



(Stock Code : 23)

Interim Report **2011**

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The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

INTERIM REPORT 2011

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, 2011. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2010 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 40.

1. Consolidated Income Statement

	6 months ended 30/6/2011	6 months ended 30/6/2010 Restated ^e	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	9,310	6,163	7,463
Interest expense	(4,910)	(2,494)	(3,589)
Net interest income	4,400	3,669	3,874
Fee and commission income	2,077	1,710	1,939
Fee and commission expense	(371)	(353)	(354)
Net fee and commission income	1,706	1,357	1,585
Net trading profits/(losses)	411	(329)	183
Net result from financial instruments designated at fair value through profit or loss	(179)	442	(179)
Net hedging loss	(3)	–	(5)
Other operating income	303	273	256
Non-interest income	2,238	1,743	1,840
Operating income	6,638	5,412	5,714
Operating expenses	(3,802)	(3,275)	(3,629)
Operating profit before impairment losses	2,836	2,137	2,085
Write back of/(Charge for) impairment losses on loans and advances	40	(150)	(135)
Impairment losses on held-to-maturity investment	(12)	–	–
Impairment losses on available-for-sale financial assets	(9)	(19)	(5)
Write back of impairment losses on associates	–	1	–
Write back of impairment losses on bank premises	–	–	2
Impairment losses	19	(168)	(138)
Operating profit after impairment losses	2,855	1,969	1,947
Net profit on sale of available-for-sale financial assets	83	37	197
Net profit on sale of loans and receivables	3	–	1
Net profit on sale of subsidiaries/associates	15	230	8
Net profit/(loss) on sale of fixed assets	132	14	(20)
Valuation gains on investment properties	285	127	299
Share of profits less losses of associates	202	179	162
Profit for the period before taxation	3,575	2,556	2,594
Income tax			
Current tax ^b			
– Hong Kong	(91)	(191)	(225)
– Overseas	(524)	(277)	(280)
Deferred tax	(203)	51	75
Profit for the period after taxation	2,757	2,139	2,164

	6 months ended 30/6/2011	6 months ended 30/6/2010 Restated ^e	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Attributable to:			
Owners of the parent	2,711	2,100	2,124
Non-controlling interests	46	39	40
Profit after taxation	<u>2,757</u>	<u>2,139</u>	<u>2,164</u>
Profit for the Bank	<u>1,232</u>	<u>1,053</u>	<u>900</u>
Per share			
– Basic earnings ^c	HK\$1.24	HK\$0.96	HK\$0.96
– Diluted earnings ^c	HK\$1.24	HK\$0.96	HK\$0.96

2. Consolidated Statement of Comprehensive Income

	6 months ended 30/6/2011	6 months ended 30/6/2010 Restated ^e	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net profit	<u>2,757</u>		<u>2,164</u>
– As previously reported		2,116	
– Adjustment arising from changes in accounting policies		23	
– As restated		<u>2,139</u>	
Other comprehensive income for the period (after taxation and reclassification adjustments):			
Premises:			
– unrealised surplus on revaluation of premises	4	–	40
– deferred taxes	2	(3)	1
– exchange differences	(4)	1	2
Available-for-sale investment revaluation reserve:			
– fair value changes taken to/(from) equity	2	(99)	190
– fair value changes transferred from/(to) income statement:			
– on impairment and amortisation	15	19	5
– on disposal	(36)	(22)	(178)
– deferred taxes	4	8	49
– exchange difference	(4)	–	–
Share of changes in equity of associates	(6)	27	9
Exchange differences on other reserves	37	12	38
Exchange differences on translation of:			
– accounts of overseas branches, subsidiaries and associates	313	184	585
Other comprehensive income	<u>327</u>	<u>127</u>	<u>741</u>
Total comprehensive income	<u>3,084</u>	<u>2,266</u>	<u>2,905</u>
Total comprehensive income attributable to:			
Owners of the parent	3,038	2,227	2,865
Non-controlling interests	46	39	40
	<u>3,084</u>	<u>2,266</u>	<u>2,905</u>

3. Consolidated Statement of Financial Position

	30/6/2011	30/6/2010 Restated ^e	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
ASSETS			
Cash and balances with banks and other financial institutions	55,910	27,479	48,293
Placements with banks and other financial institutions	74,703	58,149	58,197
Trade bills	38,023	3,075	18,548
Trading assets	7,963	6,587	5,845
Financial assets designated at fair value through profit or loss	17,168	15,357	16,192
Advances to customers and other accounts	340,764	302,526	320,040
Available-for-sale financial assets	38,229	38,802	40,779
Held-to-maturity investments	5,183	6,787	5,714
Investments in associates	3,771	3,255	3,573
Fixed assets	12,519	11,574	12,414
– Investment properties	2,890	2,157	2,574
– Other property and equipment	9,629	9,417	9,840
Goodwill and intangible assets	4,249	4,161	4,188
Deferred tax assets	460	350	410
Total Assets	598,942	478,102	534,193
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions	19,014	13,225	9,994
Deposits from customers	459,326	360,995	419,833
– Demand deposits and current accounts	52,734	49,726	59,699
– Savings deposit	80,155	77,280	82,366
– Time, call and notice deposits	326,437	233,989	277,768
Trading liabilities	3,327	2,515	3,101
Certificates of deposit issued	11,912	1,560	5,586
– At fair value through profit or loss	5,390	1,410	2,754
– At amortised cost	6,522	150	2,832
Current taxation	877	355	618
Debt securities issued	7,466	4,780	4,950
Deferred tax liabilities	458	283	214
Other accounts and provisions	32,645	35,818	28,561
Loan capital	12,969	12,177	12,693
– At fair value through profit or loss	3,733	7,512	3,548
– At amortised cost	9,236	4,665	9,145
Total Liabilities	547,994	431,708	485,550
Share capital	5,147	5,079	5,105
Reserves	41,366	36,928	39,138
Total equity attributable to owners of the parent	46,513	42,007	44,243
Non-controlling interests	4,435	4,387	4,400
Total Equity	50,948	46,394	48,643
Total Equity and Liabilities	598,942	478,102	534,193

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 reserves	Retained profits	Total	Non-controlling 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
At 1st January, 2011	5,105	9,331	165	1,938	258	1,023	86	15,453	2,043	8,841	44,243	4,400	48,643
Changes in equity													
Profit for the period	-	-	-	-	-	-	-	-	-	2,711	2,711	46	2,757
Other comprehensive income	-	-	-	313	(19)	2	-	-	31	-	327	-	327
Total comprehensive income	-	-	-	313	(19)	2	-	-	31	2,711	3,038	46	3,084
Shares issued in lieu of dividend	34	(34)	-	-	-	-	-	441	-	-	441	-	441
Shares issued under Staff Share Option Schemes	8	83	-	-	-	-	-	-	-	-	91	-	91
Equity settled share-based transaction	-	-	11	-	-	-	-	-	-	-	11	-	11
Transfer	-	23	(44)	-	-	-	-	(6)	18	9	-	-	-
Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	(1,311)	(1,311)	(25)	(1,336)
Purchase of interests in businesses from non-controlling interests investors	-	-	-	-	-	-	-	-	-	-	-	7	7
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	7	7
At 30th June, 2011	5,147	9,403	132	2,251	239	1,025	86	15,888	2,092	10,250	46,513	4,435	50,948
At 1st January, 2010													
- As restated	4,623	4,526	170	1,169	286	982	86	14,866	1,518	7,151	35,377	4,358	39,735
Changes in equity													
- Adjustment arising from changes in accounting policies	-	-	-	-	-	(3)	-	-	-	23	20	-	20
Profit for the period	-	-	-	-	-	-	-	-	-	2,077	2,077	39	2,116
Other comprehensive income	-	-	-	184	(94)	1	-	-	39	-	130	-	130
Total comprehensive income													
- As restated	-	-	-	184	(94)	(2)	-	-	39	2,100	2,227	39	2,266
Shares issued in lieu of dividend	26	(26)	-	-	-	-	-	306	-	-	306	-	306
Subscription of new shares	418	4,695	-	-	-	-	-	-	-	-	5,113	-	5,113
Shares issued under Staff Share Option Schemes	12	87	-	-	-	-	-	-	-	-	99	-	99
Equity settled share-based transaction	-	-	21	-	-	-	-	-	-	-	21	-	21
Transfer	-	6	(14)	-	-	-	-	-	21	(13)	-	-	-
Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	(1,136)	(1,136)	(26)	(1,162)
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	16	16
At 30th June, 2010													
- As restated	5,079	9,288	177	1,353	192	980	86	15,172	1,578	8,102	42,007	4,387	46,394

5. Condensed Consolidated Cash Flow Statement

	6 months ended 30/6/2011	6 months ended 30/6/2010
	HK\$ Mn	HK\$ Mn
Cash used in operations	(3,414)	(6,618)
Tax paid	(370)	(302)
Net cash used in operating activities	(3,784)	(6,920)
Net cash generated from/(used in) investing activities	425	(425)
Net cash generated from financing activities	7,396	3,120
Net increase/(decrease) in cash and cash equivalents	4,037	(4,225)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	85,366	60,530
CASH AND CASH EQUIVALENTS AT 30TH JUNE	89,403	56,305
Cash flows from operating activities included:		
Interest received	8,878	5,875
Interest paid	4,248	2,263
Dividend received	51	39

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, 2010 but, save for the early adoption of the amendments to HKAS 12, Income taxes as described in Note (e) below, there is no material change in accounting policies as compared to those accounts, nor for the six months ended 30th June, 2011. The statutory accounts for the year ended 31st December, 2010 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 15th February, 2011.
- (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, 2011. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.
- (c) (i) The calculation of basic earnings per share is based on earnings of HK\$2,546 million (six months ended 30th June, 2010 (restated): HK\$1,935 million) after the distribution of HK\$165 million (six months ended 30th June, 2010: HK\$165 million) to Hybrid Tier 1 issue holders and on the weighted average of 2,049 million (six months ended 30th June, 2010: 2,011 million) ordinary shares outstanding during the six months ended 30th June, 2011.
- (ii) The calculation of diluted earnings per share is based on earnings of HK\$2,546 million (six months ended 30th June, 2010 (restated): HK\$1,935 million) after the distribution of HK\$165 million (six months ended 30th June, 2010: HK\$165 million) to Hybrid Tier 1 issue holders and on 2,051 million (six months ended 30th June, 2010: 2,013 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2011, adjusted for the effects of all dilutive potential shares.

(d) Dividends

	6 months ended 30/6/2011	6 months ended 30/6/2010
	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\$0.43 per share (six months ended 30th June, 2010: HK\$0.38 per share)	885	772
Final dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the balance sheet date and before the close of the Register of Members of the Bank, of HK\$0.56 per share (2010: HK\$0.48 per share)	2	2
	<u>887</u>	<u>774</u>

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

(e) Early adoption of the amendments to HKAS 12, Income taxes

The Group has early adopted the amendments to HKAS 12, Income taxes, in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, Investment property for the financial year ended 31st December, 2010 and this change in accounting policy has been consistently applied in these interim financial statements.

The change in policy arising from the amendments to HKAS 12 is the only change which has had a material impact on the current or comparative periods. As a result of this change in policy, the Group now measures any deferred tax liability in respect of its investment properties with reference to the tax liability that would arise if the properties were disposed of at their carrying amounts at the reporting date. In the prior interim period, where these properties were held under leasehold interests, deferred tax was generally measured using the tax rate that would apply as a result of recovery of the asset's value through use.

This change in policy has been applied retrospectively with consequential adjustments to comparatives for the 6 months ended 30th June, 2010 and 31st December, 2010. As the Group's properties are located in Hong Kong, this has resulted in a reduction in the amount of deferred tax provided on valuation gain as follows:

	As previously reported	Effect of adoption of amendments to HKAS 12	As restated
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Consolidated income statement for the 6 months ended 30th June, 2010:			
Income tax expense	440	(23)	417
Profit for the period	2,116	23	2,139
Basic earnings per share	HK\$0.95	HK\$0.01	HK\$0.96
Fully diluted earnings per share	HK\$0.95	HK\$0.01	HK\$0.96
Consolidated statement of financial position as at 30th June, 2010:			
Deferred tax liabilities	515	(232)	283
Retained profits	7,921	181	8,102
Revaluation reserve of bank premises	929	51	980

6. Interest Income

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Listed securities classified as held-to-maturity or available-for-sale	197	169	212
Trading assets			
– listed	14	9	13
– unlisted	38	30	36
Interest rate swaps	1,405	495	887
Financial assets designated at fair value through profit or loss			
– listed	214	187	244
– unlisted	111	90	107
Loans, deposits with banks and financial institutions, trade bills, and other unlisted securities that are not at fair value through profit or loss	7,331	5,183	5,964
Total interest income	<u>9,310</u>	<u>6,163</u>	<u>7,463</u>

Included above is interest income accrued on impaired financial assets of HK\$29 million (six months ended 30th June, 2010: HK\$43 million, and six months ended 31st December, 2010: HK\$31 million).

7. Interest Expense

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	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	2,474	1,524	1,550
Debt securities issued	119	69	71
Subordinated notes carried at amortised cost	166	20	154
Interest rate swaps	1,976	613	1,572
Financial instruments designated at fair value through profit or loss	171	260	240
Other borrowings	4	8	2
Total interest expense	<u>4,910</u>	<u>2,494</u>	<u>3,589</u>

8. Fee and Commission Income

Fee and commission income arises from the following services:

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Corporate services	470	418	438
Credit cards	369	310	364
Loans, overdrafts and guarantees	233	232	231
Trade finance	221	85	167
Securities and brokerage	208	196	260
Derivatives transactions	187	163	126
Other retail banking services	151	106	131
Trust and other fiduciary activities	60	46	54
Others	178	154	168
	<u>2,077</u>	<u>1,710</u>	<u>1,939</u>

of which:

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

	1,604	1,288	1,520
Fee income	1,896	1,557	1,813
Fee expenses	(292)	(269)	(293)

9. Net Trading Profits/(Losses)

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Profit on dealing in foreign currencies	174	296	15
Profit/(Loss) on trading securities	6	(67)	200
Net gain/(loss) on derivatives	208	(570)	(50)
Loss on other dealing activities	–	(1)	–
Dividend income from listed trading securities	23	13	18
	<u>411</u>	<u>(329)</u>	<u>183</u>

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

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Revaluation (loss)/gain on debts issued	(261)	174	(314)
Net (loss)/profit on sale of other financial assets designated at fair value through profit or loss	(86)	15	(50)
Profit on redemption of US\$550M subordinated notes issued	–	–	8
Revaluation gain on other financial assets designated at fair value through profit or loss	168	253	177
	<u> </u>	<u> </u>	<u> </u>
Total net result from financial instruments designated at fair value through profit or loss	<u>(179)</u>	<u>442</u>	<u>(179)</u>

11. Other Operating Income

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Dividend income from available-for-sale financial assets			
– listed	23	19	16
– unlisted	5	7	24
Rental from safe deposit boxes	40	39	39
Net revenue from insurance activities	108	131	90
Rental income on properties	59	46	46
Others	68	31	41
	<u> </u>	<u> </u>	<u> </u>
Total other operating income	<u>303</u>	<u>273</u>	<u>256</u>

12. Operating Expenses

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Contributions to defined contribution plan	150	115	133
Equity-settled share-based payment expenses	11	21	8
Salaries and other staff costs	1,914	1,576	1,762
Total staff costs	2,075	1,712	1,903
Premises and equipment expenses excluding depreciation			
– Rental of premises	264	241	251
– Maintenance, repairs and others	257	244	244
Total premises and equipment expenses excluding depreciation	521	485	495
Depreciation on fixed assets	310	281	300
Amortisation of intangible assets	17	17	17
Other operating expenses			
– Stamp duty, overseas and PRC * business taxes, and value added taxes	231	162	184
– Communications, stationery and printing	144	140	146
– Advertising expenses	118	124	187
– Legal and professional fees	115	89	130
– Business promotions and business travel	62	75	73
– Card related expenses	30	46	67
– Insurance expenses	26	35	8
– Membership fees	6	5	5
– Administration expenses of corporate services	5	4	5
– Bank charges	4	3	4
– Donations	3	5	3
– Bank licence	2	2	2
– Others	133	90	100
Total other operating expenses	879	780	914
Total operating expenses	3,802	3,275	3,629

* PRC denotes the People's Republic of China.

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

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net revaluation gain transferred from reserves	36	22	178
Profit arising in the period	47	15	19
Total	83	37	197

14. Placements with Banks and Other Financial Institutions

	30/6/2011 HK\$ Mn	30/6/2010 HK\$ Mn	31/12/2010 HK\$ Mn
Placements with central banks	524	78	–
Placements with banks and authorised institutions	74,179	58,071	57,955
Placements with other financial institutions	–	–	242
	<u>74,703</u>	<u>58,149</u>	<u>58,197</u>
Maturing			
– within one month	54,858	44,375	49,548
– between one month and one year	19,845	13,774	8,649
	<u>74,703</u>	<u>58,149</u>	<u>58,197</u>

15. Trading Assets

	30/6/2011 HK\$ Mn	30/6/2010 HK\$ Mn	31/12/2010 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	35	1,699	–
Debt securities	4,219	1,701	2,411
Equity securities	1,518	1,353	1,502
Investment funds	18	200	194
	<u>5,790</u>	<u>4,953</u>	<u>4,107</u>
Trading securities	5,790	4,953	4,107
Positive fair value of derivatives	2,173	1,634	1,738
	<u>7,963</u>	<u>6,587</u>	<u>5,845</u>
Issued by:			
Central governments and central banks	806	2,102	596
Public sector entities	9	67	22
Banks and other financial institutions	1,017	1,119	1,066
Corporate entities	3,940	1,651	2,229
Other entities	18	14	194
	<u>5,790</u>	<u>4,953</u>	<u>4,107</u>
Analysed by place of listing:			
Listed in Hong Kong	1,527	1,413	1,484
Listed outside Hong Kong	925	807	1,071
	<u>2,452</u>	<u>2,220</u>	<u>2,555</u>
Unlisted	3,338	2,733	1,552
	<u>5,790</u>	<u>4,953</u>	<u>4,107</u>

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

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt securities	16,725	15,013	15,989
Equity securities	427	344	203
Investment funds	16	–	–
	<u>17,168</u>	<u>15,357</u>	<u>16,192</u>
Issued by:			
Central governments and central banks	534	526	531
Public sector entities	41	179	175
Banks and other financial institutions	8,514	7,722	8,032
Corporate entities	8,064	6,930	7,454
Other entities	15	–	–
	<u>17,168</u>	<u>15,357</u>	<u>16,192</u>
Analysed by place of listing:			
Listed in Hong Kong	4,035	3,277	3,695
Listed outside Hong Kong	7,779	6,922	7,171
	<u>11,814</u>	<u>10,199</u>	<u>10,866</u>
Unlisted	5,354	5,158	5,326
	<u>17,168</u>	<u>15,357</u>	<u>16,192</u>

17. Advances to Customers and Other Accounts

(a) Advances to customers and other accounts

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
(i) Advances to customers	312,491	278,210	297,044
Less: Impairment allowances			
– Individual	(244)	(480)	(282)
– Collective	(793)	(705)	(819)
	<u>311,454</u>	<u>277,025</u>	<u>295,943</u>
(ii) Other Accounts			
Advances to banks and other financial institutions	4,107	1,180	1,320
Less: Impairment allowances – Individual	(3)	–	–
Notes and bonds	1	61	–
Certificates of deposit held	39	39	39
Accrued interest	2,638	1,601	2,206
Bankers acceptances	17,116	11,556	14,583
Other accounts	5,457	11,106	5,990
	<u>29,355</u>	<u>25,543</u>	<u>24,138</u>
Less: Impairment allowances			
– Individual	(41)	(32)	(38)
– Collective	(4)	(10)	(3)
	<u>29,310</u>	<u>25,501</u>	<u>24,097</u>
	<u>340,764</u>	<u>302,526</u>	<u>320,040</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.

	30/6/2011		30/6/2010		31/12/2010	
	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	9,936	68.81	9,604	53.74	10,245	60.04
– Property investment	42,384	89.42	36,099	93.75	40,697	92.44
– Financial concerns	9,585	78.94	2,781	68.88	6,169	75.47
– Stockbrokers	912	38.47	8,519	95.66	453	84.53
– Wholesale and retail trade	6,869	35.36	3,782	59.29	4,710	40.62
– Manufacturing	4,831	39.07	3,467	56.41	4,876	50.28
– Transport and transport equipment	4,542	75.43	4,452	72.56	4,461	77.56
– Recreational activities	204	28.56	74	25.40	88	16.47
– Information technology	583	58.36	275	2.40	566	57.15
– Others	5,860	50.34	5,202	57.20	4,885	55.71
– Sub-total	85,706	74.38	74,255	80.12	77,150	77.37
Individuals						
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,497	100.00	1,515	100.00	1,611	100.00
– Loans for the purchase of other residential properties	28,484	99.99	27,658	99.94	30,130	99.99
– Credit card advances	3,042	0.00	2,822	0.00	3,087	0.00
– Others	13,286	77.56	15,510	83.73	13,570	73.38
– Sub-total	46,309	86.99	47,505	88.71	48,398	86.15
Total loans for use in Hong Kong	132,015	78.80	121,760	83.48	125,548	80.76
Trade finance	7,928	41.48	6,409	59.08	9,554	46.03
Loans for use outside Hong Kong *	172,548	75.16	150,041	72.99	161,942	72.16
Total advances to customers	312,491	75.84	278,210	77.26	297,044	74.95

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

	30/6/2011		30/6/2010		31/12/2010	
	Gross advances	% of secured advances	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%	HK\$ Mn	%
Property development	26,848	55.88	19,833	56.49	24,732	52.19
Property investment	23,930	92.36	22,146	84.10	22,722	89.55
Wholesale and retail trade	21,681	88.99	20,330	91.83	17,835	88.23
Manufacturing	10,119	59.58	9,387	42.08	9,731	51.77
Others	48,856	75.27	42,239	74.07	47,628	73.16
	131,434	75.48	113,935	73.49	122,648	72.46

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

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
(i) Property development			
a. Individually impaired loans	361	858	528
b. Individual impairment allowance	44	102	58
c. Collective impairment allowance	65	58	64
d. Provision charged to income statement			
– individual impairment loss	4	89	169
– collective impairment loss	13	7	22
e. Written off	–	28	114
(ii) Property investment			
a. Individually impaired loans	469	576	441
b. Individual impairment allowance	73	74	67
c. Collective impairment allowance	248	185	266
d. Provision charged to income statement			
– individual impairment loss	19	61	87
– collective impairment loss	47	15	82
e. Written off	7	1	27
(iii) Loans for purchase of residential properties			
a. Individually impaired loans	104	129	102
b. Individual impairment allowance	–	–	–
c. Collective impairment allowance	60	27	46
d. Provision charged to income statement			
– individual impairment loss	1	1	3
– collective impairment loss	17	7	24
e. Written off	1	–	3
(iv) Wholesale and retail trade			
a. Individually impaired loans	119	206	117
b. Individual impairment allowance	57	111	43
c. Collective impairment allowance	83	70	76
d. Provision charged to income statement			
– individual impairment loss	13	23	35
– collective impairment loss	20	14	22
e. Written off	5	52	96

(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.

	30/6/2011				
	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	151,371	189	342	73	272
People's Republic of China	126,002	31	201	28	188
Other Asian Countries	13,858	47	52	30	135
Others	21,260	100	803	113	198
Total	<u>312,491</u>	<u>367</u>	<u>1,398</u>	<u>244</u>	<u>793</u>
% of total advances to customers			<u>0.45%</u>		
Market value of security held against impaired advances to customers			<u>3,035</u>		
	30/6/2010				
	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	140,597	189	362	75	284
People's Republic of China	107,582	173	359	25	90
Other Asian Countries	10,434	36	210	131	178
Others	19,597	185	1,467	249	153
Total	<u>278,210</u>	<u>583</u>	<u>2,398</u>	<u>480</u>	<u>705</u>
% of total advances to customers			<u>0.86%</u>		
Market value of security held against impaired advances to customers			<u>5,190</u>		

31/12/2010

	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	145,109	183	337	77	284
People's Republic of China	118,898	53	222	27	145
Other Asian Countries	12,061	55	101	62	149
Others	20,976	105	932	116	241
Total	297,044	396	1,592	282	819
% of total advances to customers			0.54%		
Market value of security held against impaired advances to customers			3,223		

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.

18. Available-for-Sale Financial Assets

	30/6/2011 HK\$ Mn	30/6/2010 HK\$ Mn	31/12/2010 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	6,421	5,691	6,744
Certificates of deposit held	3,592	1,834	2,152
Debt securities	25,824	29,212	29,271
Equity securities	2,090	1,837	2,290
Investment funds	302	228	322
	38,229	38,802	40,779
Issued by:			
Central governments and central banks	10,794	13,978	11,882
Public sector entities	6	427	3,726
Banks and other financial institutions	15,683	15,502	14,861
Corporate entities	11,401	8,719	10,016
Other entities	345	176	294
	38,229	38,802	40,779
Analysed by place of listing:			
Listed in Hong Kong	2,115	2,229	2,249
Listed outside Hong Kong	7,014	6,587	6,545
	9,129	8,816	8,794
Unlisted	29,100	29,986	31,985
	38,229	38,802	40,779

19. Held-to-Maturity Investments

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	171	64	64
Certificates of deposit held	1,226	2,046	1,288
Debt securities	3,797	4,715	4,362
	<u>5,194</u>	<u>6,825</u>	<u>5,714</u>
Less: Impairment allowances	(11)	(38)	–
	<u>5,183</u>	<u>6,787</u>	<u>5,714</u>
Issued by:			
Central governments and central banks	1,751	1,482	1,506
Public sector entities	425	443	455
Banks and other financial institutions	2,420	3,865	2,897
Corporate entities	587	997	856
	<u>5,183</u>	<u>6,787</u>	<u>5,714</u>
Analysed by place of listing:			
Listed in Hong Kong	794	969	948
Listed outside Hong Kong	2,292	2,950	2,548
	<u>3,086</u>	<u>3,919</u>	<u>3,496</u>
Unlisted	2,097	2,868	2,218
	<u>5,183</u>	<u>6,787</u>	<u>5,714</u>
Fair value:			
Listed securities	3,190	4,026	3,614
Unlisted securities	2,110	2,894	2,237
	<u>5,300</u>	<u>6,920</u>	<u>5,851</u>

20. Fixed Assets

	30/6/2011				
	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, 2011	2,574	9,031	4,160	13,191	15,765
Additions	–	39	177	216	216
Additions through acquisition	–	–	3	3	3
Revaluation surplus	285	–	–	–	285
Revaluation of bank premises transferred to investment properties	–	4	–	4	4
Transfer from bank premises to investment properties	12	(12)	–	(12)	–
Redevelopment cost	2	3	–	3	5
Disposals	–	(277)	(53)	(330)	(330)
Exchange adjustments	17	129	34	163	180
At 30th June, 2011	2,890	8,917	4,321	13,238	16,128
Accumulated depreciation and amortisation					
At 1st January, 2011	–	877	2,474	3,351	3,351
Charge for the period	–	80	230	310	310
Additions through acquisition	–	–	2	2	2
Written back on disposal	–	(39)	(45)	(84)	(84)
Exchange adjustments	–	9	21	30	30
At 30th June, 2011	–	927	2,682	3,609	3,609
Net book value at 30th June, 2011	2,890	7,990	1,639	9,629	12,519
Net book value at 30th June, 2010	2,157	7,857	1,560	9,417	11,574
Net book value at 31st December, 2010	2,574	8,154	1,686	9,840	12,414
The gross amounts of the above assets are stated:					
At cost	–	8,102	4,321	12,423	12,423
At Directors' valuation – 1989	–	815	–	815	815
At professional valuation – 2011	2,890	–	–	–	2,890
	2,890	8,917	4,321	13,238	16,128

21. Trading Liabilities

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Exchange fund bills sold	32	–	–
Shares sold	3	2	1
Negative fair value of derivatives	3,292	2,513	3,100
	<u>3,327</u>	<u>2,515</u>	<u>3,101</u>

22. Other Accounts and Provisions

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Accrued interest payable	2,672	1,320	2,010
Acceptance draft payable	17,116	11,556	14,583
Other accounts	12,857	22,942	11,968
	<u>32,645</u>	<u>35,818</u>	<u>28,561</u>

23. Loan Capital

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
USD550 million 5.625% subordinated notes, measured at fair value through profit or loss	–	4,278	–
GBP300 million 6.125% step-up perpetual subordinated notes, measured at fair value through profit or loss	3,733	3,234	3,548
USD600 million floating rate step-up subordinated notes, measured at amortised cost	4,667	4,665	4,660
USD600 million subordinated notes, measured at amortised cost	4,569	–	4,485
	<u>12,969</u>	<u>12,177</u>	<u>12,693</u>

Loan capital of face value of HK\$3,757 million (GBP300 million) and carrying amount of HK\$3,733 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. The notes are redeemable at the option of the Bank on 21st March, 2012 or thereafter.

Loan capital of face value of HK\$4,669 million (USD600 million) and carrying amount of HK\$4,667 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. The notes are redeemable at the option of the Bank on 22nd June, 2012.

Loan capital of face value of HK\$4,669 million (USD600 million) and carrying amount of HK\$4,569 million represents 6.125% subordinated notes qualifying as tier 2 capital which were issued on 16th July, 2010 (USD450 million) and on 23rd July, 2010 (USD150 million) by the Bank. The notes are listed on the Singapore Stock Exchange and will mature on 16th July, 2020. Hedge ineffectiveness of HK\$3 million in the first half of 2011 was recorded under fair value hedge accounting.

24. Segment Reporting

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

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

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

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

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

China operations include the back office unit for China operations in Hong Kong, all branches and subsidiaries in China, except those subsidiaries carrying out corporate services, data processing and other back office operations and associates operated in China.

Overseas operations include the back office unit for overseas operations in Hong Kong, overseas branches and subsidiaries, except those subsidiaries carrying out corporate services and associates operated in overseas.

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, supporting units of Hong Kong operations, investment properties, bank premises, the net results of associates and other subsidiaries in Hong Kong.

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

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

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

In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter segment lending), interest expense, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations.

	Hong Kong banking operations							Total reportable segments HK\$ Mn	Inter-segment elimination		Total HK\$ Mn
	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	HK\$ Mn	
Net interest income/(expense)	922	935	(249)	138	2,270	442	1	4,459	(59)	-	4,400
Non-interest income	322	277	27	151	433	159	471	1,840	546	(148)	2,238
Operating income	1,244	1,212	(222)	289	2,703	601	472	6,299	487	(148)	6,638
Operating expenses	(637)	(80)	(50)	(75)	(1,499)	(286)	(314)	(2,941)	(1,009)	148	(3,802)
Operating profit/(loss) before impairment losses	607	1,132	(272)	214	1,204	315	158	3,358	(522)	-	2,836
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(32)	28	4	5	(59)	103	(3)	46	(6)	-	40
Impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	-	-	-	(12)	-	(12)	(9)	-	(21)
Operating profit/(loss) after impairment losses	575	1,160	(268)	219	1,145	406	155	3,392	(537)	-	2,855
Profit on sale of fixed assets, available-for-sale financial assets and loans and receivables	(1)	-	37	-	115	3	(1)	153	65	-	218
Profit on sale of subsidiaries/associates	-	-	-	-	-	15	-	15	-	-	15
Valuation gains/(losses) on investment properties	-	-	-	-	20	(1)	-	19	266	-	285
Share of profits less losses of associates	-	-	-	-	-	-	-	-	202	-	202
Profit/(Loss) before taxation	574	1,160	(231)	219	1,280	423	154	3,579	(4)	-	3,575
Depreciation for the period	(34)	(1)	(2)	(1)	(156)	(15)	(9)	(218)	(92)	-	(310)
Segment assets	46,683	125,896	126,658	18,248	273,230	59,234	2,995	652,944	23,612	(81,385)	595,171
Investments in associates	-	-	-	-	-	-	-	-	3,771	-	3,771
Total assets	46,683	125,896	126,658	18,248	273,230	59,234	2,995	652,944	27,383	(81,385)	598,942
Total liabilities	253,070	1,653	39,564	20,037	252,880	45,266	837	613,307	10,142	(75,455)	547,994

6 months ended 30/6/2010 (Restated)

	Hong Kong banking operations							Total reportable segments HK\$ Mn	Inter-segment elimination		Total HK\$ Mn
	Personal banking	Corporate banking	Treasury markets	Wealth management	China operations	Overseas operations	Corporate services		Others	Inter-segment elimination	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn		HK\$ Mn	HK\$ Mn	
Net interest income/(expense)	1,041	478	191	86	1,641	341	1	3,779	(110)	-	3,669
Non-interest income	260	40	97	137	284	90	419	1,327	538	(122)	1,743
Operating income	1,301	518	288	223	1,925	431	420	5,106	428	(122)	5,412
Operating expenses	(630)	(62)	(48)	(57)	(1,165)	(255)	(271)	(2,488)	(909)	122	(3,275)
Operating profit/(loss) before impairment losses	671	456	240	166	760	176	149	2,618	(481)	-	2,137
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(10)	(26)	-	2	13	(126)	(2)	(149)	(1)	-	(150)
Impairment losses on available-for-sale financial assets, held-to-maturity investments and associates	-	-	-	-	-	-	-	-	(18)	-	(18)
Operating profit/(loss) after impairment losses	661	430	240	168	773	50	147	2,469	(500)	-	1,969
Profit on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and loans and receivables	-	-	11	-	6	-	-	17	34	-	51
Profit on sale of subsidiaries/associates	-	-	-	-	-	-	-	-	230	-	230
Valuation gains/(losses) on investment properties	-	-	-	-	1	(1)	-	-	127	-	127
Share of profits less losses of associates	-	-	-	-	-	-	-	-	179	-	179
Profit before taxation	661	430	251	168	780	49	147	2,486	70	-	2,556
Depreciation for the period	(33)	(1)	(2)	(1)	(128)	(15)	(8)	(188)	(93)	-	(281)
Segment assets	46,909	91,776	127,104	10,089	177,075	48,251	3,648	504,852	23,670	(53,675)	474,847
Investments in associates	-	-	-	-	-	-	-	-	3,255	-	3,255
Total assets	46,909	91,776	127,104	10,089	177,075	48,251	3,648	504,852	26,925	(53,675)	478,102
Total liabilities	225,551	4,078	27,634	14,722	159,021	37,763	1,710	470,479	9,546	(48,317)	431,708

25. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2011							
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	27,833	61	56	53	–	–	27,907	55,910
Placements with banks and other financial institutions	524	54,334	8,087	11,758	–	–	–	74,703
Trade bills	92	1,826	5,538	30,548	18	–	1	38,023
Trading assets	–	35	469	1,618	1,985	147	3,709	7,963
Financial assets designated at fair value through profit or loss	–	–	117	1,511	11,833	3,264	443	17,168
Advances to customers and other accounts	5,655	32,514	31,476	71,049	119,318	77,064	3,688	340,764
Available-for-sale financial assets	–	1,873	4,627	5,589	20,821	2,927	2,392	38,229
Held-to-maturity investments	–	1,023	885	1,143	1,899	233	–	5,183
Undated assets	–	–	–	–	–	–	20,999	20,999
Total assets	34,104	91,666	51,255	123,269	155,874	83,635	59,139	598,942
Liabilities								
Deposits and balances of banks and other financial institutions	1,512	9,266	3,157	4,244	743	–	92	19,014
Deposits from customers	134,387	130,766	93,585	83,898	16,690	–	–	459,326
– Demand deposits and current accounts	52,734	–	–	–	–	–	–	52,734
– Savings deposit	80,155	–	–	–	–	–	–	80,155
– Time, call and notice deposits	1,498	130,766	93,585	83,898	16,690	–	–	326,437
Trading liabilities	–	32	–	–	–	–	3,295	3,327
Certificates of deposit issued	–	462	2,875	4,931	3,644	–	–	11,912
Current taxation	–	–	–	877	–	–	–	877
Debt securities issued	–	4,809	–	250	2,407	–	–	7,466
Loan capital	–	–	–	8,400	–	4,569	–	12,969
Other liabilities	1,446	3,458	5,969	9,284	783	2	12,161	33,103
Total liabilities	137,345	148,793	105,586	111,884	24,267	4,571	15,548	547,994
Net gap	(103,241)	(57,127)	(54,331)	11,385	131,607	79,064		

31/12/2010

	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	28,108	70	63	40	–	–	20,012	48,293
Placements with banks and other financial institutions	121	49,427	2,161	6,488	–	–	–	58,197
Trade bills	554	4,723	11,752	1,513	–	–	6	18,548
Trading assets	–	–	12	947	1,204	248	3,434	5,845
Financial assets designated at fair value through profit or loss	–	–	135	1,049	11,676	3,129	203	16,192
Advances to customers and other accounts	4,922	30,209	24,198	65,844	117,380	73,008	4,479	320,040
Available-for-sale financial assets	120	1,734	5,333	8,547	19,385	3,048	2,612	40,779
Held-to-maturity investments	27	868	203	1,456	2,388	772	–	5,714
Undated assets	–	–	–	–	–	–	20,585	20,585
Total assets	33,852	87,031	43,857	85,884	152,033	80,205	51,331	534,193
Liabilities								
Deposits and balances of banks and other financial institutions	1,013	2,941	1,429	3,992	596	–	23	9,994
Deposits from customers	142,673	126,658	72,199	64,052	14,251	–	–	419,833
– Demand deposits and current accounts	59,699	–	–	–	–	–	–	59,699
– Savings deposit	82,366	–	–	–	–	–	–	82,366
– Time, call and notice deposits	608	126,658	72,199	64,052	14,251	–	–	277,768
Trading liabilities	–	–	–	–	–	–	3,101	3,101
Certificates of deposit issued	–	–	535	874	1,776	2,401	–	5,586
Current taxation	–	–	–	618	–	–	–	618
Debt securities issued	–	–	–	4,709	241	–	–	4,950
Loan capital	–	–	–	–	8,208	4,485	–	12,693
Other liabilities	1,674	2,823	4,168	9,522	358	–	10,230	28,775
Total liabilities	145,360	132,422	78,331	83,767	25,430	6,886	13,354	485,550
Net gap	(111,508)	(45,391)	(34,474)	2,117	126,603	73,319		

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, 2011	322	145	(131)	(19)	(147)	(366)	(196)
Charged/(credited) to consolidated income statement	(6)	(1)	(49)	-	50	209	203
Credited to reserves	-	(2)	-	(4)	-	-	(6)
Exchange and other adjustments	-	-	1	(1)	(2)	(1)	(3)
At 30th June, 2011	<u>316</u>	<u>142</u>	<u>(179)</u>	<u>(24)</u>	<u>(99)</u>	<u>(158)</u>	<u>(2)</u>
Balance as at 30th June, 2010 (restated)	<u>306</u>	<u>117</u>	<u>(63)</u>	<u>31</u>	<u>(189)</u>	<u>(269)</u>	<u>(67)</u>
Balance as at 31st December, 2010	<u>322</u>	<u>145</u>	<u>(131)</u>	<u>(19)</u>	<u>(147)</u>	<u>(366)</u>	<u>(196)</u>

27. Reserves

	30/6/2011	30/6/2010 Restated ^e	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Share premium	9,403	9,288	9,331
General reserve	15,888	15,172	15,453
Revaluation reserve on bank premises	1,025	980	1,023
Investment revaluation reserve	239	192	258
Exchange revaluation reserve	2,251	1,353	1,938
Other reserves	2,310	1,841	2,294
Retained profits*	10,250	8,102	8,841
Total	<u>41,366</u>	<u>36,928</u>	<u>39,138</u>
Proposed dividends, not provided for	<u>885</u>	<u>772</u>	<u>1,144</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, 2011, HK\$2,484 million (31st December, 2010: HK\$2,306 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

	30/6/2011	30/6/2010
	HK\$ Mn	HK\$ Mn
Net assets acquired		
Cash and balances with banks and other financial institutions	15	310
Advances and other accounts less provisions	18	473
Fixed assets	1	2
Deferred tax assets	–	3
Current taxation	(3)	(2)
Other accounts and provisions	(10)	(471)
	21	315
Goodwill arising on consolidation	63	34
Intangible assets acquired	–	2
	84	351
Less: Cash and cash equivalents acquired	(15)	(310)
	69	41
Cash flow on acquisition net of cash acquired	69	41

(b) Disposal of subsidiaries

	30/6/2011	30/6/2010
	HK\$ Mn	HK\$ Mn
Cash and balances with banks and other financial institutions	–	68
Placements with banks and other financial institutions	–	296
Advances and other accounts less provisions	–	2,403
Held-to-maturity investments	–	240
Fixed assets	–	7
Deferred tax assets	–	8
Deposits and balances of banks and other financial institutions	–	(221)
Deposits from customers	–	(1,725)
Trading liabilities	–	(9)
Taxation	–	(1)
Other accounts and provisions	–	(722)
	–	344
Add: Gain on disposal	–	230
Less: Cash and cash equivalents disposed	–	(68)
	–	506
Cash flow on disposal of subsidiary	–	506

(c) **Cash and cash equivalents**

	30/6/2011	30/6/2010
	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	30,096	12,991
Placements with banks and other financial institutions with original maturity within three months	56,267	38,085
Treasury bills with original maturity within three months	1,798	4,264
Certificates of deposit held with original maturity within three months	1,015	644
Debt securities with original maturity within three months	227	321
	<u>89,403</u>	<u>56,305</u>
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks and other financial institutions	55,910	27,479
Placements with banks and other financial institutions	74,703	58,149
Treasury bills, certificates of deposit held and debt securities		
– trading assets	4,254	3,400
– designated at fair value through profit or loss	16,725	15,013
– advances and other accounts	39	39
– available-for-sale	35,837	36,737
– held-to-maturity	5,183	6,787
	<u>62,038</u>	<u>61,976</u>
Amount shown in the consolidated statement of financial position	192,651	147,604
Less: Amounts with an original maturity of beyond three months	(77,434)	(76,811)
Cash balance with central bank subject to regulatory restriction	(25,814)	(14,488)
	<u>89,403</u>	<u>56,305</u>
Cash and cash equivalents in the consolidated cash flow statement	<u>89,403</u>	<u>56,305</u>

29. Off-balance Sheet Exposures

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

	30/6/2011	31/12/2010 Restated
	HK\$ Mn	HK\$ Mn
Contractual amounts of contingent liabilities and commitments		
Direct credit substitutes	10,705	8,915
Transaction-related contingencies	1,157	1,309
Trade-related contingencies	1,996	1,907
Commitments that are unconditionally cancellable		
without prior notice	40,001	37,453
Other commitments		
– up to 1 year	54,179	48,604
– over 1 year	18,957	19,690
	<u>126,995</u>	<u>117,878</u>
Credit risk weighted amounts	<u>42,482</u>	<u>40,584</u>
Fair value		
Assets		
Exchange rate contracts	1,073	880
Interest rate contracts	873	703
Equity contracts	225	154
Others	2	2
	<u>2,173</u>	<u>1,739</u>
Liabilities		
Exchange rate contracts	735	712
Interest rate contracts	2,375	2,280
Equity contracts	179	104
Others	3	4
	<u>3,292</u>	<u>3,100</u>
Notional amounts of derivatives		
Exchange rate contracts	323,774	205,530
Interest rate contracts	155,175	86,394
Equity contracts	18,139	10,458
Others	478	513
	<u>497,566</u>	<u>302,895</u>
Credit risk weighted amounts		
Exchange rate contracts	2,882	1,912
Interest rate contracts	985	678
Equity contracts	508	219
Others	17	15
	<u>4,392</u>	<u>2,824</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 property, plant and equipment outstanding as at 30th June and 31st December and not provided for in the accounts were as follows:

	30/6/2011	31/12/2010
	HK\$ Mn	HK\$ Mn
Expenditure authorised and contracted for	284	179
Expenditure authorised but not contracted for	289	298
	<u>573</u>	<u>477</u>

30. Material Related Party Transactions

The Group maintains certain retirement benefit schemes for its staff. In the six month ended 30th June, 2011, the total amount of contributions the Group made to the schemes was HK\$63 million (six months ended 30th June, 2010: HK\$47 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. All interest rates in connection with the deposits taken and credit facilities extended are under terms and conditions normally applicable to customers of comparable standing.

The interest received from and interest paid to the Group's related parties for the six months ended 30th June, 2011, outstanding balances of amounts due from and due to them at 30th June, 2011 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2011 are aggregated as follows:

	Key management personnel		Associates	
	30/6/2011	30/6/2010	30/6/2011	30/6/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	62	45	9	2
Interest expense	33	7	-	-
Amounts due from	8,777	6,002	974	1,266
Amounts due to	6,856	5,319	4	4
Maximum amounts due from	11,361	7,764	1,028	1,471
Maximum amounts due to	10,863	9,277	4	16

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	CCSL St. Lucia Ltd.
Abacus Business Consultants Sdn. Bhd.	Central Town Limited
Abacus Company Administration Sdn. Bhd.	Century Able Limited
Abacus Share Registrars Ltd	Cheam Holdings Limited
Acheson Limited	Cheam Nominees Limited
Agensi Pekerjaan Tricor Sdn Bhd	Chua, Woo & Company Sdn. Bhd.
Alamo Investments Limited	Clacton Company Limited
Albridge Corporate Advisory Services Ltd	Clancy Limited
Albridge Services London Ltd	Corona Light Limited
Alhart Limited	* Credit Gain Finance Company Limited
Ample Delight Limited	Crescendo Strength Limited (formerly Digex Limited)
Asia Management Services Sdn Berhad	Crystal Gleaming Limited
Asia Securities Sdn Bhd	Delanez Limited
Asia Strategic Capital Limited	Denroy Nominees Limited
Asia Strategic Investment Management Limited	Dersale Limited
ATC Corporate Secretaries Limited	Directra Overseas Services Inc.
ATC Directors (UK) Limited	Directra Services Limited
ATC Nominees (B.V.I.) Limited	EA China Finance Limited
ATC Nominees (UK) Limited	EA Nominees Limited
ATC Solutions (Offshore) Limited	EA Securities Limited
ATC Solutions Limited	EACS (First director) Inc.
ATC Solutions Worldwide Limited	East Asia Corporate Services (BVI) Limited
Bagatelle Services Limited	East Asia Corporate Services (Nominees) Ltd.
Bandon Enterprises Limited	* East Asia Electronic Data Processing (Guangzhou) Limited
* Bank of East Asia (Trustees) Limited	* East Asia Facility Management Limited
Barbinder & Co. Pte. Ltd.	East Asia Financial Services (BVI) Ltd.
Barbinder & Co. Sdn. Bhd.	East Asia Futures Limited
BC (BVI) Holdings Limited	* East Asia Holding Company, Inc.
BEA Insurance Agency Limited	East Asia Indonesian Holdings Limited
BEA Insurance Brokerage (Taiwan) Limited	East Asia International Trustees Holdings (BVI) Limited
BEA Life Limited	* East Asia Investment Holdings Limited
BEA Pacific Asia Limited	* East Asia Investments Holdings (BVI) Ltd.
BEA Pacific Holding Company Limited	East Asia Marketing Limited
BEA Pacific Nominee Limited	* East Asia Properties (US), Inc.
BEA Union Investment Management Limited	East Asia Properties Holding Company Limited
BEA Wealth Management Services (Taiwan) Limited	East Asia Property Agency Company Limited
Becmac Limited	East Asia Property Development (Shanghai) Limited
Beecroft Limited	East Asia Property Holdings (Jersey) Limited
Bentley Services Limited	East Asia Property Management (China) Limited
Blue Care (BVI) Holdings Limited	East Asia Property Management (Guangzhou) Limited
Blue Care JV (BVI) Holdings Limited	East Asia Secretarial Services Ltd.
Blue Care Medical Services Limited	East Asia Secretaries (BVI) Limited
Blue Cross (Asia-Pacific) Insurance Limited	East Asia Secretaries Limited
Branford Investments Limited	East Asia Securities Company Limited
Camceb Limited	
Cane Garden Bay Limited	
Capico Asset Management Sdn. Bhd.	
Caribbean Corporate Services Ltd.	

* East Asia Services (Holdings) Limited
East Asia Strategic Holdings Limited
Elemen Limited
Epsilon Registration Services Sdn. Bhd.
Equity Trustee Limited
Essex Nominees Limited
Evatthouse Corporate Services Pte. Ltd.
Far East Bank Nominees Limited
FEB (1989) Limited
Fortra Services Limited
Gainsville Limited
Gladwood Limited
Glencoe Limited
Global Success Ltd.
Golden Empire International Inc.
Golden Properties Finance Ltd.
Golden Queen International Ltd.
Golden Wings International Ltd.
Grimma Company Limited
* ICEA Capital Limited
* Innovate Holdings 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
Manchester Property Holdings Ltd.
Menroy Registrars Limited
Nola Company Limited
Norpac Holdings Limited
Outsource Centre Pte. Ltd.
Overseas Nominees Limited
Pen Ling Limited
PFA Registration Services Sdn. Bhd.
PFA Services Sdn. Bhd.
Powerhouse Worldwide Limited
Premier Dragon Development Limited
Ramillies Limited
Red Phoenix Limited
Richard Tozer Nominees Ltd
Roebuck Limited
Rontors Limited
Rosland Corporate Management Limited
Secretaries Limited
Secretarius Services Sdn. Bhd.
* Shaanxi Fuping BEA Rural Bank Corporation
Shaftesbury Property Holdings Limited
Shaftesbury Property Investments Limited
Shareg Nominees Limited
Skyray Holdings Limited
Speedfull Limited
Standard Registrars Limited
Strath Corporate Services Holdings Limited
Strath Corporate Services Limited
Strath Fiduciaries Limited
Sunshine Dynamic Company Limited
Swan Nominees Limited
Tabernacle Assets Limited
Teeroy Limited
Tengis International Limited
Tengis Services Limited
* 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 Charitable Foundation Limited
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 Asia Limited
Tricor-ATC EUROPE LLP (formerly Tricor Aldbridge LLP)
Tricor Authorised Representative Limited
Tricor Business Services Sdn. Bhd.
Tricor Caribbean Limited
Tricor China Limited
Tricor Consultancy (Beijing) Limited
Tricor Corporate Secretaries Limited
Tricor Corporate Secretary Limited
Tricor Corporate Services Sdn. Bhd.
Tricor Custodian Limited
Tricor EACS (Hong Kong) Limited
Tricor Executive Recruitment Ltd.
Tricor Executive Resources Limited
Tricor Firmley Limited
Tricor Friendly Limited
Tricor Global Limited
Tricor Greater China Limited
Tricor Holdings Limited
Tricor Holdings Pte. Ltd.
Tricor International Trustee Limited
Tricor Investor Services Limited
Tricor Investor Services Sdn. Bhd.
Tricor Japan Limited
Tricor K.K.
Tricor Nominees Limited (formerly Rioja Limited)
Tricor Outsourcing (Thailand) Ltd.
Tricor Progressive Limited
Tricor Representatives Limited
Tricor Secretaries Limited
Tricor Securities 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. Ltd.
Tricor Standard Limited

Tricor Strath Limited	* Tung Shing Securities (Brokers) Limited
Tricor Subscribers Limited (formerly Tricor Nominees Limited)	* Tung Shing Services (Brokers) Limited
Tricor Tax Services Sdn. Bhd. (formerly PFA Tax Services Sdn. Bhd.)	Turquandia Limited
Tricor Tengis Limited	U Care Hong Kong Medical Limited
Tricor Trustco (Labuan) Limited	United Chinese (Nominee) Limited
Trident Corporate Management Limited	Vanceburg Limited
Trident Nominees Limited	Virtual Success Limited
Tristan Company Limited	Vitaway (Mauritius) Limited
Tudor Nominees Limited	W.T. (Secretaries) Limited
* Tung Shing Financial Services (Brokers) Limited	Wai Chiu Company Limited
* Tung Shing Futures (Brokers) Limited	Wai Hop Company Limited
* Tung Shing Holdings (BVI) Limited	Westboro Limited
* Tung Shing Holdings Company Limited	Wilfred Co., Ltd.
	Witcombe Corporation
	WT Management (PTC) Inc

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

32. Comparative Figures

As a result of the adoption of the amendments to HKAS 12, Income taxes, for the financial year ended 31st December, 2010, certain comparative figures have been adjusted to reflect the reduction in deferred tax liabilities arising from investment properties carried at fair value. Further details of this change in accounting policies are disclosed in Note (e).

The 2010 figures in Note 24 – Segment Reporting have been restated due to a change in the presentation of certain assets and liabilities within supporting units in Hong Kong for reporting to the Group's most senior executive management with effect from 2011.

The 2010 figures in the Supplementary Financial Information – (F) Currency Concentrations have been restated to better reflect, from a risk management point of view, the economic substance of certain classes of trades.

Certain other comparative figures have been restated to conform with the current period's presentation.

33. Statement of Compliance

The Interim Results together with the Supplementary Financial Information on pages 33 to 39 comply 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

	30/6/2011	30/6/2010	31/12/2010
	%	%	%
Capital adequacy ratio	12.6	13.8	13.2
Core capital adequacy ratio	9.4	10.3	9.8

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

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Core capital			
Paid up ordinary share capital	5,147	5,079	5,105
Share premium	9,403	9,288	9,331
Reserves	21,220	19,135	19,810
Profit and loss account	1,323	720	1,380
Non-controlling interests	3,726	3,727	3,557
Deduct: Goodwill	(1,658)	(1,659)	(1,658)
Net deferred tax assets	(460)	(347)	(399)
Other intangible assets	(27)	(28)	(27)
	38,674	35,915	37,099
Less: Core capital items deductions	(3,461)	(3,756)	(3,593)
Total core capital	35,213	32,159	33,506
Eligible supplementary capital			
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	970	967	970
Revaluation reserves for fair value gains on revaluation of holdings of available-for-sale equities and debt securities	83	54	65
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	78	119	197
Regulatory reserve for general banking risks	86	202	54
Collectively assessed impairment allowances	106	138	129
Surplus provisions	1,056	637	921
Perpetual subordinated debt	3,756	3,511	3,606
Term subordinated debt	9,294	8,946	9,280
	15,429	14,574	15,222
Less: Supplementary capital items deductions	(3,461)	(3,756)	(3,593)
Total supplementary capital	11,968	10,818	11,629
Total capital base	47,181	42,977	45,135

B. Liquidity Ratio

	6 months ended 30/6/2011	6 months ended 30/6/2010	The year ended 31/12/2010
	%	%	%
Average liquidity ratio for the period	41.0	43.1	44.9

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.

	30/6/2011			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	18,418	2,981	60,501	81,900
Asian countries, excluding People's Republic of China	20,134	4,062	17,759	41,955
North America	10,269	304	11,147	21,720
Western Europe	24,194	–	1,494	25,688

	30/6/2010			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	11,789	2,127	46,615	60,531
Asian countries, excluding People's Republic of China	19,093	3,214	13,540	35,847
North America	10,441	225	10,241	20,907
Western Europe	39,280	–	2,014	41,294

	31/12/2010			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	17,270	2,153	56,083	75,506
Asian countries, excluding People's Republic of China	23,537	3,047	16,128	42,712
North America	8,035	210	11,273	19,518
Western Europe	29,620	–	4,802	34,422

D. Non-bank Mainland Exposures

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

	30/6/2011			
	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	166,448	50,746	217,194	32
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	23,869	2,807	26,676	4
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	14,084	1,566	15,650	–
Total	204,401	55,119	259,520	36
	30/6/2010			
	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	114,256	23,834	138,090	31
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	21,045	2,441	23,486	8
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	9,641	402	10,043	–
Total	144,942	26,677	171,619	39
	31/12/2010			
	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	136,500	41,863	178,363	31
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	36,223	2,631	38,854	5
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	12,660	102	12,762	–
Total	185,383	44,596	229,979	36

E. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	30/6/2011		30/6/2010		31/12/2010	
	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	141	0.0	173	0.1	98	0.0
– 1 year or less but over 6 months	42	0.0	81	0.0	139	0.0
– Over 1 year	184	0.1	329	0.1	159	0.1
	367	0.1	583	0.2	396	0.1
Rescheduled advances to customers	389	0.1	452	0.2	443	0.2
Total overdue and rescheduled advances	756	0.2	1,035	0.4	839	0.3
Secured overdue advances	230	0.1	350	0.1	220	0.1
Unsecured overdue advances	137	0.0	233	0.1	176	0.1
Market value of security held against secured overdue advances	588		1,948		561	
Individual impairment allowance made on loans overdue for more than 3 months	117		202		148	

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, 2011, 30th June, 2010 and 31st December, 2010; nor were there any rescheduled advances to banks and other financial institutions on these three dates.

(b) Other overdue and rescheduled assets

	30/06/2011		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	–	–	–
– 1 year or less but over 6 months	–	–	–
– Over 1 year	–	–	–
	–	–	–
Rescheduled assets	–	–	4
Total other overdue and rescheduled assets	–	–	4
	30/06/2010		
	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	–	–	5
– Over 1 year	–	–	–
	–	–	5
Rescheduled assets	–	–	–
Total other overdue and rescheduled assets	–	–	5

	31/12/2010		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	–	–	–
– 1 year or less but over 6 months	–	–	–
– Over 1 year	–	–	5
	–	–	5
Rescheduled assets	–	–	–
Total other overdue and rescheduled assets	–	–	5

* Other assets refer to trade bills and receivables.

(c) Repossessed assets

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Repossessed land and buildings	6	75	8
Repossessed vehicles and equipment	–	–	–
Total repossessed assets	6	75	8

The amount represents the estimated market value of the repossessed assets as at 30th June, 2011, 30th June, 2010 and 31st December, 2010.

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. The net option position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts.

	30/6/2011			Total
	USD	CNY	Others	
Spot assets	97,347	249,750	56,593	403,690
Spot liabilities	(98,164)	(205,898)	(59,215)	(363,277)
Forward purchases	114,317	72,871	10,186	197,374
Forward sales	(110,591)	(107,919)	(5,666)	(224,176)
Net options position	32	–	63	95
Net long non-structural position	2,941	8,804	1,961	13,706

	30/6/2010 HK\$ Mn			
	USD	CNY	Others	Total
Spot assets	89,760	143,385	47,860	281,005
Spot liabilities	(76,915)	(132,925)	(55,631)	(265,471)
Forward purchases	72,306	66,483	20,971	159,760
Forward sales	(83,120)	(68,100)	(11,349)	(162,569)
Net options position	(39)	–	(44)	(83)
Net long non-structural position	1,992	8,843	1,807	12,642
	31/12/2010 (Restated) HK\$ Mn			
	USD	CNY	Others	Total
Spot assets	94,806	192,680	50,424	337,910
Spot liabilities	(84,212)	(172,452)	(53,480)	(310,144)
Forward purchases	148,090	94,932	12,559	255,581
Forward sales	(156,605)	(108,056)	(8,196)	(272,857)
Net options position	154	–	(10)	144
Net long non-structural position	2,233	7,104	1,297	10,634
	30/6/2011 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	2,579	8,422	774	11,775
	30/6/2010 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	2,470	6,667	629	9,766
	31/12/2010 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	2,467	6,855	727	10,049



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 32 which comprises the consolidated statement of financial position of The Bank of East Asia, Limited as of 30th June, 2011 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 enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June, 2011 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, 4th August, 2011

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK\$0.43 (2010: HK\$0.38) per share for the six months ended 30th June, 2011. 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, 25th August, 2011. Details of the scrip dividend and the election form will be sent to shareholders on or about Thursday, 25th August, 2011. 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, 19th September, 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed on Wednesday, 24th August, 2011 and Thursday, 25th August, 2011. 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, 23rd August, 2011.

FINANCIAL REVIEW

Financial Performance

For the first six months of 2011, the Group achieved a profit attributable to owners of the parent of HK\$2,711 million, representing an increase of HK\$611 million or 29.1%, compared to the HK\$2,100 million earned in the same period last year. Basic earnings per share were HK\$1.24. Return on average equity and return on average assets were 11.9% and 1.0%, respectively.

As a result of sustained growth in the Bank's loan portfolio in the first six months of 2011, the Group's net interest income increased by HK\$731 million, or 19.9%, to HK\$4,400 million. Net fee and commission income rose by HK\$349 million, or 25.7%, to HK\$1,706 million, while overall non-interest income increased by HK\$495 million, or 28.4%.

Total operating expenses increased by 16.1% to HK\$3,802 million, as the Group continued to invest in support of future growth. However, as a result of the strong income growth in the first half of 2011, the cost-to-income ratio fell to 57.3% from 62.0% for 2010.

Operating profit before impairment losses was HK\$2,836 million, an increase of HK\$699 million, or 32.7%, as compared to the corresponding period in 2010.

The charge for impairment losses on loans and advances decreased by HK\$190 million, or 126.5%, to HK\$40 million write back, reflecting the improving credit quality and economic environment, as well as the Bank's effort to manage credit risk. Total impairment losses decreased by HK\$187 million, or 111.3%.

Operating profit after impairment losses was HK\$2,855 million, an increase of 45.0%.

The Bank recorded a net profit on disposal of fixed assets of HK\$132 million, mainly due to disposal of several surplus properties in Mainland China. The Bank also recorded a valuation gain on investment properties of HK\$285 million, due to the buoyant property market. The Group shared after-tax profits from associates of HK\$202 million.

After accounting for income taxes, profit after taxation rose to HK\$2,757 million, or 28.9%, compared to the HK\$2,139 million recorded in the corresponding period in 2010. Profit attributable to owners of the parent rose to HK\$2,711 million, an increase of 29.1%.

Financial Position

Total consolidated assets of the Group rose by HK\$64,749 million, or 12.1%, during the first half of 2011. Gross advances to customers increased by 5.2% to HK\$312,491 million. Total equity increased to HK\$50,948 million, up 4.7%.

Total deposits grew by 10.8% to HK\$471,238 million, while total deposits from customers rose by 9.4% to HK\$459,326 million. Demand deposits and current account balances decreased by HK\$6,965 million, or 11.7%, compared to the balance at year-end 2010. Savings deposits decreased by HK\$2,211 million, a decrease of 2.7%, while time deposits increased to HK\$326,437 million, an increase of 17.5%, when compared with the year-end position.

After taking into account all certificates of deposit issued, the loan-to-deposit ratio was 66.3% at the end of June 2011. This compares to a loan-to-deposit ratio of 69.8% at the end of 2010.

In the first half of 2011, BEA issued HKD and USD fixed rate certificates of deposit with a face value of HK\$1,335 million and US\$356.3 million respectively, HKD, USD and GBP floating rate certificates of deposit with a face value of HK\$290 million, US\$60 million and GBP30 million respectively and HKD, USD and SGD zero coupon certificates of deposit with a face value of HK\$1,215 million, US\$432.45 million and SGD15 million respectively. The Bank redeemed a quantity of certificates of deposit amounting to HK\$3,682 million equivalent upon maturity.

At the end of June 2011, the face value of the outstanding certificates of deposit issued was HK\$11,941 million, with a carrying amount equal to HK\$11,912 million.

Maturity Profile of Certificates of Deposit Issued

As at 30th June, 2011

(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity					
			2011	2012	2013	2014	2015	2016
Floating Rate Certificates of Deposit								
Issued in 2010	HKD	50	50					
Issued in 2010	USD	60		20	40			
Issued in 2011	HKD	290		190	100			
Issued in 2011	USD	60	50		10			
Issued in 2011	GBP	30		30				
Fixed Rate (Note) Certificates of Deposit								
Issued in 2010	HKD	966		535			431	
Issued in 2010	USD	40	40					
Issued in 2011	HKD	1,335		500		290	100	445
Issued in 2011	USD	324	174	120		10		20
Zero Coupon Certificates of Deposit								
Issued in 2007	USD	140			40	50	50	
Issued in 2011	HKD	1,215	830	385				
Issued in 2011	USD	354	354					
Issued in 2011	SGD	15	15					
Total Certificates of Deposit issued in HKD equivalent		11,941	5,788	3,075	800	757	920	601

Note:

Associated interest rate swaps have been entered for long term Fixed Rate Certificates of Deposit

At the end of June 2011, the face value of the outstanding loan capital issued was HK\$13,095 million equivalent, with a carrying amount equal to HK\$12,969 million.

Maturity Profile of Loan Capital

As at 30th June, 2011

(All expressed in millions of dollars)

		Currency	Total Face Value	Year of Maturity		
				2017	2020	Perpetual
Issued in 2007	Note 1	GBP	300			300
Issued in 2007	Note 2	USD	600	600		
Issued in 2010		USD	600		600	
Total Loan Capital issued in HKD equivalent			13,095	4,669	4,669	3,757

Notes:

1. Callable on 21st March, 2012 and on each interest payment date thereafter
2. Callable on 22nd June, 2012

In the first half of 2011, BEA issued CNY fixed rate debt securities with a face value of CNY2,000 million.

At the end of June 2011, the face value of the outstanding of other debt securities issued was HK\$7,474 million equivalent, with a carrying amount equal to HK\$7,466 million.

Maturity Profile of Other Debt Securities Issued

As at 30th June, 2011

(All expressed in millions of dollars)

		Currency	Total Face Value	Year of Maturity		
				2011	2012	2013
Floating Rate						
Issued in 2010		GBP	20		20	
Fixed Rate						
Issued in 2009		CNY	4,000	4,000		
Issued in 2011		CNY	2,000			2,000
Total Other Debt Securities issued in HKD equivalent			7,474	4,816	250	2,408

OPERATIONS REVIEW

The major world economies turned in a lacklustre performance in the first six months of 2011, as housing prices declined further and job growth remained poor in the US, sovereign debt concerns weighed over the Eurozone, and Japan suffered from the aftershock of the earthquake, tsunami, and nuclear disasters. However, the Asian region (excluding Japan) was one of the few bright spots in the global economy, with overall growth projected to reach 7% this year.

The Hong Kong economy has been part of the Asia Pacific success story, achieving solid growth with double-digit rises in exports and retail sales. Property prices also maintained a rising trend. In the first six months, the total value of property transactions was 19% higher than in the same period last year.

Driven by strong domestic demand and robust exports, China continued to be the region's economic powerhouse. GDP grew by 9.6% in the first half of 2011 from a year earlier. However, inflation rose above target levels, with the Consumer Price Index ("CPI") jumping from a year-on-year rate of 1.5% in January 2010 to 6.4% in June 2011.

This jump in the CPI brought renewed action by the Central Government to restrict credit expansion in an attempt to rein in inflation. The People's Bank of China ("PBOC") increased the reserve requirement ratio six times and Renminbi ("RMB") base rates twice during the first half of 2011. These actions have achieved the desired effect. New RMB loans totalled RMB4,170 billion in the first six months of this year, 9.9% less than in the same period in 2010.

During the period under review, The Bank of East Asia ("BEA") and its wholly-owned, Mainland-incorporated subsidiary, The Bank of East Asia (China) Limited ("BEA China") focused on enhancing their ability to serve customers throughout Greater China. Having effectively positioned themselves to capture opportunities in the region, BEA and BEA China recorded healthy growth in the first half of 2011. As of 30th June, 2011, the BEA Group's total loans to customers and trade bills grew by 11.1%, while customer deposits rose by 9.4% over the figures reported at the end of 2010.

Recognition

During the first six months of 2011, the BEA Group received a number of awards in recognition of its exceptional performance:

- "2011 Best SME's Partner Award" organised by The Hong Kong General Chamber of Small and Medium Business Limited (for the fourth consecutive year);
- *Metro Finance's* "Hong Kong Leaders' Choice – Excellent Brand of Mobile Banking Award 2011";
- "Citation for Excellence – Finance & Investment Category" as part of the "TVB Most Popular TV Commercial Awards 2011" programme;
- MasterCard Worldwide's "The Highest Growth Rate in 2010 Number of Open Cards in Hong Kong – Champion", "The Highest Growth Rate in 2010 Premium Product Cardholder Spending in Hong Kong – Champion", "The Highest Growth Rate in 2010 Cardholder Spending in Hong Kong – Champion", and "The Highest Growth Rate in 2010 Merchant Purchase Volume in Hong Kong – 2nd Runner Up"; and
- Visa's "Lowest Chargeback-to-Sales Ratio Award" in the 2010 Service Quality Performance Awards Program (for the second consecutive year).

During the period under review, BEA China earned the following distinctions:

- "2010 Most Innovative Product Award" for the Bull Bear Series of Investment Financial Products by *Money Weekly* and *Amoney.com.cn*;
- "2010 Most Personalised Internet Banking Award" by *China Times* in its 2010 Golden Cicada Award Ceremony; and
- "2010 Market Development Contribution to UnionPay Classic Card Award" by China UnionPay.

Business – Hong Kong

As of 30th June, 2011, the Bank's total loans to customers and trade bills grew by 13.1%, while customer deposits rose by 5.5% compared to the figures reported at the end of 2010.

Corporate and Commercial Banking

Corporate demand for credit remained strong in the first half of 2011 amid a generally tighter liquidity environment. As a result, BEA enjoyed better control over pricing while also exercising stringent control of credit risk. The Bank's corporate loan and trade bills portfolio grew by 21% in the six months to the end of June 2011. The impaired loan ratio remained very low.

BEA actively developed its RMB-related business and extended its services to more enterprises with operations on the Mainland. Taking advantage of China's continued economic growth and the strength of the Group's Hong Kong base and growing Mainland franchise, BEA expanded its trade finance portfolio and increased the sale of related treasury products and services. As a gauge of the importance of China as a business driver, business deriving from BEA China amounted to more than 30% of the Bank's corporate and commercial loan and trade finance portfolio at the end of the interim period. In addition to trade-related and loan business, BEA also served as a receiving bank for the first RMB-denominated initial public offering ("IPO") in Hong Kong and provided facilities for subscription.

The commencement of a number of major infrastructure projects and the busy property development and construction markets helped fuel loan demand by local corporate customers. BEA maintained a strong presence in the syndicated loan market, and was very active in arranging club deal facilities and bilateral facilities. The latter typically carry a higher profit margin, and allowed BEA to improve the return on its corporate loan portfolio.

BEA has long been recognised for its commitment to small and medium-sized enterprises ("SMEs"). The Bank is a Participating Bank in the SME Financing Guarantee Scheme operated by The Hong Kong Mortgage Corporation ("HKMC"). Further, the Bank's "Business Ready Cash" programme continued to be well received by SME customers, with the loan portfolio growing by 19% since the end of last year.

Retail Banking

In the first six months of 2011, the Bank opened two new branches including Shun Tak Centre Branch in Sheung Wan and Tsuen Wan Fou Wah Centre Branch, as well as four SupremeGold Centres. To enhance the Bank's network coverage, two branches were relocated to more prominent locations. The Bank also opened four i-Financial Centres during the period under review. As of 30th June, 2011, BEA operated a total of 88 branches, 59 SupremeGold Centres, and four i-Financial Centres in Hong Kong.

In the first half of 2011, BEA launched promotional programmes for SupremeGold Accounts and RMB time deposits and exchange. The programmes were well received by the market, and by 30th June, 2011, the Bank recorded double-digit growth in the number of new SupremeGold Accounts and RMB deposits compared with the end of 2010. In addition, BEA met the growing demand for RMB services by introducing RMB CHATS and RMB payroll services via Cyberbanking and Corporate Cyberbanking.

The Bank aggressively courted new auto payroll business during the period, launching two separate campaigns, one in February and one in May. As a result of the two campaigns, the Bank acquired a substantial number of new auto payroll customers in the first half of the year.

BEA rolled out a new SupremeGold World MasterCard and launched several campaigns to encourage card spending and usage in the first half of the year, recording a double-digit rise in credit card sales. In addition, the Bank's merchant acquiring business achieved higher-than-market growth in sales volume, while ongoing efforts to develop consumer lending business resulted in double-digit growth in the loan portfolio year on year.

Following the introduction of new measures by the Hong Kong government to cool the property market, the number of home sales transactions fell during the first six months of 2011. This impacted the Bank's mortgage business. Competition in the mortgage lending business remained intense. Funding costs rose, leading the Bank to increase its mortgage rate to the upper market range in the second quarter of 2011 to protect its interest margin.

The Bank worked closely with the HKMC in the development of the Reverse Mortgage Programme. This pilot scheme, which aims to provide steady income for senior citizens while allowing them to continue to enjoy their homes, was successfully rolled out on 11th July, 2011. BEA was one of the first banks to participate in the scheme.

The Bank introduced additional features to its iPhone application in May 2011, including an enhanced stock trading function, new consumer and property loan functions, and "One Touch" service hotlines. Following the introduction of these enhancements, BEA recorded an increase of nearly 51% in the download of the application and more than 34% in the number of mobile banking users compared with the end of 2010.

To enhance public awareness of its comprehensive mobile banking services, BEA launched a new print and television campaign in the first half of the year based on the message "BEA extends your reach with banking at your fingertips". Targeting the young adult segment, these campaigns, including an innovative online interactive game and lucky draw, have strengthened BEA's standing among the younger generation.

Insurance and MPF Services

BEA Life Limited ("BEA Life"), the wholly-owned life insurance arm of the Bank, recorded 82% year-on-year rise in new premium income. Responding to continuing customer demand for short-term savings products with guaranteed returns, BEA Life launched the third series of its 2-Year Fast Savings Insurance plan and SmartSaver RMB Insurance in January and February, respectively. Both plans were among the most popular life insurance products sold at BEA branches.

Blue Cross (Asia-Pacific) Insurance Limited, the Group's general insurance arm, registered solid growth in the first half of 2011. The group medical insurance business saw a 14% increase in premium income compared to the same period last year. Online travel insurance sales continued to deliver impressive results, achieving a 31% gain, year on year.

Bank of East Asia (Trustees) Limited ("BEA Trustees") registered satisfactory performance in its MPF business in the first half of 2011. The total number of MPF members grew to more than 490,000, with over 35,000 new members joining the schemes during the first six months of 2011. Total assets under management exceeded HK\$13 billion at the end of June 2011.

In January 2011, BEA Trustees launched a Transfer-in Promotion, to encourage new and existing MPF customers to transfer accrued benefits held in other MPF accounts to the BEA (MPF) Master Trust Scheme. In preparation for the Employee Choice Arrangement, which the Mandatory Provident Fund Schemes Authority is expected to launch in the second half of 2012, BEA Trustees enhanced its competitiveness by lowering the management fees of selected MPF constituent funds by over 30% with effect from June 2011. In addition, BEA Trustees plans to add new constituent funds to its existing MPF schemes and launch a new Master Trust Scheme in December 2011.

Investment Services

BEA introduced a new option-embedded deposit during the period under review to cater to investors hoping to benefit from appreciation in the value of the RMB. This currency-linked deposit ties the performance of the RMB to other major currencies.

Responding to growing demand for a wider range of investment opportunities in RMB and other major Asian currencies, the Bank introduced a number of RMB fixed income mutual funds in March, and re-launched the BEA Union Investment Asian Bond and Currency Fund in June. The Bank's mutual fund business enjoyed a 36% increase in turnover and a 31% increase in revenue in the first six months of 2011, as compared with the same period in 2010.

Private Banking and Trust & Fiduciary Services

Private Banking customers continued to adopt a cautious approach to investment in the first half of 2011, preferring simple flow products. However, Private Banking did observe a healthy pick-up in the mutual fund business. RMB-denominated offshore bonds, both high grade and high yield, and related products have become increasingly popular. Steady income was also recorded in insurance business, reflecting customers' increasing awareness of the need for asset protection and estate planning. Compared to the end of 2010 assets under management grew by 26% as of 30th June, 2011, exceeding projections.

Capitalising on its extensive branch network and strong customer base, BEA successfully increased the number of private and corporate trust clients by 16% in the six months ended June 2011.

Broking Operations

Stock markets continued to be volatile in the first half of 2011. Market prospects were clouded not only by uncertainty over the Federal Reserve's quantitative easing measures, but also by the earthquake in Japan and the Greek debt debacle. Commission income derived from securities and futures broking operations dropped slightly when compared with the same period last year, while interest income from financing of subscriptions for new share issues also fell due to lukewarm investor sentiment on the back of the lacklustre performance of IPOs in general.

In the first half of 2011, the Bank further expanded its retail outlet network, and upgraded its electronic platform to help customers trade with greater ease via both smartphones and computers.

Business – Greater China ex-Hong Kong

Mainland China Operations

During the first half of 2011, the Central Government imposed increasingly strict monetary controls in order to combat inflation and rein in rising property prices. Despite the challenges posed by the complex operating environment, BEA China sustained its growth momentum during the period under review. As of 30th June, 2011, BEA China's total loans outstanding and deposits had increased by 6.6% and 15%, respectively, over the figures reported at the end of 2010.

BEA China continued to expand its branch network in the first six months of 2011, opening Harbin Branch, Chengdu Wuhou Sub-branch, Jiangmen Sub-branch, and Beijing Jinrongjie Sub-branch. BEA China will open its sixth cross-location sub-branch in Dongguan later this year. In view of the close economic ties between Hong Kong and Guangdong Province, BEA China plans to open additional "cross-location" sub-branches to enhance its ability to serve its customers and their diverse needs throughout the Pearl River Delta region.

BEA China also opened two new 24-hour self-service banking centres in Dalian and Hangzhou, bringing the total number of self-service centres to 12.

As of the end of June 2011, BEA China operated 22 branches, 71 sub-branches, 12 24-hour self-service banking centres and over 410 Automatic Teller Machines on the Mainland. In addition to BEA China's network, BEA operates a branch in Shanghai, representative offices in Fuzhou and Dongguan, and a rural bank in Fuping County, Weinan City in Shaanxi Province. With 98 outlets in 30 cities, BEA and BEA China operate one of the most extensive networks of any foreign bank operating on the Mainland.

BEA China expanded its loan portfolio prudently during the first half of 2011, while also focusing on developing its deposit base. The loan-to-deposit ratio reached 72% as of the end of June 2011, well on track to meet the 75% loan-to-deposit ratio required by the China Banking Regulatory Commission ("CBRC") by the end of the third quarter of this year.

Having received approval from the PBOC and CBRC to issue RMB financial bonds with an issue size of up to RMB5 billion in China's interbank bond market, BEA China completed the issue of its first batch of RMB financial bonds (the "Bonds") in an aggregate principal amount of RMB2 billion in the Mainland's interbank bond market on 18th March, 2011. The interest rate for the Bonds was fixed at 4.39% per annum, with a term of two years. The Bonds issue provided BEA China with an effective funding source, and improved its asset and liability structure. BEA China will issue the remaining RMB3 billion in bonds to the market at an opportune time in the future.

Taiwan and Macau Operations

In January 2011, BEA received approval from the Banking Bureau of the Financial Supervisory Commission (“FSC”), Executive Yuan, Republic of China to conduct trust business in Taiwan. BEA’s Taipei Branch began providing trust services for real estate projects in the first half of the year.

In January, the Securities and Futures Bureau (“SFB”) of the FSC granted approval to BEA Wealth Management Services (Taiwan) Limited (“BEAWMS”), BEA’s wholly-owned subsidiary, to conduct wealth management business under trust. Service is expected to commence in the second half of 2011. Furthermore, SFB approved BEAWMS’ application to set up a branch office in Taichung and a sales office in Taipei in May 2011. The two new offices are scheduled to open by the end of this year, and will bring the total number of BEAWMS offices to three.

In April 2011, BEA’s Macau Branch expanded its product range to include unit trusts, as well as equity-linked and currency-linked investment products. The Branch and the four sub-branches in Macau will continue to work closely with BEA China to meet the needs of both personal and corporate customers in and around the Macau SAR for cross-border RMB banking services.

Business – International

Continuing the growth momentum of 2010, BEA’s international operations recorded strong earnings in the first half of 2011. Operations in Singapore, the UK, and the US all registered satisfactory growth in operating as well as after-tax profit on a year-on-year basis.

BEA’s Singapore Branch recorded double-digit growth in loan assets and revenue, underpinned by strong economic fundamentals in the country as well as robust trade activities between China and Singapore. In the second half of the year, the Bank will further extend its reach in Singapore and Malaysia by offering an enhanced product portfolio; launching a new marketing campaign to raise brand awareness and knowledge of BEA’s capabilities in China; and forging closer cooperation with BEA’s affiliate and strategic partner, AFFIN Holdings Berhad.

Riding on the strong interest in UK properties from Hong Kong and Asian investors, BEA’s London branch continued its strong momentum in the mortgage business and achieved satisfactory performance in the first six months of this year.

BEA’s US operations continued to make progress in the face of a persistently weak domestic economic environment. BEA achieved a strong rebound in after-tax profit through improved margins and rigorous cost control measures, as well as through substantial growth in deposits. In addition, the Bank’s US asset quality and impaired loan ratio further improved from its position at the end of 2010.

In January 2011, the Bank entered into a share sale and purchase agreement with Industrial and Commercial Bank of China Limited (“ICBC”) on the disposal of BEA’s 80% stake in The Bank of East Asia (U.S.A.) N.A. to ICBC. The transaction is in progress and pending regulatory approval. Following the completion of the disposal, BEA will revamp its US strategies and re-focus on the wholesale banking business through its branches in New York and Los Angeles.

Other Subsidiaries

Credit Gain Finance Company Limited

Despite intense market competition, Credit Gain Finance Company Limited (“Credit Gain”) achieved double-digit loan growth in the first half of 2011. In June, Credit Gain became the first company in Hong Kong to launch Android and iPhone mobile applications targeted at the sub-prime loan market. The Company will continue to maintain a high profile in the marketplace and enhance product value with the aim of increasing market share and reinforcing the Credit Gain brand.

Tricor Holdings Limited

Tricor Holdings Limited (“Tricor”) achieved 12% growth in gross revenue, although rising operating costs slightly reduced its net margin. During the first half of the year, Tricor continued to expand its global network and acquired a reputable corporate services firm in Japan in May 2011. Japan represents a significant professional services market in Asia and the new establishment enables Tricor to assist clients venturing into the Japanese market. Tricor, together with leading share registration services providers in the UK and Australia, established a strategic alliance called Global Share Alliance in June 2011 to facilitate the provision of share registration and investor services across markets.

BEA Union Investment Management Limited

As of 30th June, 2011, BEA Union Investment Management Limited (“BEA Union Investment”) recorded a 5.24% increase in assets under management over the figure reported on 31st December, 2010, as the Company continued to offer diversified solutions in the areas of equity, fixed income, and multi-asset investment. In the first half of 2011, BEA Union Investment enhanced the BEA Union Investment Asian Bond and Currency Fund by enabling investors to receive interest income more frequently, in either US or Hong Kong dollars. Moreover, BEA Union Investment continued to diversify its retail distribution channels in Hong Kong and to expand institutional businesses in the Greater China market.

Operations Support

Property Redevelopment

Redevelopment of the site at 31-37 Des Voeux Road Central is progressing well. Upon completion in the second quarter of 2013, the new office building will stand 27 storeys high and will provide more than 86,000 square feet of office space, with a BEA Branch located on the ground floor.

Our People

As of 30th June, 2011, the BEA Group was supported by 11,643 employees:

Hong Kong	5,611
Greater China ex-Hong Kong	4,814
International	1,218
	<hr/>
Total	11,643

With the improving economic and business environment, the Bank has continued to face intense competition to secure and retain high calibre professionals. To attract quality candidates and maintain a stable workforce, the Bank regularly reviews its human resources policies and remuneration packages.

As a responsible, family-friendly employer, BEA adopts best market practices to ensure that its policies and practices promote a positive, healthy working environment. The Bank also keeps abreast of the regulatory landscape. For example, the Bank adopted the Compliance Monitoring System to ensure that it fulfils all of its obligations under the Hong Kong Minimum Wage Ordinance, which went into effect on 1st May, 2011.

The Bank has further enhanced its training programmes to ensure that employees are equipped to effectively handle the demands and challenges of today’s competitive and increasingly regulated business environment.

Corporate Social Responsibility

BEA actively supports charitable organisations and community services. During the first half of 2011, the Bank pledged HK\$5 million to the Hong Kong Red Cross (“HKRC”) for the construction of a new blood collection centre at the HKRC’s planned new headquarters in West Kowloon. The Bank also mobilised staff members to serve as volunteers for events including an educational outing for 40 children organised by the Bank and S.K.H. St. Christopher’s Home in May 2011.

The Bank of East Asia Charitable Foundation (“BEA Foundation”) together with “la Caixa” Foundation, continued to support the “Palliative Care in Residential Care Homes for the Elderly” programme managed by The Salvation Army Hong Kong and Macau Command (“The Salvation Army”). The Salvation Army completed remodelling work on a third palliative care ward in the Hoi Tai Residence for Senior Citizens in Mongkok in May 2011, following the completion of two wards in Yuen Long and Shatin in early 2011.

Future Prospects

While the prospects for the future are clouded by weak US economic performance, European sovereign debt problems, political unrest in the Arab world, and upward pressure on oil prices, BEA remains cautiously optimistic on the outlook for the remainder of 2011 given generally good conditions in China and the region.

Throughout Greater China, BEA will continue to focus on optimising business and cost structures, attracting deposits, refining the loan and deposit mix, and expanding treasury operations. In addition, the Bank will step up efforts to explore new business opportunities in line with the “China-Hong Kong Link” initiative by leveraging and exploiting the synergies of the Group’s extensive networks in Hong Kong, Mainland China, and Southeast Asia.

To further improve operating efficiency, the Bank will continue to streamline back-office functions and encourage customers to adopt electronic banking services. BEA will also continue to rationalise its branch network, redistribute resources, and promote innovative channels to enhance service to customers while reducing costs.

Looking ahead, BEA will exploit the new business opportunities arising from Hong Kong’s emergence as a RMB business and international asset management centre. The Bank will strengthen synergies with BEA China, focussing on areas such as cross-border RMB trade settlement services. In addition, the Bank will continue to develop new revenue streams and enhance its ability to earn non-interest income.

RISK MANAGEMENT DIVISION

Risk Management Division is headed by the Group Chief Risk Officer, who reports directly to the Chairman and Chief Executive.

The Risk Management Division is responsible for Group policy with regard to different types of risk such as credit risk, market risk and operational risk, etc. In this regard, the Division assesses regulatory requirements, in particular the requirements under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority, 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 within the risk management framework via control mechanism such as independent risk assessment, independent review of regular reports, independent review of new products and co-ordination of 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 overseeing risk management activities.

FINANCIAL RISK MANAGEMENT

The Group has in place a risk management system to identify, measure, monitor, control and report 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, Risk Management Division 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 loans 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 approval of individual control limits to the Credit Committee. Risk, return and market situation 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, control and report credit risk. In this connection, guidelines for management of credit risk have been laid down in the Group's Credit Risk Management Manual. These guidelines stipulate delegated lending authorities, credit 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 in risk management processes. Credit Risk Management Department under Risk Management Division 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 the sale of derivatives 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 value-at-risk ("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 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 (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 Asset & Liability Management Committee.

Value-at-risk statistics

	Year 2011 1st-half			
	At 30th June HK\$ Mn	Maximum HK\$ Mn	Minimum HK\$ Mn	Mean HK\$ Mn
VaR for total trading activities	35	45	28	35
VaR for foreign exchange trading positions*	4	5	1	3
VaR for interest rate trading positions	4	7	2	4
VaR for equity trading positions	30	41	25	31

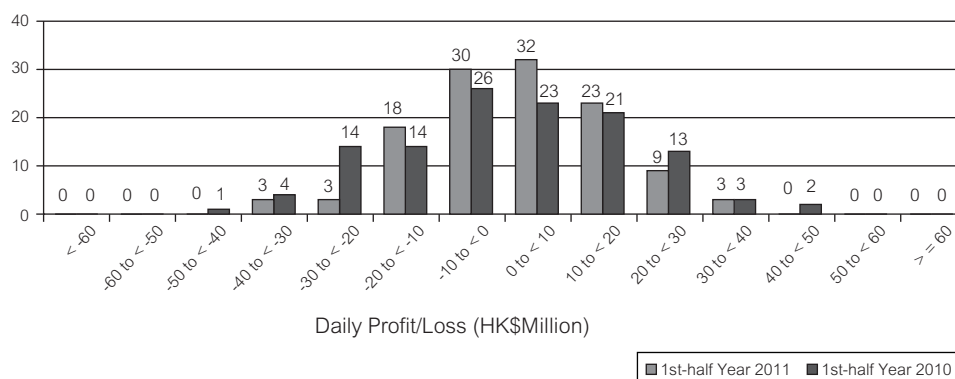
	Year 2010 1st-half			
	At 30th June HK\$ Mn	Maximum HK\$ Mn	Minimum HK\$ Mn	Mean HK\$ Mn
VaR for total trading activities	46	52	34	43
VaR for foreign exchange trading positions*	6	8	2	4
VaR for interest rate trading positions	4	4	2	3
VaR for equity trading positions	37	45	30	38

* Including all foreign exchange positions but excluding structural 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 2011 was HK\$2.12 million (average daily profit of HK\$0.46 million in the first six months of 2010). The standard deviation of the daily profit/loss for the period was HK\$14.08 million (standard deviation of HK\$18.34 million for the same period in 2010). The frequency distribution of daily profit/loss is shown below:

**DAILY DISTRIBUTION OF TRADING ACTIVITIES RELATED PROFIT/LOSS
– 1st-half Year 2011 vs 1st-half Year 2010**

Number of days



(c) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The objective of operational risk management is to identify, assess, monitor and report 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 Department under Risk Management Division of the Group is responsible for monitoring activities relating to operational risk.

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 is managed daily by the Treasury Markets Division within the limits approved by the Board of Directors. Asset and Liability Management Department under Risk Management Division 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 reviews 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, 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 any 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 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 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. Asset and Liability Management Department under the Risk Management Division 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 reviews to make sure that the interest rate risk management functions are implemented effectively.

The Bank manages the interest rate risk on the banking book primarily by focusing on repricing mismatches. Gap analysis provides a static view of the maturity and repricing characteristics of the 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 the stress tests and decides remedial action, if required.

Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on both sides of the balance sheet and is 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 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 that the Group's reputation is damaged by one or more than one reputation event as reflected from negative publicity about the Group's business practices, conduct or financial condition. Such negative publicity, whether true or not, may impair public confidence in the Group, result in costly litigation, or lead to a decline in the Group's customer base, business or revenue.

The objective of managing the aforesaid risks is to identify, assess, monitor and report 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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) since publication of the Bank's Annual Report 2010 up to 4th August, 2011 (being the date of approval of the Bank's Interim Report 2011) are set out below:

Change in positions held with the Bank

Mr. Kuok Khoon-ean stepped down as a member of the Bank's Audit Committee with effect from 15th February, 2011 due to his other business commitments.

Changes in experience including other directorships and major appointments

Professor Arthur Li Kwok-cheung was appointed an independent non-executive director of Shangri-La Asia Limited and China Flooring Holding Company Limited.

Dr. Thomas Kwok Ping-kwong ceased to be a non-official member of the Provisional Minimum Wage Commission.

Mr. Kenneth Lo Chin-ming ceased to be a director of Gainwell Securities Company Limited. Mr. Lo became a director of Star International Pacific Ltd.

Changes in Directors' emoluments

- (1) As Mr. Kuok Khoon-ean stepped down as a member of the Bank's Audit Committee with effect from 15th February, 2011, Mr. Kuok has ceased to receive an Audit Committee member's fee of HK\$70,000 per annum as from 16th February, 2011.
- (2) With effect from 1st April, 2011, the base salary payable to Dr. the Hon. Sir David Li Kwok-po, Chief Executive of the Bank, has been increased from HK\$8.6 million to HK\$9.1 million on an annualised basis.

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, 2011, 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 ordinary shares of the Bank:

Name	Capacity and nature	No. of shares	Total	% of issued share capital
David LI Kwok-po	Beneficial owner	51,305,851	53,016,250 ¹	2.58
	Interest of spouse	1,558,706		
	Interest of corporation	151,693		
Arthur LI Kwok-cheung	Beneficial owner	9,791,286	23,528,089 ²	1.14
	Founder of discretionary trust	13,736,803		
Allan WONG Chi-yun	Beneficial Owner	349,160	13,442,943 ³	0.65
	Interest of spouse	136		
	Founder of discretionary trust	13,093,647		
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	0.16
	Interest of corporation	1,100,000		
Aubrey LI Kwok-sing	Beneficial owner	25,730	34,150,337 ⁶	1.66
	Interest of spouse	18,870		
	Beneficiary of discretionary trust	34,105,737		
Winston LO Yau-lai	–	–	Nil	Nil
KHOO Kay-peng	Interest of corporation	5,442,216	5,442,216 ⁷	0.26
Thomas KWOK Ping-kwong	–	–	Nil	Nil
Richard LI Tzar-kai	Interest of corporation	4,185,720	4,185,720 ⁸	0.20
Kenneth LO Chin-ming	–	–	Nil	Nil
Eric LI Fook-chuen	Beneficial owner	4,549,652	35,708,460 ⁹	1.73
	Founder and beneficiary of discretionary trust	22,080,444		
	Interest of corporation	9,078,364		
Stephen Charles LI Kwok-sze	Beneficial owner	11,743,781	14,564,118 ¹⁰	0.71
	Interest of children	537,183		
	Beneficiary of discretionary trusts	2,283,154		
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 51,305,851 shares and he was deemed to be interested in 1,558,706 shares through the interests of his spouse, Penny POON Kam-chui. He was also deemed to be interested in 151,693 shares held by David LI Kwok-po Charitable Foundation Limited, a charitable institution of which David LI Kwok-po is a director and the sole member.
- 2 Arthur LI Kwok-cheung was the beneficial owner of 9,791,286 shares. Arthur LI Kwok-cheung made a voluntary disclosure of 13,736,803 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 349,160 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 13,093,647 shares held by a discretionary trust, Allan Wong 2011 Trust, of which Allan WONG Chi-yun is a founder and an eligible beneficiary.
- 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 39.88% held by Henderson Land Development Company Limited ("Henderson Land").

Henderson Land was deemed to be 60.33% 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 18,870 shares through the interests of his spouse, Elizabeth WOO. The remaining 34,105,737 shares were held by The Fook Wo Trust, a discretionary trust in which Aubrey LI Kwok-sing is one of the discretionary beneficiaries.
- 7 KHOO Kay-peng was deemed to be interested in 5,442,216 shares out of which (i) 1,213,478 shares were held through Bonham Industries Limited, a company in which he (and his spouse) held 100% of the issued capital, and (ii) 4,228,738 shares were held through the Malayan United Industries Berhad Group of which he is the Chairman and Chief Executive and a deemed substantial shareholder.
- 8 Richard LI Tzar-kai was deemed to be interested in 4,185,720 shares held by certain corporations in their capacity as investment managers, out of which (i) 4,057,120 shares were held by PineBridge Investments Asia Limited ("PBI A"), and (ii) 128,600 shares were held by PineBridge Investments LLC ("PBI LLC"). PBI A and PBI LLC are indirect subsidiaries of Chiltonlink Limited which is 100% owned by Richard LI Tzar-kai.
- 9 Eric LI Fook-chuen was the beneficial owner of 4,549,652 shares, and 22,080,444 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 9,078,364 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 11,743,781 shares, and he was deemed to be interested in 537,183 shares through the interests of his children under the age of 18. Of the remaining 2,283,154 shares, (i) 2,094,000 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) 189,154 shares were held by a discretionary trust, Longevity Trust, of which his children under the age of 18 were beneficiaries.

II. Long positions (in respect of equity derivatives) in 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 share options during the six months ended 30th June, 2011 was shown in the following section under the heading "Information on Share Options".

III. Interests in debentures of associated corporation of the Bank:

Name	Capacity and nature	Amount of debentures
Allan WONG Chi-yun	Interest of spouse ¹	RMB20,000,000
Eric LI Fook-chuen	Beneficial owner ²	RMB10,000,000

Notes:

- 1 Allan WONG Chi-yun was deemed to be interested in the Renminbi bonds issued by The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank, through the interests of his spouse, Margaret KWOK Chi-wai. The bonds, with an aggregate principal amount of RMB4 billion, were issued in 2009 at an annual interest rate of 2.8%.
- 2 Eric LI Fook-chuen was the beneficial owner of the above interests in the Renminbi bonds issued by The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank. The bonds, with an aggregate principal amount of RMB4 billion, were issued in 2009 at an annual interest rate of 2.8%.

IV. Interests in Hybrid Tier I Capital Instruments:

Allan WONG Chi-yun was the beneficial owner of the following capital instruments ^{Note:}

Issuer	Type/Class of securities	Amount of debentures	No. of shares
The Bank of East Asia, Limited	Subordinated Notes	US\$7,000,000	–
Innovate Holdings Limited	Preference Shares	–	7,000
The Bank of East Asia, Limited	Substitute Preference Shares (unissued)	–	7,000

Note: In November 2009, the Bank issued capital instruments qualifying as hybrid tier 1 capital with a face value of US\$500 million. The capital instruments comprise 8.5% step-up subordinated notes due 2059 issued by the Bank (the "Notes") stapled with perpetual non-cumulative step-up preference shares issued by Innovate Holdings Limited, a wholly-owned subsidiary of the Bank (the "Innovate Preference Shares"). The Notes and the Innovate Preference Shares are listed as stapled units on Singapore Exchange Securities Trading Limited. The Substitute Preference Shares (being perpetual non-cumulative step-up preference shares having a par value of US\$1,000 each) are created, and to be issued by the Bank upon the occurrence of a Substitution Event (as defined in the circular to shareholders of the Bank dated 11th November, 2009) as one of the terms of the issue of the Notes and the Innovate Preference Shares.

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 Listing Rules was as follows:

(1) Movement of share options during the six months ended 30th June, 2011:

Name	Date of Grant	Number of Share Options				Outstanding at 30/6/2011
		Outstanding at 1/1/2011	Granted	Exercised	Lapsed	
David Li Kwok-po	03/5/2006 ^a	1,100,000	–	1,100,000 ^c	–	Nil
	10/5/2007 ^a	1,100,000	–	–	–	1,100,000
	05/5/2008 ^a	2,200,000	–	–	–	2,200,000
	05/5/2009 ^a	Nil	–	–	–	Nil
	06/7/2010 ^a	2,000,000	–	–	–	2,000,000
	05/5/2011 ^b	–	666,000 ^{T1}	–	–	666,000
	05/5/2011 ^b	–	666,000 ^{T2}	–	–	666,000
	05/5/2011 ^b	–	668,000 ^{T3}	–	–	668,000
Aggregate of other Employees*	03/5/2006 ^a	770,000	–	770,000 ^c	–	Nil
	10/5/2007 ^a	935,000	–	–	–	935,000
	05/5/2008 ^a	1,870,000	–	–	–	1,870,000
	05/5/2009 ^a	3,980,000	–	385,000 ^c	–	3,595,000
	06/7/2010 ^a	3,950,000	–	–	–	3,950,000
	05/5/2011 ^b	–	1,314,000 ^{T1}	–	–	1,314,000
	05/5/2011 ^b	–	1,314,000 ^{T2}	–	–	1,314,000
	05/5/2011 ^b	–	1,322,000 ^{T3}	–	–	1,322,000
Other Participant**	03/5/2006 ^a	550,000	–	550,000 ^c	–	Nil
	10/5/2007 ^a	550,000	–	–	550,000	Nil
	05/5/2008 ^a	1,100,000	–	–	1,100,000	Nil
	05/5/2009 ^a	500,000	–	500,000 ^c	–	Nil

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

** Other Participant refers to a former employee who ceased to be an employee of the Bank in 2010. The share options were granted to him prior to his cessation as employee of the Bank.

Notes:

a Particulars of share options granted in years 2006 to 2010:

Date of Grant	Vesting Period	Exercise Period	Exercise Price Per Share HK\$
03/5/2006	03/5/2006 – 02/5/2007	03/5/2007 – 03/5/2011	30.04
10/5/2007	10/5/2007 – 09/5/2008	10/5/2008 – 10/5/2012	42.84
05/5/2008	05/5/2008 – 04/5/2009	05/5/2009 – 05/5/2013	40.09
05/5/2009	05/5/2009 – 04/5/2010	05/5/2010 – 05/5/2014	21.25
06/7/2010	06/7/2010 – 05/7/2011	06/7/2011 – 06/7/2015	28.49

b Share options granted in year 2011:

(i) Particulars:

<u>Date of Grant</u>	<u>Tranche</u>	<u>Vesting Period</u>	<u>Exercise Period</u>	<u>Exercise Price Per Share HK\$</u>
05/5/2011	T1	05/5/2011 – 04/5/2012	05/5/2012 – 05/5/2017	32.00
05/5/2011	T2	05/5/2011 – 04/5/2013	05/5/2013 – 05/5/2018	32.00
05/5/2011	T3	05/5/2011 – 04/5/2014	05/5/2014 – 05/5/2019	32.00

(ii) The closing price of the shares of the Bank on 4th May, 2011 (being the business day immediately preceding 5th May, 2011 on which the options were granted) was HK\$31.25.

(iii) Fair value of share options granted during the six months ended 30th June, 2011 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>30/06/2011</u>
Fair value at measurement date	HK\$5.12, HK\$5.34 and HK\$5.48
Share price	HK\$31.60
Exercise price	HK\$32.00
Expected volatility (expressed as weighted average volatility used in the modelling under trinomial lattice model)	21.78%
Option life	5 years, 6 years and 7 years
Expected dividends	2.98%
Risk-free interest rate (based on Exchange Fund Notes)	1.66%

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.

c 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, 2011:

<u>Date of Grant</u>	<u>No. of Options Exercised</u>	<u>Exercise Price Per Share HK\$</u>	<u>HWA Closing Price HK\$</u>
03/5/2006	2,420,000	30.04	32.13
05/5/2009	885,000	21.25	32.31

(2) No share options were cancelled during the six months ended 30th June, 2011.

(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 income statement with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the trinomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to those share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged or credited to the income statement for the year of the review unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Bank's shares.

The equity amount is recognised in capital reserve 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, 2011, 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, 2011, 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 positions in ordinary shares of the Bank:

<u>Name</u>	<u>Capacity and nature</u>	<u>No. of shares</u>	<u>% of issued share capital</u>
CaixaBank, S.A.	Beneficial owner	323,526,907 ¹	15.72
Caja de Ahorros y Pensiones de Barcelona	Interest of corporation	323,526,907 ¹	15.72
Guoco Management Company Limited	Beneficial owner	226,940,278 ^{2,3}	11.02 ⁴
Guoco Group Limited	Interest of corporation	226,940,278 ²	11.02
GuoLine Overseas Limited	Interest of corporation	226,940,278 ²	11.02 ⁴
GuoLine Capital Assets Limited	Interest of corporation	226,940,278 ²	11.02 ⁴
Hong Leong Company (Malaysia) Berhad	Interest of corporation	226,940,278 ^{2,3}	11.02
HL Holdings Sdn Bhd	Interest of corporation	226,940,278 ²	11.02
Quek Leng Chan	Interest of corporation	226,940,278 ²	11.02
Hong Leong Investment Holdings Pte. Ltd.	Interest of corporation	226,940,278 ³	11.02
Davos Investment Holdings Private Limited	Interest of corporation	226,940,278 ³	11.02
Kwek Leng Kee	Interest of corporation	226,940,278 ³	11.02

Notes:

- 1 The Bank was notified that following a corporate reorganisation of Caja de Ahorros y Pensiones de Barcelona effective on 30th June, 2011, the company name of Criteria CaixaCorp, S.A. was changed to CaixaBank, S.A. and Negocio de Finanzas e Inversiones I, S.L.U. (the former beneficial owner of the Bank's shares) merged into CaixaBank, S.A. (formerly known as Criteria CaixaCorp, S.A.). After the merger, Negocio de Finanzas e Inversiones I, S.L.U. ceased to exist and CaixaBank, S.A. became the beneficial owner of 323,526,907 shares (equivalent to approximately 15.72% of the issued share capital of the Bank as at 30th June, 2011) of the Bank.

As at 30th June, 2011, Caja de Ahorros y Pensiones de Barcelona was holding an 81.1% interest in CaixaBank, S.A. which directly held 323,526,907 shares of the Bank. Caja de Ahorros y Pensiones de Barcelona was deemed to be interested in the 323,526,907 shares of the Bank.

In addition, on 4th July, 2011, CaixaBank, S.A. acquired an additional 161,400 shares of the Bank which increased the interest of CaixaBank, S.A. to 323,688,307 shares of the Bank (equivalent to approximately 15.72% of the issued share capital of the Bank as at 4th July, 2011).

- 2 The references to 226,940,278 shares of the Bank in Notes 2 and 3 relate to the same block of shares. Guoco Management Company Limited was the beneficial owner of 226,940,278 shares. Hong Leong Company (Malaysia) Berhad was deemed to be interested in the 226,940,278 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 71.48% interest in Guoco Group Limited which in turn owned a 100% interest in Guoco Management Company Limited. GuoLine Capital Assets Limited, GuoLine Overseas Limited and Guoco Group Limited were all deemed to be interested in the 226,940,278 shares held by Guoco Management Company Limited.

Quek Leng Chan was deemed to be interested in the 226,940,278 shares held by Guoco Management Company Limited by virtue of his 100% interest in HL Holdings Sdn Bhd ("HLH"). Hong Leong Company (Malaysia) Berhad was 48.96% owned by Quek Leng Chan as to 2.424% under his personal name and 46.534% via HLH which was wholly-owned by him.

- 3 The references to 226,940,278 shares of the Bank in Notes 2 and 3 relate to the same block of shares. Hong Leong Company (Malaysia) Berhad was 34.38% held by Hong Leong Investment Holdings Pte. Ltd. which was in turn 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 226,940,278 shares 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 226,940,278 shares held by Guoco Management Company Limited by virtue of his 41.92% interest in Davos Investment Holdings Private Limited.

- 4 GuoLine Overseas Limited and GuoLine Capital Assets Limited are wholly-owned subsidiaries of Hong Leong Company (Malaysia) Berhad and Guoco Management Company Limited is a wholly-owned subsidiary of Guoco Group Limited. With the filing of the substantial shareholder notices by Hong Leong Company (Malaysia) Berhad and Guoco Group Limited, GuoLine Overseas Limited, GuoLine Capital Assets Limited and Guoco Management Company Limited do not need to file their respective substantial shareholder notices under the "wholly-owned group exemption" as provided in the SFO.

Save as disclosed above, no other interest or short position in the shares or underlying shares 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, 2011.

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, 2011, 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 quarterly intervals to discuss issues affecting operations of the Bank. There is a strong independent element in the composition of the Board. Of the 17 Board members, 9 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.

After specific enquiries made, 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, 2011.

By order of the Board

David LI Kwok-po

Chairman & Chief Executive

Hong Kong, 4th August, 2011

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

* Non-executive Directors

** Independent Non-executive Directors