observable data that the payment status of borrowers in a group has adversely changed. It may also include observable data that correlate with defaults on the assets in the Group. If management has determined, based on their judgement, that objective evidence for impairment exists, expected future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

Available-for-sale financial assets and held-to-maturity investments

The Group determines that available-for-sale financial assets and held-to-maturity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of when a decline in fair value below its cost is not recoverable within a reasonable time period is judgmental by nature, so profit and loss could be affected by differences in this judgement.

(i) 減值損失

只適用於2018年

附註45(a)(ix)：金融工具減值：決定預期信貸損失計量模型的計算因素，包括植入具前瞻性的資料。

附註32：聯營公司投資的減值測試包括估計使用值的重大判斷，及估算因持續持有該投資而產生的預計現金流的現值。

只適用於2017年

貸款及墊款

本集團會定期檢討貸款組合，以評估減值損失是否存在。本集團需要判斷是否有任何客觀證據可以證明貸款組合已經減值，即估計將來現金流有所減少。減值客觀證據包括與借款人有關的可觀察資料整體上的付款狀況已出現逆轉，而該等資料與本集團的不履行資產是互相關連的。當管理層根據其判斷決定減值的客觀證據存在，便會依據若干與該等資產的信貸風險特性相若之資產的以往損失經驗，以估計預期將來現金流。以往損失經驗是以目前的可觀察資料為基礎作出調整。管理層亦會定期檢討用以估計將來現金流的方法和假設，從而減少估計損失與實際損失的差異。

可供出售金融資產及持至到期投資

若可供出售金融資產及持至到期投資的公平價值明顯或持續地低於其成本，本集團即判斷該等資產及投資已減值。本集團判斷公平價值低於成本的金額會在一段合理時間內不可收回純屬假設性質，因此判斷之差異會對損益有所影響。

(ii) Valuation of financial instruments
The Group's accounting policy for valuation of financial instruments is included in Note 2. The fair value of the financial instruments is mainly based on the quoted market price on a recognised stock exchange or a price quoted from a broker/dealer for non-exchanged traded financial instruments. The fair value of collateralised debt obligations is based on bid prices quoted by reputable brokers and has been carefully assessed for reasonableness by management. The fair value of a Special Investment Vehicle ("SIV") is based on its net asset values as provided by the SIV's manager.

(ii) 金融工具的估值
本集團對金融工具估值的會計政策列載於附註2。金融工具的公平價值主要根據認可之交易所的市場報價，或就非在交易所作交易的金融工具而言，則根據經紀／交易員的報價。債務抵押債券的公平價值由聲譽良好的經紀按買入價提供報價，及經已被管理層小心評估其適當性。特別投資工具的公平價值是根據特別投資工具之管理人所提供該工具的資產淨值。

(b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below:

(i) Classification of financial assets – *Applicable to 2018 only*
Note 2(h)(ii) and Note 3(a): assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

(ii) Measurement of ECL – *Applicable to 2018 only*
Note 45(a)(ix): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection of models used to measure ECL.

(iii) Held-to-maturity investments – *Applicable to 2017 only*
The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has a positive intention and ability to hold to maturity as held-to-maturity investments. In making this judgement, the Group evaluates its intention and ability to hold such investments till maturity.

If the Group fails to hold these investments to maturity other than for certain specific circumstances, the Group will have to reclassify the entire portfolio of held-to-maturity investments as available-for-sale, as such class is deemed to have been tainted.

This would result in held-to-maturity investments being measured at fair value instead of at amortised cost.

(b) 本集團應用會計政策的重要會計判斷

本集團應用會計政策的若干重要會計判斷如下：

(i) 金融資產－*只適用於2018年*
附註2(h)(ii)及附註3(a)：評估持有資產的商業模型，即金融資產合約期內是否純粹是本金及按本金結餘的利息支付。

(ii) 預期信貸損失計量－*只適用於2018年*
附註45(a)(ix)：訂立標準以決定金融資產的信貸風險是否比初始確認時經已大幅增加及制定方法以植入具前瞻性計量預期信貸損失的資料及選擇模型以計算預期信貸損失。

(iii) 持至到期投資－*只適用於2017年*
本集團將設有固定或可確定付款金額和固定到期日，以及本集團有確信的意向及能力持有至到期日的非衍生金融資產，分類為持至到期投資。在作出有關判斷時，本集團會評估本身是否有意向及能力持有該等投資至到期日。

除若干特殊情況外，若本集團未能持有該等投資至到期日，本集團會將整個可持至到期日的投資組合，重新分類為可供出售。這是由於此類投資已被蒙污。

以上之情況會導致原以攤銷成本計量的可持至到期投資改以公平價值計量。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

54. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED) 會計估計及判斷(續)

(b) Critical accounting judgements in applying the Group's accounting policies (continued)

(iv) Recognition of deferred tax assets

The Group recognises deferred tax assets only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Estimates and judgements are applied in determining the amount of future taxable profits and the probability that such future taxable profits are available in the foreseeable future to support recognition of the deferred tax assets. The Group uses all readily available information, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs, in determining future taxable profits. Changes in these estimates could significantly affect the timing of deferred tax asset recognition and the amount of asset recognised.

(b) 本集團應用會計政策的重要會計判斷(續)

(iv) 遞延稅項資產之確認

須在未來可能有應課稅溢利予以抵銷遞延稅項資產的情況下，本集團才確認遞延稅項資產。在釐定未來應課稅溢利的金額及其可能性時，須估計及判斷在可見之將來該未來應課稅溢利可否支持確認該遞延稅項資產。本集團使用所有已有的資料，包括根據合理及可支持之假設和對收入及支出成本的估計，以釐定未來應課稅溢利。此等估計的變動可能對遞延稅項資產確認的時間及資產確認的金額有重大影響。

55. COMPARATIVE FIGURES 比較數字

Certain 2017 comparative figures have been restated to conform to current year's presentation. Please refer to Consolidated Statement of Financial Position, Notes 4, 7, 18, 25, 26, 35, 45(a), 45(d), 46(a), 46(b) and 48(a) for the effect of restatement.

若干2017年的比較數字經已重報以符合本年度的呈報方式。請參閱綜合財務狀況表、附註4、7、18、25、26、35、45(a)、45(d)、46(a)、46(b)及48(a)中所述的重報影響。

56. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE 已終止經營業務及持有作出售資產

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 for the year 2017.

2016年10月5日，東亞銀行有限公司、新創建集團有限公司(「新創建集團」)及East Asia Secretaries (BVI) Limited(「East Asia Secretaries」)與Trivium Investment Limited(「Trivium」)簽訂了一份購買股份協議，Trivium是一間由環球投資機構Permira全資擁有的附屬公司，出售由East Asia Secretaries持有的Tricor Holdings Limited及其附屬公司(「卓佳集團」)的全部已發行股份，作價為港幣64.70億元。卓佳集團均是通過East Asia Secretaries由本行及新創建集團分別持有75.61%及24.39%之權益。隨着出售交易完成，本行已終止持有卓佳集團任何股份權益，而卓佳集團亦並非是本行之附屬公司。本行就此項出售錄得淨溢利港幣30.05億元，並已計入來自已終止經營業務之可歸屬於本集團股東溢利項下。於2017年，卓佳集團的經營業績在綜合收益表中呈列為已終止經營業務。

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, 2018 and 31st December, 2017 are presented separately as assets held for sale and liabilities held for sale respectively in the consolidated financial statements.

2017年11月29日，本行及其全資附屬公司領達財務有限公司與中國金融投資管理有限公司簽訂一份股權轉讓協議，就買賣深圳市領達小額貸款有限公司(「深圳領達小額貸款」)、重慶兩江新區領達小額貸款有限公司(「重慶領達小額貸款」)及重慶市東榮商務諮詢有限公司(「東榮商務諮詢」)的全部股權(統稱「內地業務出售交易」)。內地業務出售交易的總對價為人民幣5.63億元，惟雙方可在完成交易時協定對此金額作出調整。該項交易之完成須得到中國內地相關監管部門批准。深圳領達小額貸款、重慶領達小額貸款及東榮商務諮詢於2018年12月31日及2017年12月31日的資產及負債在綜合財務報表中分別以持有作出售資產及持有作出售負債列示。

On 29th October, 2018, the Bank entered into a sale and purchase agreement with The Bank of Yokohama, Ltd. ("BOY") for the sale of 30% of the issued shares of P.T. Bank Resona Perdania ("BRP"), held via a special purpose vehicle, East Asia Indonesian Holdings Limited, to BOY (the "Disposal"). Completion of the Disposal is subject to the approval of the regulator of the financial services sector in Indonesia, Otoritas Jasa Keuangan. The transaction, if and when consummated, has no material impact on the Group's net income or capital ratios. The investment in BRP is classified and presented as assets held for sale in the consolidated financial statements for the year 2018.

2018年10月28日，本行與橫濱銀行(「濱銀」)訂立買賣協議，向濱銀出售透過East Asia Indonesian Holdings Limited(特定目的投資工具公司)持有的P.T. Bank Resona Perdania(「BRP」)已發行股份之30%(「出售」)。出售之完成須待印尼金融股務監管機構Otoritas Jasa Keuangan批准。該交易如果完成，對本集團的淨收入或資本比率沒有重大影響。在2018年的財務報表中，BRP投資以持有作出售資產列示。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

56. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (CONTINUED)
已終止經營業務及持有作出售資產(續)

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

期內已終止經營業務的業績如下：

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Interest income	利息收入	–	1
Interest expense	利息支出	–	(1)
Net interest income	淨利息收入	–	–
Fee and commission income	服務費及佣金收入	–	312
Fee and commission expense	服務費及佣金支出	–	–
Net fee and commission income	服務費及佣金收入淨額	–	312
Net trading losses	交易虧損淨額	–	(4)
Non-interest income	非利息收入	–	308
Operating income	經營收入	–	308
Operating expenses	經營支出	–	(232)
Operating profit before impairment losses	未扣除減值損失之經營溢利	–	76
Impairment losses on financial assets	金融資產減值損失	–	(2)
Operating profit after impairment losses	已扣除減值損失後之經營溢利	–	74
Net profit on sale of discontinued operations	出售已終止經營業務之淨溢利	–	4,084
Share of profits less losses of associates	應佔聯營公司溢利減虧損	–	1
Profit for the year before taxation	年度內除稅前溢利	–	4,159
Income tax	所得稅		
Current tax	本期稅項		
– Hong Kong	–香港	–	(8)
– Outside Hong Kong	–香港以外	–	(6)
Profit for the year from discontinued operations	年度內已終止經營業務溢利	–	4,145

		2018 **HK$港幣元**	2017 HK$港幣元
Earnings per share for profit attributable to the equity holders of the Bank	歸屬於本行股東權益的每股盈利		
Basic and diluted	基本及攤薄		
– profit from discontinued operations	–來自已終止經營業務溢利	–	1.12

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

持有作出售之出售組別的資產和負債摘要如下：

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
ASSETS	**資產**		
Cash and balances with banks and other financial institutions	現金及在銀行和其他金融機構的結存	**6**	4
Loans and advances to customers	客戶貸款及墊款	**228**	307
Gross loans and advances to customers	客戶貸款及墊款總額	**230**	317
Less: Impairment allowances	減：減值準備		
– Stage 1	–第一階段	**(1)**	–
– Stage 3	–第三階段	**(1)**	–
– Collective	–整體	**–**	(10)
Fixed assets	固定資產		
– Other properties and equipment	–其他物業及設備	**8**	9
Deferred tax assets *(Note 37(b))*	遞延稅項資產*(附註37(b))*	**18**	25
Other assets	其他資產	**8**	6
Assets held for sale	持有作出售資產	**268**	351
LIABILITIES	**負債**		
Other liabilities	其他負債	**7**	9
Liabilities held for sale *(Note 38(b))*	持有作出售負債*(附註38(b))*	**7**	9

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

持有作出售之資產及負債摘要如下：

		2018 HK$ Mn 港幣百萬元	2017 HK$ Mn 港幣百萬元
Assets held for sale *(Note 35)*	持有作出售資產*(附註35)*		
Disposal groups held for sale	持有作出售的組別	**268**	351
Other properties	其他物業	**57**	115
Investment in associate	聯營公司投資	**363**	–
		688	466
Liabilities held for sale *(Note 38(b))*	持有作出售負債*(附註38(b))*		
Disposal groups held for sale	持有作出售的組別	**7**	9

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

56. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (CONTINUED)
已終止經營業務及持有作出售資產(續)

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

有關持有作出售的組別在其他全面收益內確認之累計收入如下：

		2018 **HK$ Mn 港幣百萬元**	2017 HK$ Mn 港幣百萬元
Cumulative income recognised in other comprehensive income	確認在其他全面收益內之累計收入	**(68)**	(34)

57. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2018
在截至2018年12月31日止年度前已公布但尚未生效的修訂、新準則和詮釋所產生的可能影響

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st December, 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

直至此等財務報表之發布日期，香港會計師公會已頒布了多項修訂及新準則；但該等修訂和新準則於截至2018年12月31日止會計年度尚未生效，因此尚未應用於此等財務報表。可能與本集團有關之修訂和新準則如下。

	Effective for accounting periods beginning on or after **由會計期開始或以後起生效**
HKFRS 16, *Leases* 《香港財務報告準則》第16號*「租賃」*	1st January, 2019 2019年1月1日
HK(IFRIC) 23, *Uncertainty over income tax treatments* 香港《國際財務報告準則詮釋委員會詮釋》第23號*「所得稅不確定性的處理」*	1st January, 2019 2019年1月1日
Annual Improvements to HKFRSs 2015–2017 Cycle 每年對《香港財務報告準則》之提升2015至2017循環	1st January, 2019 2019年1月1日
Amendments to HKAS 28, *Long-term interest in associates and joint ventures* 《香港會計準則》第28號之修訂*「於聯營公司及合營企業的長期權益」*	1st January, 2019 2019年1月1日
Amendments to References to Conceptual Framework in HKFRS Standards 修訂《香港財務報告準則》概念綱領指引	1st January, 2020 2020年1月1日
HKFRS 17, *Insurance Contracts* 《香港財務報告準則》第17號*「保險合約」*	1st January, 2021 2021年1月1日

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the adoption of them is unlikely to have a significant impact on the consolidated financial statements except for the following:

本集團正在評估該等修訂、新準則和詮釋對首個應用期可能產生的影響。除以下所述外，至今所得結論是若採納該等修訂、新準則和詮釋對本集團的綜合財務報表不可能構成重大影響：

HKFRS 16, Leases

As disclosed in Note 2(s), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

《香港財務報告準則》第16號「租賃」

如在附註2(s)中所披露，本集團現分類租賃為融資租賃和經營租賃，本集團會按租賃的分類而採納不同的會計方法來處理租賃安排。本集團會以出租人及受租人身份簽訂租賃合約。

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

預計《香港財務報告準則》第16號對出租人根據他們在租賃的權利和義務的會計處理方法未有重大影響。但是，當採納《香港財務報告準則》第16號，受租人將毋須分辨融資租賃及經營租賃。另外，視乎實際情況，受租人將以現行相同的融資租賃會計法處理所有租賃，即在租賃之生效日受租人將按未來最低租賃付款之現值確認及計算租賃負債，亦會同時確認另一「可使用權利」資產。在初始確認該資產及負債後，受租人將按租賃負債的結餘確認應計利息支出，以及可使用權利資產的折舊，而並不是現行會計政策按租賃期限分期確認為經營租賃的租金支出。視乎實際情況，受租人可選擇不採納此會計模式計算短期租賃(即租賃期是12個月或以下)以及低價值資產之租賃，即仍繼續按租賃期限分期確認為經營租賃的租金支出。

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the income statement over the period of the lease.

《香港財務報告準則》第16號將主要影響現行本集團對物業、廠房及設備的租賃作為受租人(分類為經營租賃)的會計處理方法。預計採納新會計模式會令資產及負債增加，以及影響按租賃期限在收益表中確認費用支出的時間。

The Group plans to apply HKFRS 16 initially on 1st January, 2019, using a modified retrospective approach, with no restatement of comparative information. As allowed by HKFRS 16, the Group plans to apply the practical expedient for not reassessing whether a contract is, or contains, a lease at the date of initial application. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to apply the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

本集團計劃首先於2019年1月1日採用一個經改良追溯模式採納《香港財務報告準則》第16號，而不會重報比較資料。如《香港財務報告準則》第16號所允許，本集團計劃使用務實權宜方法去重新評估於初始應用日的合約是否構成或包含租賃。因此，本集團只接納於初始應用日或之後按《香港財務報告準則》第16號租賃的定義所簽訂的合約為租賃。另外，本集團計劃使用務實權宜方法不採用新會計模式於短期租賃及低價值租賃。

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
財務報表附註(續)

57. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST DECEMBER, 2018 (CONTINUED)
在截至2018年12月31日止年度前已公布但尚未生效的修訂、新準則和詮釋所產生的可能影響(續)

As disclosed in Note 47(d), at 31st December, 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$1,076 million and HK$9 million for properties and equipment respectively, on an undiscounted basis. Upon the initial adoption of HKFRS 16 at 1st January, 2019, the Group estimates that it will recognise lease liabilities and the corresponding right-of-use assets respectively of approximately HK$1,100 million.

在附註47(d)所披露，於2018年12月31日，本集團有關物業及設備的不可撤回租賃經營之最低租賃付款，按非終止基準的金額分別為港幣10.76億元及港幣900萬元。於2019年1月1日初始採納《香港財務報告準則》第16號時，本集團估計將確認的租賃負債及相應資產使用權分別約為港幣11億元。

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onward.

除確認租賃負債及相應資產使用權外，本集團預計初始採納《香港財務報告準則》第16號的過渡調整將不重大。但是，以上所述的預計會計政策變動可能對由2019年起本集團的財務報表有重大影響。

HKFRS 17, Insurance Contracts

HKFRS 17, which was issued in January 2018, will be effective 1st January, 2021. It sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. The Group is in progress of assessment of its impact.

《香港財務報告準則》第17號「保險合約」

於2018年1月頒布的《香港財務報告準則》第17號將於2021年1月生效。它制定實體對其發出及持有分保合約的會計方法之要求。本集團正在評估其影響。

INTERIM RESULTS

The Board of Directors of the Bank is pleased to announce the unaudited results (Note 1(a)) of the Group for the six months ended 30th June, 2019. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2018 audited financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 audited financial statements. Details of these changes in accounting policies are set out in Note 2. The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the HKICPA. KPMG's independent review report to the Board is included on page 80.

Consolidated Income Statement

	Notes	6 months ended 30/6/2019 HK$ Mn	6 months ended 30/6/2018 HK$ Mn
Interest income	*3*	14,556	12,183
Interest income calculated using the effective interest method		14,259	11,943
Other interest income		297	240
Interest expense	*4*	(7,150)	(5,933)
Net interest income		7,406	6,250
Fee and commission income	*5*	1,895	1,935
Fee and commission expense		(524)	(573)
Net fee and commission income		1,371	1,362
Net trading profits	*6*	416	556
Net result from other financial instruments at FVTPL	*7*	129	(142)
Net hedging profit	*8*	17	16
Net insurance revenue	*9*	574	264
Other operating income	*10*	189	220
Non-interest income		2,696	2,276
Operating income		10,102	8,526
Operating expenses	*11*	(4,918)	(4,186)
Operating profit before impairment losses		5,184	4,340
Impairment losses on financial instruments	*12*	(5,063)	(282)
Impairment losses on intangible assets		–	(1)
Impairment losses		(5,063)	(283)
Operating profit after impairment losses		121	4,057
Net loss on sale of investments measured at amortised cost		(5)	–
Net profit on sale of financial assets measured at FVOCI	*13*	104	49
Net profit on sale of assets held for sale	*14*	82	10
Net loss on disposal of subsidiaries		(6)	–
Net loss on disposal of fixed assets	*15*	(6)	(10)
Valuation gains on investment properties	*23*	18	394
Share of profits less losses of associates		328	281
Profit for the period before taxation		636	4,781
Income tax	*16*	402	(762)
Profit for the period		1,038	4,019

Consolidated Income Statement (Continued)

	Notes	6 months ended 30/6/2019 HK$ Mn	6 months ended 30/6/2018 HK$ Mn
Attributable to:			
Owners of the parent		1,000	3,992
Non-controlling interests		38	27
Profit for the period		1,038	4,019
Profit for the Bank		3,246	3,369
Earnings per share			
Basic - profit for the period	*1(b)*	HK$0.22	HK$1.30
Diluted - profit for the period	*1(b)*	HK$0.22	HK$1.30

Consolidated Statement of Comprehensive Income

	Notes	6 months ended 30/6/2019 HK$ Mn	6 months ended 30/6/2018 HK$ Mn
Net profit		1,038	4,019
Other comprehensive income for the period:			
Items that will not be reclassified to income statement:			
Premises:			
– unrealised surplus on revaluation of premises		–	8
– deferred taxes	*31*	1	(8)
Fair value reserve (equity instruments):			
– net change in fair value		418	254
– deferred taxes	*31*	(7)	(4)
Liability credit reserve:			
– net change in fair value attributable to Group's own credit risk		–	(5)
– deferred taxes	*31*	(1)	1
Items that may be reclassified subsequently to income statement:			
Fair value reserve (debt instruments):			
– net change in fair value		986	(479)
– amount transferred to income statement on disposal	*13*	(66)	(23)
– on amortisation		(2)	(2)
– deferred taxes	*31*	(39)	12
Hedging reserve (cash flow hedges):			
– effective portion of changes in fair value of hedging instruments		(4)	(6)
– fair value change reclassified from income statements		(4)	7
Share of changes in equity of associates		71	(58)
Exchange differences arising from translation of accounts/disposal of overseas branches, subsidiaries and associates		52	(489)
Other comprehensive income		1,405	(792)
Total comprehensive income		2,443	3,227
Total comprehensive income attributable to:			
Owners of the parent		2,411	3,189
Non-controlling interests		32	38
		2,443	3,227

Consolidated Statement of Financial Position

	Notes	30/6/2019 HK$ Mn	31/12/2018 HK$ Mn
ASSETS			
Cash and balances with banks and other financial institutions	*17*	52,823	48,106
Placements with and advances to banks and other financial institutions	*18*	69,720	60,373
Trade bills	*19*	12,826	14,646
Trading assets	*20*	4,131	3,483
Derivative assets	*38(a)*	6,141	10,211
Loans and advances to customers	*21*	506,099	498,284
Investment securities	*22*	157,212	144,729
Investments in associates		9,675	9,129
Fixed assets	*23*	14,222	13,165
– Investment properties		5,266	5,249
– Other properties and equipment		7,873	7,916
– Right-of-use assets		1,083	–
Goodwill and intangible assets		1,933	1,940
Deferred tax assets	*31*	1,565	481
Other assets	*24*	40,431	34,904
Total Assets		876,778	839,451
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions		36,057	27,490
– Designated at fair value through profit or loss	*25*	3,535	1,335
– At amortised cost		32,522	26,155
Deposits from customers		582,105	574,114
– Demand deposits and current accounts		62,791	71,952
– Savings deposits		131,735	130,477
– Time, call and notice deposits		387,579	371,685
Trading liabilities	*26*	38	–
Derivative liabilities	*38(a)*	8,139	9,496
Certificates of deposit issued		63,903	58,490
– Designated at fair value through profit or loss	*25*	20,275	9,462
– At amortised cost		43,628	49,028
Current taxation		1,682	1,437
Debt securities issued		3,106	564
– Designated at fair value through profit or loss	*25*	109	407
– At amortised cost		2,997	157
Deferred tax liabilities	*31*	583	483
Other liabilities	*27*	61,984	51,444
Loan capital	*28*	14,193	12,358
Total Liabilities		771,790	735,876
Share capital	*1(d)*	41,194	39,925
Reserves	*32*	52,061	51,901
Total equity attributable to owners of the parent		93,255	91,826
Additional equity instruments	*33*	8,894	8,894
Non-controlling interests		2,839	2,855
Total Equity		104,988	103,575
Total Equity and Liabilities		876,778	839,451

Consolidated Statement of Changes in Equity

	Share capital	General reserve	Revaluation reserve of bank premises	Capital reserve	Exchange revaluation reserve	Capital reserve – staff share options issued	Fair value reserve	Hedging reserve	Liability credit reserve	Other reserves[Note]	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	HK$ Mn	HK$ Mn
At 1st January, 2019	39,925	14,054	1,752	933	(1,426)	158	664	15	(3)	4,963	30,791	91,826	8,894	2,855	103,575
Changes in equity															
Profit for the period	–	–	–	–	–	–	–	–	–	–	1,000	1,000	–	38	1,038
Other comprehensive income	–	–	1	–	58	–	1,290	(8)	(1)	71	–	1,411	–	(6)	1,405
Total comprehensive income	–	–	1	–	58	–	1,290	(8)	(1)	71	1,000	2,411	–	32	2,443
Shares issued in lieu of dividend *(Note 1(d))*	1,269	–	–	–	–	–	–	–	–	–	–	1,269	–	–	1,269
Equity settled share-based transaction	–	–	–	–	–	12	–	–	–	–	–	12	–	–	12
Transfer	–	5	(5)	95	–	(18)	–	–	–	287	(364)	–	–	–	–
Distribution/Dividends declared or approved during the period	–	–	–	–	–	–	–	–	–	–	(2,263)	(2,263)	–	(52)	(2,315)
Change of ownership in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	4	4
At 30th June, 2019	41,194	14,059	1,748	1,028	(1,368)	152	1,954	7	(4)	5,321	29,164	93,255	8,894	2,839	104,988
At 1st January, 2018	37,527	14,060	1,757	230	487	135	1,454	11	–	4,931	28,890	89,482	8,894	2,838	101,214
Impact of adopting HKFRS 9 at 1st January, 2018	–	–	–	–	–	–	(162)	–	(6)	–	(32)	(200)	–	–	(200)
Restated balance at 1st January, 2018	37,527	14,060	1,757	230	487	135	1,292	11	(6)	4,931	28,858	89,282	8,894	2,838	101,014
Changes in equity															
Profit for the period	–	–	–	–	–	–	–	–	–	–	3,992	3,992	–	27	4,019
Other comprehensive income	–	–	–	–	(500)	–	(242)	1	(4)	(58)	–	(803)	–	11	(792)
Total comprehensive income	–	–	–	–	(500)	–	(242)	1	(4)	(58)	3,992	3,189	–	38	3,227
Shares issued in lieu of dividend	1,271	–	–	–	–	–	–	–	–	–	–	1,271	–	–	1,271
Shares issued under Staff Share Option Schemes (Note 1(d))	73	–	–	–	–	–	–	–	–	–	–	73	–	–	73
Equity settled share-based transaction	–	–	–	–	–	17	–	–	–	–	–	17	–	–	17
Transfer	12	(6)	–	728	–	(12)	–	–	–	48	(770)	–	–	–	–
Distribution/Dividends declared or approved during the period	–	–	–	–	–	–	–	–	–	–	(2,017)	(2,017)	–	(45)	(2,062)
Change of ownership in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	55	55
At 30th June, 2018	38,883	14,054	1,757	958	(13)	140	1,050	12	(10)	4,921	30,063	91,815	8,894	2,886	103,595

Note: Other reserves include statutory reserve and other reserves.

Condensed Consolidated Cash Flow Statement

	Notes	6 months ended 30/6/2019 HK$ Mn	6 months ended 30/6/2018 HK$ Mn
NET CASH INFLOW/(OUTFLOW) FROM OPERATIONS		7,706	(10,995)
Income tax paid			
Hong Kong profits tax paid		(16)	(2)
Outside Hong Kong profits tax paid		(382)	(469)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		7,308	(11,466)
INVESTING ACTIVITIES			
Dividends received from associates		1	6
Dividends received from non-trading equity securities		4	8
Purchase of non-trading equity securities		(2,993)	(1,187)
Proceeds from sale of non-trading equity securities		4,279	1,092
Purchase of fixed assets		(407)	(203)
Proceeds from disposal of other properties and equipment		16	15
Proceeds from sale of assets held for sale		372	49
Increase of shareholding in associates		(149)	(111)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		1,123	(331)
FINANCING ACTIVITIES			
Ordinary dividends paid		(689)	(434)
Distribution to Hybrid/Additional Tier 1 issue holders	*1(c)*	(357)	(357)
Issue of ordinary share capital		–	73
Issue of certificates of deposit		54,839	46,579
Issue of debt securities		2,841	113
Issue of loan capital		1,705	–
Payment of lease liabilities		(181)	–
Redemption of certificates of deposit issued		(49,699)	(32,448)
Redemption of debt securities issued		(300)	(266)
Interest paid on loan capital		(361)	(314)
Interest paid on certificates of deposit and debt securities issued		(818)	(382)
NET CASH GENERATED FROM FINANCING ACTIVITIES		6,980	12,564
NET INCREASE IN CASH AND CASH EQUIVALENTS		15,411	767
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		86,020	89,980
Effect of foreign exchange rate changes		(74)	(934)
CASH AND CASH EQUIVALENTS AT 30TH JUNE	*34*	101,357	89,813
Cash flows from operating activities included:			
Interest received		14,563	11,673
Interest paid		6,909	5,836
Dividend received		25	37

1. (a) This interim report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of these changes in accounting policies are set out in Note 2 below.

The financial information relating to the financial year ended 31st December, 2018 that is included in the interim financial report as comparative information does not constitute the Bank's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements 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 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Bank's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 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 period attributable to owners of the parent of HK$643 million (six months ended 30th June, 2018: HK$3,635 million) respectively after the distribution of HK$357 million (six months ended 30th June, 2018: HK$357 million) to Hybrid/Additional Tier 1 issue holders, and on the weighted average of 2,869 million (six months ended 30th June, 2018: 2,786 million) ordinary shares outstanding during the six months ended 30th June, 2019.

(ii) The calculation of diluted earnings per share is based on the consolidated profit for the period attributable to owners of the parent of HK$643 million (six months ended 30th June, 2018: HK$3,635 million) respectively after the distribution of HK$357 million (six months ended 30th June, 2018: HK$357 million) to Hybrid/Additional Tier 1 issue holders, and on 2,869 million (six months ended 30th June, 2018: 2,787 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2019, adjusted for the effects of all dilutive potential shares.

(c) Distribution/Dividends

(i) Dividends payable to equity owners of the parent attributable to the interim period

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Interim dividend declared after the interim period of HK$0.11 per share on 2,897 million shares (six months ended 30th June, 2018: HK$0.51 per share on 2,808 million shares)	319	1,432

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

1. (c) Distribution/Dividends (Continued)

(ii) Dividends payable to equity owners of the parent attributable to the previous financial year, approved and paid during the interim period

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
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$0.32 per share (2018: HK$0.60 per share)	–	1
Second interim dividend of HK$0.32 per share on 2,846 million shares (2018: HK$0.60 per share on 2,765 million shares)	910	1,659
Special dividend of HK$0.35 per share on 2,846 million shares	996	–
	1,906	1,660

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

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Interest paid or payable on the Hybrid Tier 1 capital instruments	106	106
Amount paid on the Additional Tier 1 capital instruments	251	251
	357	357

(d) Share Capital

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

	At 30th June, 2019		At 31st December, 2018	
	No. of shares		No. of shares	
	Mn	HK$ Mn	Mn	HK$ Mn
Ordinary shares, issued and fully paid:				
At 1st January	2,846	39,925	2,765	37,527
Shares issued under Staff Share Option Schemes	–	–	3	73
Transfer of the fair value of options from capital reserve – share options issued	–	–	–	12
Share issued in lieu of dividend	51	1,269	78	2,313
At 30th June/31st December	2,897	41,194	2,846	39,925

2. Changes in Accounting Policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31st December, 2018.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31st December, 2019.

The Group has initially adopted HKFRS 16 Leases from 1st January, 2019. A number of other new standards are effective 1st January, 2019 but they do not have a material effect on the Group's financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied HKFRS 16 using the modified retrospective approach, under which the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under HKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under HKFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease. Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

(b) As a lessee

The Group leases many assets, including properties and equipments.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards of ownership. Under HKFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases that have a lease term of 12 months or less ("short-term leases"), and leases of underlying assets with an approximate value of HK$0.04 million or less ("low-value assets"). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2. Changes in Accounting Policies (Continued)

(b) As a lessee (Continued)

The Group presented right-of-use assets in 'fixed assets', the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

	Right-of-use assets		
	Bank premises	Furniture, fixtures and equipment	Total
	HK$ Mn	HK$ Mn	HK$ Mn
Balance at 1st January	1,099	9	1,108
Balance at 30th June	1,073	10	1,083

The Group presented lease liabilities in 'other liabilities' in the statement of financial position.

i. Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is initially measured at cost, and subsequently at fair value, in accordance with the Group's accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

2. Changes in Accounting Policies (Continued)

(b) As a lessee (Continued)

ii. Transition

At transition, for leases classified as operating leases under HKAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1st January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all leases.

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains option to extend or terminate the lease.

(c) As a lessor

The Group leases out its investment properties as the lessor of operating leases.

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

(d) Impacts on transition

On transition to HKFRS 16, the Group recognised an additional right-of-use assets and additional lease liabilities, with adjustment of prepaid and accrued lease payments. The impact on transition is summarised below.

	Carrying amount at 31st December, 2018	Capitalisation of operating lease contracts	Carrying amount at 1st January, 2019
	HK$ Mn	HK$ Mn	HK$ Mn
Fixed assets			
– Right-of-use assets	–	1,108	1,108
Other assets			
– Other accounts	9,294	(20)	9,274
Total Assets	839,451	1,088	840,539
Other liabilities			
– Lease liabilities	–	1,094	1,094
– Other accounts	26,300	(6)	26,294
Total Liabilities	735,876	1,088	736,964

2. Changes in Accounting Policies (Continued)

(d) Impacts on transition (Continued)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1st January, 2019. The weighted-average incremental borrowing rate applied is 3.65%.

	1st January, 2019
	HK$ Mn
Operating lease commitment at 31st December, 2018	1,085
Less: Commitments relating to leases not yet commenced	(85)
Less: Commitments relating to leases exempt from capitalisation:	
– Leases with less than 12 months of lease term at transition	(58)
– Leases of low-value assets	(2)
Add: Extension options or termination options reasonably certain to be exercised	321
	1,261
Less: Total future interest expenses	(167)
Lease liabilities recognised at 1st January, 2019	1,094

3. Interest Income

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Loans, deposits with banks and financial institutions, and trade bills	12,218	10,262
Investment securities		
– at amortised cost or FVOCI	2,095	1,660
– designated at FVTPL	64	53
– mandatory at FVTPL	133	119
Trading assets	46	89
	14,556	12,183

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.

The above included HK$14,259 million (six months ended 30th June, 2018: HK$11,943 million) interest income, before hedging effect, for financial assets that are not recognised at fair value through profit or loss.

4. Interest Expense

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Customer deposits, deposits of banks and other financial institutions		
– at amortised cost	5,870	5,159
– designated at FVTPL	32	18
Certificates of deposit and debt securities issued		
– at amortised cost	659	323
– designated at FVTPL	205	129
Subordinated notes carried at amortised cost	361	300
Lease liabilities	21	–
Other borrowings	2	4
	7,150	5,933

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.

The above included HK$6,881 million (six months ended 30th June, 2018: HK$5,801 million) interest expense, before hedging effect, for financial liabilities that are not recognised at fair value through profit or loss.

5. Fee and Commission Income

Fee and commission income is disaggregated by services:

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Credit cards	598	525
Loans, overdrafts and guarantees	364	343
Other retail banking services	182	194
Trade finance	169	164
Trust and other fiduciary activities	146	152
Securities and brokerage	101	179
Investment products	56	78
Sale of third party insurance policies	33	29
Financial consultancy	19	43
Others	227	228
Total fee and commission income	1,895	1,935
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 measured at FVTPL	1,379	1,379
Fee income	1,895	1,935
Fee expenses	(516)	(556)

6. Net Trading Profits

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Profit on dealing in foreign currencies and funding swaps	163	310
Profit on trading securities	183	83
Net gain on derivatives	49	134
Dividend income from trading equity securities	21	29
	416	556

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

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Net loss from financial instruments designated at FVTPL	(44)	(28)
Net profit/(loss) from financial instruments mandatorily measured at FVTPL (other than those included in net trading profits)	173	(114)
	129	(142)

8. Net Hedging Profit

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Fair value hedges		
– Net profit/(loss) on hedged items attributable to the hedged risk	1,649	(394)
– Net (loss)/profit on hedging instruments	(1,632)	410
	17	16

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the six months ended 30th June, 2019 and 30th June, 2018.

9. Net Insurance Revenue

			6 months ended 30/6/2019	6 months ended 30/6/2018
			HK$ Mn	HK$ Mn
(a)	Net insurance revenue			
	Net interest income		312	252
	Net trading (loss)/profits		(43)	33
	Net profits/(loss) from other financial instruments mandatory at FVTPL		515	(139)
	Net insurance premium	(b)	3,686	2,833
			4,470	2,979
	Net insurance claims and expenses	(c)	(3,935)	(2,727)
			535	252
	Operating expenses		(2)	(1)
	(Charge for)/Write back of impairment loss on financial instruments		(3)	3
	Net profit on sale of debt investment securities at FVOCI		44	10
			574	264
(b)	Net insurance premium			
	Gross insurance premium income *(Note)*		3,716	2,863
	Reinsurer's share of gross insurance premium income		(30)	(30)
			3,686	2,833
(c)	Net insurance claims and expenses			
	Claims, benefits and surrenders paid		1,797	1,771
	Movement in provisions		2,060	903
			3,857	2,674
	Reinsurers' share of claim, benefits and surrenders paid		(251)	(342)
	Reinsurers' share of movement in provisions		249	315
			(2)	(27)
			3,855	2,647
	Net insurance commission expenses		80	80
			3,935	2,727

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

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Dividend income from equity securities measured at FVOCI	4	8
Rental from safe deposit boxes	59	54
Rental income on properties	88	89
Others	38	69
	189	220

11. Operating Expenses

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Contributions to defined contribution plan		
– Hong Kong	84	72
– Outside Hong Kong	119	119
Equity-settled share-based payment expenses	12	17
Salaries and other staff costs	2,433	2,310
Total staff costs	2,648	2,518
Premises and equipment expenses excluding depreciation		
– Rental	–	266
– Expenses relating to short-term leases	47	–
– Variable lease payments not included in the measurement of lease liabilities	3	–
– Maintenance, repairs and others	293	303
Total premises and equipment expenses excluding depreciation	343	569
Depreciation on fixed assets	263	240
Depreciation on right-of-use assets	186	–
Amortisation of intangible assets	7	7
Other operating expenses		
– Internet platform charges	476	33
– Legal and professional fees	219	180
– Advertising expenses	129	86
– Communications, stationery and printing	128	127
– Card related expenses	96	68
– Stamp duty, withholding taxes and value added taxes	70	70
– Insurance expenses	64	54
– Business promotions and business travel	48	58
– Donations	8	9
– Membership fees	7	8
– Bank charges	7	5
– Bank licence	2	2
– Others	217	152
Total other operating expenses	1,471	852
Total operating expenses	4,918	4,186

12. Impairment Losses on Financial Instruments

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Loans and advances to customers	5,015	298
Others	48	(16)
	5,063	282

13. Net Profit on Sale of Financial Assets at FVOCI

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Net profit on sale of debt securities		
– Net revaluation gain transferred from reserves	66	23
– Profit arising in the period	38	26
	104	49

14. Net Profit on Sale of Assets Held for Sale

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Net loss on sale of disposal group	(26)	–
Net profit on sale of properties	108	10
	82	10

15. Net Loss on Disposal of Fixed Assets

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Net loss on disposal of investment properties	–	(1)
Net loss on disposal of bank premises, furniture, fixtures and equipment	(6)	(9)
	(6)	(10)

16. Income Tax

Taxation in the consolidated income statement represents:

	6 months ended 30/6/2019	6 months ended 30/6/2018
	HK$ Mn	HK$ Mn
Current tax – Hong Kong		
Tax for the year	518	432
(Over)/Under-provision in respect of prior years	(147)	3
	371	435
Current tax – outside Hong Kong		
Tax for the year	346	248
(Over)/Under-provision in respect of prior years	(68)	207
	278	455
Deferred tax		
Origination and reversal of temporary differences	(1,051)	(128)
	(402)	762

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30th June, 2018: 16.5%) of the estimated assessable profits for the six months ended 30th June, 2019.

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

17. Cash and Balances with Banks and Other Financial Institutions

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Cash in hand	1,307	1,284
Balances with central banks	37,683	36,854
Balances with banks and other financial institutions	13,841	9,973
	52,831	48,111
Less: Impairment allowances	(8)	(5)
– Stage 1	(8)	(5)
– Stage 2	–	–
– Stage 3	–	–
	52,823	48,106

18. Placements with and Advances to Banks and Other Financial Institutions

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Placements with and advances to banks and other financial institutions		
Maturing		
– within one month	60,712	43,962
– after one month but within one year	8,860	16,343
– after one year	156	78
	69,728	60,383
Less: Impairment allowances	(8)	(10)
– Stage 1	(8)	(10)
– Stage 2	–	–
– Stage 3	–	–
	69,720	60,373
Of which:		
Placements with and advances to central banks	–	–

19. Trade Bills

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
At amortised cost	1,031	2,886
Less: Impairment allowances	–	(4)
– Stage 1	–	(3)
– Stage 2	–	–
– Stage 3	–	(1)
	1,031	2,882
At FVOCI	11,795	11,764
	12,826	14,646

20. Trading Assets

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Treasury bills (including Exchange Fund Bills)	905	270
Certificates of deposits held	373	–
Debt securities	1,566	1,861
Equity securities	1,287	1,352
	4,131	3,483

21. Loans and Advances to Customers

(a) Loans and advances to customers

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Loans and advances to customers at amortised cost	511,281	500,631
Less: Impairment allowances	(5,182)	(2,347)
– Stage 1	(387)	(431)
– Stage 2	(849)	(855)
– Stage 3	(3,946)	(1,061)
	506,099	498,284

21. Loans and Advances to Customers (Continued)

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

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

	30/6/2019		31/12/2018	
	Gross advances	% of gross advances covered by collateral	Gross advances	% of gross advances covered by collateral
	HK$ Mn	%	HK$ Mn	%
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	29,615	58.61	26,427	59.34
– Property investment	43,926	89.31	40,218	90.48
– Financial concerns	14,266	71.59	14,944	69.20
– Stockbrokers	1,335	68.98	1,928	67.61
– Wholesale and retail trade	5,793	47.86	6,839	53.30
– Manufacturing	2,948	55.41	1,903	51.42
– Transport and transport equipment	4,352	67.30	5,111	64.32
– Recreational activities	36	86.88	35	91.59
– Information technology	658	2.03	668	3.38
– Others	23,952	72.56	20,196	72.96
– Sub-total	126,881	72.89	118,269	73.07
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,062	100.00	1,048	100.00
– Loans for the purchase of other residential properties	56,562	100.00	55,292	100.00
– Credit card advances	4,485	0.00	4,496	0.00
– Others	43,098	88.63	39,909	88.91
– Sub-total	105,207	91.08	100,745	91.14
Total loans for use in Hong Kong	232,088	81.13	219,014	81.38
Trade finance	3,352	56.83	3,733	56.18
Loans for use outside Hong Kong*	275,841	43.03	277,884	46.84
Total advances to customers	511,281	60.42	500,631	62.02

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

21. Loans and Advances to Customers (Continued)

(b) Loans and advances to customers - by industry sectors (Continued)

	30/6/2019		31/12/2018 Restated	
	Gross advances	% of gross advances covered by collateral	Gross advances	% of gross advances covered by collateral
	HK$ Mn	%	HK$ Mn	%
Loans for use in PRC				
Industrial, commercial and financial				
– Property development	43,246	41.63	45,304	49.98
– Property investment	21,109	93.91	24,020	95.23
– Financial concerns	28,873	5.91	30,924	5.70
– Wholesale and retail trade	8,894	44.22	9,057	55.60
– Manufacturing	6,798	25.09	6,673	26.08
– Transport and transport equipment	2,601	70.35	2,911	82.36
– Recreational activities	702	9.14	1,074	78.64
– Information technology	1,849	1.50	3,685	0.60
– Others	17,440	31.17	19,063	33.89
– Sub-total	131,512	39.94	142,711	44.69
Individuals				
– Loans for the purchase of other residential properties	13,684	99.97	13,879	99.97
– Credit card advances	9,444	0.00	9,405	0.00
– Others	25,041	1.21	17,093	2.19
– Sub-total	48,169	29.03	40,377	35.29
Total loans for use in PRC	179,681	37.02	183,088	42.62

21. Loans and Advances to Customers (Continued)

(b) Loans and advances to customers - by industry sectors (Continued)

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:

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
(i) Property development		
a. Individually impaired loans	2,742	749
b. Specific provisions	1,436	–
c. Collective provisions	284	249
d. New provision charged to income statement	1,523	188
e. Written off	581	50
(ii) Property investment		
a. Individually impaired loans	1,949	150
b. Specific provisions	919	94
c. Collective provisions	392	314
d. New provision charged to income statement	1,045	310
e. Written off	703	264
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	267	278
b. Specific provisions	10	8
c. Collective provisions	107	201
d. New provision charged to income statement	48	158
e. Written off	2	8

The specific provisions represent lifetime expected credit loss provisions for credited impaired exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions for non-credit impaired exposures.

(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 accordance with the requirements of Banking (Disclosure) Rules. 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. The location of a party is determined by its residence which is the economic territory under whose laws the party is incorporated or registered. This requirement is different from the allocation under segment reporting in Note 29 which is prepared in a manner consistent with the way in which information is reported internally to the Group's Senior Management. The analysis of impairment provisions follow the terminology used by the HKMA. The specific provisions represent lifetime expected credit loss provisions for credit impaired exposures and the collective provisions represent the 12-month and lifetime expected credit loss provisions for non-credit impaired exposures.

21. Loans and Advances to Customers (Continued)

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

	30/6/2019				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Specific provisions	Collective provisions
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Hong Kong	241,678	343	2,445	1,400	255
Mainland China	198,151	2,354	5,152	2,403	892
Other Asian Countries and Regions	26,898	138	406	143	69
Others	44,554	–	332	–	20
Total	511,281	2,835	8,335	3,946	1,236
% of total advances to customers			1.63%		
Market value of collateral held against impaired advances to customers			6,640		

	31/12/2018				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Specific provisions	Collective provisions
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Hong Kong	225,656	367	559	224	260
Mainland China	203,377	2,405	2,515	776	871
Other Asian Countries and Regions	27,634	121	396	61	117
Others	43,964	–	21	–	38
Total	500,631	2,893	3,491	1,061	1,286
% of total advances to customers			0.70%		
Market value of collateral held against impaired advances to customers			2,414		

21. Loans and Advances to Customers (Continued)

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

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.

22. Investment Securities

	30/6/2019				
	Mandatorily measured at FVTPL	Designated at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Treasury bills (including Exchange Fund Bills)	–	–	30,901	2,812	33,713
Certificates of deposits held	–	–	1,065	933	1,998
Debt securities	9,712	1,303	91,715	15,344	118,074
Equity securities	1,805	–	1,105	–	2,910
Investment funds	517	–	–	–	517
	12,034	1,303	124,786	19,089	157,212

	31/12/2018				
	Mandatorily measured at FVTPL	Designated at FVTPL	Measured at FVOCI	Measured at amortised cost	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Treasury bills (including Exchange Fund Bills)	–	–	26,594	1,915	28,509
Certificates of deposits held	–	–	1,191	1,109	2,300
Debt securities	10,663	1,630	81,574	15,997	109,864
Equity securities	2,513	–	688	–	3,201
Investment funds	855	–	–	–	855
	14,031	1,630	110,047	19,021	144,729

Debt securities were designated as at FVTPL on initial recognition when the Group held derivatives for managing specific risk of the debt securities, and the designation therefore eliminated or significantly reduced an accounting mismatch that would otherwise arise.

22. Investment Securities (Continued)

Equity securities designated at FVOCI

The Group designated certain equity securities as shown in the following table at FVOCI. The FVOCI designation was made because the investments are expected to be held for long-term strategic purposes.

	30/6/2019		31/12/2018	
	Fair value at 30/6/2019	Dividend income recognised	Fair value at 31/12/2018	Dividend income recognised
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Aberdeen Restaurant Enterprises Limited	2	–	2	–
EPS Company (Hong Kong) Limited	64	4	47	7
Joint Electronic Teller Services Ltd.	17	–	18	2
Nova Credit Limited	11	–	11	–
OTC Clearing Hong Kong Limited	12	–	14	–
TransUnion Limited	93	–	70	11
China International Payment Service Corporation	35	–	35	–
China UnionPay Co., Ltd.	859	–	481	2
Euroclear Plc	10	–	8	1
Society For World-Wide Interbank Financial Telecommunication	2	–	2	–
	1,105	4	688	23

23. Fixed Assets

	30/6/2019							
	Investment properties	Bank premises	Furniture, fixtures and equipment	Sub-total	Right-of-use assets – Bank premises	Right-of-use assets – Furniture, fixtures and equipment	Sub-total	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Cost or valuation								
At 1st January, 2019	5,249	8,237	5,523	13,760	–	–	–	19,009
Impact of adopting HKFRS 16	–	–	–	–	1,099	9	1,108	1,108
Restated balance at 1st January, 2019	5,249	8,237	5,523	13,760	1,099	9	1,108	20,117
Additions	–	28	216	244	160	3	163	407
Revaluation surplus	18	–	–	–	–	–	–	18
Disposals	–	(23)	(31)	(54)	–	–	–	(54)
Remeasurement	–	–	–	–	(1)	–	(1)	(1)
Transfer to asset classified as assets held for sale	–	(6)	–	(6)	–	–	–	(6)
Exchange adjustments	(1)	–	(2)	(2)	(2)	–	(2)	(5)
At 30th June, 2019	5,266	8,236	5,706	13,942	1,256	12	1,268	20,476
Accumulated depreciation and amortisation								
At 1st January, 2019	–	1,933	3,911	5,844	–	–	–	5,844
Charge for the period	–	78	185	263	184	2	186	449
Written off on disposal	–	(7)	(25)	(32)	–	–	–	(32)
Transfer to asset classified as assets held for sale	–	(2)	–	(2)	–	–	–	(2)
Exchange adjustments	–	(2)	(2)	(4)	(1)	–	(1)	(5)
At 30th June, 2019	–	2,000	4,069	6,069	183	2	185	6,254
Net book value at 30th June, 2019	5,266	6,236	1,637	7,873	1,073	10	1,083	14,222
Net book value at 31st December, 2018	5,249	6,304	1,612	7,916	–	–	–	13,165
The gross amounts of the above assets are stated:								
At cost	–	766	5,706	6,472	1,256	12	1,268	7,740
At Directors' valuation – 1989	–	7,470	–	7,470	–	–	–	7,470
At professional valuation – 2019	5,266	–	–	–	–	–	–	5,266
	5,266	8,236	5,706	13,942	1,256	12	1,268	20,476

24. Other Assets

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Accrued interest	3,459	3,466
Customer liabilities under acceptances	25,257	21,747
Other accounts*	11,618	9,294
Less: Impairment allowances	(410)	(291)
– Stage 1	(38)	(27)
– Stage 2	(9)	(6)
– Stage 3	(363)	(258)
	39,924	34,216
Assets held for sale *(Note 43)*	507	688
	40,431	34,904

* Include nil contract assets (31/12/2018: nil) from contracts with customers under HKFRS 15.

25. Financial Liabilities Designated at Fair Value through Profit or Loss

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Deposits and balances of banks and other financial institutions	3,535	1,335
Certificates of deposits issued	20,275	9,462
Debt securities issued	109	407
	23,919	11,204

Financial liabilities above have been designated as at FVTPL when the Group holds related derivatives at FVTPL, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The amount of change, during the period and cumulatively, in the fair value of financial liabilities designated at FVTPL that is attributable to changes in the credit risk of these liabilities and recognised in other comprehensive income is set out below.

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Balance at 1st January	(3)	(6)
Recognised in other comprehensive income during the period	–	3
Balance at 30th June/31st December	(3)	(3)

25. Financial Liabilities Designated at Fair Value through Profit or Loss (Continued)

None of the liabilities designated as at FVTPL was derecognized during the period ended 30th June, 2019 and there was no transfer of cumulative gain or loss within equity during the period.

The change in fair value attributable to changes in credit risk on financial liabilities is calculated using the difference between the fair value of the financial liabilities at the reporting date and the present value computed with adjusted asset swap spread.

The carrying amount of financial liabilities designated as at FVTPL at 30 June 2019 was HK$100 million lower than the contractual amount due at maturity (31/12/2018: HK$57 million lower).

26. Trading Liabilities

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Shares sold	38	–

27. Other Liabilities

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Accrued interest payable	3,520	3,279
Acceptance draft payable	25,257	21,747
Impairment allowances	100	111
– Financial guarantee contracts issued	14	15
– Loan commitments issued	86	96
Liabilities held for sale *(Note 43)*	3	7
Lease liabilities	1,089	–
Other accounts*	32,015	26,300
	61,984	51,444

* Include contract liabilities of HK$599 million (31/12/2018: HK$633 million) from contracts with customers under HKFRS 15.

28. Loan Capital

		30/6/2019	31/12/2018
		HK$ Mn	HK$ Mn
Subordinated notes, at amortised cost with fair value hedge adjustments			
USD600 million fixed rate subordinated notes due 16th July, 2020	(1)	4,730	4,710
USD500 million fixed rate subordinated notes due 20th November, 2024	(2)	3,897	3,878
USD500 million fixed rate subordinated notes due 3rd November, 2026	(3)	3,862	3,770
Subordinated notes at amortised cost			
RMB1,500 million fixed rate subordinated notes due 25th April, 2029	(4)	1,704	–
		14,193	12,358

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during the period/year ended 30th June, 2019 and 31st December, 2018.

(1) Two tranches of loan capital of face value totalling HK$4,688 million (USD600 million) and carrying amount totalling HK$4,730 million (31/12/2018: HK$4,710 million) were issued on 16th July, 2010 (USD450 million) and on 23rd July, 2010 (USD150 million) by the Bank. These subordinated notes carrying a coupon rate of 6.125% qualifying as Tier 2 capital are listed on the Singapore Exchange and will mature on 16th July, 2020. The notes are under fair value hedge accounting and hedge ineffectiveness of HK$3 million loss was recorded in the first half of 2019 (first half 2018: HK$3 million loss).

(2) Loan capital of face value of HK$3,907 million (USD500 million) and carrying amount of HK$3,897 million (31/12/2018: HK$3,878 million) represents 4.25% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 20th November, 2014 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 20th November, 2024. The notes are under fair value hedge accounting and hedge ineffectiveness of HK$0.05 million profit was recorded in first half of 2019 (first half 2018: HK$1 million loss).

(3) Loan capital of face value of HK$3,907 million (USD500 million) and carrying amount of HK$3,862 million (31/12/2018: HK$3,770 million) represents 4% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 3rd November, 2016 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 3rd November, 2026. The notes are under fair value hedge accounting and hedge ineffectiveness of HK$0.7 million loss was recorded in first half of 2019 (first half 2018: HK$2 million loss).

(4) Loan capital of face value of HK$1,707 million (RMB1,500 million) and carrying amount of HK$1,704 million represents 4.94% subordinated notes issued on 25th April, 2019 by the Bank's subsidiary, BEA (China). The notes will mature on 25th April, 2029.

29. 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 eight 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 operations mainly include insurance business, trust business, securities & futures broking, money lender activities and corporate financial advisory, other subsidiaries in Hong Kong and supporting units of Hong Kong operations.

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

Overseas operations include the back office unit for overseas banking operations in Hong Kong, Macau Branch, Taiwan Branch and all branches, subsidiaries and associates operated in overseas.

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 assets with the exception of interests in associates and assets held for sale. 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.

29. Segment Reporting (Continued)

	Hong Kong operations										
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	Total	Mainland China operations	Overseas operations	Inter-segment elimination	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
6 months ended 30th June, 2019											
Net interest income	1,709	1,107	258	201	11	696	3,982	2,657	762	5	7,406
Non-interest income/(expense)	478	221	204	206	11	1,124	2,244	506	141	(195)	2,696
Operating income	2,187	1,328	462	407	22	1,820	6,226	3,163	903	(190)	10,102
Operating expenses	(829)	(146)	(72)	(109)	(6)	(1,448)	(2,610)	(2,152)	(346)	190	(4,918)
Operating profit before impairment losses	1,358	1,182	390	298	16	372	3,616	1,011	557	–	5,184
(Charge for)/Write back of impairment losses on financial instruments	(98)	13	21	(1)	(2)	(1)	(68)	(5,065)	70	–	(5,063)
Operating profit/(loss) after impairment losses	1,260	1,195	411	297	14	371	3,548	(4,054)	627	–	121
Profit/(Loss) on sale of fixed assets, financial assets measured at FVOCI and investments measured at amortised cost	(6)	(3)	44	–	–	8	43	52	(2)	–	93
Profit on sale of assets held for sale	–	–	–	–	–	79	79	3	–	–	82
Loss on disposal of subsidiaries	–	–	–	–	–	–	–	–	(6)	–	(6)
Valuation gains on investment properties	–	–	–	–	–	17	17	–	1	–	18
Share of profits less losses of associates	–	–	–	–	–	3	3	63	262	–	328
Profit/(loss) before taxation	1,254	1,192	455	297	14	478	3,690	(3,936)	882	–	636
Depreciation for the period	(146)	(1)	(3)	(1)	–	(113)	(264)	(152)	(33)	–	(449)
At 30th June, 2019											
Segment assets	107,871	154,061	188,031	28,252	4,108	41,262	523,585	280,172	115,227	(52,388)	866,596
Investments in associates	–	–	–	–	–	54	54	3,742	5,879	–	9,675
Other assets – Assets held for sale	–	–	–	–	–	105	105	34	368	–	507
Total assets	107,871	154,061	188,031	28,252	4,108	41,421	523,744	283,948	121,474	(52,388)	876,778
Segment liabilities	327,634	17,386	69,995	23,329	8	25,351	463,703	251,914	107,654	(51,484)	771,787
Other liabilities – Liabilities held for sale	–	–	–	–	–	3	3	–	–	–	3
Total liabilities	327,634	17,386	69,995	23,329	8	25,354	463,706	251,914	107,654	(51,484)	771,790

29. Segment Reporting (Continued)

	Hong Kong operations										
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	Total	Mainland China operations	Overseas operations	Inter-segment elimination	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
6 months ended 30th June, 2018 (Restated) *(Note)*											
Net interest income	1,501	1,083	322	231	13	523	3,673	1,765	810	2	6,250
Non-interest income/(expense)	453	212	5	226	11	846	1,753	550	150	(177)	2,276
Operating income	1,954	1,295	327	457	24	1,369	5,426	2,315	960	(175)	8,526
Operating expenses	(754)	(109)	(79)	(108)	(6)	(1,335)	(2,391)	(1,630)	(340)	175	(4,186)
Operating profit before impairment losses	1,200	1,186	248	349	18	34	3,035	685	620	–	4,340
(Charge for)/Write back of impairment losses on financial instruments	(92)	(92)	(1)	9	(1)	–	(177)	(312)	207	–	(282)
Impairment losses on intangible assets	–	–	–	–	–	–	–	(1)	–	–	(1)
Operating profit after impairment losses	1,108	1,094	247	358	17	34	2,858	372	827	–	4,057
Profit/(Loss) on sale of fixed assets, financial assets measured at FVOCI	(7)	–	45	–	–	–	38	1	–	–	39
Profit on sale of assets held for sale	–	–	–	–	–	–	–	–	10	–	10
Valuation gains on investment properties	–	–	–	–	–	394	394	–	–	–	394
Share of profits less losses of associates	–	–	–	–	–	–	–	41	240	–	281
Profit before taxation	1,101	1,094	292	358	17	428	3,290	414	1,077	–	4,781
Depreciation for the period	(32)	(1)	(2)	(1)	–	(84)	(120)	(105)	(15)	–	(240)
At 31st December, 2018 (Restated)											
Segment assets	103,770	149,307	177,169	24,170	7,041	38,202	499,659	269,739	108,272	(48,036)	829,634
Investments in associates	–	–	–	–	–	52	52	3,637	5,440	–	9,129
Other assets – Assets held for sale	–	–	–	–	–	276	276	49	363	–	688
Total assets	103,770	149,307	177,169	24,170	7,041	38,530	499,987	273,425	114,075	(48,036)	839,451
Segment liabilities	323,333	14,116	59,743	23,378	20	20,402	440,992	240,872	101,181	(47,176)	735,869
Other liabilities – Liabilities held for sale	–	–	–	–	–	7	7	–	–	–	7
Total liabilities	323,333	14,116	59,743	23,378	20	20,409	440,999	240,872	101,181	(47,176)	735,876

Note: Due to the change of ownership of some customer deposits and the revision of internal fund transfer pricing methodology, some internal charges and segment grouping, certain 2018 comparative figures have been restated to conform to current period's presentation.

30. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2019							
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Assets								
Cash and balances with banks and other financial institutions	31,900	–	551	1,997	–	–	18,375	52,823
Placements with and advances to banks and other financial institutions	–	60,709	6,521	2,335	155	–	–	69,720
Trade bills	233	5,122	4,180	3,291	–	–	–	12,826
Trading assets	–	–	239	1,211	1,236	158	1,287	4,131
Derivative assets	–	–	–	–	–	–	6,141	6,141
Loans and advances to customers	3,824	69,358	25,560	93,718	196,257	115,307	2,075	506,099
Investment securities	–	5,568	14,245	31,763	67,341	35,143	3,152	157,212
Investments in associates	–	–	–	–	–	–	9,675	9,675
Fixed assets	–	–	–	–	–	–	14,222	14,222
Goodwill and intangible assets	–	–	–	–	–	–	1,933	1,933
Deferred tax assets	–	–	–	–	–	–	1,565	1,565
Other assets	207	6,470	8,065	14,251	704	240	10,494	40,431
Total assets	36,164	147,227	59,361	148,566	265,693	150,848	68,919	876,778
Liabilities								
Deposits and balances of banks and other financial institutions	1,641	12,809	11,316	10,279	12	–	–	36,057
Deposits from customers	196,624	113,835	149,095	111,094	10,316	1,138	3	582,105
– Demand deposits and current accounts	62,791	–	–	–	–	–	–	62,791
– Savings deposits	131,735	–	–	–	–	–	–	131,735
– Time, call and notice deposits	2,098	113,835	149,095	111,094	10,316	1,138	3	387,579
Trading liabilities	–	–	–	–	–	–	38	38
Derivative liabilities	–	–	–	–	–	–	8,139	8,139
Certificates of deposit issued	–	5,941	17,457	40,505	–	–	–	63,903
Current taxation	–	–	–	1,682	–	–	–	1,682
Debt securities issued	–	109	–	156	2,841	–	–	3,106
Deferred tax liabilities	–	–	–	–	–	–	583	583
Other liabilities	1,445	7,304	9,223	18,579	11,772	4,703	8,958	61,984
– Lease liabilities	–	30	57	249	514	239	–	1,089
– Other accounts	1,445	7,274	9,166	18,330	11,258	4,464	8,958	60,895
Loan capital	–	–	–	3,897	10,296	–	–	14,193
Total liabilities	199,710	139,998	187,091	186,192	35,237	5,841	17,721	771,790
Net gap	(163,546)	7,229	(127,730)	(37,626)	230,456	145,007		

30. Analysis of Assets and Liabilities by Remaining Maturity (Continued)

	31/12/2018							
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Assets								
Cash and balances with banks and other financial institutions	27,033	–	–	1,818	–	–	19,255	48,106
Placements with and advances to banks and other financial institutions	–	43,957	15,536	802	78	–	–	60,373
Trade bills	16	5,594	4,760	4,276	–	–	–	14,646
Trading assets	–	114	148	1,243	402	224	1,352	3,483
Derivative assets	–	–	–	–	–	–	10,211	10,211
Loans and advances to customers	2,899	56,756	29,843	99,734	191,557	115,674	1,821	498,284
Investment securities	–	6,353	9,033	26,354	71,656	27,528	3,805	144,729
Investments in associates	–	–	–	–	–	–	9,129	9,129
Fixed assets	–	–	–	–	–	–	13,165	13,165
Goodwill and intangible assets	–	–	–	–	–	–	1,940	1,940
Deferred tax assets	–	–	–	–	–	–	481	481
Other assets	104	7,154	6,415	13,691	713	195	6,632	34,904
Total assets	30,052	119,928	65,735	147,918	264,406	143,621	67,791	839,451
Liabilities								
Deposits and balances of banks and other financial institutions	2,691	15,154	5,827	3,818	–	–	–	27,490
Deposits from customers	203,713	118,991	146,031	88,469	16,906	–	4	574,114
– Demand deposits and current accounts	71,952	–	–	–	–	–	–	71,952
– Savings deposits	130,477	–	–	–	–	–	–	130,477
– Time, call and notice deposits	1,284	118,991	146,031	88,469	16,906	–	4	371,685
Trading liabilities	–	–	–	–	–	–	–	–
Derivative liabilities	–	–	–	–	–	–	9,496	9,496
Certificates of deposit issued	–	3,236	19,976	35,278	–	–	–	58,490
Current taxation	–	–	–	1,437	–	–	–	1,437
Debt securities issued	–	–	–	407	157	–	–	564
Deferred tax liabilities	–	–	–	–	–	–	483	483
Other liabilities	883	5,339	7,075	15,971	9,881	3,955	8,340	51,444
Loan capital	–	–	–	–	12,358	–	–	12,358
Total liabilities	207,287	142,720	178,909	145,380	39,302	3,955	18,323	735,876
Net gap	(177,235)	(22,792)	(113,174)	2,538	225,104	139,666		

31. Deferred Tax Assets and Liabilities Recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the period are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation	Revaluation of properties	Impairment losses on financial assets	Revaluation of financial assets at FVOCI	Tax losses	Others	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
At 1st January, 2019	289	113	(675)	74	–	201	2
(Credited)/Charged to income statement	31	–	(812)	–	(6)	(264)	(1,051)
(Credited)/Charged to reserve	–	(1)	–	46	–	1	46
Exchange and other adjustments	–	–	16	–	1	4	21
At 30th June, 2019	320	112	(1,471)	120	(5)	(58)	(982)
Balance as at 31st December, 2018	289	113	(675)	74	–	201	2

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Net deferred tax assets recognised on the statement of financial position	(1,565)	(481)
Net deferred tax liabilities recognised on the statement of financial position	583	483
	(982)	2

32. Reserves

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
General reserve	14,059	14,054
Revaluation reserve on bank premises	1,748	1,752
Capital reserve	1,028	933
Exchange revaluation reserve	(1,368)	(1,426)
Capital reserve – staff share options issued	152	158
Fair value reserve	1,954	664
Hedging reserve	7	15
Liability credit reserve	(4)	(3)
Other reserves	5,321	4,963
Retained profits*	29,164	30,791
	52,061	51,901
Proposed dividends, not provided for	319	1,906

* 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 30th June, 2019, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK$4,942 million (31/12/2018: HK$5,112 million).

33. Additional Equity Instruments

		30/6/2019	31/12/2018
		HK$ Mn	HK$ Mn
USD650 million undated non-cumulative subordinated capital securities	(1)	5,016	5,016
USD500 million undated non-cumulative subordinated capital securities	(2)	3,878	3,878
		8,894	8,894

(1) On 2nd December, 2015, the Bank issued undated non-cumulative subordinated capital securities ("Additional Tier 1 Capital Securities") with a face value of US$650 million (equivalent to HK$5,016 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.50% coupon until the first call date on 2nd December, 2020. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.834% per annum. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up.

(2) On 18th May, 2017, the Bank issued undated non-cumulative subordinated capital securities ("Additional Tier 1 Capital Securities") with a face value of US$500 million (equivalent to HK$3,878 million net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.625% coupon until the first call date on 18th May, 2022. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 3.682% per annum. The coupon payments may be cancelled at the sole discretion of the Bank. The Additional Tier 1 Capital Securities will be written down if a non-viability event occurs and is continuing. They rank higher than ordinary shares in the event of a winding-up.

34. Consolidated Cash Flow Statement

Cash and cash equivalents

		30/6/2019	30/6/2018
		HK$ Mn	HK$ Mn
(i)	Components of cash and cash equivalents in the consolidated cash flow statement		
	Cash and balances with banks and other financial institutions with original maturity within three months	32,474	25,640
	Placements with and advances to banks and other financial institutions with original maturity within three months	63,975	60,524
	Treasury bills with original maturity within three months	3,995	2,517
	Certificates of deposit held with original maturity within three months	148	1,128
	Debt securities with original maturity within three months	763	–
	Add: Cash and balances with banks and other financial institutions included in "Assets held for sale" *(Note 43)*	2	4
		101,357	89,813
(ii)	Reconciliation with the consolidated statement of financial position		
	Cash and balances with banks and other financial institutions	52,823	48,869
	Placements with and advances to banks and other financial institutions	69,720	66,381
	Treasury bills, certificates of deposit held and debt securities		
	– trading assets	2,844	5,036
	– investment securities	153,785	128,945
		156,629	133,981
	Add: Cash and balances with banks and other financial institutions included in "Assets held for sale" *(Note 43)*	2	4
	Amount shown in the consolidated statement of financial position	279,174	249,235
	Less: Amounts with an original maturity of beyond three months	(157,460)	(136,185)
	Cash balance with central bank subject to regulatory restriction	(20,357)	(23,237)
	Cash and cash equivalents in the consolidated cash flow statement	101,357	89,813

35. Offsetting Financial Instruments

The following tables present details of financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

	At 30th June, 2019				
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related financial instruments that are not set off	Net amount
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Assets					
Derivative assets	36	–	36	(32)	4
Other assets	434	(282)	152	–	152
Total	470	(282)	188	(32)	156

	At 30th June, 2019				
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related financial instruments that are not set off	Net amount
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Liabilities					
Derivative liabilities	105	–	105	(32)	73
Other liabilities	282	(282)	–	–	–
Total	387	(282)	105	(32)	73

35. Offsetting Financial Instruments (Continued)

	At 31st December, 2018				
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related financial instruments that are not set off	Net amount
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Assets					
Derivative assets	20	–	20	(19)	1
Other assets	441	(423)	18	–	18
Total	461	(423)	38	(19)	19

	At 31st December, 2018				
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related financial instruments that are not set off	Net amount
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Liabilities					
Derivative liabilities	48	–	48	(19)	29
Other liabilities	423	(423)	–	–	–
Total	471	(423)	48	(19)	29

35. Offsetting Financial Instruments (Continued)

The tables below reconcile the "net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the derivative assets, other assets, derivative liabilities and other liabilities presented in the consolidated statement of financial position.

	30/6/2019		31/12/2018	
	Derivative assets	Other assets	Derivative assets	Other assets
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Net amount of financial assets after offsetting as stated above	36	152	20	18
Financial assets not in scope of offsetting disclosure	6,105	40,689	10,191	35,177
Impairment allowances	–	(410)	–	(291)
	6,141	40,431	10,211	34,904

	30/6/2019		31/12/2018	
	Derivative liabilities	Other liabilities	Derivative liabilities	Other liabilities
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Net amount of financial liabilities after offsetting as stated above	105	–	48	–
Financial liabilities not in scope of offsetting disclosure	8,034	61,984	9,448	51,444
	8,139	61,984	9,496	51,444

36. Fair Values of Financial Instruments

(a) Financial instruments carried at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following hierarchy of methods:

Level 1 – Quoted market price in an active market for an identical instrument.

Level 2 – Valuation techniques based on observable input. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or counterparty quotations. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and various market-wide recognised option pricing models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, equity prices, foreign currency exchange rates, index prices, historical or implied volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price of the financial instrument that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the reporting date.

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses valuation models, which usually are developed from recognised valuation methodologies. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation control function, namely Financial Instruments Valuation Group ("FIVG") which comprises control units independent of front office management. Procedures for price verification have been established. Any pricing models to be used would be subject to a rigorous validation and approval process.

36. Fair Values of Financial Instruments (Continued)

(a) Financial instruments carried at fair value (Continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	30/6/2019				31/12/2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Recurring fair value measurement								
Assets								
Trade Bills - At FVOCI	–	11,795	–	11,795	–	11,764	–	11,764
Trading assets	1,386	2,745	–	4,131	1,371	2,112	–	3,483
Derivative assets	–	6,141	–	6,141	–	10,211	–	10,211
Investment securities								
– Mandatorily measured at FVTPL	1,537	10,210	287	12,034	2,471	11,251	309	14,031
– Designated at FVTPL	–	1,303	–	1,303	–	1,630	–	1,630
– At FVOCI	29,201	94,480	1,105	124,786	22,125	87,234	688	110,047
	32,124	126,674	1,392	160,190	25,967	124,202	997	151,166
Liabilities								
Trading liabilities	38	–	–	38	–	–	–	–
Derivative liabilities	–	8,139	–	8,139	–	9,496	–	9,496
Financial liabilities designated at FVTPL	–	23,919	–	23,919	–	11,204	–	11,204
	38	32,058	–	32,096	–	20,700	–	20,700

During the period ended 30th June, 2019 and year ended 31st December, 2018, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

36. Fair Values of Financial Instruments (Continued)

(a) Financial instruments carried at fair value (Continued)

Information about significant unobservable inputs in Level 3 valuations:

	Valuation technique	Significant unobservable input(s)	Value or range
Unlisted equity securities and investment funds	Net asset value	N/A	N/A
	Discounted cash flow model	Discount rate	30/6/2019: 8.8% (2018: 11.8%)
		Marketability discount	30/6/2019: 20% (2018: 20%)
	Market-comparable approach	Earnings multiple	30/6/2019: 28.74 – 30.84 (2018: 18.24-19.90)
		EV/EBIT	30/6/2019: 25.90 – 31.75 (2018: 22.54-23.18)
		Marketability discount	30/6/2019: 50% (2018: 50%)

The fair values of unlisted equity instruments mandatorily measured at FVTPL or measured at FVOCI are estimated using the discounted cash flow model, on the basis of an analysis of the investee's financial position and results, or with reference to multiples of comparable listed companies, such as price/earning ratio of comparables, adjusted for a marketability discount to reflect the fact that the shares are not actively traded. An increase in the ratio/investee's financial position and results in isolation will result in favourable movement in the fair values, while an increase in discount rate/marketability discount in isolation will result in unfavourable movement.

Valuation of financial instruments in Level 3 is subject to the same valuation control framework as described above and reviewed regularly by FIVG.

36. Fair Values of Financial Instruments (Continued)

(a) Financial instruments carried at fair value (Continued)

(1) Valuation of financial instruments with significant unobservable inputs

Movements in the recognised fair values of instruments with significant unobservable inputs were as follows:

	30/6/2019		31/12/2018	
	Investment securities mandatorily measured at FVTPL	Investment securities at FVOCI	Investment securities mandatorily measured at FVTPL	Investment securities at FVOCI
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Assets				
At 1st January	309	688	213	349
Purchases	–	–	124	43
Settlements	(7)	–	(13)	–
Changes in fair value recognised in the income statement	(15)	–	(15)	–
Changes in fair value recognised in the other comprehensive income	–	417	–	296
At 30th June/31st December	287	1,105	309	688
Total gains or losses for the period included in FVOCI fair value reserve of the other comprehensive income for assets held at the end of the reporting period	–	417	–	296
Total gains or losses for the period included in the income statement for assets held at the end of the reporting period recorded in net results from other financial instruments at FVTPL	(15)	–	(15)	–

36. Fair Values of Financial Instruments (Continued)

(a) Financial instruments carried at fair value (Continued)

(2) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions

	30/6/2019			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Financial assets				
Investment securities mandatorily measured at FVTPL	24	(24)	–	–
Investment securities at FVOCI	–	–	92	(92)
	24	(24)	92	(92)

	31/12/2018			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Financial assets				
Investment securities mandatorily measured at FVTPL	26	(26)	–	–
Investment securities at FVOCI	–	–	57	(57)
	26	(26)	57	(57)

The fair values of financial instruments are in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The table above shows the sensitivity of fair values due to parallel movement of plus or minus 10% in reasonably possible alternative assumptions.

36. Fair Values of Financial Instruments (Continued)

(b) Fair values of financial instruments carried at other than fair value

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented below:

(i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the end of the reporting period.

(ii) The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value.

(iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(iv) The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30th June, 2019 and 31st December, 2018 except as follows:

	30/6/2019		31/12/2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Financial assets				
Investment securities at amortised cost	19,089	19,348	19,021	19,140

37. Credit Risk

The Group adopts the criteria of stage allocation as follows:

HKMA's 5-Grade Asset		Stage allocation
Pass	General (i.e. do not meet the Bank's criteria of "Significant Increase of Credit Risk")	1
	Meet the Bank's criteria of "Significant Increase of Credit Risk"	2
Special Mention		2
Substandard		3
Doubtful		
Loss		

The criteria of "significant increase of credit risk" has taken into consideration of two key factors:

- The exposure has a significant deterioration of internal or external rating as compared with the rating at the time when the exposure was originated; and
- The rating of the exposure falls out of the "Low-Credit Risk Threshold" that equivalent to the globally understood definition of "investment grade"

a. Credit Quality Analysis

Credit quality of loans and advances

The following tables set out information about the credit quality of loans and advances to customers. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$Mn
Loans and advances to customers at amortised cost								
– Grades 1 - 15: Pass	473,718	1,133	21,740	99	–	–	495,458	1,232
– Grades 16 - 17: Special Mention	–	–	7,488	56	–	–	7,488	56
– Grade 18: Substandard	–	–	–	–	5,735	8	5,735	8
– Grade 19: Doubtful	–	–	–	–	2,028	151	2,028	151
– Grade 20: Loss	–	–	–	–	572	203	572	203
Total gross carrying amount	473,718	1,133	29,228	155	8,335	362	511,281	1,650
Impairment allowances	(387)	(1)	(849)	(4)	(3,946)	(208)	(5,182)	(213)
Carrying amount	473,331	1,132	28,379	151	4,389	154	506,099	1,437

37. Credit Risk (Continued)

a. *Credit Quality Analysis (Continued)*

Credit quality of loans and advances (Continued)

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$Mn
Loans and advances to customers at amortised cost								
– Grades 1 - 15: Pass	465,980	1,124	25,413	100	–	–	491,393	1,224
– Grades 16 - 17: Special Mention	–	–	5,747	29	–	–	5,747	29
– Grade 18: Substandard	–	–	–	–	1,226	17	1,226	17
– Grade 19: Doubtful	–	–	–	–	1,718	109	1,718	109
– Grade 20: Loss	–	–	–	–	547	187	547	187
Total gross carrying amount	465,980	1,124	31,160	129	3,491	313	500,631	1,566
Impairment allowances	(431)	(1)	(855)	(4)	(1,061)	(191)	(2,347)	(196)
Carrying amount	465,549	1,123	30,305	125	2,430	122	498,284	1,370

Credit quality of financial assets other than loans and advances

The following tables set out the credit analysis for debt instruments other than loans and advances to customers, measured at amortised cost and FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts/fair value. For loan commitment and financial guarantee contracts, the amount in the table represent the amounts committed or guaranteed, respectively.

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Trade bills at amortised cost								
– Grades 1 - 15: Pass	1,029	13	2	–	–	–	1,031	13
– Grades 16 - 17: Special Mention	–	–	–	–	–	–	–	–
– Grade 18: Substandard	–	–	–	–	–	–	–	–
– Grade 19: Doubtful	–	–	–	–	–	–	–	–
– Grade 20: Loss	–	–	–	–	–	–	–	–
Total gross carrying amount	1,029	13	2	–	–	–	1,031	13
Impairment allowances	–	–	–	–	–	–	–	–
Carrying amount	1,029	13	2	–	–	–	1,031	13

37. Credit Risk (Continued)

a. *Credit Quality Analysis (Continued)*

Credit quality of financial assets other than loans and advances (Continued)

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Trade bills at amortised cost								
– Grades 1 - 15: Pass	2,816	45	69	–	–	–	2,885	45
– Grades 16 - 17: Special Mention	–	–	–	–	–	–	–	–
– Grade 18: Substandard	–	–	–	–	–	–	–	–
– Grade 19: Doubtful	–	–	–	–	1	–	1	–
– Grade 20: Loss	–	–	–	–	–	–	–	–
Total gross carrying amount	2,816	45	69	–	1	–	2,886	45
Impairment allowances	(3)	–	–	–	(1)	–	(4)	–
Carrying amount	2,813	45	69	–	–	–	2,882	45

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Trade bills at FVOCI								
– Grades 1 - 15: Pass	10,401	1	1,394	–	–	–	11,795	1
Total carrying amount at fair value	10,401	1	1,394	–	–	–	11,795	1
Impairment allowances	(4)	–	(3)	–	–	–	(7)	–

37. Credit Risk (Continued)

a. *Credit Quality Analysis (Continued)*

Credit quality of financial assets other than loans and advances (Continued)

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Trade bills at FVOCI								
– Grades 1 - 15: Pass	11,541	2	223	–	–	–	11,764	2
Total carrying amount at fair value	11,541	2	223	–	–	–	11,764	2
Impairment allowances	(5)	–	–	–	–	–	(5)	–

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Placements with and advances to banks and other financial institutions								
– Grades 1 - 15: Pass	69,728	52	–	–	–	–	69,728	52
Total gross carrying amount	69,728	52	–	–	–	–	69,728	52
Impairment allowances	(8)	–	–	–	–	–	(8)	–
Carrying amount	69,720	52	–	–	–	–	69,720	52

37. Credit Risk (Continued)

a. *Credit Quality Analysis (Continued)*

Credit quality of financial assets other than loans and advances (Continued)

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Placements with and advances to banks and other financial institutions								
– Grades 1 - 15: Pass	60,224	127	159	–	–	–	60,383	127
Total gross carrying amount	60,224	127	159	–	–	–	60,383	127
Impairment allowances	(10)	–	–	–	–	–	(10)	–
Carrying amount	60,214	127	159	–	–	–	60,373	127

	30/6/2019			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Loan commitments				
– Grades 1 - 15: Pass	122,915	5,379	–	128,294
– Grades 16 - 17: Special Mention	–	173	–	173
– Grade 18: Substandard	–	–	554	554
Total	122,915	5,552	554	129,021
Impairment allowances	(49)	(37)	–	(86)
Financial guarantee contracts				
– Grades 1 - 15: Pass	22,215	2,326	–	24,541
– Grades 16 - 17: Special Mention	–	4	–	4
– Grade 18: Substandard	–	–	–	–
Total	22,215	2,330	–	24,545
Impairment allowances	(6)	(8)	–	(14)

37. Credit Risk (Continued)

a. *Credit Quality Analysis (Continued)*

Credit quality of financial assets other than loans and advances (Continued)

	31/12/2018			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Loan commitments				
– Grades 1 - 15: Pass	111,004	5,822	–	116,826
– Grades 16 - 17: Special Mention	–	58	–	58
Total	111,004	5,880	–	116,884
Impairment allowances	(56)	(40)	–	(96)
Financial guarantee contracts				
– Grades 1 - 15: Pass	25,136	2,101	–	27,237
– Grades 16 - 17: Special Mention	–	7	–	7
Total	25,136	2,108	–	27,244
Impairment allowances	(10)	(5)	–	(15)

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate and bank lending risk and risk gradings are applied to the counterparties with individual counterparty limits set.

37. Credit Risk (Continued)

a. *Credit Quality Analysis (Continued)*

Credit quality of financial assets other than loans and advances (Continued)

At the end of the reporting period, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, Moody's Investor Services, or equivalent, is as follows:

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Debt investment securities at amortised cost								
Aaa	–	–	–	–	–	–	–	–
Aa1 to Aa3	2,848	1	–	–	–	–	2,848	1
A1 to A3	5,628	99	–	–	–	–	5,628	99
Baa1 to Baa3	2,560	33	–	–	–	–	2,560	33
Below Baa3	1,903	27	79	1	–	–	1,982	28
Unrated	6,119	74	28	1	–	–	6,147	75
Total gross carrying amount	19,058	234	107	2	–	–	19,165	236
Impairment allowances	(74)	–	(2)	–	–	–	(76)	–
Carrying amount	18,984	234	105	2	–	–	19,089	236

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Debt investment securities at amortised cost								
Aaa	–	–	–	–	–	–	–	–
Aa1 to Aa3	2,695	2	–	–	–	–	2,695	2
A1 to A3	6,007	103	–	–	–	–	6,007	103
Baa1 to Baa3	2,546	32	–	–	–	–	2,546	32
Below Baa3	1,492	20	–	–	–	–	1,492	20
Unrated	6,347	76	28	1	–	–	6,375	77
Total gross carrying amount	19,087	233	28	1	–	–	19,115	234
Impairment allowances	(93)	(1)	(1)	–	–	–	(94)	(1)
Carrying amount	18,994	232	27	1	–	–	19,021	233

37. Credit Risk (Continued)

a. *Credit Quality Analysis (Continued)*

Credit quality of financial assets other than loans and advances (Continued)

	30/6/2019							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Debt investment securities at FVOCI								
Aaa	6,444	7	–	–	–	–	6,444	7
Aa1 to Aa3	21,211	5	–	–	–	–	21,211	5
A1 to A3	48,622	623	–	–	–	–	48,622	623
Baa1 to Baa3	37,077	396	–	–	–	–	37,077	396
Below Baa3	1,338	13	–	–	–	–	1,338	13
Unrated	8,755	103	234	3	–	–	8,989	106
Total carrying amount at fair value	123,447	1,147	234	3	–	–	123,681	1,150
Impairment allowances	(235)	(2)	(4)	–	–	–	(239)	(2)

	31/12/2018							
	12-month ECL		Lifetime ECL not credit-impaired		Lifetime ECL credit-impaired		Total	
	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest	Principal	Accrued interest
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Debt investment securities at FVOCI								
Aaa	5,566	8	–	–	–	–	5,566	8
Aa1 to Aa3	19,355	7	–	–	–	–	19,355	7
A1 to A3	41,890	627	–	–	–	–	41,890	627
Baa1 to Baa3	31,302	336	–	–	–	–	31,302	336
Below Baa3	1,157	15	–	–	–	–	1,157	15
Unrated	9,856	130	233	3	–	–	10,089	133
Total carrying amount at fair value	109,126	1,123	233	3	–	–	109,359	1,126
Impairment allowances	(257)	(3)	(6)	–	–	–	(263)	(3)

37. Credit Risk (Continued)

a. *Credit Quality Analysis (Continued)*

Credit quality of financial assets other than loans and advances (Continued)

The following table sets out the credit analysis for non-trading financial assets measured at FVTPL.

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Debt investment securities		
Aaa	158	159
Aa1 to Aa3	2,414	2,564
A1 to A3	1,504	1,736
Baa1 to Baa3	5,951	6,551
Below Baa3	–	258
Unrated	988	1,025
Total carrying amount at fair value	11,015	12,293

The following table sets out the credit analysis for trading debt securities.

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Debt investment securities		
Aaa	–	–
Aa1 to Aa3	100	24
A1 to A3	2,303	1,856
Baa1 to Baa3	373	125
Below Baa3	–	–
Unrated	68	126
Total carrying amount at fair value	2,844	2,131

The following table shows the credit quality of the counterparties to which there were exposures arising from derivative asset transactions.

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Derivative assets		
Aa1 to Aa3	102	255
A1 to A3	1,991	4,102
Baa1 to Baa3	1,244	3,975
Below Baa3	1,165	215
Unrated	1,639	1,664
Total carrying amount at fair value	6,141	10,211

37. Credit Risk (Continued)

a. *Credit Quality Analysis (Continued)*

Cash and balances with banks and other financial institutions

The Group held cash and balances with banks and other financial institutions of HK$52,831 million at 30th June, 2019 (31st December, 2018: HK$48,111 million), of which 95% (31st December, 2018: 98%) of cash and balances with banks and other financial institutions counterparties that are rated at investment grade, based on Moody's Investor Services, or equivalent ratings.

b. *Impairment Allowances Reconciliation*

The following tables show reconciliations from the opening to the closing balance of the impairment allowance by class of financial instrument. The reconciliation is prepared by comparing the position of impairment allowance between 1st January and 30th June/31st December at transaction level.

	30/6/2019			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Loans and advances to customers				
Balance at 1st January	432	859	1,252	2,543
Transfer to 12-month ECL	94	(94)	–	–
Transfer to lifetime ECL not credit-impaired	(20)	36	(16)	–
Transfer to lifetime ECL credit-impaired	(770)	(711)	1,481	–
New financial assets originated or purchased, assets derecognised, repayments and further lending	55	14	321	390
Write-offs	–	–	(2,139)	(2,139)
Changes in models	–	–	–	–
Net remeasurement of impairment allowances (including exchange adjustments)	597	749	3,255	4,601
Balance at 30th June	388	853	4,154	5,395
Of which:				
For advance to customers at amortised cost	387	849	3,946	5,182
For related accrued interest receivable	1	4	208	213
	388	853	4,154	5,395

37. Credit Risk (Continued)

b. Impairment Allowances Reconciliation (Continued)

	31/12/2018			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Loans and advances to customers				
Balance at 1st January	839	1,028	1,177	3,044
Transfer to 12-month ECL	151	(151)	–	–
Transfer to lifetime ECL not credit-impaired	(8)	23	(15)	–
Transfer to lifetime ECL credit-impaired	(98)	(203)	301	–
New financial assets originated or purchased, assets derecognised, repayments and further lending	(88)	(230)	376	58
Write-offs	–	–	(1,649)	(1,649)
Changes in models	(229)	287	17	75
Net remeasurement of impairment allowances (including exchange adjustments)	(135)	105	1,045	1,015
Balance at 31st December	432	859	1,252	2,543
Of which:				
For advance to customers at amortised cost	431	855	1,061	2,347
For related accrued interest receivable	1	4	191	196
	432	859	1,252	2,543

37. Credit Risk (Continued)

b. Impairment Allowances Reconciliation (Continued)

	30/6/2019			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Debt investment securities				
Balance at 1st January	354	7	–	361
Transfer to 12-month ECL	–	–	–	–
Transfer to lifetime ECL not credit-impaired	–	–	–	–
Transfer to lifetime ECL credit-impaired	–	–	–	–
New financial assets originated or purchased, assets derecognised, repayments and further lending	27	1	–	28
Write-offs	–	–	–	–
Changes in models	–	–	–	–
Net remeasurement of impairment allowances (including exchange adjustments)	(70)	(2)	–	(72)
Balance at 30th June	311	6	–	317
Of which:				
For debt investment securities at amortised cost	74	2	–	76
For related accrued interest receivable	–	–	–	–
	74	2	–	76
For debt investment securities at FVOCI	235	4	–	239
For related accrued interest receivable	2	–	–	2
	237	4	–	241

37. Credit Risk (Continued)

b. Impairment Allowances Reconciliation (Continued)

	31/12/2018			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Debt investment securities				
Balance at 1st January	277	13	–	290
Transfer to 12-month ECL	–	–	–	–
Transfer to lifetime ECL not credit-impaired	–	–	–	–
Transfer to lifetime ECL credit-impaired	–	–	–	–
New financial assets originated or purchased, assets derecognised, repayments and further lending	52	(2)	–	50
Write-offs	–	–	–	–
Changes in models	61	(1)	–	60
Net remeasurement of impairment allowances (including exchange adjustments)	(36)	(3)	–	(39)
Balance at 31st December	354	7	–	361
Of which:				
For debt investment securities at amortised cost	93	1	–	94
For related accrued interest receivable	1	–	–	1
	94	1	–	95
For debt investment securities at FVOCI	257	6	–	263
For related accrued interest receivable	3	–	–	3
	260	6	–	266

The impairment allowances of debt securities at FVOCI is not recognised in the statement of financial position because the carrying amount of debt investment securities at FVOCI is their fair value.

37. Credit Risk (Continued)

b. Impairment Allowances Reconciliation (Continued)

	30/6/2019			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Others				
Balance at 1st January	114	47	68	229
Transfer to 12-month ECL	3	(3)	–	–
Transfer to lifetime ECL not credit-impaired	(1)	1	–	–
Transfer to lifetime ECL credit-impaired	(1)	–	1	–
New financial assets originated or purchased, assets derecognised, repayments and further lending	18	3	83	104
Write-offs	–	–	(1)	(1)
Changes in models	–	–	–	–
Net remeasurement of impairment allowances (including exchange adjustments)	(21)	5	4	(12)
Balance at 30th June	112	53	155	320
Of which:				
For trade bills at FVOCI	4	3	–	7
For related accrued interest receivable	–	–	–	–
	4	3	–	7
For trade bills at amortised cost	–	–	–	–
For related accrued interest receivable	–	–	–	–
	–	–	–	–
For placements with banks and financial institutions	8	–	–	8
For related accrued interest receivable	–	–	–	–
	8	–	–	8
For cash and balances with banks and financial institutions	8	–	–	8
For related accrued interest receivable	–	–	–	–
	8	–	–	8
For loan commitments and financial guarantee contracts	55	45	–	100
For account receivables and other accounts	37	5	155	197

37. Credit Risk (Continued)

b. Impairment Allowances Reconciliation (Continued)

	31/12/2018			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Others				
Balance at 1st January	220	54	1	275
Transfer to 12-month ECL	5	(5)	–	–
Transfer to lifetime ECL not credit-impaired	(3)	3	–	–
Transfer to lifetime ECL credit-impaired	–	–	–	–
New financial assets originated or purchased, assets derecognised, repayments and further lending	1	(30)	–	(29)
Write-offs	–	–	–	–
Changes in models	(76)	(2)	–	(78)
Net remeasurement of impairment allowances (including exchange adjustments)	(33)	27	67	61
Balance at 31st December	114	47	68	229
Of which:				
For trade bills at FVOCI	5	–	–	5
For related accrued interest receivable	–	–	–	–
	5	–	–	5
For trade bills at amortised cost	3	–	1	4
For related accrued interest receivable	–	–	–	–
	3	–	1	4
For placements with banks and financial institutions	10	–	–	10
For related accrued interest receivable	–	–	–	–
	10	–	–	10
For cash and balances with banks and financial institutions	5	–	–	5
For related accrued interest receivable	–	–	–	–
	5	–	–	5
For loan commitments and financial guarantee contracts	66	45	–	111
For account receivables and other accounts	25	2	67	94

The impairment allowances of trade bills at FVOCI is not recognised in the statement of financial position because the carrying amount of trade bills at FVOCI is their fair value.

38. Off-balance Sheet Exposures

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

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Contractual amounts of contingent liabilities		
Direct credit substitutes	13,452	14,629
Transaction-related contingencies	818	883
Trade-related contingencies	2,380	2,997
	16,650	18,509
Contractual amounts of commitments		
Commitments that are unconditionally cancellable without prior notice	155,866	141,668
Other commitments with an original maturity		
– up to 1 year	9,364	9,332
– over 1 year	29,441	26,710
	194,671	177,710
Total	211,321	196,219
Credit risk weighted amounts	23,899	23,531
Fair value of derivatives		
Assets		
Exchange rate contracts	3,112	6,783
Interest rate contracts	2,169	2,919
Equity contracts	856	507
Others	4	2
	6,141	10,211
Liabilities		
Exchange rate contracts	3,510	6,191
Interest rate contracts	3,739	2,816
Equity contracts	877	472
Others	13	17
	8,139	9,496
Notional amounts of derivatives		
Exchange rate contracts	670,845	723,848
Interest rate contracts	348,841	411,325
Equity contracts	13,089	11,880
Others	157	266
	1,032,932	1,147,319
Credit risk weighted amounts*		
Exchange rate contracts	2,359	2,843
Interest rate contracts	322	414
Equity contracts	68	122
Others	456	363
	3,205	3,742

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 30th June, 2019 and 31st December, 2018.

38. Off-balance Sheet Exposures (Continued)

(b) Capital commitments

Capital commitments on purchase of property, plant and equipment outstanding as at 30th June and 31st December and not provided for in the accounts were as follows:

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Expenditure authorised and contracted for	316	284
Expenditure authorised but not contracted for	185	161
	501	445

(c) Contingencies

The Group receives legal claims against it arising in the normal courses of business. The Group considers none of these matters as material. Where appropriate the Group recognises provisions for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation.

39. Material Related Party Transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Directors and certain of the highest paid employees, is as follows:

	30/6/2019	30/6/2018
	HK$ Mn	HK$ Mn
Short-term employee benefits	71	76
Post-employment benefits	3	4
Equity compensation benefits	12	17
	86	97

39. Material Related Party Transactions (Continued)

(b) The Group maintains certain retirement benefit schemes for its staff. In the six months ended 30th June, 2019, the total amount of contributions the Group made to the schemes was HK$91 million (six months ended 30th June, 2018: HK$82 million).

The Group enters into a number of transactions with the Group's related parties, including its associates, shareholders with significant influence, and key management personnel and their close family members and companies controlled or significantly influenced by them. The transactions include accepting deposits from and extending credit facilities to them. All interest rates in connection with the deposits taken and credit facilities extended are under terms and conditions normally applicable to customers of comparable standing.

The interest received from and interest paid to the Group's related parties for the six months ended 30th June, 2019, outstanding balances of amounts due from and due to them at 30th June, 2019 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2019 are aggregated as follows:

	Key management personnel		Associates		Shareholders with significant influence	
	30/6/2019	30/6/2018	30/6/2019	30/6/2018	30/6/2019	30/6/2018
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Interest income	28	12	24	16	2	3
Interest expense	25	14	1	2	8	14
Amounts due from	2,347	3,323	695	1,117	2,458	889
Amounts due to	2,540	2,569	49	115	972	2,036
Maximum amounts due from	3,730	3,739	1,803	1,781	5,391	5,736
Maximum amounts due to	4,698	4,809	555	723	2,542	3,739
Committed facilities to	1,370	629	1,313	1,422	–	–

40. Basis of Consolidation

Unless otherwise stated, all financial information contained in this interim report is prepared according to the consolidation basis for accounting purposes.

The capital adequacy ratio and liquidity position of the Group are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation base for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other businesses incidental to banking business.

List of subsidiaries for financial reporting consolidation as at reporting date:

	Name of company	Nature of business	Total assets	Total equity
			HK$ Mn	HK$ Mn
	Ample Delight Limited	Investment holding	349	349
*	Bank of East Asia (Trustees) Limited	Trustee	243	230
	BC (BVI) Holdings Limited	Investment holding	16	16
	BEA Blue Sky Company Limited	Acting as the sole general partner to BEA Blue Sky Real Estate Fund L.P.	–	–
	BEA Blue Sky Real Estate Fund L.P.	Acting as a limited partner for the purpose of making investment in a China real estate fund	–	–
	BEA Blue Sky SLP Limited	Acting as a special limited partner to BEA/AGRE China Real Estate Fund, L.P.	–	(1)
	BEA Consortium GS Investors L.P.	Acting as a limited partner for the purpose of making investment in private equity fund	52	52
	BEA Insurance Agency Limited	Insurance agency	–	–
	BEA Life Limited	Life insurance	21,511	2,124
	BEA Pacific Asia Limited	Dormant	–	–
	BEA Union Investment Management Limited	Asset management	568	489
	BEA Union Investment Management (Shenzhen) Limited	Asset management/Investment management	5	4
	Blue Care (BVI) Holdings Limited	Investment holding	16	16
	Blue Care JV (BVI) Holdings Limited	Investment holding	20	17

40. Basis of Consolidation (Continued)

	Name of company	Nature of business	Total assets	Total equity
			HK$ Mn	HK$ Mn
	Blue Care Medical Services Limited	Medical services	58	44
	Blue Cross (Asia-Pacific) Insurance Limited	Insurance	3,058	733
	Central Town Limited	Property investment	845	679
	Century Able Limited	Investment holding	96	96
	Chongqing Dongrong Business Consultancy Company Limited	Business consultancy services	3	(1)
*	Chongqing Liangjiang New Area Credit Gain Finance Company Limited	Micro-finance loan	359	356
	Citiview Capital Limited	Acting as the general partner and limited partner of a limited partnership	3	(1)
	Corona Light Limited	Investment holding	930	930
*	Credit Gain Finance Company Limited	Money lenders	771	756
	Crystal Gleaming Limited	Investment holding	930	930
	Dragon Jade Holdings Company Limited	Investment holding	1,127	1,127
	EA Securities Limited	Investment holding	–	(63)
*	East Asia Digital Information Services (Guangdong) Limited	Servicing	186	124
*	East Asia Facility Management Limited	Facility management	13	12
	East Asia Financial Services (BVI) Ltd.	Investment holding	–	–
	East Asia Futures Limited	Futures and options trading	59	59
*	East Asia Holding Company, Inc.	Bank holding company	631	614
	East Asia Indonesian Holdings Limited	Investment holding	132	131
	East Asia International Trustees Holdings (BVI) Limited	Investment holding	10	10
	East Asia International Trustees Limited	Trustee services	29	25

40. Basis of Consolidation (Continued)

	Name of company	Nature of business	Total assets	Total equity
			HK$ Mn	HK$ Mn
*	East Asia Properties (US), Inc.	Property holding	14	12
	East Asia Properties Holding Company Limited	Investment holding	–	(57)
	East Asia Property Agency Company Limited	Property agency	8	8
	East Asia Property Holdings (Jersey) Limited	Property holding	27	26
	East Asia Qianhai Holdings Company Limited	Investment holding	209	209
	East Asia Secretaries Limited	Secretarial services	–	–
	East Asia Securities Company Limited	Securities broking	1,184	865
*	East Asia Services (Holdings) Limited	Holding company	24	–
	Golden Empire International Inc.	Property investment	1	1
	High Town Limited	Investment holding	4	4
*	Innovate Holdings Limited	Special purpose vehicle company specially set up for BEA's Hybrid Tier 1 issue	2,486	2,486
	Leader One Limited	Investment holding	1	1
	Manchester Property Holdings Ltd.	Property holding	33	17
	Quantum Hong Kong Holdings Company Limited	Investment holding	208	208
	Red Phoenix Limited	Leasing of motor vehicles	2	1
	Shaftesbury Property Holdings Limited	Investment holding	68	68
	Shaftesbury Property Investments Limited	Investment holding	51	51
	Shanghai Lingxie Business Consulting Co. Ltd.	Business information consulting, corporate management consulting	206	206
	Silver River International Limited	Acting as the general partner and limited partner of a limited partnership	47	–

40. Basis of Consolidation (Continued)

Name of company	Nature of business	Total assets	Total equity
		HK$ Mn	HK$ Mn
Silver Sunlight Limited	Acting as the general partner of a limited partnership	–	–
Skyray Holdings Limited	Investment holding	450	450
Speedfull Limited	Investment holding	450	450
* /# The Bank of East Asia (China) Limited	Banking and related financial services	277,894	25,982
The Bank of East Asia (Nominees) Limited	Nominee services	–	–
The Bank of East Asia (Nominees) Private Limited	Trustee, fiduciary and custody services	–	–
Travelsafe Limited	Dormant	–	–
U Care Hong Kong Medical Limited	Medical services	28	(10)
United Chinese (Nominee) Limited	Dormant	–	–

* "regulated financial entities" as defined by the Capital Rules and included in the basis of consolidation for regulatory reporting purpose.

\# "associated entities" as defined by the Banking (Liquidity) Rules and included in the basis of consolidation for regulatory reporting purpose.

41. Comparative Figures

Certain 2018 comparative figures have been restated to conform to current period's presentation. Please refer to Note 21(b) and Note 29 for the effect of the restatement.

42. Statement of Compliance

The Interim Report has been prepared in accordance with the applicable disclosure provisions of the Listing Rules and in compliance with HKAS 34, "Interim Financial Reporting", issued by the HKICPA. It was authorised for issue on 21st August, 2019.

The Banking Disclosure Statement (refer to Note E of Supplementary Financial Information), together with the disclosures in the interim financial report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA.

43. Assets Held for Sale

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"). The disposal of Shenzhen Credit Gain was completed on 12th April, 2019. Up to the reporting date, the completion of the disposals of Chongqing Credit Gain and Chongqing Dongrong is still subject to the requisite Chinese regulatory approvals. Chongqing Credit Gain and Chongqing Dongrong's assets and liabilities as at 30th June, 2019 and Shenzhen Credit Gain, Chongqing Credit Gain and Chongqing Dongrong's assets and liabilities as at 31st December, 2018 are presented separately as assets held for sale and liabilities held for sale respectively in the consolidated financial statements.

On 29th October, 2018, the Bank entered into a sale and purchase agreement with The Bank of Yokohama, Ltd. ("BOY") for the sale of 30% of the issued shares of P.T. Bank Resona Perdania ("BRP"), held via a special purpose vehicle, East Asia Indonesian Holdings Limited, to BOY (the "Disposal"). The investment in BRP is classified and presented as assets held for sale in the consolidated financial statements as at 30th June, 2019 and 31st December, 2018. All the conditions precedent to completion of the Disposal have been satisfied and the Disposal was completed on 24th July, 2019.

43. Assets Held for Sale (Continued)

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

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
ASSETS		
Cash and balances with banks and other financial institutions	2	6
Loans and advances to customers	89	228
Gross loans and advances to customers	89	230
Less: Impairment allowances		
– Stage 1	–	(1)
– Stage 2	–	–
– Stage 3	–	(1)
Fixed assets	3	8
– Investment properties	–	–
– Other properties and equipment	3	8
Deferred tax assets	5	18
Other assets	1	8
Assets held for sale	100	268
LIABILITIES		
Other liabilities	3	7
Liabilities held for sale	3	7

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

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Assets held for sale *(Note 24)*		
Disposal groups held for sale	100	268
Other properties	39	57
Investment in associate	368	363
	507	688
Liabilities held for sale *(Note 27)*		
Disposal groups held for sale	3	7

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

	30/6/2019	30/6/2018
	HK$ Mn	HK$ Mn
Cumulative expense recognised in other comprehensive income	(41)	(43)

Supplementary Financial Information

A. Capital Adequacy

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Capital base		
– Common Equity Tier 1 capital	73,715	74,513
– Additional Tier 1 capital	9,958	10,312
– Total Tier 1 capital	83,673	84,825
– Tier 2 capital	14,212	14,202
– Total capital	97,885	99,027
Risk weighted assets by risk type		
– Credit risk	434,664	428,383
– Market risk	17,619	18,671
– Operational risk	33,589	31,934
	485,872	478,988
Less: Deductions	(3,442)	(3,274)
	482,430	475,714

	30/6/2019	31/12/2018
	%	%
Common Equity Tier 1 capital ratio	15.3	15.7
Tier 1 capital ratio	17.3	17.8
Total capital ratio	20.3	20.8

Capital adequacy ratios are compiled in accordance with 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 as determined in accordance with Part 3 of the Capital Rules.

Supplementary Financial Information (Continued)

A. Capital Adequacy (Continued)

The subsidiaries that are included in consolidation for regulatory purposes are listed in Note 40 of the Interim Report.

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.

The information relating to the Group's regulatory capital and other disclosures 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.

B. Leverage Ratio

	30/6/2019	31/12/2018 Restated
	HK$ Mn	HK$ Mn
Total Tier 1 capital	83,673	84,825
Exposure measure	895,940	862,745

	30/6/2019	31/12/2018
	%	%
Leverage ratio	9.3	9.8

The disclosure on leverage ratio has been effective since 31st March, 2015 and 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 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.

C. Liquidity Position

		30/6/2019	31/12/2018
		%	%
Average liquidity coverage ratio	– First quarter	169.8	137.8
	– Second quarter	171.7	144.8
	– Third quarter	N/A	153.0
	– Fourth quarter	N/A	180.5

The liquidity coverage ratio 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.

Supplementary Financial Information (Continued)

D. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	30/6/2019		31/12/2018	
	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	452	0.1	970	0.2
– 1 year or less but over 6 months	648	0.1	428	0.1
– Over 1 year	1,735	0.4	1,495	0.3
	2,835	0.6	2,893	0.6
Rescheduled advances to customers	191	0.0	110	0.0
Total overdue and rescheduled advances	3,026	0.6	3,003	0.6
Covered portion of overdue advances	2,084	0.4	2,159	0.4
Uncovered portion of overdue advances	751	0.2	734	0.2
Current market value of collateral held against the covered portion of overdue advances	4,266		4,273	
Specific provisions made on advances overdue for more than 3 months	1,122		789	

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the period-end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at period-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.

Supplementary Financial Information (Continued)

D. Overdue, Rescheduled and Repossessed Assets (Continued)

(a) Overdue and rescheduled advances (Continued)

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

	30/6/2019	31/12/2018
	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	–	–

Supplementary Financial Information (Continued)

D. Overdue, Rescheduled and Repossessed Assets (Continued)

(c) Other overdue and rescheduled assets

	30/6/2019		
	Accrued interest	Debt securities	Other assets*
	HK$ Mn	HK$ Mn	HK$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	4	–	–
– 1 year or less but over 6 months	31	–	–
– Over 1 year	320	–	–
	355	–	–
Rescheduled assets	1	–	–
Total other overdue and rescheduled assets	356	–	–

	31/12/2018		
	Accrued Interest	Debt securities	Other assets*
	HK$ Mn	HK$ Mn	HK$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	19	–	–
– 1 year or less but over 6 months	8	–	–
– Over 1 year	281	–	1
	308	–	1
Rescheduled assets	1	–	–
Total other overdue and rescheduled assets	309	–	1

* Other assets refer to trade bills and receivables.

Supplementary Financial Information (Continued)

D. Overdue, Rescheduled and Repossessed Assets (Continued)

(d) Repossessed assets

	30/6/2019	31/12/2018
	HK$ Mn	HK$ Mn
Repossessed land and buildings*	208	147
Repossessed vehicles and equipment	1	–
Repossessed machines	–	–
Total repossessed assets	209	147

The amount represents the estimated market value of the repossessed assets as at 30th June, 2019 and 31st December, 2018.

* The balance included HK$19 million (31/12/2018: HK$58 million) relating to properties that were contracted for sale but not yet completed.

E. Banking Disclosure Statement

Additional information disclosures for this period 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.

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF THE BANK OF EAST ASIA, LIMITED

INTRODUCTION

We have reviewed the interim financial report set out on pages 3 to 73 which comprises the consolidated statement of financial position of The Bank of East Asia, Limited as of 30th June, 2019 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June, 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, "Interim financial reporting".

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21st August, 2019

ISSUER

Head Office
The Bank of East Asia, Limited 東亞銀行有限公司
Bank of East Asia Building
10 Des Voeux Road
Central
Hong Kong

ARRANGER AND DEALER

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building
1 Queen's Road
Central
Hong Kong

DEALERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

CCB International Capital Limited
12/F, CCB Tower
3 Connaught Road
Central
Hong Kong

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

CLSA Limited
中信里昂證券有限公司
18/F One Pacific Place
88 Queensway
Hong Kong

Crédit Agricole Corporate and Investment Bank
30th Floor
Two Pacific Place
88 Queensway

DBS Bank Ltd.
12 Marina Boulevard, Level 42
Marina Bay Financial Centre Tower 3
Singapore 018982

Deutsche Bank AG, Hong Kong Branch
52/F International Commerce Centre
Austin Road West
Kowloon
Hong Kong

Goldman Sachs (Asia) L.L.C
高盛(亞洲)有限責任公司
68th Floor, Cheung Kong Centre
2 Queen's Road
Central
Hong Kong

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Merrill Lynch (Asia Pacific) Limited
55/F, Cheung Kong Center
2 Queen's Road Central
Central, Hong Kong

Mizuho Securities Asia Limited
瑞穗證券亞洲有限公司
14-15/F, K11 Atelier
18 Salisbury Road
Tsim Sha Tsui, Kowloon
Hong Kong

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London
E14 4QA
United Kingdom

Nomura International plc
1 Angel Lane
London, EC4R 3AB

Shinkin International Ltd.
1st Floor, 85 London Wall
London EC2M 7AD

SMBC Nikko Capital Markets Limited
One New Change
London
EC4M 9AF
United Kingdom

Société Générale
34/F Three Pacific Place
1 Queen's Road East
Hong Kong

Standard Chartered Bank
One Basinghall Avenue
London EC2V 5DD
United Kingdom

Standard Chartered Bank (Hong Kong) Limited
渣打銀行(香港)有限公司
15/F Two International Finance Centre
8 Finance Street
Central, Hong Kong

The Bank of East Asia, Limited
東亞銀行有限公司
10/F, 10 Des Voeux Road Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
Global Markets and Banking
Level 17, HSBC Main Building
1 Queen's Road Central
Hong Kong

UBS AG Hong Kong Branch
2 International Finance Centre
52/F, 8 Finance Street
Central, Hong Kong

United Overseas Bank Limited, Hong Kong Branch
(incorporated in Singapore with limited liability)
大華銀行有限公司,香港分行(於新加坡註冊成立的有限公司)
23/F, 3 Garden Road
Central
Hong Kong

Wells Fargo Securities International Limited
33 King William Street
London, EC4R 9AT
United Kingdom

AUDITORS OF THE ISSUER

KPMG
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

TRUSTEE

DB Trustees
(Hong Kong) Limited
52nd Floor
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

ISSUING AND PAYING AGENT

Deutsche Bank AG,
Hong Kong Branch
52nd Floor
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

PAYING AGENT

Deutsche Bank AG,
Hong Kong Branch
52nd Floor
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

REGISTRAR AND TRANSFER AGENT IN RESPECT OF EACH SERIES OF CMU NOTES

Deutsche Bank AG,
Hong Kong Branch
52nd Floor
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

CMU LODGING AND PAYING AGENT

Deutsche Bank AG,
Hong Kong Branch
52nd Floor
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

REGISTRAR AND TRANSFER AGENT IN RESPECT OF EACH SERIES OF NOTES OR UNDATED CAPITAL SECURITIES OTHER THAN CMU NOTES

Deutsche Bank
Luxembourg S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg
Luxembourg

LEGAL ADVISERS

To the Issuer
as to English and Hong Kong law
Deacons
5th Floor
Alexandra House
18 Chater Road
Central
Hong Kong

To the Arranger and the Dealers
as to English law
Linklaters
10th Floor
Alexandra House
18 Chater Road
Central
Hong Kong

To the Trustee
as to English law
Linklaters
10th Floor
Alexandra House
18 Chater Road
Central
Hong Kong

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