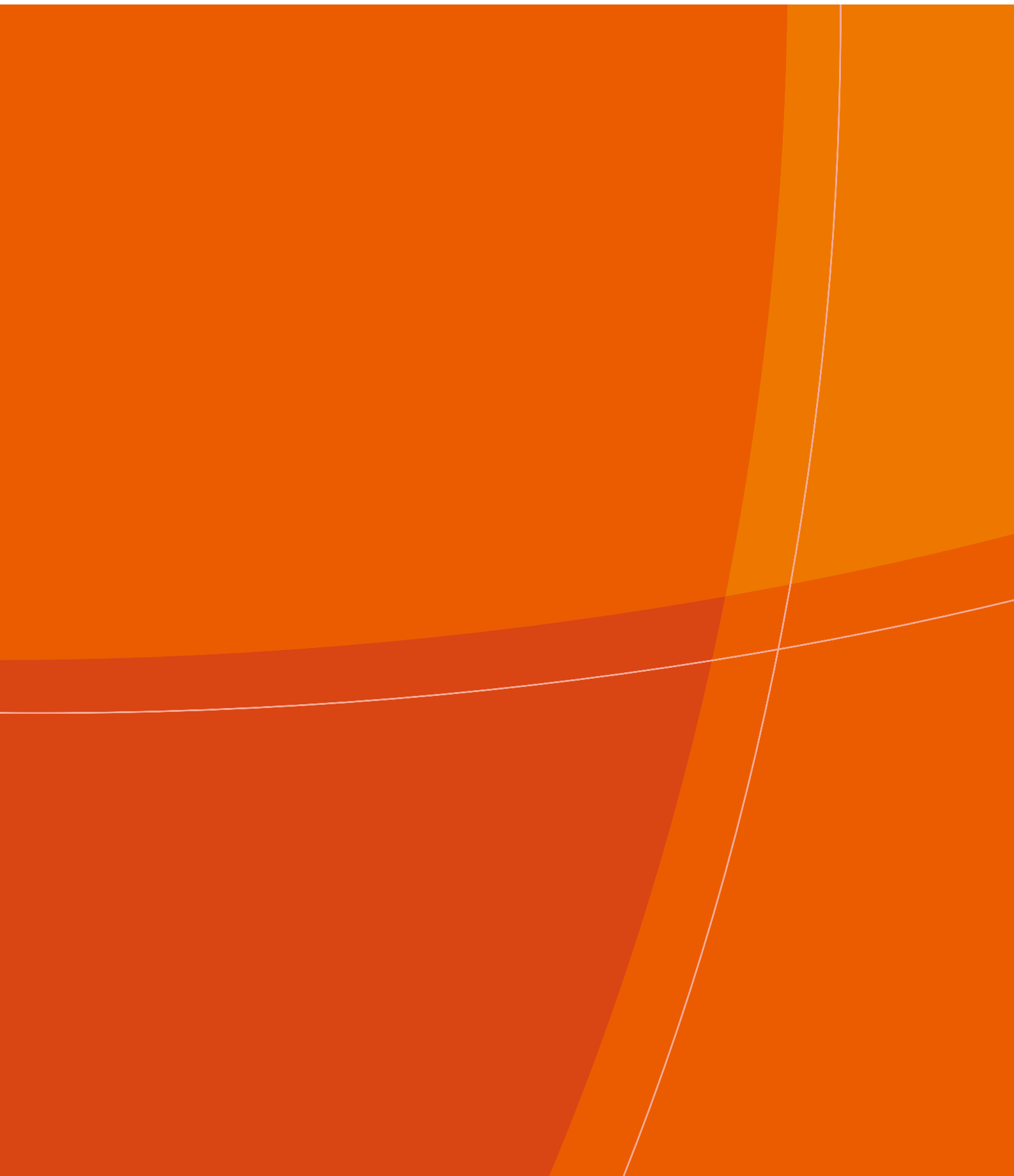


The Bank of East Asia, Limited

Interim Report 2009

(Stock Code: 23)



This Document in both English and Chinese is now available in printed form and on the website of the Bank at <http://www.hkbea.com>.

Shareholders are encouraged to rely on the website version to help reduce the quantity of printed copies of Corporate Communications and hence the impact on the environment. In this connection, Shareholders are requested to send a notice in writing to the Bank's Registrars, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong or by fax to (852) 2861 1465.

CONTENTS

Pages

INTERIM RESULTS	1
SUPPLEMENTARY FINANCIAL INFORMATION	30
INDEPENDENT REVIEW REPORT	37
INTERIM DIVIDEND	38
CLOSURE OF REGISTER OF MEMBERS	38
FINANCIAL REVIEW	38
OPERATIONS REVIEW	40
RISK MANAGEMENT DIVISION	49
FINANCIAL RISK MANAGEMENT	49
CHANGES TO INFORMATION IN RESPECT OF DIRECTORS	54
INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE	55
INFORMATION ON SHARE OPTIONS	57
INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS	59
DEALING IN LISTED SECURITIES OF THE BANK	61
COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES	61
COMPLIANCE WITH MODEL CODE	61

The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

Interim Report 2009

INTERIM RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the unaudited results^a of the Bank and its subsidiaries (the "Group") for the six months ended 30th June, 2009. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2008 audited accounts. 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 Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 37.

1. Consolidated Income Statement

	6 months ended 30/6/2009	6 months ended 30/6/2008 Restated	6 months ended 31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	6,326	8,832	8,633
Interest expense	(3,092)	(5,349)	(5,323)
Net interest income	3,234	3,483	3,310
Fee and commission income	1,258	1,425	1,193
Fee and commission expense	(245)	(238)	(235)
Net fee and commission	1,013	1,187	958
Net trading profits/(losses)	874	(213)	(1,079)
Net result from financial instruments designated at fair value through profit or loss	(407)	(1,043)	(569)
Other operating income	237	271	152
Non-interest income/(expense)	1,717	202	(538)
Operating income	4,951	3,685	2,772
Operating expenses	(3,041)	(2,764)	(3,015)
Operating profit/(loss) before impairment losses	1,910	921	(243)
Impairment losses on loans and advances	(474)	(89)	(469)
Impairment losses on held-to-maturity investments	(9)	(33)	(11)
Impairment losses on available-for-sale financial assets	(10)	(198)	(154)
Write back of impairment losses on bank premises	–	5	1
Impairment losses	(493)	(315)	(633)
Operating profit/(loss) after impairment losses	1,417	606	(876)
Net (loss)/profit on sale of held-to-maturity investments	(8)	–	25
Net profit on sale of available-for-sale financial assets	70	185	12
Net profit on disposal of loans and receivables	1	–	1
Net (loss)/profit on sale of subsidiaries/associates	–	(9)	1
Net profit/(loss) on sale of fixed assets	19	(2)	180
Valuation gains/(losses) on investment properties	89	198	(366)
Share of profits less losses of associates	79	95	(42)
Profit/(Loss) for the period before taxation	1,667	1,073	(1,065)
Income tax			
Current tax ^b			
– Hong Kong	(33)	18	(82)
– Overseas	(224)	(235)	(331)
Deferred tax	(205)	(35)	761
Profit/(Loss) for the period after taxation	1,205	821	(717)
Attributable to:			
Owners of the parent	1,169	785	(746)
Minority interest	36	36	29
Profit/(Loss) after taxation	1,205	821	(717)
Profit/(Loss) for the Bank	373	87	(969)
Proposed dividends ^c	516	384	33

	6 months ended 30/6/2009	6 months ended 30/6/2008 Restated	6 months ended 31/12/2008
	HK\$	HK\$	HK\$
Per share			
– Basic earnings ^d	HK\$0.64	HK\$0.43	-HK\$0.41
– Diluted earnings ^d	HK\$0.64	HK\$0.43	-HK\$0.41
– Dividends ^c	HK\$0.28	HK\$0.21	HK\$0.02

2. Consolidated Statement of Comprehensive Income

	6 months ended 30/6/2009	6 months ended 30/6/2008
	HK\$ Mn	HK\$ Mn
Net Profit	1,205	821
Other comprehensive income/(expense) for the period (after taxation and reclassification adjustments):		
Exchange differences on translation of financial statements of overseas subsidiaries	4	605
Revaluation surplus on bank premises transferred to investment properties	98	10
Available-for-sale financial assets: net movement in investment revaluation reserve	(288)	(465)
Share of changes in equity of associates	(3)	(2)
Other comprehensive (expense)/income	(189)	148
Total comprehensive income	1,016	969
Total comprehensive income attributable to:		
Owners of the parent	980	933
Minority interest	36	36
	1,016	969

3. Consolidated Statement of Financial Position

	30/6/2009	30/6/2008 Restated	31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
ASSETS			
Cash and balances with banks and other financial institutions	19,283	19,209	28,105
Placements with banks and other financial institutions	85,667	70,889	96,574
Trade bills	973	979	1,164
Trading assets	4,401	5,468	3,437
Financial assets designated at fair value through profit or loss	6,299	7,461	4,130
Advances to customers and other accounts	246,150	254,978	243,725
Available-for-sale financial assets	23,872	13,349	18,560
Held-to-maturity investments	7,374	10,802	5,006
Investments in associates	2,553	2,737	2,486
Fixed assets	11,017	7,899	9,146
– Investment properties	2,218	2,245	1,839
– Other property and equipment	8,799	5,654	7,307
Goodwill and intangible assets	4,110	2,756	2,734
Deferred tax assets	158	82	187
Total Assets	411,857	396,609	415,254
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions	22,158	26,623	27,045
Deposits from customers	320,801	300,238	323,802
– Demand deposits and current accounts	40,019	26,536	36,332
– Savings deposit	68,595	52,832	45,781
– Time, call and notice deposits	212,187	220,870	241,689
Trading liabilities	2,010	2,811	2,846
Certificates of deposit issued	2,867	7,826	5,491
– At fair value through profit or loss	2,497	4,521	3,777
– At amortised cost	370	3,305	1,714
Current taxation	287	196	333
Deferred tax liabilities	294	744	77
Other accounts and provisions	17,487	10,840	12,139
Loan capital	12,035	13,352	11,036
– At fair value through profit or loss	7,392	8,682	6,395
– At amortised cost	4,643	4,670	4,641
Total Liabilities	377,939	362,630	382,769
Share capital	4,604	4,177	4,183
Reserves	28,957	29,462	27,963
Total equity attributable to owners of the parent	33,561	33,639	32,146
Minority interest	357	340	339
Total Equity	33,918	33,979	32,485
Total Equity and Liabilities	411,857	396,609	415,254

4. Consolidated Statement of Changes in Equity

	Share Capital	Share Premium	Capital Reserve – Staff Share Options Issued	Exchange Revaluation Reserve	Investment Revaluation Reserve	Revaluation Reserve of Bank Premises	Capital Reserve	General Reserve	Other Reserve	Retained Profits	Total	Minority Interest	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
As 1st January, 2008	3,936	1,118	68	672	475	866	86	14,004	–	8,874	30,099	347	30,446
Changes in equity													
Shares issued in lieu of dividend	32	(32)	–	–	–	–	–	520	–	–	520	–	520
Subscription of new shares	197	3,745	–	–	–	–	–	–	–	–	3,942	–	3,942
Shares issue under Staff Shares													
Option Schemes	12	85	–	–	–	–	–	–	–	–	97	–	97
Equity settled share-based transaction	–	–	24	–	–	–	–	–	–	–	24	–	24
Transfer	–	8	(8)	–	–	–	–	–	20	(20)	–	–	–
Reversal upon disposal	–	–	–	–	(101)	–	–	–	–	–	(101)	–	(101)
Dividends approved in respect of previous year	–	–	–	–	–	–	–	–	–	(1,956)	(1,956)	(7)	(1,963)
Recognition of deferred tax liabilities	–	–	–	–	80	1	–	–	–	–	81	–	81
Purchase of interests in businesses from minority interests investors	–	–	–	–	–	–	–	–	–	–	–	(36)	(36)
Total comprehensive income for the period	–	–	–	605	(465)	10	–	–	(2)	785	933	36	969
At 30th June, 2008	4,177	4,924	84	1,277	(11)	877	86	14,524	18	7,683	33,639	340	33,979
At 1st January, 2009	4,183	4,922	125	1,006	(228)	863	86	14,634	1,216	5,339	32,146	339	32,485
Changes in equity													
Shares issued in lieu of dividend	2	(2)	–	–	–	–	–	9	–	–	9	–	9
Capitalisation issue	418	(418)	–	–	–	–	–	–	–	–	–	–	–
Shares issue under Staff Shares													
Option Schemes	1	7	–	–	–	–	–	–	–	–	8	–	8
Equity settled share-based transaction	–	–	39	–	–	–	–	–	–	–	39	–	39
Transfer	–	–	(23)	–	–	(6)	–	6	31	(8)	–	–	–
Impairment loss & amortisation	–	–	–	–	10	–	–	–	–	–	10	–	10
Reversal upon disposal	–	–	–	–	442	–	–	–	–	–	442	–	442
Dividends approved in respect of previous year	–	–	–	–	–	–	–	–	–	(34)	(34)	(8)	(42)
Recognition of deferred tax liabilities	–	–	–	–	(15)	(24)	–	–	–	–	(39)	–	(39)
Purchase of interests in businesses from minority interests investors	–	–	–	–	–	–	–	–	–	–	–	(10)	(10)
Total comprehensive income for the period	–	–	–	4	(288)	98	–	–	(3)	1,169	980	36	1,016
At 30th June, 2009	4,604	4,509	141	1,010	(79)	931	86	14,649	1,244	6,466	33,561	357	33,918

5. Condensed Consolidated Cash Flow Statement

	6 months ended 30/6/2009	6 months ended 30/6/2008
	HK\$ Mn	HK\$ Mn
Cash used in operations	(19,984)	(33,211)
Tax paid	(304)	(262)
Net cash used in operating activities	(20,288)	(33,473)
Net cash used in investing activities	(3,454)	(577)
Net cash used in financing activities	(3,038)	(2,524)
Net decrease in cash and cash equivalents	(26,780)	(36,574)
CASH AND CASH EQUIVALENTS AT 1st JANUARY	94,106	103,718
CASH AND CASH EQUIVALENTS AT 30th JUNE	67,326	67,144
Cash flows from operating activities included:		
Interest received	6,976	8,983
Interest paid	3,992	5,572
Dividend received	38	42

Notes:

- (a) The financial information set out in this interim report does not constitute the Group's statutory accounts for the year ended 31st December, 2008 but there is no material change as compared to those accounts, nor for the six months ended 30th June, 2009. The statutory accounts for the year ended 31st December, 2008 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 17th February, 2009.
- (b) The provision for Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30th June, 2009. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.
- (c) Proposed dividends

	6 months ended 30/6/2009	6 months ended 30/6/2008
	HK\$ Mn	HK\$ Mn
Dividends payable to equity owners of the parent attributable to the interim period		
Interim dividend declared and paid after the interim period of HK\$0.28 per share (six months ended 30th June, 2008: HK\$0.23 per share, or HK\$0.21 per share after adjusting for the bonus issue in 2009)	516	384

The interim dividend has not been recognised as a liability at the balance sheet date.

- (d) (i) The calculation of basic earnings per share is based on earnings of HK\$1,169 million (six months ended 30th June, 2008: HK\$785 million) and on the weighted average of 1,841 million (six months ended 30th June, 2008: 1,827 million, after adjusting for the bonus issue in 2009) ordinary shares outstanding during the six months ended 30th June, 2009.
- (ii) The calculation of diluted earnings per share is based on earnings of HK\$1,169 million (six months ended 30th June, 2008: HK\$785 million) and on 1,841 million (six months ended 30th June, 2008: 1,834 million, after adjusting for the bonus issue in 2009) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2009, adjusted for the effects of all dilutive potential shares.

6. Interest Income

	6 months ended 30/6/2009	6 months ended 30/6/2008	6 months ended 31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Listed securities classified as held-to-maturity or available-for-sale	125	113	148
Trading assets			
– listed	5	–	2
– unlisted	8	2	6
Interest rate swaps	539	411	506
Financial assets designated at fair value through profit or loss			
– listed	81	60	68
– unlisted	34	192	118
Loans, deposits with banks and financial institutions, trade bills, and other unlisted securities that are not at fair value through profit or loss	5,534	8,054	7,785
Total interest income	6,326	8,832	8,633

Included above is interest income accrued on impaired financial assets of HK\$35 million (six months ended 30th June, 2008: HK\$33 million, and six months ended 31st December, 2008: HK\$40 million).

7. Interest Expense

	6 months ended 30/6/2009	6 months ended 30/6/2008 Restated	6 months ended 31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost	2,342	4,319	4,377
Subordinated notes carried at amortised cost	45	100	84
Interest rate swaps	415	516	546
Financial instruments designated at fair value through profit or loss	287	409	316
Other borrowings	3	5	–
Total interest expense	3,092	5,349	5,323

8. Fee and Commission Income

Fee and commission income arises from the following services:

	6 months ended 30/6/2009	6 months ended 30/6/2008	6 months ended 31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Corporate services	394	416	402
Credit cards	247	220	242
Loans, overdrafts and guarantees	183	283	99
Securities and brokerage	134	146	109
Other retail banking services	78	99	88
Trade finance	67	68	92
Trust and other fiduciary activities	34	59	43
Others	121	134	118
	<u>1,258</u>	<u>1,425</u>	<u>1,193</u>

of which:

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

	991	1,177	957
Fee income	1,207	1,375	1,153
Fee expenses	(216)	(198)	(196)

9. Net Trading Profits/(Losses)

	6 months ended 30/6/2009	6 months ended 30/6/2008 Restated	6 months ended 31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Profit on dealing in foreign currencies	36	190	126
Profit/(Loss) on trading securities	393	(536)	(82)
Net gain/(loss) on derivatives	424	109	(1,141)
Profit/(Loss) on other dealing activities	–	1	(2)
Dividend income from listed trading securities	21	23	20
	<u>874</u>	<u>(213)</u>	<u>(1,079)</u>

10. Net Result from Financial Instruments Designated at Fair Value Through Profit or Loss

	6 months ended 30/6/2009	6 months ended 30/6/2008 Restated	6 months ended 31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Revaluation and disposal loss on Collateralised Debt Obligations	–	(1,331)	(2,218)
Revaluation (loss)/gain on debts issued	(921)	341	2,283
Net (loss)/profit on sale of other financial assets designated at fair value through profit or loss	(20)	4	(1)
Revaluation gain/(loss) on other financial assets designated at fair value through profit or loss	534	(57)	(633)
	<u>(407)</u>	<u>(1,043)</u>	<u>(569)</u>

11. Other Operating Income

	6 months ended 30/6/2009	6 months ended 30/6/2008	6 months ended 31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Dividend income from available-for-sale financial assets			
– listed	10	13	7
– unlisted	7	6	24
Rental from safe deposit boxes	42	44	43
Net revenue from insurance activities	91	111	(12)
Rental income on properties	50	40	50
Others	37	57	40
	<hr/>	<hr/>	<hr/>
Total other operating income	237	271	152

12. Operating Expenses

	6 months ended 30/6/2009	6 months ended 30/6/2008	6 months ended 31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Contributions to defined contribution plan	100	106	119
Equity-settled share-based payment expenses	39	24	42
Salaries and other staff costs	1,412	1,333	1,356
	<hr/>	<hr/>	<hr/>
Total staff costs	1,551	1,463	1,517
Premises and equipment expenses excluding depreciation			
– Rental of premises	223	177	201
– Maintenance, repairs and others	232	204	241
	<hr/>	<hr/>	<hr/>
Total premises and equipment expenses excluding depreciation	455	381	442
Depreciation on fixed assets	252	197	240
Amortisation of intangible assets	4	1	2
Other operating expenses			
– Stamp duty, overseas and PRC* business taxes, and value added taxes	157	162	211
– Communications, stationery and printing	128	132	142
– Legal and professional fees	98	90	103
– Advertising expenses	91	140	147
– Business promotions and business travel	43	48	49
– Card related expenses	43	37	35
– Insurance expenses	37	30	13
– Donations	12	8	1
– Membership fees	4	4	3
– Administration expenses of corporate services	3	3	4
– Bank charges	3	4	3
– Bank licence	2	2	2
– Others	158	62	101
	<hr/>	<hr/>	<hr/>
Total other operating expenses	779	722	814
	<hr/>	<hr/>	<hr/>
Total operating expenses	3,041	2,764	3,015

* PRC denotes the People's Republic of China.

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

	6 months ended 30/6/2009	6 months ended 30/6/2008	6 months ended 31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net revaluation (loss)/gain transferred from reserves	(442)	101	14
Profit/(Loss) arising in the period	512	84	(2)
	<u>70</u>	<u>185</u>	<u>12</u>

14. Placements with Banks and Other Financial Institutions

	30/6/2009	30/6/2008	31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Placements with banks and authorised institutions	85,667	70,889	96,458
Placements with other financial institutions	–	–	116
	<u>85,667</u>	<u>70,889</u>	<u>96,574</u>
Maturing			
– within one month	36,629	41,664	46,714
– between one month and one year	49,038	29,225	49,860
	<u>85,667</u>	<u>70,889</u>	<u>96,574</u>

15. Trading Assets

	30/6/2009	30/6/2008	31/12/2008
	HK\$ Mn	Restated HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	1,210	1,598	400
Debt securities	917	12	126
Equity securities	1,075	1,845	989
Investment funds	191	242	188
	<u>3,393</u>	<u>3,697</u>	<u>1,703</u>
Trading securities	3,393	3,697	1,703
Positive fair value of derivatives	1,008	1,771	1,734
	<u>4,401</u>	<u>5,468</u>	<u>3,437</u>
Issued by:			
Central governments and central banks	1,210	1,598	400
Public sector entities	9	27	13
Banks and other financial institutions	901	625	443
Corporate entities	1,262	1,432	840
Other entities	11	15	7
	<u>3,393</u>	<u>3,697</u>	<u>1,703</u>
Analysed by place of listing:			
Listed in Hong Kong	913	1,634	825
Listed outside Hong Kong	546	238	294
	<u>1,459</u>	<u>1,872</u>	<u>1,119</u>
Unlisted	1,934	1,825	584
	<u>3,393</u>	<u>3,697</u>	<u>1,703</u>

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

	30/6/2009	30/6/2008	31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt securities	6,173	7,461	4,130
Equity securities	126	–	–
	<u>6,299</u>	<u>7,461</u>	<u>4,130</u>
Issued by:			
Central governments and central banks	228	–	–
Public sector entities	142	183	142
Banks and other financial institutions	2,053	1,362	1,642
Corporate entities	3,876	5,916	2,346
	<u>6,299</u>	<u>7,461</u>	<u>4,130</u>
Analysed by place of listing:			
Listed in Hong Kong	2,358	1,807	1,325
Listed outside Hong Kong	2,248	933	1,178
	<u>4,606</u>	<u>2,740</u>	<u>2,503</u>
Unlisted	1,693	4,721	1,627
	<u>6,299</u>	<u>7,461</u>	<u>4,130</u>

17. Advances to Customers and Other Accounts

(a) Advances to customers and other accounts

	30/6/2009	30/6/2008	31/12/2008
	HK\$ Mn	Restated HK\$ Mn	HK\$ Mn
(i) Advances to customers	231,392	245,408	230,339
Less: Impairment allowances			
– Individual	(667)	(183)	(523)
– Collective	(636)	(447)	(521)
	<u>230,089</u>	<u>244,778</u>	<u>229,295</u>
(ii) Other Accounts			
Advances to banks and other financial institutions	997	496	850
Notes and bonds	344	270	129
Certificates of deposit held	39	39	39
Accrued interest	1,213	1,761	1,863
Bankers acceptances	7,833	2,309	2,989
Other accounts	5,671	5,368	8,592
	<u>16,097</u>	<u>10,243</u>	<u>14,462</u>
Less: Impairment allowances			
– Individual	(26)	(33)	(23)
– Collective	(10)	(10)	(9)
	<u>16,061</u>	<u>10,200</u>	<u>14,430</u>
	<u>246,150</u>	<u>254,978</u>	<u>243,725</u>

(b) Advances to customers – by industry sectors

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

	30/6/2009		30/6/2008		31/12/2008	
	Gross advances	% of secured advances	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%	HK\$ Mn	%
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	8,311	65.69	8,240	62.88	8,855	61.25
– Property investment	29,447	88.40	27,378	87.23	27,431	86.88
– Financial concerns	2,258	68.45	2,621	62.35	2,542	69.94
– Stockbrokers	3,493	99.96	633	98.19	550	99.75
– Wholesale and retail trade	2,193	62.48	2,590	59.12	2,405	64.60
– Manufacturing	2,113	58.05	2,338	46.84	2,055	52.54
– Transport and transport equipment	3,303	76.87	4,332	67.84	3,642	74.80
– Recreational activities	283	92.54	286	90.82	285	91.11
– Information technology	9	54.72	6	40.06	4	49.13
– Others	11,960	74.67	10,497	72.19	9,954	71.52
– Sub-total	63,370	80.26	58,921	75.90	57,723	76.78
Individuals						
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,635	100.00	1,158	100.00	1,318	100.00
– Loans for the purchase of other residential properties	25,336	99.76	34,641	99.80	24,297	99.74
– Credit card advances	2,562	0.00	2,483	0.00	2,997	0.00
– Others	7,084	75.88	6,326	75.86	6,553	74.35
– Sub-total	36,617	88.17	44,608	90.85	35,165	86.52
Total loans for use in Hong Kong	99,987	83.16	103,529	82.34	92,888	80.47
Trade finance	2,490	55.13	4,197	55.15	2,905	59.03
Loans for use outside Hong Kong *	128,915	76.13	137,682	74.78	134,546	76.56
Total advances to customers	231,392	78.94	245,408	77.63	230,339	77.91

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

	30/6/2009		30/6/2008		31/12/2008	
	Gross advances	% of secured advances	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%	HK\$ Mn	%
Property development	14,310	77.85	13,952	66.83	14,351	78.64
Property investment	22,514	86.85	24,677	87.22	24,215	87.95
Wholesale and retail trade	14,040	90.89	20,778	90.57	19,021	88.93
Manufacturing	6,990	60.59	10,431	65.35	9,547	63.58
Others	35,153	71.82	31,187	65.24	31,906	69.99
	93,007	78.42	101,025	76.05	99,040	78.66

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:

	<u>30/6/2009</u>	<u>30/6/2008</u>	<u>31/12/2008</u>
	HK\$ Mn	HK\$ Mn	HK\$ Mn
(i) Property development			
a. Individually impaired loans	716	212	207
b. Individual impairment allowance	92	7	8
c. Collective impairment allowance	40	37	36
d. Provision charged to profit and loss			
– individual impairment loss	84	1	2
– collective impairment loss	15	5	12
e. Written off	–	90	84
(ii) Property investment			
a. Individually impaired loans	254	267	145
b. Individual impairment allowance	38	–	29
c. Collective impairment allowance	112	86	96
d. Provision charged to profit and loss			
– individual impairment loss	30	–	29
– collective impairment loss	30	10	24
e. Written off	19	–	–
(iii) Loans for purchase of residential properties			
a. Individually impaired loans	109	143	117
b. Individual impairment allowance	1	2	2
c. Collective impairment allowance	21	22	30
d. Provision charged to profit and loss			
– individual impairment loss	–	1	5
– collective impairment loss	3	2	6
e. Written off	–	2	3
(iv) Wholesale and retail trade			
a. Individually impaired loans	383	139	222
b. Individual impairment allowance	170	40	129
c. Collective impairment allowance	39	43	48
d. Provision charged to profit and loss			
– individual impairment loss	80	18	133
– collective impairment loss	6	15	21
e. Written off	53	4	4

(c) Advances to customers – by geographical areas

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

	30/6/2009				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	118,160	365	624	268	316
People's Republic of China	80,169	271	494	90	98
Other Asian Countries	10,185	232	353	169	166
Others	22,878	118	895	140	56
Total	<u>231,392</u>	<u>986</u>	<u>2,366</u>	<u>667</u>	<u>636</u>
% of total advances to customers			<u>1.02%</u>		
Market value of security held against impaired advances to customers			<u>4,636</u>		
	30/6/2008				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	124,582	184	424	78	226
People's Republic of China	85,679	97	500	15	111
Other Asian Countries	11,803	310	174	83	81
Others	23,344	36	214	7	29
Total	<u>245,408</u>	<u>627</u>	<u>1,312</u>	<u>183</u>	<u>447</u>
% of total advances to customers			<u>0.53%</u>		
Market value of security held against impaired advances to customers			<u>4,015</u>		

31/12/2008

	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	112,038	207	642	267	278
People's Republic of China	85,741	242	454	78	115
Other Asian Countries	10,798	159	246	168	103
Others	21,762	25	244	10	25
Total	230,339	633	1,586	523	521
% of total advances to customers			0.69%		
Market value of security held against impaired advances to customers			3,769		

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.

There were no impaired advances to banks and other financial institutions as at 30th June, 2009, 30th June, 2008 and 31st December, 2008; nor were there any individual impairment allowances made for them on these three respective dates.

18. Available-for-Sale Financial Assets

	30/6/2009 HK\$ Mn	30/6/2008 HK\$ Mn	31/12/2008 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	11,437	3,115	10,391
Certificates of deposit held	594	615	762
Debt securities	10,536	8,470	6,398
Equity securities	1,198	969	899
Investment funds	107	180	110
	23,872	13,349	18,560
Issued by:			
Central governments and central banks	11,521	4,026	10,419
Public sector entities	5	2,382	231
Banks and other financial institutions	10,012	4,641	5,773
Corporate entities	2,227	1,855	2,027
Other entities	107	445	110
	23,872	13,349	18,560
Analysed by place of listing:			
Listed in Hong Kong	515	498	397
Listed outside Hong Kong	4,232	4,194	9,329
	4,747	4,692	9,726
Unlisted	19,125	8,657	8,834
	23,872	13,349	18,560

19. Held-to-Maturity Investments

	30/6/2009	30/6/2008	31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	123	88	180
Certificates of deposit held	2,709	1,827	1,717
Debt securities	4,658	8,983	3,216
	<u>7,490</u>	<u>10,898</u>	<u>5,113</u>
Less: Impairment allowances	(116)	(96)	(107)
	<u>7,374</u>	<u>10,802</u>	<u>5,006</u>
Issued by:			
Central governments and central banks	673	5,441	243
Public sector entities	554	354	318
Banks and other financial institutions	5,182	3,745	3,344
Corporate entities	965	1,262	1,101
	<u>7,374</u>	<u>10,802</u>	<u>5,006</u>
Analysed by place of listing:			
Listed in Hong Kong	360	296	287
Listed outside Hong Kong	2,857	2,272	1,863
	<u>3,217</u>	<u>2,568</u>	<u>2,150</u>
Unlisted	4,157	8,234	2,856
	<u>7,374</u>	<u>10,802</u>	<u>5,006</u>
Market value:			
Listed securities	3,193	2,524	2,028
Unlisted securities	4,165	8,275	2,870
	<u>7,358</u>	<u>10,799</u>	<u>4,898</u>

20. Fixed Assets

30/6/2009

	Investment Properties	Bank Premises	Furniture, Fixtures and Equipment	Sub-total	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Cost or valuation					
At 1st January, 2009	1,839	6,293	3,507	9,800	11,639
Additions	–	1,815	141	1,956	1,956
Additions through acquisition	–	–	10	10	10
Revaluation surplus	89	–	–	–	89
Revaluation of bank premises transferred to investment properties	–	98	–	98	98
Transfer from bank premises to investment properties	299	(299)	–	(299)	–
Disposals	(14)	(24)	(58)	(82)	(96)
Exchange adjustments	5	(3)	9	6	11
At 30th June, 2009	2,218	7,880	3,609	11,489	13,707
Accumulated depreciation and amortisation					
At 1st January, 2009	–	675	1,818	2,493	2,493
Additions through acquisition	–	–	3	3	3
Charge for the period	–	48	204	252	252
Written back on disposal	–	(12)	(55)	(67)	(67)
Exchange adjustments	–	–	9	9	9
At 30th June, 2009	–	711	1,979	2,690	2,690
Net book value at 30th June, 2009	2,218	7,169	1,630	8,799	11,017
Net book value at 30th June, 2008	2,245	4,367	1,287	5,654	7,899
Net book value at 31st December, 2008	1,839	5,618	1,689	7,307	9,146
The gross amounts of the above assets are stated:					
At cost	–	7,053	3,609	10,662	10,662
At Directors' valuation – 1989	–	827	–	827	827
At professional valuation – 2009	2,218	–	–	–	2,218
	2,218	7,880	3,609	11,489	13,707

21. Trading Liabilities

	30/6/2009	30/6/2008 Restated	31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Exchange fund bills sold	800	1,328	330
Negative fair value of derivatives	1,210	1,483	2,516
	<u>2,010</u>	<u>2,811</u>	<u>2,846</u>

22. Other Accounts and Provisions

	30/6/2009	30/6/2008	31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Accrued interest payable	1,037	1,364	1,953
Bankers acceptance	7,833	2,309	2,989
Other accounts	8,617	7,167	7,197
	<u>17,487</u>	<u>10,840</u>	<u>12,139</u>

23. Loan Capital

	30/6/2009	30/6/2008	31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
USD550 million 5.625% subordinated notes, measured at fair value through profit or loss	4,071	4,303	3,644
GBP300 million 6.125% step-up perpetual subordinated notes, measured at fair value through profit or loss	3,321	4,379	2,751
USD600 million floating rate step-up subordinated notes, measured at amortised cost	4,643	4,670	4,641
	<u>12,035</u>	<u>13,352</u>	<u>11,036</u>

Loan capital of face value of HK\$4,262 million (US\$550,000,000) and carrying amount of HK\$4,071 million represents 5.625% subordinated notes qualifying as tier 2 capital which were issued on 13th December, 2005 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 13th December, 2015.

Loan capital of face value of HK\$3,885 million (GBP300,000,000) and carrying amount of HK\$3,321 million represents 6.125% step-up perpetual subordinated notes qualifying as tier 2 capital which were issued on 20th March, 2007 by the Bank. The notes are listed on the Singapore Stock Exchange.

Loan capital of face value of HK\$4,650 million (US\$600,000,000) and carrying amount of HK\$4,643 million represents floating rate step-up subordinated notes qualifying as tier 2 capital which were issued on 21st June, 2007 by the Bank. The notes are listed on the Singapore Stock Exchange and will mature on 22nd June, 2017.

24. Segment Reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. Segment information is presented in a manner consistent with the way in which the information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. The Group has identified 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 in Hong Kong.

China operations include branches and subsidiaries in China.

Overseas operations include overseas branches and subsidiaries.

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

Other businesses include insurance business, property-related business and other subsidiaries in Hong Kong.

Unallocated include supporting units of Hong Kong operation, investment properties, bank premises and investments in associates.

6 months ended 30/6/2009

	Hong Kong Operations								Total Reportable Segments	Inter-segment		
	Personal Banking	Corporate Banking	Treasury Markets	Wealth Management	China Operations	Overseas Operations	Corporate Services	Others		Unallocated	Elimination	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn		HK\$ Mn	HK\$ Mn	HK\$ Mn
Net interest income/(expense)	899	342	260	63	1,450	349	1	30	3,394	(194)	34	3,234
Non-interest income/(expense)	205	463	(155)	91	184	216	399	317	1,720	264	(267)	1,717
Operating income/(expense)	1,104	805	105	154	1,634	565	400	347	5,114	70	(233)	4,951
Operating expenses	(715)	(52)	(53)	(50)	(932)	(258)	(244)	(225)	(2,529)	(740)	228	(3,041)
Operating profit/(loss) before impairment losses	389	753	52	104	702	307	156	122	2,585	(670)	(5)	1,910
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(56)	(48)	-	(23)	7	(341)	(4)	(9)	(474)	-	-	(474)
Impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	(9)	-	-	-	-	(10)	(19)	(1)	1	(19)
Operating profit/(loss) after impairment losses	333	705	43	81	709	(34)	152	103	2,092	(671)	(4)	1,417
Profit/(Loss) on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and subsidiaries/associates	(2)	-	41	-	22	-	-	21	82	-	-	82
Valuation gains/(losses) on investment properties	-	-	-	-	-	(3)	-	14	11	91	(13)	89
Share of profits less losses of associates	-	-	-	-	-	-	-	-	-	79	-	79
Profit/(Loss) before taxation	331	705	84	81	731	(37)	152	138	2,185	(501)	(17)	1,667
Depreciation for the period	(35)	(1)	(1)	(1)	(90)	(13)	(9)	(10)	(160)	(91)	(1)	(252)
Segment assets	42,304	63,516	133,816	6,576	132,957	45,672	1,883	5,885	432,609	8,837	(32,142)	409,304
Investments in associates	-	-	-	-	-	-	-	-	-	2,553	-	2,553
Total assets	42,304	63,516	133,816	6,576	132,957	45,672	1,883	5,885	432,609	11,390	(32,142)	411,857
Total liabilities	210,946	536	19,727	12,278	110,628	22,584	145	4,240	381,084	993	(4,138)	377,939

6 months ended 30/6/2008 (Restated)

	Hong Kong Operations								Total Reportable Segments	Unallocated	Inter-segment Elimination	Total
	Personal Banking	Corporate Banking	Treasury Markets	Wealth Management	China Operations	Overseas Operations	Corporate Services	Others				
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn				
Net interest income/(expense)	842	291	676	9	1,410	355	(1)	51	3,633	(183)	33	3,483
Non-interest income/(expense)	306	64	(1,266)	33	281	99	409	270	196	334	(328)	202
Operating income/(expense)	1,148	355	(590)	42	1,691	454	408	321	3,829	151	(295)	3,685
Operating expenses	(605)	(55)	(36)	(58)	(809)	(277)	(248)	(235)	(2,323)	(635)	194	(2,764)
Operating profit/(loss) before impairment losses	543	300	(626)	(16)	882	177	160	86	1,506	(484)	(101)	921
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(8)	53	-	-	(40)	(90)	(3)	(1)	(89)	-	-	(89)
Write back of impairment losses on bank premises	-	-	-	-	-	-	-	-	-	5	-	5
Impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	(231)	-	-	-	-	-	(231)	-	-	(231)
Operating profit/(loss) after impairment losses	535	353	(857)	(16)	842	87	157	85	1,186	(479)	(101)	606
Profit/(Loss) on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and subsidiaries/associates	-	-	163	-	(1)	-	(1)	(2)	159	12	3	174
Valuation gains/(losses) on investment properties	-	-	-	-	-	(6)	-	(42)	(48)	274	(28)	198
Share of profits less losses of associates	-	-	-	-	-	-	-	-	-	95	-	95
Profit/(Loss) before taxation	535	353	(694)	(16)	841	81	156	41	1,297	(98)	(126)	1,073
Depreciation for the period	(30)	(1)	(1)	(2)	(55)	(12)	(9)	(10)	(120)	(76)	(1)	(197)
Segment assets	52,759	61,426	132,568	7,821	123,887	43,234	1,945	4,704	428,344	6,652	(41,124)	393,872
Investments in associates	-	-	-	-	-	-	-	-	-	2,737	-	2,737
Total assets	52,759	61,426	132,568	7,821	123,887	43,234	1,945	4,704	428,344	9,389	(41,124)	396,609
Total liabilities	217,801	608	26,336	2,985	93,537	22,015	153	3,934	367,369	446	(5,185)	362,630

25. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2009						
	Repayable on demand	3 months or less	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
Assets							
Cash and balances with banks and other financial institutions	10,367	74	-	-	-	8,842	19,283
Placements with banks and other financial institutions	-	64,597	21,070	-	-	-	85,667
Trade bills	36	870	56	-	-	11	973
Trading assets	-	1,034	201	804	88	2,274	4,401
Financial assets designated at fair value through profit or loss	-	137	381	4,883	772	126	6,299
Advances to customers and other accounts	4,735	48,383	37,398	90,665	59,325	5,644	246,150
Available-for-sale financial assets	-	7,312	4,816	9,829	610	1,305	23,872
Held-to-maturity investments	-	2,018	1,274	3,572	510	-	7,374
Undated assets	-	-	-	-	-	17,838	17,838
Total assets	15,138	124,425	65,196	109,753	61,305	36,040	411,857
Liabilities							
Deposits and balances of banks and other financial institutions	9,426	11,460	1,225	36	-	11	22,158
Deposits from customers	112,590	162,308	35,137	10,142	624	-	320,801
- Demand deposits and current accounts	40,019	-	-	-	-	-	40,019
- Savings deposit	68,595	-	-	-	-	-	68,595
- Time, call and notice deposits	3,976	162,308	35,137	10,142	624	-	212,187
Trading liabilities	-	800	-	-	-	1,210	2,010
Certificates of deposit issued	-	78	1,416	769	604	-	2,867
Current taxation	-	-	287	-	-	-	287
Loan capital	-	-	-	12,035	-	-	12,035
Other liabilities	-	273	-	-	-	-	273
Undated liabilities	-	-	-	-	-	17,508	17,508
Total liabilities	122,016	174,919	38,065	22,982	1,228	18,729	377,939
Net gap	(106,878)	(50,494)	27,131	86,771	60,077		

31/12/2008

	Repayable on demand	3 months or less	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
Assets							
Cash and balances with banks and other financial institutions	19,099	67	–	–	–	8,939	28,105
Placements with banks and other financial institutions	–	82,624	13,950	–	–	–	96,574
Trade bills	18	991	139	–	–	16	1,164
Trading assets	–	400	2	81	43	2,911	3,437
Financial assets designated at fair value through profit or loss	–	140	448	3,104	438	–	4,130
Advances to customers and other accounts	4,431	43,750	42,249	86,169	55,285	11,841	243,725
Available-for-sale financial assets	–	5,441	5,651	5,510	949	1,009	18,560
Held-to-maturity investments	–	980	1,546	2,160	320	–	5,006
Undated assets	–	–	–	–	–	14,553	14,553
Total assets	23,548	134,393	63,985	97,024	57,035	39,269	415,254
Liabilities							
Deposits and balances of banks and other financial institutions	871	18,150	7,644	362	10	8	27,045
Deposits from customers	86,109	192,093	35,341	9,237	1,022	–	323,802
– Demand deposits and current accounts	36,332	–	–	–	–	–	36,332
– Savings deposit	45,781	–	–	–	–	–	45,781
– Time, call and notice deposits	3,996	192,093	35,341	9,237	1,022	–	241,689
Trading liabilities	–	130	200	–	–	2,516	2,846
Certificates of deposit issued	–	1,941	881	2,028	641	–	5,491
Current taxation	–	–	333	–	–	–	333
Loan capital	–	–	–	11,036	–	–	11,036
Undated liabilities	–	–	–	–	–	12,216	12,216
Total liabilities	86,980	212,314	44,399	22,663	1,673	14,740	382,769
Net gap	(63,432)	(77,921)	19,586	74,361	55,362		

26. 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 available for-sale securities	Tax losses	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1st January, 2009	361	257	(49)	(4)	(661)	(14)	(110)
Charged/(credited) to consolidated income statement	(18)	-	(22)	-	260	(15)	205
Charged to reserves	-	24	-	15	-	-	39
Exchange and other adjustments	-	-	-	-	-	2	2
At 30th June, 2009	<u>343</u>	<u>281</u>	<u>(71)</u>	<u>11</u>	<u>(401)</u>	<u>(27)</u>	<u>136</u>
Balance as at 30th June, 2008	<u>346</u>	<u>273</u>	<u>83</u>	<u>14</u>	<u>(68)</u>	<u>14</u>	<u>662</u>
Balance as at 31st December, 2008	<u>361</u>	<u>257</u>	<u>(49)</u>	<u>(4)</u>	<u>(661)</u>	<u>(14)</u>	<u>(110)</u>

27. Reserves

	30/6/2009	30/6/2008	31/12/2008
	HK\$ Mn	Restated HK\$ Mn	HK\$ Mn
Share premium	4,509	4,924	4,922
General reserve	14,649	14,524	14,634
Revaluation reserve on bank premises	931	877	863
Investment revaluation reserve	(79)	(11)	(228)
Exchange revaluation reserve	1,010	1,277	1,006
Other reserves	1,471	188	1,427
Retained profits*	6,466	7,683	5,339
Total	<u>28,957</u>	<u>29,462</u>	<u>27,963</u>
Proposed dividends, not provided for	<u>516</u>	<u>384</u>	<u>33</u>

* 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 in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the Hong Kong Monetary Authority. As at 30th June, 2009, HK\$1,876 million (31st December, 2008: HK\$1,996 million) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the Hong Kong Monetary Authority.

28. Consolidated Cash Flow Statement

(a) Purchase of subsidiaries

	30/6/2009	30/6/2008
	HK\$ Mn	HK\$ Mn
Cash and balances with banks and other financial institutions	19	12
Advances and other accounts less provisions	19	10
Fixed assets	7	4
Goodwill	–	25
Other accounts and provisions	(2)	(46)
	<u>43</u>	<u>5</u>
Goodwill arising on consolidation	–	31
	<u>43</u>	<u>36</u>
Less: Cash and cash equivalents acquired	(19)	(12)
	<u>24</u>	<u>24</u>

(b) Cash and cash equivalents

	30/6/2009	30/6/2008
	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	11,487	10,551
Placements with banks and other financial institutions with original maturity within three months	51,912	52,576
Treasury bills with original maturity within three months	2,817	2,649
Certificates of deposit held with original maturity within three months	826	404
Debt securities with original maturity within three months	284	964
	<u>67,326</u>	<u>67,144</u>
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks and other financial institutions	19,283	19,209
Placements with banks and other financial institutions	85,667	70,889
Treasury bills and certificates of deposit held		
– trading assets	2,127	1,610
– designated at fair value through profit or loss	6,173	7,461
– advances and other accounts	39	39
– available-for sale	22,567	12,386
– held-to-maturity	7,374	10,802
	<u>38,280</u>	<u>32,298</u>
Amount shown in the consolidated statement of financial position	143,230	122,396
Less : amounts with an original maturity of beyond three months cash balance with central bank subject to regulatory restriction	(68,108)	(46,594)
	<u>(7,796)</u>	<u>(8,658)</u>
Cash and cash equivalents in the consolidated cash flow statement	<u>67,326</u>	<u>67,144</u>

29. Off-balance Sheet Exposures

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

	30/6/2009	30/6/2008 Restated	31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Contractual amounts of contingent liabilities and commitments			
Direct credit substitutes	5,942	9,535	7,272
Transaction-related contingencies	1,744	2,269	1,771
Trade-related contingencies	1,235	1,561	1,045
Commitments that are unconditionally cancellable without prior notice	40,213	51,952	41,692
Other commitments with an original maturity			
– up to 1 year	5,155	4,716	5,651
– over 1 year	23,809	13,035	18,737
	<u>78,098</u>	<u>83,068</u>	<u>76,168</u>
Fair value			
Exchange rate contracts	288	366	488
Interest rate contracts	670	673	1,012
Options purchased			
– exchange rate contracts	3	11	3
– equity contracts	47	721	231
	<u>1,008</u>	<u>1,771</u>	<u>1,734</u>
Notional amounts of derivatives			
Exchange rate contracts	44,175	84,112	40,652
Interest rate contracts	48,527	52,099	44,724
Equity contracts	2,024	11,039	3,186
Others	–	63	–
	<u>94,726</u>	<u>147,313</u>	<u>88,562</u>
Credit risk weighted amounts			
Contingent liabilities and commitments	21,978	24,405	20,642
Exchange rate contracts	417	474	391
Interest rate contracts	300	123	225
Equity contracts	74	170	181
Debt security & other commodity	15	108	22
	<u>22,784</u>	<u>25,280</u>	<u>21,461</u>

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

(b) Capital Commitments

Capital commitments on purchase of properties outstanding as at 30th June and 31st December and not provided for in the accounts were as follows:

	30/6/2009	30/6/2008	31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Expenditure authorised and contracted for	108	2,256	1,459
Expenditure authorised but not contracted for	–	62	–
	<u>108</u>	<u>2,318</u>	<u>1,459</u>

30. Material Related Party Transactions

The Group maintains certain retirement benefit schemes for its staff. In the six month ended 30th June, 2009, the total amount of contributions the Group made to the schemes was HK\$37 million (six months ended 30th June, 2008: HK\$52 million).

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. Except that there is interest free shareholder's advance extended to one (31st December, 2008: one) associate amounting to HK\$7 million at 30th June, 2009 (31st December, 2008: HK\$7 million), 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.

On 27th February, 2009, the Bank entered into a sale and purchase agreement with Kerry Media Limited ("Kerry") in respect of the sale and purchase of 75,000,000 shares of par value HK\$0.10 in SCMP Group Limited, representing approximately 4.8% of the issued share capital of SCMP Group Limited ("Sale Shares") for aggregate consideration of HK\$127,500,000; and an option agreement with Kerry in respect of the grant by Kerry to the Bank of put options in relation to the Sale Shares.

The interest received from and interest paid to the Group's related parties for the six months ended 30th June, 2009, outstanding balances of amounts due from and due to them at 30th June, 2009 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2009 are aggregated as follows:

	Key management personnel		Subsidiaries		Associates	
	30/6/2009	30/6/2008	30/6/2009	30/6/2008	30/6/2009	30/6/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	106	135	266	468	1	5
Interest expense	18	52	52	77	–	–
Amounts due from	7,307	11,305	10,671	20,435	50	532
Amounts due to	3,624	3,781	1,622	2,739	6	3
Maximum amounts due from	8,702	12,151	15,953	20,435	282	519
Maximum amounts due to	7,574	6,359	2,295	2,739	18	17

31. 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 ratio 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:

Abacus (Nominees) Limited	Delanez Limited
Abacus Business Consultants Sdn. Bhd.	Denroy Nominees Limited
Abacus Company Administration Sdn. Bhd.	Dersale Limited
Abacus Share Registrars Ltd	Digex Limited
Acheson Limited	Directra Overseas Services Inc.
Alamo Investments Limited	Directra Services Limited
Albridge Corporate Advisory Services Ltd	EA China Finance Limited
Albridge Services London Ltd	EA Nominees Limited
Alhart Limited	EA Securities Limited
Ample Delight Limited	EACS (First director) Inc.
Asia Strategic Capital Limited	East Asia Corporate Services (BVI) Limited
Asia Strategic Investment Management Limited	East Asia Corporate Services (Nominees) Limited
Bagatelle Services Limited	* East Asia Electronic Data Processing (Guangzhou) Limited
* Bank of East Asia (Trustees) Limited	* East Asia Facility Management Limited
Barbinder & Co. Pte. Limited	East Asia Financial Services (BVI) Limited
Barbinder & Co. Sdn. Bhd.	East Asia Futures Limited
BC (BVI) Holdings Limited	* East Asia Holding Company, Inc.
BEA Life Limited	East Asia Holding (BVI) Limited
BEA Pacific Limited (In Members' Voluntary Winding-Up)	East Asia Indonesian Holdings Limited
BEA Pacific Asia Limited	East Asia International Trustees Holdings (BVI) Limited
BEA Pacific Holding Company Limited	* East Asia Investment Holdings Limited
BEA Pacific Nominee Limited	* East Asia Investment Holdings (BVI) Limited
BEA Pacific (Vanuatu) Limited (In Members' Voluntary Winding-Up)	East Asia Liquidators Limited
BEA Union Investment Management Limited	East Asia Marketing Limited
Becmac Limited	* East Asia Properties (US), Inc.
Beecroft Limited	East Asia Properties Holding Company Limited
Bentley Services Limited	East Asia Properties Investment Company Limited
Blue Care (BVI) Holdings Limited	East Asia Property Agency (China) Company Limited
Blue Care JV (BVI) Holdings Limited	East Asia Property Agency Company Limited
Blue Care Medical Services Limited	East Asia Property Development (Shanghai) Limited
Blue Cross (Asia-Pacific) Insurance Limited	East Asia Property Holdings (Jersey) Limited
Branford Investments Limited	East Asia Property Management (China) Limited
Camceb Limited	East Asia Property Management (Guangzhou) Limited
Cane Garden Bay Limited	East Asia Secretarial Services Limited
Capico Asset Management Sdn. Bhd.	East Asia Secretaries (BVI) Limited
Caribbean Corporate Services Limited	East Asia Secretaries Limited
CCSL St. Lucia Limited	East Asia Securities Company Limited
Central Town Limited	* East Asia Services (Holdings) Limited
Century Able Limited	East Asia Strategic Holdings Limited
Cheam Holdings Limited	Elemen Limited
Cheam Nominees Limited	Epsilon Registration Services Sdn. Bhd.
Chua, Woo & Company Sdn. Bhd.	Equity Trustee Limited
Clacton Company Limited	Essex Nominees Limited
Clancy Limited	
Corona Light Limited	
* Credit Gain Finance Company Limited	
Crystal Gleaming Limited	

Evatthouse Corporate Services Pte. Limited
 Far East Bank Nominees Limited
 FEB (1989) Limited
 Flowery World Corporation
 Fortra Services Limited
 Gainsville Limited
 Gladwood Limited
 Glencoe Limited
 Global Success Limited
 Golden Empire International Inc.
 Golden Properties Finance Limited
 Golden Queen International Limited
 Golden Wings International Limited
 Goldmond Company Limited
 Goldmond Finance Company Limited
 Grimma Company Limited
 International Holdings Corporation
 Kaliwood Corporation
 Keen Sight Development Limited
 Leader One Limited
 Linkwall Investments Limited
 Maccabee (Nominees) Limited
 Mache Holdings Limited
 Mache Nominees Limited
 Mactors Limited
 Maintex Limited
 Malplaquet Limited
 Menroy Registrars Limited
 Nola Company Limited
 Norpac Holdings Limited
 Outsource Centre Pte. Limited
 Overseas Nominees Limited
 Pen Ling Limited
 PFA Malaysia Sdn. Bhd.
 PFA Registration Services Sdn. Bhd.
 PFA Services Sdn. Bhd.
 PFA Tax Services Sdn. Bhd.
 Powerhouse Worldwide Limited
 Premier Dragon Development Limited
 Radstock Holdings Limited
 Ramillies Limited
 Red Phoenix Limited
 Richard Tozer Nominees Ltd
 Roebuck Limited
 Rontors Limited
 Rosland Corporate Management Limited
 Secretaries Limited
 Secretarius Services Sdn. Bhd.
 Shareg Nominees Limited
 Skyray Holdings Limited
 Speedfull Limited
 Standard Registrars Ltd
 Strath Corporate Services Holdings Limited
 Strath Corporate Services Limited
 Strath Fiduciaries Limited
 Sunshine Dynamic Company Limited
 Swan Nominees Limited
 Tabernacle Assets Limited
 Teeroy Limited
 Tenaga Koperat Sdn. Bhd.
 Tengis International Limited
 Tengis Services Limited

* The Bank of East Asia (BVI) Limited
 * The Bank of East Asia (Canada)
 * The Bank of East Asia (China) Limited
 The Bank of East Asia (Nominees) Limited
 The Bank of East Asia (Nominees) Private Limited
 * The Bank of East Asia (U.S.A.) N.A.
 The Bank of East Asia Nominees (UK) Limited
 Total Corporate Compliance Sdn. Bhd.
 Total Express & Document Storage Sdn. Bhd.
 Travelsafe Limited
 Tricor (B) Sdn. Bhd.
 Tricor (Labuan) Limited
 Tricor Abacus Limited
 Tricor Aldbridge LLP
 Tricor Asia Limited
 Tricor Caribbean Limited
 Tricor China Limited
 Tricor Consultancy (Beijing) Limited
 Tricor Corporate Secretary Limited
 Tricor Custodian Limited
 Tricor EACS (Hong Kong) Limited
 Tricor Executive Recruitment Limited
 Tricor Executive Resources Limited
 Tricor Firmley Limited
 Tricor Friendly Limited
 Tricor Global Limited
 Tricor Greater China Limited
 Tricor Holdings Limited
 Tricor Holdings Pte. Limited
 Tricor International Trustee Limited
 Tricor Investor Services Limited
 Tricor Nominees Limited
 Tricor Outsourcing (Thailand) Limited
 Tricor Outsourcing Solutions Sdn. Bhd.
 Tricor Progressive Limited
 Tricor Representatives Limited
 Tricor Secretaries Limited
 Tricor Services (Brunei) Ltd
 Tricor Services (BVI) Limited
 Tricor Services (Macau) Limited
 Tricor Services (Malaysia) Sdn. Bhd.
 Tricor Services (UK) Limited
 Tricor Services Limited
 Tricor Signatory Limited
 Tricor Singapore Pte. Limited
 Tricor Standard Limited
 Tricor Strath Limited
 Tricor Tengis Limited
 Tricor Trustco (Labuan) Limited
 Trident Corporate Management Limited
 Trident Nominees Limited
 Tristan Company Limited
 Tudor Nominees Limited
 Tung Shing Holdings (BVI) Limited
 Turquandia Limited
 U Care Hong Kong Medical Limited
 United Chinese (Nominee) Limited
 Vanceburg Limited
 Virtual Success Limited
 Vitaway (Mauritius) Limited
 W.T. (Secretaries) Limited

* “regulated financial entities” as defined by the Banking (Capital) Rules and included in the basis of consolidation for regulatory reporting purpose.

32. Non-adjusting post balance sheet events

On 20th July 2009, The Bank of East Asia (China) Limited, which is the wholly-owned subsidiary of the Bank, fully utilised the RMB4 billion bond issue principal amount approved by the People’s Bank of China and the National Development and Reform Commission. The net proceeds of the sale of the bonds are used to fund Renminbi-denominated loans and for working capital and general corporate purposes.

33. Provision for repurchase of Lehman Mini-bonds subscribed or purchased through the Bank

On 22nd July, 2009, on a without liability basis, the Bank entered into an agreement with the Hong Kong Monetary Authority, the Securities and Futures Commission and 15 other distributing banks under which the Bank would offer to certain customers to repurchase certain structured investments, commonly known as Lehman Mini-bonds subscribed or purchased through the Bank. The Bank has made an announcement on the same date setting out the details of the offer.

In the event that all eligible investors accept the offer and there is no future recovery from the underlying collateral, the maximum commitment of the Bank is HK\$109 million in accordance with the available information up to the end of June 2009. On this basis, the Bank has already made full provision for the expected cost in respect of the repurchase of the above mentioned structured investment products.

34. Comparative figures

The comparative figures for the first half of 2008 have been restated due to the unauthorised manipulation on the valuation of certain equity derivatives held by the Bank, which was announced to the public on 18th September, 2008.

As a result of the application of HKAS 1 (revised 2007), Presentation of Financial Statements, and HKFRS 8, Operating Segments, certain comparative figures have been adjusted to conform to current period’s presentation and to period comparative amounts in respect of items disclosed for the first time in 2009.

Certain comparative figures have been restated to conform with current period’s presentation.

35. Statement of Compliance

The Interim Results together with the Supplementary Financial Information on pages 30 to 36 complies fully with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority, the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and HKAS 34 “Interim Financial Reporting” issued by the HKICPA in October 2004.

SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy Ratio and Capital Base

(a) Capital adequacy ratio

	30/6/2009	30/6/2008 Restated	31/12/2008
	%	%	%
Capital adequacy ratio	13.0	14.6	13.8
Core capital adequacy ratio	8.4	9.4	9.1

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

The basis of consolidation for calculation of capital ratios under the Capital Rules follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are "regulated financial entities" (e.g. insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated regulated financial entities are deducted from the capital base.

(b) Group capital base after deductions

	30/6/2009	30/6/2008 Restated	31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Core capital			
Paid up ordinary share capital	4,604	4,177	4,183
Share premium	4,509	4,924	4,922
Reserves	18,438	18,469	18,308
Profit and loss account	332	106	(71)
Deduct: Goodwill	(1,624)	(1,625)	(1,624)
Net deferred tax assets	(154)	–	(119)
Other intangible assets	(957)	(25)	(29)
	25,148	26,026	25,570
Less: Core capital items deductions	(2,955)	(2,825)	(2,749)
Total core capital	22,193	23,201	22,821
Eligible supplementary capital			
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	869	936	801
Revaluation reserves for fair value gains on revaluation of holdings of available-for-sale equities and debt securities	–	–	–
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	240	–	–
Regulatory reserve for general banking risks	121	226	156
Collectively assessed impairment allowances	79	44	42
Surplus provisions	955	869	1,024
Perpetual subordinated debt	3,877	4,659	3,356
Term subordinated debt	8,902	8,955	8,899
	15,043	15,689	14,278
Less: Supplementary capital items deductions	(2,955)	(2,825)	(2,749)
Total supplementary capital	12,088	12,864	11,529
Total capital base	34,281	36,065	34,350

B. Liquidity Ratio

	6 months ended 30/6/2009	6 months ended 30/6/2008	The year ended 31/12/2008
	%	%	%
Average liquidity ratio for the period	43.8	38.8	38.4

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

C. Cross-border Claims

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

	30/6/2009			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	12,581	17,217	45,984	75,782
Asian countries, excluding People's Republic of China	20,006	2,796	11,785	34,587
North America	10,157	240	9,055	19,452
Western Europe	63,883	–	1,737	65,620
	30/6/2008			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	19,808	1,922	51,102	72,832
Asian countries, excluding People's Republic of China	12,317	1,450	12,876	26,643
North America	4,982	5,270	9,263	19,515
Western Europe	56,782	–	4,312	61,094
	31/12/2008			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	31,237	2,867	49,999	84,103
Asian countries, excluding People's Republic of China	17,388	1,703	11,797	30,888
North America	11,688	10	10,028	21,726
Western Europe	70,048	–	2,383	72,431

D. Non-bank Mainland Exposures

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

	30/6/2009			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	89,804	18,643	108,447	86
Companies and individuals outside Mainland where the credit is granted for use in Mainland	13,651	2,245	15,896	22
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	4,712	8	4,720	2
Total	108,167	20,896	129,063	110
	30/6/2008			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	93,252	17,908	111,160	35
Companies and individuals outside Mainland where the credit is granted for use in Mainland	14,514	2,736	17,250	5
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	3,359	27	3,386	–
Total	111,125	20,671	131,796	40
	31/12/2008			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	92,563	14,764	107,327	60
Companies and individuals outside Mainland where the credit is granted for use in Mainland	13,804	2,192	15,996	37
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	4,266	43	4,309	–
Total	110,633	16,999	127,632	97

E. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	30/6/2009		30/6/2008		31/12/2008	
	HK\$ Mn	% of total advances to customers	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	258	0.1	109	0.1	233	0.1
– 1 year or less but over 6 months	531	0.2	359	0.1	229	0.1
– Over 1 year	197	0.1	159	0.1	171	0.1
	986	0.4	627	0.3	633	0.3
Rescheduled advances to customers	390	0.2	263	0.1	239	0.1
Total overdue and rescheduled advances	1,376	0.6	890	0.4	872	0.4
Secured overdue advances	436	0.2	490	0.2	261	0.1
Unsecured overdue advances	550	0.2	137	0.1	372	0.2
Market value of security held against secured overdue advances	2,129		2,233		1,542	
Individual impairment allowance made on loans overdue for more than 3 months	489		115		231	

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.

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

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

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

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

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

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

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30th June, 2009, 30th June, 2008 and 31st December, 2008; nor were there any rescheduled advances to banks and other financial institutions on these three dates.

(b) Other overdue and rescheduled assets

	30/06/2009		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	–	–	–
– 1 year or less but over 6 months	–	–	10
– Over 1 year	1	–	–
	<u>1</u>	<u>–</u>	<u>10</u>
Rescheduled assets	–	–	–
Total other overdue and rescheduled assets	<u><u>1</u></u>	<u><u>–</u></u>	<u><u>10</u></u>
	30/06/2008		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	–	–	1
– 1 year or less but over 6 months	1	1	–
– Over 1 year	–	–	–
	<u>1</u>	<u>1</u>	<u>1</u>
Rescheduled assets	–	–	–
Total other overdue and rescheduled assets	<u><u>1</u></u>	<u><u>1</u></u>	<u><u>1</u></u>

	31/12/2008		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	–	–	3
– 1 year or less but over 6 months	1	–	–
– Over 1 year	–	–	–
	1	–	3
Rescheduled assets	–	–	–
Total other overdue and rescheduled assets	1	–	3

* Other assets refer to trade bills and receivables.

(c) Repossessed assets

	30/6/2009	30/6/2008	31/12/2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Repossessed land and buildings	47	150	57
Repossessed vehicles and equipment	1	1	1
Total repossessed assets	48	151	58

The amount represents the estimated market value of the repossessed assets as at 30th June, 2009, 30th June, 2008 and 31st December, 2008.

F. Currency Concentrations

The net positions or net structural positions in foreign currencies are disclosed when each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

	30/6/2009			
	HK\$ Mn			
	USD	CNY	Others	Total
Spot assets	73,785	108,771	50,045	232,601
Spot liabilities	(72,807)	(102,527)	(52,373)	(227,707)
Forward purchases	60,064	15,509	18,892	94,465
Forward sales	(58,633)	(15,766)	(15,021)	(89,420)
Net options position	9	–	(7)	2
Net long position	2,418	5,987	1,536	9,941

	30/6/2008			
	HK\$ Mn			
	USD	CNY	Others	Total
Spot assets	86,020	89,608	50,951	226,579
Spot liabilities	(76,276)	(84,100)	(52,237)	(212,613)
Forward purchases	63,057	10,544	21,152	94,753
Forward sales	(69,706)	(10,791)	(18,815)	(99,312)
Net options position	51	–	(15)	36
Net long position	3,146	5,261	1,036	9,443

	31/12/2008 HK\$ Mn			
	USD	CNY	Others	Total
Spot assets	83,532	109,311	44,459	237,302
Spot liabilities	(75,673)	(103,348)	(45,670)	(224,691)
Forward purchases	51,244	18,872	11,843	81,959
Forward sales	(55,976)	(18,781)	(8,713)	(83,470)
Net options position	3	–	(4)	(1)
Net long position	<u>3,130</u>	<u>6,054</u>	<u>1,915</u>	<u>11,099</u>
	30/6/2009 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	<u>2,179</u>	<u>6,596</u>	<u>964</u>	<u>9,739</u>
	30/6/2008 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	<u>1,996</u>	<u>6,615</u>	<u>1,056</u>	<u>9,667</u>
	31/12/2008 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	<u>2,179</u>	<u>6,602</u>	<u>940</u>	<u>9,721</u>



TO THE BOARD OF DIRECTORS OF THE BANK OF EAST ASIA, LIMITED

INTRODUCTION

We have reviewed the interim financial report set out on pages 1 to 29 which comprises the consolidated statement of financial position of The Bank of East Asia, Limited as of 30th June, 2009 and the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six months 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 enquires, 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, 2009 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

Hong Kong, 25th August, 2009

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK\$0.28 (2008: HK\$0.21, after adjusting for the bonus issue in 2009) per share for the six months ended 30th June, 2009. The interim dividend will be paid in cash with an option to receive new, fully paid shares in lieu of cash, to shareholders whose names appear on the Register of Members at the close of business on Thursday, 10th September, 2009. Details of the scrip dividend and the election form will be sent to shareholders on or about Thursday, 10th September, 2009. The scrip dividend scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the scrip dividend scheme. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Monday, 5th October, 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed on Wednesday, 9th September, 2009 and Thursday, 10th September, 2009. In order to qualify for the above interim dividend, all transfer documents should be lodged for registration with Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, by 4:00 p.m. on Tuesday, 8th September, 2009.

FINANCIAL REVIEW

Financial Performance

For the first six months of 2009, the Group achieved a profit after tax of HK\$1,205 million. Basic earnings per share were HK\$0.64. Return on average equity was 7.2%, while return on average assets was 0.6%.

In 2008, the Group disposed of or wrote down to zero value its entire collateralised debt obligation ("CDO") portfolio. As a result, the Group entered 2009 with a strong balance sheet.

Due to the low interest rate environment in the wake of the financial tsunami, in the first half of 2009, the Group's net interest income decreased by HK\$249 million, or 7.2%, to HK\$3,234 million. Non-interest income increased by HK\$1,515 million, or 750.0%, partly due to an increase in trading profits as well as an increase in net result from financial instruments designated at fair value through profit or loss. Net fee and commission income decreased by HK\$174 million, or 14.7%, to HK\$1,013 million.

Total operating expenses increased by 10.1% over the corresponding period in 2008 to HK\$3,041 million, due to the continuing expansion of the Group's activities. The cost-to-income ratio dropped from 75.0% in the first half of 2008 to 61.4% in the corresponding period in 2009.

Operating profit before impairment losses for the first six months of 2009 was HK\$1,910 million, an increase of HK\$989 million, or 107.2%, compared to the corresponding period in 2008.

The charge for impairment losses on loans and advances increased by HK\$385 million, or 428.6%, to HK\$474 million. However, there was a charge of HK\$231 million recorded for impairment losses on notes issued by structured investment vehicles in 2008. As a result, total impairment losses increased by HK\$178 million, or 56.2%.

Operating profit after impairment losses increased by 133.8% to HK\$1,417 million. In the first six months of 2009, BEA shared after-tax profits from associates of HK\$79 million.

Profit after taxation was HK\$1,205 million, an increase of 46.8%, over the HK\$821 million recorded in the corresponding period in 2008. Profit attributable to owners of the parent was HK\$1,169 million, an increase of 49.0%.

Financial Position

Total consolidated assets of the Group fell by HK\$3,397 million, or 0.8%, during the first half of 2009 to HK\$411,857 million. Gross advances to customers increased by 0.5% to HK\$231,392 million.

Total deposits fell by 1.7% to HK\$323,668 million, while total deposits from customers decreased by 0.9% to HK\$320,801 million. Demand deposits and current account balances increased by HK\$3,687 million, or 10.1%, compared to the balance at year-end 2008. Savings deposits increased to HK\$68,595 million, an increase of 49.8%, while time deposits decreased to HK\$212,187 million, a drop of 12.2%, when compared with the year-end position.

During the first half of 2009, BEA issued HKD fixed rate certificates of deposit with a face value of HK\$300 million and HKD floating rate certificates of deposit with a face value of HK\$270 million. The Bank redeemed a quantity of certificates of deposit amounting to HK\$2,310 million equivalent upon maturity, and repurchased its own certificates of deposit amounting to HK\$465 million equivalent.

After taking into account all debt instruments issued, the loan-to-deposit ratio was 71.5% at the end of June 2009, 1.6% higher than the 69.9% reported at the end of 2008.

At the end of June 2009, the face value of the outstanding debt portfolio was HK\$3,069 million, with a carrying amount equal to HK\$2,867 million.

Maturity Profile of Debts Issued

As at 30th June, 2009

(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity					
			2009	2010	2011	2013	2014	2015
Floating Rate Certificates of Deposit								
Issued in 2008	HKD	100		100				
Issued in 2009	HKD	270		120	150			
Issued in 2008	USD	40	10		30			
Fixed Rate Certificates of Deposit								
Issued in 2008	HKD	500		500				
Issued in 2009	HKD	300		300				
Issued in 2008	USD	65		50	15			
Zero Coupon Certificates of Deposit								
Issued in 2007	USD	140				40	50	50
Total Debts issued in HKD equivalent		3,069	77	1,407	499	310	388	388

Maturity Profile of Loan Capital

As at 30th June, 2009

(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity		
			2015	2017	Perpetual
Issued in 2005	Note 1 USD	550	550		
Issued in 2007	Note 2 USD	600		600	
Issued in 2007	Note 3 GBP	300			300
Total Loan Capital issued in HKD equivalent		12,797	4,262	4,650	3,885

Notes:

1. Callable on 14th December, 2010
2. Callable on 22nd June, 2012
3. Callable on 21st March, 2012 and on each interest payment date thereafter

OPERATIONS REVIEW

Senior Appointments

The Bank restructured its Senior Management Team during the first half of 2009, appointing two Senior Advisors, one Consultant, four Deputy Chief Executives and 11 General Managers. The new management structure aims at bringing high-achieving talent up through the ranks, and the exercise has further strengthened the management of the various business and operation units.

90th Anniversary

The Bank celebrated the 90th anniversary of its establishment in Hong Kong by hosting a cocktail reception and ceremony in the Grand Hall of the Hong Kong Convention & Exhibition Centre on 2nd January, 2009. Under the theme "Building Legacies", more than 4,000 government officials, business leaders, and other dignitaries celebrated the relationships that the Bank has developed with customers and business partners over the past nine decades.

On behalf of the attending guests, the Bank donated HK\$1,230,000 to The Community Chest of Hong Kong and the Hong Kong Committee for UNICEF, in affirmation of its commitment to the community.

As part of its 90th anniversary celebration programme, the Bank launched a large-scale advertising campaign to highlight the bond between the Bank and the people of Hong Kong over the past nine decades.

In line with the creative concept of the 90th anniversary advertising campaign, the Bank followed up in May with a new branding campaign based on the concept "Extending Your Reach". The new platform reflects BEA's commitment to help people realise their dreams by assisting them to manage their finances effectively. Incorporating a soaring arc in the Bank's corporate colours, the new branding reinforces the dynamic and progressive image that is central to the Bank's service commitment.

Hong Kong Operations

Recognition

During the first six months, the Bank achieved a large number of awards, reflecting its outstanding performance. These included:

- Winner of the "Best SME's Partner Award" organised by The Hong Kong Chamber of Small and Medium Business Limited. This is the second year in a row that BEA has won this award;
- Honourable Special Mention in the "IT Implementation Awards for an outstanding CRM Project" by *The Asian Banker* in May;
- "2008 Top Merchant Sales Volume Acquiring Bank Award – Visa" in the Visa Explorer Award Program;
- Second runner-up for "2008 Highest Growth Rate in Number of Open Cards in Hong Kong – MasterCard" from MasterCard Worldwide;
- Winner of the silver prize for "2008 Highest Card Number Growth (Credit Card) in Hong Kong" awarded by China UnionPay;
- "Best Creative Ad in Metro Creative Awards 09" organised by *Metro Daily* for the Bank's 90th Anniversary print advertisement; and
- A "Caring Company" in 2009 by The Hong Kong Council of Social Service. This was the sixth consecutive year that the Bank received this title.

Corporate Banking

Corporate Lending

The local corporate loan market exhibited weakness in the first quarter of 2009, as the impact of the financial tsunami was felt through the economy. Loan demand was mainly driven by refinancing needs. Nevertheless, the second quarter witnessed a rebound. Led by abundant liquidity in the financial system, the local property and stock markets both staged a strong recovery. Bargain-hunters took advantage of the improving local credit environment to pursue investment opportunities, leading to a gradual revival in lending business in the second quarter. As a result, the Bank registered single digit growth in corporate loan volume combined with relatively stable overall pricing for the first half of 2009 as a whole.

In light of the relatively quiet syndicated loan market and the tentative nature of the economic recovery, BEA is taking a prudent approach to expanding its client base by focusing on high quality local and Mainland enterprises, and providing customised bilateral facilities. BEA has also been actively pursuing refinancing opportunities arising from the maturity of a significant number of existing syndicated loans granted to large local corporations.

Commercial Lending

Commercial loan and trade finance business was inevitably affected in the first half of the year as local companies suffered from reduced orders from Hong Kong's major overseas trading partners. Strong emphasis has been put in promoting the Hong Kong Government's Special Loan Guarantee Scheme to support the local small and medium sized enterprises ("SME") in the midst of the global financial crisis.

In addition to providing direct financial assistance, BEA also supports corporate customers by sharing information on current business and market trends. To this end, in January this year BEA held a seminar jointly with The Chinese Manufacturers' Association of Hong Kong entitled "Economic and Market Outlook for 2009".

In line with the Central Government's recent policy moves on settlement of cross-border trade in Renminbi, BEA was among the first batch of banks to provide Renminbi trade settlement services. These new services bring greater flexibility and reduce exchange rate risk and trade costs for clients involved in cross-border trade with the Mainland.

Asset Based Finance

Following the acquisition of a sizeable equipment loan portfolio from the market in 2008, BEA continued to rationalise the portfolio in the first half of 2009. In anticipation of a mild rebound in equipment loan demand in the second half of the year, BEA will continue to expand its business network by enhancing relationships with equipment suppliers and dealers. This will put the Bank in a position to fully exploit emerging business opportunities in a future market upturn.

Personal Banking

Branch Distribution and Services

The Bank has acted quickly to implement the recommendations of the Hong Kong Monetary Authority ("HKMA") on the marketing and selling of investment products. An advanced Secure Voice Recording Solution was introduced in all local branches on 4th May, 2009, providing assurance to the public that the Bank is committed to putting client interests first. In addition, a mystery shopper programme has been implemented to check Bank staff compliance with Bank policies and with regulatory rules and guidelines on the sale of investment products to retail customers.

With the issue of new guidelines by the HKMA on segregation of deposit-taking and investment services businesses, the Bank has initiated a thorough review of the entire branch network. BEA is on schedule to meet the new guidelines, including the physical separation of the two businesses, in advance of the 1st October deadline set by the HKMA.

During the first half of 2009, the Bank responded proactively to the depressed market environment and introduced a number of marketing initiatives aimed at capturing new business and expanding market share. New promotions further enhanced the Bank's appeal in important market segments, including tertiary students and members of the professions. As part of this initiative, BEA Harbour View Centre Branch has been designated as a professional client centre to cater to the specific needs of this key client group.

At the end of June 2009, BEA operated a total of 90 branches and 48 SupremeGold Centres in Hong Kong. The Bank continues to implement the Branch Rationalisation Programme to further strengthen the branch network, and is currently expanding its Yuen Long Branch to provide a more spacious and pleasant environment. To further improve service to customers, the Bank plans to open two new SupremeGold Centres in the second half of 2009.

Cyberbanking

The number of Cyberbanking customers continued to increase during the first half of 2009. By the end of June 2009, the number of registered Cyberbanking users was 10% higher than in the corresponding period last year. Corporate Cyberbanking also recorded steady customer growth over the period. The Bank plans to further promote Cyberbanking services in order to enrol more users from its existing account holders and to migrate more banking activities to e-channels in order to drive greater efficiency in the provision of services.

With the aim of providing a best-in-class electronic banking experience, BEA constantly reviews its online services. Currently, a review of the Cyberbanking website is being conducted to introduce a more user-friendly user interface. Security will be further enhanced, in order to ensure that Cyberbanking clients continue to enjoy a market-leading standard of security for all their on-line transactions.

Property Loans

Both the number and the value of property transactions have gradually risen since Chinese New Year. Although competition for mortgage business has been intense, BEA maintained its market competitiveness through product diversification and customisation. The Bank actively coordinated with various property developers to provide end-user financing solutions to buyers of new flats. BEA ranked second in new mortgage loan originations in January, and maintained a ranking within the first five in the industry throughout the first half of 2009.

In February, BEA launched a fixed rate residential mortgage plan. The fixed monthly instalment enables homebuyers to lock in current low interest rates and exercise better control over their financial planning.

Consumer Loans

Given the difficult economic conditions during the first half of 2009, the Bank introduced stricter control over new loans. Nevertheless, careful marketing has allowed the Bank to record continued growth in its consumer loan portfolio. The "Right for You" Instalment Loan and Revolving Loan programme was re-launched with good results. In addition, a series of niche marketing programmes was undertaken in partnership with reputable organisations, professional firms and educational institutions to target more sophisticated and higher net worth consumers.

Credit Cards

BEA succeeded in raising card receivables during the first half of this year, despite poor consumer sentiment and deteriorating credit quality. In view of the market situation, sophisticated credit monitoring initiatives were implemented so that card spending could continue to grow while maintaining credit quality. The Bank ran a number of promotional campaigns to encourage card usage during the period, including numerous dining promotions with renowned chain of restaurants and exclusive priority booking service for seven pop concerts.

A new premium card product, BEA World MasterCard, was introduced to further enhance the Bank's market share in the affluent segment and forge stronger relationships with BEA's Private Banking and SupremeGold clients. This Card offers unique privileges such as access to designated private clubs and private shopping events. It also allows cardholders to use BEA Private Yacht.

Wealth Management

Investment Products and Advisory

Following the sharp market losses in 2008, the Bank anticipated greater demand for conservative asset classes and prudent approaches to diversification in the first half of this year. In response, the Bank launched the BEA Global Bond Fund, which invests in high-grade debt securities, with a focus on high quality sovereign issues. In addition, the Bank launched a campaign in the second quarter to promote its fund investment services, including a range of new monthly subscription plans. The campaign followed the conclusion of several new partnership agreements, which have greatly enlarged the range of investment products that BEA offers. Both initiatives were well received by clients, contributing to a rise of 23% in terms of fund assets under custody, when compared with the end of 2008.

After a period of consolidation, the Bank witnessed renewed business momentum for structured products in the second quarter. During the first half of the year, BEA became the first among its peers to obtain re-authorisation to offer equity-linked deposit products. The Bank is thus able to offer an array of carefully customised investments as alternatives in the prevailing low interest rate environment.

The turmoil in financial markets last year has undoubtedly impacted the wealth management business of banks. Regulators have introduced new guidelines and rules in the aftermath of the crisis, and BEA took active steps during the first half of 2009 to review internal procedures and control risk exposures with counterparties. Further, the Bank has implemented robust measures to protect all parties at the point of sale of financial products, including strict guidelines to categorise products according to objective criteria and standards. These measures provide a solid foundation to support a strong recovery in BEA's wealth management business.

Private Banking

After falling to a low in the first quarter of the year, markets have since rebounded. Low interest rates have eased the burden on business, and created a number of favourable investment opportunities. Investors took advantage of these opportunities to rebuild and re-position their portfolios for returns in the medium term. During this period, both equities and bonds performed well.

Private Banking business held steady in the first half of 2009. Considerable resources were deployed to enhance systems and controls, and re-educate clients in the importance of asset allocation and risk management.

The business continues to draw the majority of its clientele from the Greater China region, but also welcomes clients from all other countries. With the Bank's acquisition of the former AIG Wealth Management Services (Taiwan) Limited in June, there will be enhanced opportunities to promote wealth management services across the Group.

Investment Banking and Services

East Asia Securities Company Limited – Securities Cybertrading

East Asia Securities Company Limited ("East Asia Securities") is committed to using proven technology to improve and expand its brokerage service network. Reflecting the consumer reaction to the sharp market falls in 2008, the company registered a decrease of 3% in the number of Cybertrading accounts compared with the corresponding period last year. As of 30th June, 2009, more than 60% of the company's securities clients had subscribed to Cybertrading.

The volume of transactions executed via the Cybertrading platform, expressed as a percentage of total turnover, reached 61% of the number of trades and 45% of the gross transaction value during the period under review.

In June 2009, East Asia Securities launched a new promotional campaign for securities trading services, timed to capture the rebound in financial markets.

East Asia Futures Limited – Futures Cybertrading

For the first six months of 2009, East Asia Futures Limited (“East Asia Futures”), the wholly-owned futures and options broking arm of the Bank, benefited from increased demand for derivative products. East Asia Futures recorded a more than 19% rise in trading volume compared with the corresponding period last year. For the period under review, some 80% of the total number of trades was executed via its user friendly internet-based trading platform – the Futures Cybertrading System.

Following the completion of software and hardware upgrades in 2008, both the performance and functionality of the Futures Cybertrading System has been greatly enhanced. As of 30th June, 2009, more than 74% of the company’s clients had subscribed to the Futures Cybertrading Service.

China and International Operations

China Operations

BEA’s locally incorporated subsidiary bank on the Mainland, The Bank of East Asia (China) Limited (“BEA China”), continues to be a leader among locally incorporated foreign banks in this very important market.

Recognition

BEA China’s achievements were recognised through a number of awards in the first half of 2009, including:

- “Best Development Team for Information Technology”, “Best Information Technology Strategy Award” and “Best Technical Strategy Award” in 2008 from the National Information Evaluation Centre;
- “Best Financial Services in 2008” at the Golden-Shell Award of Finance hosted by the *21st Century Business Herald*; and
- The “30 Years of Reform and Opening-up – Leadership Award for Best Industry Contribution” from *China Internet Week*.

BEA China will continue to leverage the Bank’s expertise to maintain its leading position on the Mainland.

With 71 outlets, the Bank and BEA China currently operate one of the most extensive networks of any foreign bank on the Mainland. During the first half of 2009, BEA China added a total of four new sub-branches, in Xi’an, Beijing, Guangzhou and Shanghai, and one 24-hour self-service banking centre, in Shanghai.

BEA China also continued its aggressive campaign to extend service coverage through the installation of new Automatic Teller Machines (“ATM”). BEA China’s ATM network stood at 288 as of 30th June, up from 250 at the end of 2008.

With the onset of the global financial crisis in the last quarter of 2008, BEA China has adopted a conservative stand in extending new credits to Mainland customers. Following initial signs of economic recovery in the second quarter, BEA China anticipates that its corporate banking business will be back on a growth track in the second half of the year.

BEA China’s personal banking business continues to develop. In June 2009, BEA China was honoured to be the only foreign-owned bank to be selected by China UnionPay to issue a special themed credit card to celebrate the 60th anniversary of the establishment of the People’s Republic of China.

Roll-out of the second phase of BEA China’s personal Cyberbanking service was completed in April 2009, with several additional functions and features added to further enhance BEA China’s award-winning online banking service.

On 30th June, BEA China launched Renminbi-denominated bonds in Hong Kong (“the Bonds”), becoming the first locally-incorporated foreign bank on the Mainland to issue Renminbi bonds to retail investors in Hong Kong.

The Bonds, which bear an annual interest rate of 2.8% and have a tenor of two years, were warmly received by the market. As a result, BEA China fully utilised the RMB4 billion bond issue principal amount approved by the People’s Bank of China and the National Development and Reform Commission.

Taiwan and Macau Operations

BEA's branches in Taiwan achieved moderate growth in both loans outstanding and deposits in the first half of 2009.

AIG Group put its Taiwan wealth management business up for sale late last year, and the Bank was successful in acquiring this business in June. This marks the Bank's first step in wealth management in Taiwan, and the acquisition of an established platform complements the Bank's existing commercial banking business in Taiwan very well.

With the completion of the acquisition, BEA has just re-launched the business under the new name, BEA Wealth Management Services (Taiwan) Limited. This company will provide a wide range of wealth management services, including securities brokerage, wealth management, insurance brokerage, and securities investment consultancy service for high net worth clients.

In light of the unfavourable economic environment, Macau Branch will continue to take a prudent approach to extending credit facilities to both corporate and retail customers. To broaden its product range and increase commission income, Macau Branch will launch Cyberbanking and Securities Cybertrading services and distribute insurance products in Macau in the third quarter of 2009.

International Operations

In January 2009, The Bank of East Asia (U.S.A) N.A. ("BEA-USA") expanded its operations with a new branch in Oakland, California. The branch in the San Francisco Financial District was merged with the San Francisco Chinatown Branch in the same month as part of BEA-USA's branch rationalisation strategy. Currently, BEA-USA operates a total of 13 outlets: three in New York, five in Los Angeles and five in San Francisco.

BEA's two wholesale branches in New York and Los Angeles performed well, with growth of 175% and 65% in operating profit, respectively, on a year-on-year basis.

On 4th June, 2009, BEA entered into a Share Sale Agreement with the Industrial and Commercial Bank of China Limited ("ICBC") to divest a 70% interest in the Bank's subsidiary in Canada, The Bank of East Asia (Canada), to ICBC. The transaction will enable the Canadian operation to leverage ICBC's extensive global network. Closing of the transaction will take place within this year subject to the satisfaction of or compliance with all the conditions precedent.

In response to a resurgent interest in properties from overseas buyers, BEA London Branch is promoting its residential mortgage loan business by co-operating with property agents in Hong Kong. In addition, the Bank is in the final stage of a feasibility study on the launch of local Internet banking services.

BEA Singapore Branch legally completed the purchase of its new building at 60 Robinson Road on 15th June, 2009. The new building is solid evidence of BEA's commitment to the Singapore market, and stands as BEA's flagship in Singapore and the hub for the Group's activities in Southeast Asia. The new building will be ready for occupancy in October 2009, and a Grand Opening Ceremony is scheduled for November 2009.

In Malaysia, BEA's Representative Office in Kuala Lumpur continues to take an active role in cross referrals of business between Tricor Malaysia and Affin Bank Berhad, a subsidiary of Affin Holdings Berhad, in which BEA has a 20.85% shareholding.

BEA Union Investment Management Limited

BEA Union Investment Management Limited ("BEA Union Investment"), the asset management joint venture between BEA and Union Asset Management Holding AG, recorded growth of over 22% in assets under management in the first half of 2009, despite dramatic market volatility. The company continued to provide a diversified investment solution in equity, fixed income and multi-asset classes, and drew on its market expertise to roll out mutual funds for retail investors: the BEA Global Bond Fund; the revamped BEA Greater China Growth Fund; and the repositioned BEA Signature Portfolio Fund. BEA Union Investment was also issued a licence of Qualified Foreign Institutional Investor by the China Securities Regulatory Commission, and is now preparing to pursue the opportunities offered in China's A Share market.

BEA Union Investment expanded its institutional business during the first half of the year by winning new mandate from one of the top tier Asian institutional investors. In addition, the company has been instrumental in further strengthening and enhancing the investment choices available to the Bank's Mandatory Provident Fund ("MPF") clients.

With strong performance in business development, investment performance and operation management, BEA Union Investment topped the field to win "The Best Fund Manager" in CAPITAL magazine's "Best of the Best For Executives 2009" award competition.

Other Subsidiaries

Tricor Holdings Limited

The BEA Group, through Group member Tricor Holdings Limited ("Tricor"), is a leading provider of business, corporate and investor services in the region. These services include accounting, company formation, corporate compliance and company secretarial, executive search and selection, initial public offerings ("IPO") and share registration, payroll outsourcing, and fund and trust administration.

During the first six months of the year, the pressure on fees from clients suffering from the global economic downturn has continued to have an adverse impact on Tricor's overall fee revenue. In addition, Tricor's IPO and share registration business suffered from the depressed IPO activity in the capital markets. Due to the decline in commercial and investment activities, there was less demand for Tricor's company secretarial and executive search services. On the brighter side, Tricor's accounting and payroll outsourcing services held up well, partly due to the fact that some companies decided to outsource their back office functions in order to reduce headcount during a difficult time. Despite a slight decline in gross revenue, Tricor continued to be a key contributor to the BEA Group's fee and commission income earnings.

Tricor's plan to enlarge its scope of services was not deterred by the financial tsunami. In early 2009, Tricor Malaysia acquired a majority interest in Roots Consulting, which provides training and consultancy services in the field of corporate governance, performance management and risk management for companies. Tricor now employs some 1,420 professional and support staff and provides services in 20 cities. As the market leader in business, corporate and investor services, Tricor will continue to look for business opportunities within the region.

BEA Life Limited

BEA Life Limited, the Bank's life insurance arm, introduced two new insurance products during the first half of the year. Marketed under the names 3-Year Quick Savings Insurance and 8-Year Smart Savings Insurance, these products incorporate both savings and endowment features, and allow customers to grow their wealth while enjoying comprehensive protection. The 3-year Quick Savings Insurance plan was the most popular life insurance product sold at BEA branches in the first half of this year, reflecting increasing demand in the market for short term savings products that offer guaranteed and steady returns.

Blue Cross (Asia-Pacific) Insurance Limited

Celebrating its 40th anniversary this year, Blue Cross (Asia-Pacific) Insurance Limited ("Blue Cross"), a wholly-owned subsidiary of the Bank that specialises in general insurance, registered steady business growth in the first half of 2009. Group medical insurance business was particularly strong, recording a double-digit rise in premium income. On the e-commerce front, web premium income continued to register steady year-on-year growth. Online travel insurance sales led the way with an impressive 22% gain.

Blue Cross' achievements are receiving ever-increasing recognition. The company took top honours in the insurance category in "The Best Recommendation Awards 2008", which was conferred by Lisa Magazine in February 2009. The award reinforces Blue Cross' standing as the preferred insurance company in the market.

Blue Care Group

Blue Care is a collaborative effort between the Bank and The University of Hong Kong. Blue Care aims at providing quality Family Medicine and Network Medical Services while at the same time offering health protection services to meet the demands of the community.

Since the start of operation in March 2005, Blue Care has gradually built up its business. Medical service fee income registered a growth of 32% year-on-year in the first half of 2009.

Blue Care will continue to work closely with its business partners to expand its business channels and client base.

Bank of East Asia (Trustees) Limited

Mandatory Provident Fund

With the employment of a dedicated team of professional investment managers, the performance of the five constituent funds under the BEA (MPF) Master Trust Scheme and all four constituent funds under the BEA (MPF) Industry Scheme were ranked among the top 25% in their respective categories, according to the report of Lipper, a Thomson Reuters company, for the six-month period ended 30th June, 2009.

Trust Services

In the first half of 2009, Bank of East Asia (Trustees) Limited recorded 22% growth in revenue from its private trust business, compared with the second half of 2008. Furthermore, the company was appointed as the trustee for the Renminbi 2.8% Bonds due 2011, which were issued by BEA China.

Credit Gain Finance Company Limited

Credit Gain Finance Company Limited ("Credit Gain") continued to expand its network in the first half of the year with the addition of one branch, bringing the total number to 13. The expanded network and an effective marketing campaign contributed to significant growth in the company's loan business, both in terms of number of client accounts and total loan portfolio.

The business environment for Credit Gain remains highly competitive and challenging for 2009. Credit Gain has moved quickly to adjust to the changed business environment, and aims to increase its market share through new product development and targeted marketing campaigns.

Human Resources

The number of employees of the Bank Group as of the end of June 2009 was:

Hong Kong	5,263
Other Greater China	4,023
Overseas	1,193
	<hr/>
Total	10,479

Since the onset of the financial crisis in late 2008, all businesses have been under immense pressure to reduce operating costs in order to remain competitive. An operational review on the Bank's human resources policies and procedures was carried out early in 2009 to further improve organisational effectiveness and efficiency. In addition, the Bank continues to recruit both recent graduates and able talent from the market. The Bank is also supporting the Government's "Internship Programme for University Graduates" (the "Scheme"), and intends to recruit a pool of talented young graduates to take part in an extensive two-year Management Training Programme.

The outbreak of Human Swine Influenza A (H1N1) in April 2009 tested the Bank's employee care and support policy, and contingency measures proved effective. The Bank closely monitored the flu situation and ensured that all precautionary measures were deployed so as to safeguard employee health and minimise business disruptions.

During the period under review, the Bank continued to offer a strong selection of training workshops to promote employee career development and equip staff with the necessary skills to maintain the ever-increasing sophistication of the Bank's operations. In addition, training courses were reviewed to strengthen risk management, compliance, productivity and service delivery so as to address the specific challenges brought about by the recent financial turmoil.

Corporate Social Responsibility

As highlighted under the description of the Bank's 90th Anniversary celebrations above, the Bank made a special donation to both The Community Chest of Hong Kong and the Hong Kong Committee for UNICEF in January this year.

In addition, as a further move to commemorate the 90th Anniversary of the establishment of the Bank Group, the Bank established The Bank of East Asia Charitable Foundation Limited to support education, poverty relief, the disabled, the sick, and victims of natural disasters around the world. The Bank will continue to make regular donations to institutions of higher learning in support of education, teaching, and research, as well as to environmental, artistic and cultural causes.

In June 2009, BEA and la Caixa signed a Letter of Intent to co-operate in forging new ways to enhance their commitment to the people that they serve. This was part of the series of business co-operation agreements concluded by the Bank with la Caixa and Criteria CaixaCorp, a listed Spanish holding company controlled by la Caixa.

Through this new collaboration, the la Caixa Foundation and The Bank of East Asia Charitable Foundation Limited will strengthen their work in social, educational and cultural programmes, and will explore opportunities to develop new initiatives.

Future Prospects

The global economic recession and the consequent plunge in export orders for regional companies severely constrained domestic loan growth momentum during the first half of 2009. Concurrently, in response to the Lehman Brothers Minibond incident, business opportunities from wealth management faced downward pressure. Meanwhile, the Mainland economy responded to strong government stimulus, lifting business prospects and contributing to a steady rise in BEA's China business.

The second half of 2009 is expected to bring continued recovery, as the United States gradually works out the overhang from the credit squeeze and the lingering impact of the weak housing market on consumer sentiment. BEA will continue to focus on the growing business opportunities on the Mainland. In July 2009, BEA China made history as the first Mainland-incorporated foreign bank to issue Retail Renminbi Bonds in Hong Kong. Proceeds from the bonds will support the various business plans and initiatives of BEA China, including branch network expansion and product and service range enhancement.

Locally, BEA will continue to focus on traditional banking business and products, including corporate banking, SME lending and consumer finance. The Bank will also strive to optimise cross-selling opportunities across Tricor Group, Blue Cross and BEA Life.

In parallel with its organic growth strategy, BEA will continue to identify and explore potential expansion opportunities from acquisitions and strategic alliances. In June 2009, the Bank announced that it had reached an agreement with ICBC to acquire 75% interest in ICEA Finance Holdings Limited from ICBC. Closing of the transaction will take place within this year subject to the satisfaction of or compliance with all the conditions precedent. This acquisition will further reinforce the Bank's position in the securities broking business.

BEA concluded a number of co-operation agreements with la Caixa Group, a major shareholder of the Bank and a leading financial institution in Spain. The alliance with la Caixa Group enhances the Bank's access to the financial industry in Spain and Europe, and opens the door for potential joint business development in the Asia-Pacific region.

The Bank will continue to put emphasis on improving and augmenting operating productivity and efficiency, seeking effective initiatives to improve its operation processes and control costs. With continuing uncertainty in world financial markets, BEA will further enhance its risk management and corporate governance.

Following the introduction of a new management team at the Bank in April 2009, BEA has entered a new era and looks forward to further strong growth by building on the Bank's highly regarded reputation for providing a superior level of service and an extensive range of sound financial solutions for its customers.

RISK MANAGEMENT DIVISION

In light of the global market environment, steps have been taken to further strengthen the management of risk within the Bank Group. A new Risk Management Division was established in April 2009 which is headed by the Group Chief Risk Officer & General Manager, who reports directly to the Chairman & Chief Executive.

The Risk Management Division is responsible for Group policy with regard to different types of risk. In this regard, the Division assesses regulatory requirements, in particular the requirements under the Supervisory Policy Manuals issued by the HKMA, and carries out the following job mandates:

- to formulate risk management policies and guidelines and to perform regular reviews in order to ensure that such policies and guidelines are kept up to date;
- to monitor risk exposure and compliance with the risk management framework using a risk-based approach that incorporates independent risk assessment and review of regular reports and new products/specific issues;
- to co-ordinate risk-related projects;
- to report monitoring results and significant risk related issues to the specialised risk management committees, namely, Credit Committee, Asset and Liability Management Committee and Operational Risk Management Committee, and/or Risk Management Committee and/or the Board, where appropriate, so as to assist the latter to discharge their major duty of oversight of risk management activities.

Departments within the Risk Management Division have been assigned responsibility for different types of risk:

- Credit Risk Management Department
- Asset and Liability Management Department
- Operational Risk Management Department
- Product Control Department

FINANCIAL RISK MANAGEMENT

The Group has in place a risk management system to identify, measure, monitor and control the various types of risk that the Group faces and, where appropriate, to set strategy and allocate capital against those risks. The risk management policies covering credit risk, market risk, operational risk, liquidity risk, interest rate risk, strategic risk, legal risk and reputation risk of the Group are reviewed regularly by the Management and specialised risk management committees, and recommendations are made by the Risk Management Committee, which comprises the Group's Chairman and Chief Executive, Senior Advisors, Deputy Chief Executives and the Group Chief Risk Officer, for the approval of the Board of Directors. There is an independent centralised risk management unit responsible for monitoring the activities relating to these principal risks. The internal auditors also perform regular audits on business units to check compliance with policies and procedures.

(a) *Credit Risk Management*

Credit risk arises from the possibility that a customer or counterparty in a transaction may default. Such risk may arise from counterparty risks from loan and advances, issuer risks from the securities business and counterparty risks from trading activities.

The Board of Directors has delegated authority to the Credit Committee to oversee management of the Group's credit risk, independent of the business units. The Credit Committee reports to the Board of Directors via the Risk Management Committee, which deals with all risk management related issues of the Group. Credit risk control limits are set for different levels. The Board of Directors approves the core control limits and delegates the Credit Committee to approve the detailed control limits. Risk, return and market situations are considered in the limits setting. Active limit monitoring is undertaken.

The Credit Committee is responsible for all credit risk related issues of the Group. The Group identifies and manages credit risk through defining target market segment, formulation of credit policies, credit approval process and monitoring of asset quality.

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 and control credit risk. In this connection, guidelines for management of credit risk have been laid down in the Group's Credit Manual. These guidelines stipulate delegated lending authorities, credit extension criteria, credit monitoring processes, internal rating structure, credit recovery and provisioning policy. They are reviewed and enhanced on an on-going basis to cater for market changes, statutory requirements and best practice risk management processes. The independent centralised risk management unit of the Group is responsible for monitoring activities relating to credit risk.

(b) Market risk management

Market risk arises from all market risk sensitive financial instruments, including debt securities, foreign exchange contracts, equity and derivative instruments, as well as from balance sheet or structural positions. The objective of market risk management is to reduce the Group's exposure to the volatility inherent in financial instruments.

The Board of Directors reviews and approves policies for the management of market risks. The Board has delegated the responsibility for ongoing market risk management to the Asset and Liability Management Committee. The Asset and Liability Management Committee reports to the Board of Directors via the Risk Management Committee.

The Asset and Liability Management Committee deals with all market risk and liquidity risk related issues of the Group. It is also responsible for deciding the future business strategy with respect to the interest rates trend review.

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part 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 derivative 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 derivative 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 risk to manage are:

(i) Currency risk

The Group's foreign currency positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign currency positions are managed within limits approved by the Board.

Structural foreign currency positions, which arise mainly from foreign currency investments in the Group's branches, subsidiaries and associated companies, are excluded from VaR 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 closely its foreign currency denominated assets with corresponding liabilities in the same currencies.

(ii) *Interest rate risk*

The Group's interest rate positions arise from treasury and commercial banking activities. Interest rate risk arises in both trading portfolios and non-trading portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also relates to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Interest rate risk is managed daily by the Treasury Markets Division within the limits approved by the Board of Directors. The instruments used to manage interest rate risk include interest rate swaps and other derivatives.

(iii) *Equity risk*

The Group's equity positions arise from equity investment and dynamic hedging of equity options in connection with the Bank's linked deposit business. Equity risk is managed daily by the Investment Department within the limits approved by the Board of Directors.

Market risk control limits have been set at varying levels according to the practical requirements of different units. The Board of Directors approves the core control limits and has delegated the power 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 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 on a frequent basis to ensure that they are within established control limits.

The Group quantifies the market risk of the underlying trading portfolio by means of value-at-risk ("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 Parametric Approach, where the VaR is derived from the underlying variances and covariances of the constituents of a portfolio. This methodology uses historical movements in market rates and prices, a 99% confidence level, a one-day holding period, a one-year historical observation period with higher weights being assigned to more recent observations, and takes into account correlations between different markets and rates.

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 book value of listed shares, as well as the book value of private equity funds and unlisted equities (excluding credit-related unlisted securities) (collectively the "Unlisted Securities"), are subject to limits and these are monitored by the management 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 Board.

Value-at-risk statistics

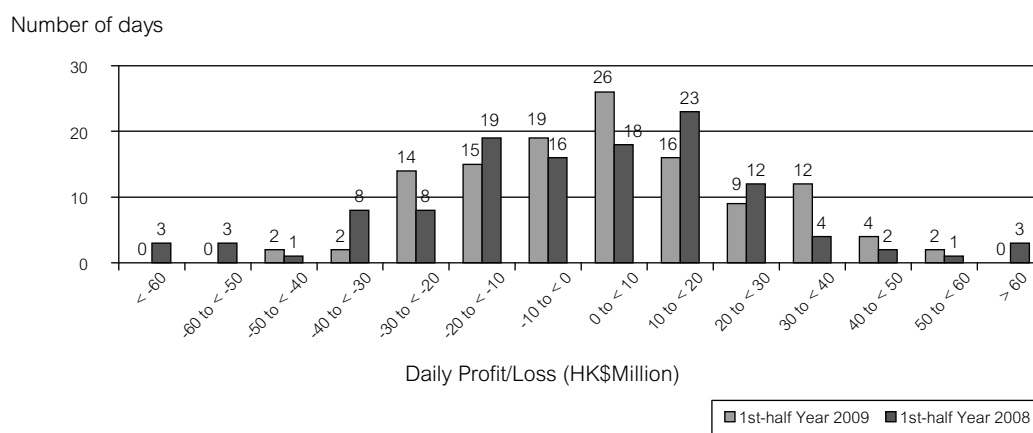
	Year 2009 1st-half			
	At 30th June HK\$ Mn	Maximum HK\$ Mn	Minimum HK\$ Mn	Mean HK\$ Mn
VaR for total trading activities	60	76	51	63
VaR for foreign exchange trading positions*	12	21	8	14
VaR for interest rate trading positions	3	4	1	2
VaR for equity trading positions	45	61	35	48

	Year 2008 1st-half			
	At 30th June HK\$ Mn	Maximum HK\$ Mn	Minimum HK\$ Mn	Mean HK\$ Mn
VaR for total trading activities	61	125	48	72
VaR for foreign exchange trading positions*	2	4	2	2
VaR for interest rate trading positions	–	1	–	–
VaR for equity trading positions	59	123	48	70

* Including all foreign exchange positions but excluding structured foreign exchange positions.

The average daily profit for all trading activities (including foreign exchange, interest rate and equity trading activities) in the first six months of 2009 was HK\$3.51 million (average daily loss of HK\$0.23 million in the first six months of 2008). The standard deviation of the daily profit/loss for the period was HK\$21.58 million (standard deviation of HK\$26.88 million for the period of 2008). The frequency distribution of daily profit/loss is shown below:

**DAILY DISTRIBUTION OF TRADING ACTIVITIES RELATED PROFIT/LOSS
– 1st-half Year 2009 vs 1st-half Year 2008**



(c) Operational risk management

Operational risk is the risk arising from the potential loss due to inadequate or failed internal processes, people and systems or from external events.

The objective of operational risk management is to identify, assess and monitor operational risk and to comply with the relevant regulatory requirements.

The Group has implemented a centralised operational risk management framework. In this connection, the Board of Directors reviews and approves the policies for operational risk management, and it has delegated the responsibility for ongoing operational risk management to the Operational Risk Management Committee. The Operational Risk Management Committee regularly reports on the status of operational risk management to the Board of Directors via the Risk Management Committee.

Operational risk management tools adopted include operational risk incidents reporting, control self-assessment, key risk indicators, operation manuals, insurance policies, business continuity planning, etc.

(d) Liquidity risk management

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 ratio, and to make new loans and investments as opportunities arise.

The management of the Bank's liquidity risk is governed by the Liquidity Risk Management Policy, endorsed by the Risk Management Committee and approved by the Board of Directors. The Asset and Liability Management Committee is delegated by the Board of Directors to oversee the Bank's liquidity risk management, set the strategy and policy for managing liquidity risk and the means for ensuring that such strategy and policy are implemented. Liquidity risk is managed daily by the Treasury Markets Division within the limits approved by the Board of Directors. The independent centralised risk management unit of the Group is responsible for monitoring the activities of the Treasury Markets Division in compliance with the Liquidity Risk Management Manual and Policy. The Internal Audit Department performs periodic review to make sure the liquidity risk management functions are carried out effectively.

The Group manages liquidity risk by holding sufficient liquid assets (e.g. cash and short term funds and securities) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business.

The Group conducts stress testing regularly to analyse liquidity risk and has formulated a contingency plan that sets out a strategy for dealing with a liquidity problem and the procedures for making up cash flow deficits in emergency situations.

In addition to observing the statutory liquidity ratio, the Bank also monitors the loan-to-deposit ratio and maturity mismatch between assets and liabilities to control the Bank's liquidity risk.

(e) *Interest rate risk management*

The management of the Bank's interest rate risk is governed by the Interest Rate Risk Management Policy endorsed by Risk Management Committee and approved by the Board of Directors. The Asset and Liability Management Committee is delegated by the Board of Directors to oversee the Bank's interest rate risk management, set 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 within the limits approved by the Board of Directors. The independent centralised risk management unit of the Group is responsible for monitoring the activities of the Treasury Markets Division in compliance with the Interest Rate Risk Management Manual and Policy. The Internal Audit Department performs periodic review to make sure the interest rate risk management functions are effectively carried out.

The Bank manages the interest rate risk on the banking book primarily by focusing on the repricing mismatches. Gap analysis provides a static view of the maturity and repricing characteristics of the Bank's balance sheet positions. Repricing gap limits are set to control the Bank's interest rate risk.

Stress tests on the Bank's various types of interest rate risk are conducted regularly. The Asset and Liability Management Committee monitors the results of stress tests and decides remedial action if required.

Sensitivity analysis on earnings and economic value to interest rate changes is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on both sides of the balance sheet and performed on a monthly basis. Sensitivity limits are set to control the Bank's interest rate risk exposure under both earnings and economic value perspectives. The results are reported to the Asset and Liability Management Committee and the Board of Directors on a regular basis.

(f) *Strategic risk management*

The objective of strategic risk management is to monitor the risk to earnings or capital arising from bad business decisions or from an improper implementation of good business decisions.

The Board of Directors reviews and approves the policy for the management of strategic risk. The Board has delegated the responsibility for ongoing strategic risk management to the Asset and Liability Management Committee. The Asset and Liability Management Committee reports to the Board of Directors via the Risk Management Committee.

(g) Legal risk and reputation risk management

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operations or financial condition of the Group.

Reputation risk is the risk arising from the potential that negative publicity regarding the Group's business practices, whether true or not, will cause a decline in the customer base or lead to costly litigation or revenue reductions.

The objective of managing the aforesaid risks is to identify, assess and monitor these risks and, in particular, to comply with the relevant regulatory requirements.

The Board of Directors reviews and approves policies for these risks, and it has delegated the responsibility for ongoing risk management to the Operational Risk Management Committee. The Operational Risk Management Committee reports to the Board of Directors via the Risk Management Committee.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, the changes to information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) between 17th February, 2009 (being the date of approval of the Bank's 2008 Annual Report) and 25th August, 2009 (being the date of approval of the Bank's 2009 Interim Report) are set out below:

Positions held with the Bank and other members of the Bank Group

Mr. Thomas Kwok Ping-kwong stepped down as a member of the Audit Committee with effect from 2nd March, 2009 due to a busy schedule.

The Board appointed Professor Arthur Li Kwok-cheung and Dr. Allan Wong Chi-yun to be Deputy Chairmen of the Bank with effect from 1st April, 2009.

Experience including other directorships and major appointments

Mr. Aubrey Li Kwok-sing ceased to be the chairman and director of Atlantis Asian Recovery Fund plc on 10th March, 2009.

Mr. Kuok Khoon-ean became a director of Shangri-La Hotel Public Company Limited, which is listed on The Stock Exchange of Thailand, with effect from 28th April, 2009.

Since the appointment of Dr. Isidro Fainé Casas as a Non-executive Director of the Bank and subsequent to the announcement regarding his appointment on 1st June, 2009, Dr. Fainé resigned as a director of Société des Autoroutes du Nord et de l'Est de la France Société Anonyme with effect from 2nd June, 2009.

Dr. The Hon. Sir David Li Kwok-po became a member of the international advisory board of Crédit Agricole S.A. with effect from 22nd June, 2009.

Relationships with Directors and Senior Management

The Board appointed Mr. Adrian David Li Man-kiu, Mr. Brian David Li Man-bun, Mr. Samson Li Kai-cheong and Mr. Tong Hon-shing as Deputy Chief Executives and Senior Management of the Bank with effect from 1st April, 2009.

Dr. The Hon. Sir David Li Kwok-po is the father of Mr. Adrian David Li Man-kiu and Mr. Brian David Li Man-bun. Mr. Eric Li Fook-chuen is the granduncle of Mr. Adrian David Li Man-kiu and Mr. Brian David Li Man-bun. Professor Arthur Li Kwok-cheung, Mr. Aubrey Li Kwok-sing and Mr. Stephen Charles Li Kwok-sze are uncles of Mr. Adrian David Li Man-kiu and Mr. Brian David Li Man-bun.

Change in Directors' emoluments

As Mr. Thomas Kwok Ping-kwong stepped down as a member of the Audit Committee with effect from 2nd March, 2009, Mr. Kwok has ceased to receive a fee of HK\$60,000 per annum.

Other than those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30th June, 2009, the interests and short positions of the Directors and Chief Executive of the Bank in the shares, underlying shares and debentures of the Bank and its associated corporations as recorded in the Register required to be kept under section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

I. Long positions in shares of the Bank:

Name	Capacity and nature	No. of shares	Total	% of issued share capital
David LI Kwok-po	Beneficial owner	44,193,994	45,668,908 ¹	2.48
	Interest of spouse	1,474,914		
Arthur LI Kwok-cheung	Beneficial owner	9,497,231	22,625,197 ²	1.23
	Founder of discretionary trust	13,127,966		
Allan WONG Chi-yun	Beneficial Owner	330,392	12,720,256 ³	0.69
	Interest of spouse	136		
	Founder of discretionary trust	12,389,728		
WONG Chung-hin	Beneficial owner	51,491	430,035 ⁴	0.02
	Interest of spouse	378,544		
LEE Shau-kee	Beneficial owner	2,092,183	3,192,183 ⁵	0.17
	Interest of corporation	1,100,000		
Aubrey LI Kwok-sing	Beneficial owner	25,730	33,782,145 ⁶	1.83
	Interest of spouse	18,409		
	Beneficiary of discretionary trust	33,738,006		
William MONG Man-wai	Beneficial owner	2,022,773	8,097,699 ⁷	0.44
	Interest of spouse	33,000		
	Interest of corporation	6,041,926		
Winston LO Yau-lai	–	–	Nil	Nil
KHOO Kay-peng	Interest of corporation	5,089,642	5,089,642 ⁸	0.28
Thomas KWOK Ping-kwong	–	–	Nil	Nil
Richard LI Tzar-kai	–	–	Nil	Nil
Kenneth LO Chin-ming	–	–	Nil	Nil
Eric LI Fook-chuen	Beneficial owner	4,221,662	33,913,776 ⁹	1.84
	Founder and beneficiary of discretionary trust	21,101,802		
	Interest of corporation	8,590,312		
Stephen Charles LI Kwok-sze	Beneficial owner	11,300,664	13,978,568 ¹⁰	0.76
	Interest of children	516,917		
	Beneficiary of discretionary trusts	2,160,987		
William DOO Wai-hoi	–	–	Nil	Nil
KUOK Khoon-ean	–	–	Nil	Nil
Valiant CHEUNG Kin-piu	–	–	Nil	Nil
Isidro FAINÉ CASAS	–	–	Nil	Nil

Notes:

- 1 David LI Kwok-po was the beneficial owner of 44,193,994 shares and he was deemed to be interested in 1,474,914 shares through the interests of his spouse, Penny POON Kam-chui.
- 2 Arthur LI Kwok-cheung was the beneficial owner of 9,497,231 shares. Arthur LI Kwok-cheung made a voluntary disclosure of 13,127,966 shares held by a discretionary trust of which he is the founder but has no influence on how the trustee exercises his discretion.
- 3 Allan WONG Chi-yun was the beneficial owner of 330,392 shares and he was deemed to be interested in 136 shares through the interests of his spouse, Margaret KWOK Chi-wai. He was also deemed to be interested in 12,389,728 shares held by a discretionary trust, The Wong Chung Man 1984 Trust, of which Allan WONG Chi-yun was a founder.
- 4 WONG Chung-hin was the beneficial owner of 51,491 shares and he was deemed to be interested in 378,544 shares through the interests of his spouse, LAM Mei-lin.
- 5 LEE Shau-kee was the beneficial owner of 2,092,183 shares.

LEE Shau-kee was deemed to be interested in 1,100,000 shares held through Superfun Enterprises Limited ("Superfun"). Superfun was wholly owned by The Hong Kong and China Gas Company Limited which was 39.68% held by Henderson Land Development Company Limited ("Henderson Land").

Henderson Land was 53.47% held by Henderson Development Limited ("Henderson Development"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of Henderson Development. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by LEE Shau-kee.
- 6 Aubrey LI Kwok-sing was the beneficial owner of 25,730 shares and he was deemed to be interested in 18,409 shares through the interests of his spouse, Elizabeth WOO. The remaining 33,738,006 shares were held by The Fook Wo Trust, a discretionary trust in which Aubrey LI Kwok-sing was one of the discretionary beneficiaries.
- 7 William MONG Man-wai was the beneficial owner of 2,022,773 shares and he was deemed to be interested in 33,000 shares through the interests of his spouse, WONG Pui-fan. Of the remaining 6,041,926 shares, (i) 5,228,077 shares were held through Shun Hing Electronic Trading Co. Ltd., (ii) 735,155 shares were held through Shun Hing Technology Co. Ltd., and (iii) 78,694 shares were held through Shun Hing Advertising Co. Ltd. Such corporations are accustomed to act in accordance with the directions or instructions of William MONG Man-wai who is the Chairman of these corporations.
- 8 KHOO Kay-peng was deemed to be interested in 5,089,642 shares out of which (a) 1,148,241 shares were held through Bonham Industries Limited, a company in which he held 99.9% of the issued capital, and (b) 3,941,401 shares were held through the Malayan United Industries Berhad Group of which he is the Chairman and Chief Executive and a deemed substantial shareholder.
- 9 Eric LI Fook-chuen was the beneficial owner of 4,221,662 shares, and 21,101,802 shares were held by New Jerico (PTC) Limited in the capacity of trustee of The Jerico Unit Trust. Eric LI Fook-chuen is the sole director of New Jerico (PTC) Limited. All the units in The Jerico Unit Trust are held by The New Elico Trust, of which Eric LI Fook-chuen is the founder and a discretionary beneficiary. Eric LI Fook-chuen was also deemed to be interested in 8,590,312 shares held by The Kowloon Dairy Limited of which he is the Chairman and Chief Executive Officer.
- 10 Stephen Charles LI Kwok-sze was the beneficial owner of 11,300,664 shares, and he was deemed to be interested in 516,917 shares through the interests of his children under the age of 18. Of the remaining 2,160,987 shares, (i) 1,982,000 shares were held by a discretionary trust, Settlement of Dr. Simon F. S. Li, of which Stephen Charles LI Kwok-sze, his spouse and his children under the age of 18 were beneficiaries and (ii) 178,987 shares were held by a discretionary trust, Longevity Trust, of which his children under the age of 18 were beneficiaries.

II. Long positions in (in respect of equity derivatives) underlying shares of the Bank:

Shares options, being unlisted physically settled equity derivatives, to subscribe for the ordinary shares of the Bank were granted to David LI Kwok-po pursuant to the approved Staff Share Option Schemes. Information in relation to these shares options during the six months ended 30th June, 2009 was shown in the following section under the heading "Information on Share Options".

III. Interests in debentures of the Bank:

Name	Capacity and nature	Amount of debentures
William MONG Man-wai	Interest of corporation (<i>Note</i>)	US\$2,000,000

Note: These interests were held through Shun Hing Electronic Trading Company Limited of which William MONG Man-wai is the Chairman. Shun Hing Electronic Trading Company Limited is accustomed to act in accordance with the directions or instructions of William MONG Man-wai.

Save as disclosed above, no other interest or short position in the shares, underlying shares or debentures of the Bank or any of its associated corporations were recorded in the Register.

INFORMATION ON SHARE OPTIONS

Information in relation to share options disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") was as follows:

(1) Movement of share options during the six months ended 30th June, 2009:

Name	Date of Grant ^a	Number of Share Options					Outstanding at 30/6/2009
		Outstanding at 1/1/2009	Additional Share Options for Bonus Issue ^b	Granted	Exercised	Lapsed	
David LI Kwok-po	22/4/2004	1,000,000	100,000	–	–	1,100,000	Nil
	03/5/2005	1,000,000	100,000	–	–	–	1,100,000
	03/5/2006	1,000,000	100,000	–	–	–	1,100,000
	10/5/2007	1,000,000	100,000	–	–	–	1,100,000
	05/5/2008	2,000,000	200,000	–	–	–	2,200,000
	05/5/2009	–	–	2,000,000 ^c	–	–	2,000,000
Aggregate of other Employees*	22/4/2004	1,765,000	176,500	–	–	1,941,500	Nil
	03/5/2005	5,105,000	510,500	–	399,000 ^d	–	5,216,500
	03/5/2006	1,700,000	170,000	–	–	275,000	1,595,000
	10/5/2007	1,750,000	175,000	–	–	275,000	1,650,000
	05/5/2008	3,500,000	350,000	–	–	550,000	3,300,000
	05/5/2009	–	–	4,600,000 ^c	–	–	4,600,000

* Employees working under employment contracts that were regarded as "Continuous Contracts" for the purpose of the Hong Kong Employment Ordinance.

Notes:

a Particulars of share options:

<u>Date of Grant</u>	<u>Vesting Period</u>	<u>Exercise Period</u>	<u>Exercise Price Per Share HK\$</u>
22/4/2004	22/4/2004 – 21/4/2005	22/4/2005 – 22/4/2009	21.11 ^b
03/5/2005	03/5/2005 – 02/5/2006	03/5/2006 – 03/5/2010	20.86 ^b
03/5/2006	03/5/2006 – 02/5/2007	03/5/2007 – 03/5/2011	30.04 ^b
10/5/2007	10/5/2007 – 09/5/2008	10/5/2008 – 10/5/2012	42.84 ^b
05/5/2008	05/5/2008 – 04/5/2009	05/5/2009 – 05/5/2013	40.09 ^b
05/5/2009	05/5/2009 – 04/5/2010	05/5/2010 – 05/5/2014	21.25

b The Bank made a one for 10 bonus issue of shares on 17th April, 2009 (the "Bonus Issue"). For share options remained exercisable on 17th April, 2009, adjustments for the Bonus Issue were made to the effect that the number of share options have been increased by 10% and the exercise prices have been decreased accordingly. These adjustments were made in accordance with the Rules of the relevant share option schemes.

c (i) The closing price of the shares of the Bank immediately before 5th May, 2009 on which the options were granted was HK\$19.92.

(ii) Fair value of share options granted during the six months ended 30th June, 2009 and assumptions:

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on a trinomial lattice model. The contractual life of the option is used as an input into this model.

	<u>30/06/2009</u>
Fair value at measurement date	HK\$9.66
Share price	HK\$21.25
Exercise price	HK\$21.25
Expected volatility (expressed as weighted average volatility used in the modelling under trinomial lattice model)	59.96%
Option life	5 years
Expected dividends	2.35%
Risk-free interest rate (based on Exchange Fund Notes)	1.64%

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.

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.

d The half-year weighted average ("HWA") closing price of the shares of the Bank immediately before the date on which the Options were exercised during the six months ended 30th June, 2009:

<u>Date of Grant</u>	<u>No. of Options Exercised</u>	<u>Exercise Price Per Share HK\$</u>	<u>HWA Closing Price HK\$</u>
03/5/2005	399,000	20.86	25.57

(2) No share options were cancelled during the six months ended 30th June, 2009.

(3) The accounting policy adopted for share options:

The option exercise price equals the fair value of the underlying shares at the date of grant. 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 profit and loss account 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 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.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited to the profit and loss account 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.

The amount recognised in capital reserve is retained until either the option is exercised (when it is transferred to share premium) or the option expires (when it is released directly to retained profits).

Save as disclosed above, as at 30th June, 2009, none of the Directors or Chief Executive of the Bank or their spouses or children under 18 years of age were granted or exercised any right to subscribe for any equity or debt securities of the Bank or any of its associated corporations.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 30th June, 2009, the interests and short positions of Substantial Shareholders and Other Persons of the Bank in the shares and underlying shares of the Bank as recorded in the Register required to be kept under section 336 of the SFO were as follows:

Long Position in shares of the Bank:

Name	Capacity and nature	No. of shares	Disclosure pursuant to Part XV of SFO	
			% of issued share capital	Disclosure Date
Negocio de Finanzas e Inversiones I, S.L.U.	Beneficial owner	151,063,572 ¹	9.04	30.5.2008
Criteria CaixaCorp, S.A.	Interest of corporation	151,063,572 ¹	9.04	30.5.2008
Caja de Ahorros y Pensiones de Barcelona	Interest of corporation	151,063,572 ¹	9.04	30.5.2008
Guoco Management Company Limited	Beneficial owner	83,996,200 ^{2,3}	5.02	29.1.2009
Guoco Group Limited	Interest of corporation	83,996,200 ²	5.02	29.1.2009
GuoLine Overseas Limited	Interest of corporation	83,996,200 ²	5.02	29.1.2009
GuoLine Capital Assets Limited	Interest of corporation	83,996,200 ²	5.02	29.1.2009
Hong Leong Company (Malaysia) Berhad	Interest of corporation	83,996,200 ^{2,3}	5.02	29.1.2009
HL Holdings Sdn Bhd	Interest of corporation	83,996,200 ²	5.02	29.1.2009
Quek Leng Chan	Interest of corporation	83,996,200 ²	5.02	29.1.2009
Hong Leong Investment Holdings Pte. Ltd.	Interest of corporation	83,996,200 ³	5.02	30.1.2009
Davos Investment Holdings Private Limited	Interest of corporation	83,996,200 ³	5.02	30.1.2009
Kwek Leng Kee	Interest of corporation	83,996,200 ³	5.02	30.1.2009

Notes:

- 1 The Bank was notified that, as at 30th June, 2009, Caja de Ahorros y Pensiones de Barcelona was holding a 79.45% interest in Criteria CaixaCorp, S.A. which was the sole shareholder of Negocio de Finanzas e Inversiones I, S.L.U. Caja de Ahorros y Pensiones de Barcelona and Criteria CaixaCorp, S.A. were deemed to be interested in the 151,063,572 shares held by Negocio de Finanzas e Inversiones I, S.L.U.

The Bank was notified that the shareholdings of the above three corporations had been increased to 164,928,972 shares as at 31st December, 2008 (equivalent to approximately 9.86% of the issued share capital of the Bank on such date). The Bank was subsequently notified that the shareholdings of the above three corporations had been increased to 181,421,869 shares as at 30th June, 2009 (equivalent to approximately 9.85% of the issued share capital of the Bank on such date), attributable to the 1 for 10 bonus issue of the Bank in April 2009. Such increases in shareholdings were not required to be disclosed under Part XV of the SFO.

- 2 The references to 83,996,200 shares (of which 31,292,400 shares were physically settled unlisted derivatives) of the Bank in Notes 2 and 3 relate to the same block of shares. Guoco Management Company Limited was the beneficial owner of 83,996,200 shares (equivalent to approximately 5.02% of the issued share capital of the Bank at the time of disclosure pursuant to Part XV of the SFO). Hong Leong Company (Malaysia) Berhad was deemed to be interested in the 83,996,200 shares held by Guoco Management Company Limited by virtue of its 100% interest in GuoLine Capital Assets Limited which owned a 100% interest in GuoLine Overseas Limited. GuoLine Overseas Limited held a 70.02% interest in Guoco Group Limited which in turn was the sole shareholder of Guoco Management Company Limited. GuoLine Capital Assets Limited, GuoLine Overseas Limited and Guoco Group Limited were all deemed to be interested in the 83,996,200 shares held by Guoco Management Company Limited.

Quek Leng Chan was deemed to be interested in the 83,996,200 shares held by Guoco Management Company Limited by virtue of his 100% interest in HL Holdings Sdn Bhd which in turn held 49.11% interest in Hong Leong Company (Malaysia) Berhad.

Subsequent to 30th June, 2009, the Bank was notified that the shareholdings of the corporations hereinmentioned in Note 2 and Quek Leng Chan had been increased to 110,986,500 shares as of 15th July, 2009 (equivalent to approximately 6.03% of the issued share capital of the Bank on such date).

- 3 The references to 83,996,200 shares (of which 31,292,400 shares were physically settled unlisted derivatives) of the Bank in Notes 2 and 3 relate to the same block of shares. Hong Leong Company (Malaysia) Berhad was 34.49% held by Hong Leong Investment Holdings Pte. Ltd. which was 33.59% held by Davos Investment Holdings Private Limited. Hong Leong Investment Holdings Pte. Ltd. and Davos Investment Holdings Private Limited were deemed to be interested in the 83,996,200 shares (equivalent to approximately 5.02% of the issued share capital of the Bank at the time of disclosure pursuant to XV of the SFO) held by Guoco Management Company Limited by virtue of their interests in Hong Leong Company (Malaysia) Berhad.

Kwek Leng Kee was deemed to be interested in the 83,996,200 shares held by Guoco Management Company Limited by virtue of his 41.92% interest in Davos Investment Holdings Private Limited.

Subsequent to 30th June, 2009, the Bank was notified that the shareholdings of the corporations hereinmentioned in Note 3 and Kwek Leng Kee had been increased to 110,986,500 shares as of 15th July, 2009 (equivalent to approximately 6.03% of the issued share capital of the Bank on such date).

Save as disclosed above, no other interest or short position in the shares, underlying shares or debentures of the Bank were recorded in the Register.

DEALING IN LISTED SECURITIES OF THE BANK

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the six months ended 30th June, 2009.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

Being the largest independent local bank in Hong Kong, the Bank is committed to maintaining the highest corporate governance standards. The Board considers such commitment essential in balancing the interests of shareholders, customers and employees; and in upholding accountability and transparency.

BEA has complied with all the Code Provisions set out in Appendix 14, Code on Corporate Governance Practices of the Listing Rules, throughout the accounting period for the six months ended 30th June, 2009, except for Code Provision A.2.1 as explained below.

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

Dr. The Hon. Sir David LI Kwok-po is the Chairman & Chief Executive of the Bank. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Bank. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and highly qualified individuals. The Board meets at approximately bi-monthly intervals to discuss issues affecting operations of the Bank. There is a strong independent element in the composition of the Board. Of the 18 Board members, nine are Independent Non-executive Directors. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Bank to make and implement decisions promptly and efficiently. The Board believes that Sir David's appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects and management of the Bank.

COMPLIANCE WITH MODEL CODE

The Bank has established its own code of securities transactions by the Directors and Chief Executive, i.e. *Policy on Insider Trading – Directors and Chief Executive* ("Bank's Policy") on terms no less exacting than the required standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of the Listing Rules.

The Bank has also established a *Policy on Insider Trading – Group Personnel* to be observed by the employees of the Bank or directors or employees of the Bank's subsidiaries, in respect of their dealings in the securities of the Bank.

Specific enquiries have been made on all Directors of the Bank including a Director retired and a Director appointed during the six months ended 30th June, 2009. All Directors confirmed that they had complied with the required standard set out in the Model Code and the Bank's Policy at all the applicable times during the six months ended 30th June, 2009.

By order of the Board

David LI Kwok-po

Chairman & Chief Executive

Hong Kong, 25th August, 2009

As at the date of this report, the Executive Director of the Bank is: Dr. The Hon. Sir David LI Kwok-po (Chairman & Chief Executive); Non-executive Directors of the Bank are: Professor Arthur LI Kwok-cheung (Deputy Chairman), Mr. Aubrey LI Kwok-sing, Dr. William MONG Man-wai, Tan Sri Dr. KHOO Kay-peng, Mr. Richard LI Tzar-kai, Mr. Eric LI Fook-chuen, Mr. Stephen Charles LI Kwok-Sze and Dr. Isidro FAINÉ CASAS; and Independent Non-executive Directors are: Dr. Allan WONG Chi-yun (Deputy Chairman), Mr. WONG Chung-hin, Dr. LEE Shau-kee, Mr. Winston LO Yau-lai, Mr. Thomas KWOK Ping-kwong, Mr. Kenneth LO Chin-ming, Mr. William DOO Wai-hoi, Mr. KUOK Khoon-ean and Mr. Valiant CHEUNG Kin-piu.