



(Stock Code : 23)

Interim Report **2010**

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# The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

## INTERIM REPORT 2010

### INTERIM RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the unaudited results<sup>a</sup> of the Bank and its subsidiaries (the "Group") for the six months ended 30th June, 2010. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2009 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 39.

#### 1. Consolidated Income Statement

	6 months ended 30/6/2010	6 months ended 30/6/2009	6 months ended 31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	6,163	6,326	5,795
Interest expense	(2,494)	(3,092)	(2,282)
Net interest income	3,669	3,234	3,513
Fee and commission income	1,710	1,258	1,541
Fee and commission expense	(353)	(245)	(292)
Net fee and commission income	1,357	1,013	1,249
Net trading (losses)/profits	(329)	874	67
Net result from financial instruments designated at fair value through profit or loss	442	(407)	140
Other operating income	273	237	268
Non-interest income	1,743	1,717	1,724
Operating income	5,412	4,951	5,237
Operating expenses	(3,275)	(3,041)	(3,088)
Operating profit before impairment losses	2,137	1,910	2,149
Impairment losses on loans and advances	(150)	(474)	(631)
Impairment losses on held-to-maturity investments	–	(9)	–
Impairment losses on available-for-sale financial assets	(19)	(10)	(4)
Write back of impairment losses on associates	1	–	–
Impairment losses on bank premises	–	–	(13)
Impairment losses	(168)	(493)	(648)
Operating profit after impairment losses	1,969	1,417	1,501
Net loss on sale of held-to-maturity investments	–	(8)	(4)
Net profit on sale of available-for-sale financial assets	37	70	32
Net profit on sale of loans and receivables	–	1	1
Net profit on sale of subsidiaries/associates	230	–	–
Net profit/(loss) on sale of fixed assets	14	19	(3)
Valuation gains on investment properties	127	89	117
Share of profits less losses of associates	179	79	185
Profit for the period before taxation	2,556	1,667	1,829
Income tax			
Current tax <sup>b</sup>			
– Hong Kong	(191)	(33)	(40)
– Overseas	(277)	(224)	(230)
Deferred tax	28	(205)	(126)
Profit for the period after taxation	2,116	1,205	1,433

	6 months ended 30/6/2010 HK\$ Mn	6 months ended 30/6/2009 HK\$ Mn	6 months ended 31/12/2009 HK\$ Mn
Attributable to:			
Owners of the parent	2,077	1,169	1,396
Minority interest	39	36	37
	<u>2,116</u>	<u>1,205</u>	<u>1,433</u>
Profit after taxation			
	<u>2,116</u>	<u>1,205</u>	<u>1,433</u>
Profit for the Bank	<u>1,034</u>	<u>373</u>	<u>622</u>
Per share			
– Basic earnings <sup>c</sup>	HK\$0.95	HK\$0.64	HK\$0.72
– Diluted earnings <sup>c</sup>	HK\$0.95	HK\$0.64	HK\$0.72

## 2. Consolidated Statement of Comprehensive Income

	6 months ended 30/6/2010 HK\$ Mn	6 months ended 30/6/2009 HK\$ Mn
Net profit	<u>2,116</u>	<u>1,205</u>
Other comprehensive income for the period (after taxation and reclassification adjustments):		
Premises:		
– unrealised surplus on revaluation of premises	–	98
– deferred taxes	–	(24)
– exchange differences	1	–
Available-for-sale investment revaluation reserve:		
– fair value changes taken from equity	(99)	(288)
– fair value changes transferred from/(to) income statement:		
– on impairment and amortisation	19	10
– on disposal	(22)	442
– deferred taxes	8	(15)
Share of changes in equity of associates	27	(3)
Exchange differences arising from other reserves	12	–
Exchange differences on translation of:		
– financial statements of overseas branches, subsidiaries and associates	184	4
	<u>130</u>	<u>224</u>
Other comprehensive income		
	<u>130</u>	<u>224</u>
Total comprehensive income	<u>2,246</u>	<u>1,429</u>
Total comprehensive income attributable to:		
Owners of the parent	2,207	1,393
Minority interest	39	36
	<u>2,246</u>	<u>1,429</u>

### 3. Consolidated Statement of Financial Position

	30/6/2010	30/6/2009	31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
<b>ASSETS</b>			
Cash and balances with banks and other financial institutions	27,479	19,283	29,712
Placements with banks and other financial institutions	58,149	85,667	67,945
Trade bills	3,075	973	1,847
Trading assets	6,587	4,401	5,722
Financial assets designated at fair value through profit or loss	15,357	6,299	10,392
Advances to customers and other accounts	302,526	246,150	261,803
Available-for-sale financial assets	38,802	23,872	30,883
Held-to-maturity investments	6,787	7,374	7,239
Investments in associates	3,255	2,553	2,615
Fixed assets	11,574	11,017	11,467
– Investment properties	2,157	2,218	2,095
– Other property and equipment	9,417	8,799	9,372
Goodwill and intangible assets	4,161	4,110	4,135
Deferred tax assets	350	158	322
<b>Total Assets</b>	<b>478,102</b>	<b>411,857</b>	<b>434,082</b>
<b>EQUITY AND LIABILITIES</b>			
Deposits and balances of banks and other financial institutions	13,225	22,158	11,886
Deposits from customers	360,995	320,801	342,528
– Demand deposits and current accounts	49,726	40,019	46,380
– Savings deposit	77,280	68,595	81,711
– Time, call and notice deposits	233,989	212,187	214,437
Trading liabilities	2,515	2,010	1,455
Certificates of deposit issued	1,560	2,867	2,812
– At fair value through profit or loss	1,410	2,497	2,442
– At amortised cost	150	370	370
Current taxation	355	287	147
Debt securities issued	4,780	–	4,346
Deferred tax liabilities	515	294	520
Other accounts and provisions	35,818	17,487	18,506
Loan capital	12,177	12,035	12,359
– At fair value through profit or loss	7,512	7,392	7,712
– At amortised cost	4,665	4,643	4,647
<b>Total Liabilities</b>	<b>431,940</b>	<b>377,939</b>	<b>394,559</b>
Share capital	5,079	4,604	4,623
Reserves	36,696	28,957	30,542
<b>Total equity attributable to owners of the parent</b>	<b>41,775</b>	<b>33,561</b>	<b>35,165</b>
Minority interest	4,387	357	4,358
<b>Total Equity</b>	<b>46,162</b>	<b>33,918</b>	<b>39,523</b>
<b>Total Equity and Liabilities</b>	<b>478,102</b>	<b>411,857</b>	<b>434,082</b>

#### 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	Minority interest	Total Equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
As 1st January, 2010	4,623	4,526	170	1,169	286	928	86	14,866	1,518	6,993	35,165	4,358	39,523
Changes in equity													
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 Shares													
Option Schemes	12	87	-	-	-	-	-	-	-	-	99	-	99
Equity settled share-based transaction	-	-	21	-	-	-	-	-	-	-	21	-	21
Transfer	-	6	(14)	-	-	-	-	-	21	(13)	-	-	-
Dividends approved in respect of previous year	-	-	-	-	-	-	-	-	-	(1,136)	(1,136)	(26)	(1,162)
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	16	16
Total comprehensive income for the period	-	-	-	184	(94)	1	-	-	39	2,077	2,207	39	2,246
At 30th June, 2010	5,079	9,288	177	1,353	192	929	86	15,172	1,578	7,921	41,775	4,387	46,162
At 1st January, 2009	4,183	4,922	125	1,006	(228)	863	86	14,634	1,216	5,339	32,146	339	32,485
Changes in equity													
Shares issued in lieu of dividend	2	(2)	-	-	-	-	-	9	-	-	9	-	9
Capitalisation issue	418	(418)	-	-	-	-	-	-	-	-	-	-	-
Shares issued under Staff Shares													
Option Schemes	1	7	-	-	-	-	-	-	-	-	8	-	8
Equity settled share-based transaction	-	-	39	-	-	-	-	-	-	-	39	-	39
Transfer	-	-	(23)	-	-	(6)	-	6	31	(8)	-	-	-
Dividends approved in respect of previous year	-	-	-	-	-	-	-	-	-	(34)	(34)	(8)	(42)
Purchase of interests in businesses from minority interests investors	-	-	-	-	-	-	-	-	-	-	-	(10)	(10)
Total comprehensive income for the period	-	-	-	4	149	74	-	-	(3)	1,169	1,393	36	1,429
At 30th June, 2009	4,604	4,509	141	1,010	(79)	931	86	14,649	1,244	6,466	33,561	357	33,918

## 5. Condensed Consolidated Cash Flow Statement

	6 months ended 30/6/2010	6 months ended 30/6/2009
	HK\$ Mn	HK\$ Mn
Cash used in operations	(6,618)	(19,984)
Tax paid	(302)	(304)
Net cash used in operating activities	(6,920)	(20,288)
Net cash used in investing activities	(425)	(3,454)
Net cash generated from/(used in) financing activities	3,120	(3,038)
Net decrease in cash and cash equivalents	(4,225)	(26,780)
CASH AND CASH EQUIVALENTS AT 1st JANUARY	60,530	94,106
CASH AND CASH EQUIVALENTS AT 30th JUNE	56,305	67,326
Cash flows from operating activities included:		
Interest received	5,875	6,976
Interest paid	2,263	3,992
Dividend received	39	38

### 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, 2009 but there is no material change in accounting policies as compared to those accounts, nor for the six months ended 30th June, 2010. The statutory accounts for the year ended 31st December, 2009 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 11th February, 2010.
- (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, 2010. 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\$1,912 million (six months ended 30th June, 2009: HK\$1,169 million) after the distribution of HK\$165 million (six months ended 30th June, 2009: Nil) to Hybrid Tier 1 issue holders and on the weighted average of 2,011 million (six months ended 30th June, 2009: 1,841 million) ordinary shares outstanding during the six months ended 30th June, 2010.
- (ii) The calculation of diluted earnings per share is based on earnings of HK\$1,912 million (six months ended 30th June, 2009: HK\$1,169 million) after the distribution of HK\$165 million (six months ended 30th June, 2009: Nil) to Hybrid Tier 1 issue holders and on 2,013 million (six months ended 30th June, 2009: 1,841 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2010, adjusted for the effects of all dilutive potential shares.

## (d) Dividends

	6 months ended 30/6/2010	6 months ended 30/6/2009
	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\$0.38 per share (six months ended 30th June, 2009: HK\$ 0.28 per share)	772	516
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\$0.48 per share (2009: HK\$0.02 per share or HK\$0.02 per share after adjusting for the bonus issue in 2009)	2	–
	<u>774</u>	<u>516</u>

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

**6. Interest Income**

	6 months ended 30/6/2010	6 months ended 30/6/2009	6 months ended 31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Listed securities classified as held-to-maturity or available-for-sale	169	125	139
Trading assets			
– listed	9	5	8
– unlisted	30	8	20
Interest rate swaps	495	539	420
Financial assets designated at fair value through profit or loss			
– listed	187	81	125
– unlisted	90	34	47
Loans, deposits with banks and financial institutions, trade bills, and other unlisted securities that are not at fair value through profit or loss	<u>5,183</u>	<u>5,534</u>	<u>5,036</u>
Total interest income	<u>6,163</u>	<u>6,326</u>	<u>5,795</u>

Included above is interest income accrued on impaired financial assets of HK\$43 million (six months ended 30th June, 2009: HK\$35 million, and six months ended 31st December, 2009: HK\$44 million).



## 7. Interest Expense

	6 months ended 30/6/2010	6 months ended 30/6/2009	6 months ended 31/12/2009
	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	1,524	2,342	1,308
Debt securities issued	69	–	61
Subordinated notes carried at amortised cost	20	45	23
Interest rate swaps	613	415	600
Financial instruments designated at fair value through profit or loss	260	287	279
Other borrowings	8	3	11
	<u>2,494</u>	<u>3,092</u>	<u>2,282</u>
Total interest expense	<u>2,494</u>	<u>3,092</u>	<u>2,282</u>

## 8. Fee and Commission Income

Fee and commission income arises from the following services:

	6 months ended 30/6/2010	6 months ended 30/6/2009	6 months ended 31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Corporate services	418	394	412
Loans, overdrafts and guarantees	232	131	191
Credit cards	310	247	307
Securities and brokerage	196	134	186
Derivative transactions	163	52	70
Other retail banking services	106	78	115
Trade finance	85	67	74
Trust and other fiduciary activities	46	34	45
Others	154	121	141
	<u>1,710</u>	<u>1,258</u>	<u>1,541</u>
Total fee and commission income	<u>1,710</u>	<u>1,258</u>	<u>1,541</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

	1,288	991	1,223
Fee income	1,557	1,207	1,473
Fee expenses	(269)	(216)	(250)

**9. Net Trading (Losses)/Profits**

	6 months ended 30/6/2010	6 months ended 30/6/2009	6 months ended 31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Profit on dealing in foreign currencies	296	36	104
(Loss)/Profit on trading securities	(67)	393	223
Net (loss)/gain on derivatives	(570)	424	(271)
Loss on other dealing activities	(1)	–	–
Dividend income from listed trading securities	13	21	11
	<u>          </u>	<u>          </u>	<u>          </u>
Total net trading (losses)/profits	<u>          (329)</u>	<u>          874</u>	<u>          67</u>

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

	6 months ended 30/6/2010	6 months ended 30/6/2009	6 months ended 31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Revaluation gain/(loss) on debt issued	174	(921)	(315)
Net profit/(loss) on sale of other financial assets designated at fair value through profit or loss	15	(20)	(22)
Revaluation gain on other financial assets designated at fair value through profit or loss	253	534	477
	<u>          </u>	<u>          </u>	<u>          </u>
Total net result from financial instruments designated at fair value through profit or loss	<u>          442</u>	<u>          (407)</u>	<u>          140</u>

**11. Other Operating Income**

	6 months ended 30/6/2010	6 months ended 30/6/2009	6 months ended 31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Dividend income from available-for-sale financial assets			
– listed	19	10	11
– unlisted	7	7	18
Rental from safe deposit boxes	39	42	40
Net revenue from insurance activities	131	91	89
Rental income on properties	46	50	42
Others	31	37	68
	<u>          </u>	<u>          </u>	<u>          </u>
Total other operating income	<u>          273</u>	<u>          237</u>	<u>          268</u>

## 12. Operating Expenses

	6 months ended 30/6/2010	6 months ended 30/6/2009	6 months ended 31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Contributions to defined contribution plan	115	100	93
Equity-settled share-based payment expenses	21	39	32
Salaries and other staff costs	1,576	1,412	1,493
<b>Total staff costs</b>	<b>1,712</b>	<b>1,551</b>	<b>1,618</b>
Premises and equipment expenses excluding depreciation			
– Rental of premises	241	223	235
– Maintenance, repairs and others	244	232	215
<b>Total premises and equipment expenses excluding depreciation</b>	<b>485</b>	<b>455</b>	<b>450</b>
Depreciation on fixed assets	281	252	260
Amortisation of intangible assets	17	4	9
Other operating expenses			
– Stamp duty, overseas and PRC * business taxes, and value added taxes	162	157	147
– Communications, stationery and printing	140	128	144
– Advertising expenses	124	91	88
– Legal and professional fees	89	98	92
– Business promotions and business travel	75	43	71
– Card related expenses	46	43	48
– Insurance expenses	35	37	9
– Donations	5	12	1
– Membership fees	5	4	4
– Administration expenses of corporate services	4	3	5
– Bank charges	3	3	3
– Bank licence	2	2	2
– Others	90	158	137
<b>Total other operating expenses</b>	<b>780</b>	<b>779</b>	<b>751</b>
<b>Total operating expenses</b>	<b>3,275</b>	<b>3,041</b>	<b>3,088</b>

\* PRC denotes the People's Republic of China.

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

	6 months ended 30/6/2010	6 months ended 30/6/2009	6 months ended 31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net revaluation gain/(loss) transferred from reserves	22	(442)	471
Profit/(Loss) arising in the period	15	512	(439)
	<b>37</b>	<b>70</b>	<b>32</b>

#### 14. Placements with Banks and Other Financial Institutions

	30/6/2010	30/6/2009	31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Placements with central banks	78	–	–
Placements with banks and authorised institutions	58,071	85,667	67,638
Placements with other financial institutions	–	–	307
	<u>58,149</u>	<u>85,667</u>	<u>67,945</u>
Maturing			
– within one month	44,375	36,629	35,006
– between one month and one year	13,774	49,038	32,939
	<u>58,149</u>	<u>85,667</u>	<u>67,945</u>

#### 15. Trading Assets

	30/6/2010	30/6/2009	31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	1,699	1,210	34
Debt securities	1,701	917	3,090
Equity securities	1,353	1,075	1,429
Investment funds	200	191	201
	<u>4,953</u>	<u>3,393</u>	<u>4,754</u>
Trading securities	4,953	3,393	4,754
Positive fair value of derivatives	1,634	1,008	968
	<u>6,587</u>	<u>4,401</u>	<u>5,722</u>
Issued by:			
Central governments and central banks	2,102	1,210	1,857
Public sector entities	67	9	299
Banks and other financial institutions	1,119	901	1,093
Corporate entities	1,651	1,262	1,492
Other entities	14	11	13
	<u>4,953</u>	<u>3,393</u>	<u>4,754</u>
Analysed by place of listing:			
Listed in Hong Kong	1,413	913	1,484
Listed outside Hong Kong	807	546	574
	<u>2,220</u>	<u>1,459</u>	<u>2,058</u>
Unlisted	2,733	1,934	2,696
	<u>4,953</u>	<u>3,393</u>	<u>4,754</u>

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

	30/6/2010	30/6/2009	31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt securities	15,013	6,173	10,043
Equity securities	344	126	349
	<u>15,357</u>	<u>6,299</u>	<u>10,392</u>
Issued by:			
Central governments and central banks	526	228	235
Public sector entities	179	142	177
Banks and other financial institutions	7,722	2,053	4,338
Corporate entities	6,930	3,876	5,642
	<u>15,357</u>	<u>6,299</u>	<u>10,392</u>
Analysed by place of listing:			
Listed in Hong Kong	3,277	2,358	2,946
Listed outside Hong Kong	6,922	2,248	4,003
	<u>10,199</u>	<u>4,606</u>	<u>6,949</u>
Unlisted	5,158	1,693	3,443
	<u>15,357</u>	<u>6,299</u>	<u>10,392</u>

## 17. Advances to Customers and Other Accounts

### (a) Advances to customers and other accounts

	30/6/2010	30/6/2009	31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
(i) Advances to customers	278,210	231,392	247,654
Less: Impairment allowances			
– Individual	(480)	(667)	(534)
– Collective	(705)	(636)	(811)
	<u>277,025</u>	<u>230,089</u>	<u>246,309</u>
(ii) Other Accounts			
Advances to banks and other financial institutions	1,180	997	678
Notes and bonds	61	344	65
Certificates of deposit held	39	39	39
Accrued interest	1,601	1,213	1,313
Bankers acceptances	11,556	7,833	7,976
Other accounts	11,106	5,671	5,463
	<u>25,543</u>	<u>16,097</u>	<u>15,534</u>
Less: Impairment allowances			
– Individual	(32)	(26)	(31)
– Collective	(10)	(10)	(9)
	<u>25,501</u>	<u>16,061</u>	<u>15,494</u>
	<u>302,526</u>	<u>246,150</u>	<u>261,803</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.

	30/6/2010		30/6/2009		31/12/2009	
	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	9,604	53.74	8,018	47.18	8,790	60.42
– Property investment	36,099	93.75	32,246	92.68	33,532	93.71
– Financial concerns	2,781	68.88	3,032	75.48	3,759	79.47
– Stockbrokers	8,519	95.66	2,993	99.98	690	14.41
– Wholesale and retail trade	3,782	59.29	2,125	60.84	3,102	66.50
– Manufacturing	3,467	56.41	1,966	55.07	2,094	56.10
– Transport and transport equipment	4,452	72.56	3,331	76.95	3,808	79.08
– Recreational activities	74	25.40	332	86.52	100	44.95
– Information technology	275	2.40	333	1.52	328	1.54
– Others	5,202	57.20	5,433	57.45	5,058	61.27
– Sub-total	74,255	80.12	59,809	79.09	61,261	80.34
Individuals						
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,515	100.00	1,639	100.00	1,532	100.00
– Loans for the purchase of other residential properties	27,658	99.94	25,312	99.78	25,199	99.87
– Credit card advances	2,822	0.00	2,562	0.00	2,675	0.00
– Others	15,510	83.73	10,482	83.69	12,739	77.90
– Sub-total	47,505	88.71	39,995	89.18	42,145	86.89
Total loans for use in Hong Kong	121,760	83.48	99,804	83.13	103,406	83.01
Trade finance	6,409	59.08	2,372	55.49	2,546	53.75
Loans for use outside Hong Kong *	150,041	72.99	129,216	76.18	141,702	75.76
Total advances to customers	278,210	77.26	231,392	78.97	247,654	78.56

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

	30/6/2010		30/6/2009		31/12/2009	
	Gross advances	% of secured advances	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%	HK\$ Mn	%
Property development	19,833	56.49	13,985	76.50	13,762	71.12
Property investment	22,146	84.10	25,048	83.58	24,153	86.36
Wholesale and retail trade	20,330	91.83	14,994	91.05	19,612	95.16
Manufacturing	9,387	42.08	7,055	60.76	7,322	48.94
Others	42,239	74.07	32,103	73.26	39,016	69.86
	113,935	73.49	93,185	78.44	103,865	77.16

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:

	30/6/2010	30/6/2009	31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
(i) Property development			
a. Individually impaired loans	858	716	805
b. Individual impairment allowance	102	92	50
c. Collective impairment allowance	58	42	83
d. Provision charged to income statement			
– individual impairment loss	89	84	324
– collective impairment loss	7	18	61
e. Written off	28	–	272
(ii) Property investment			
a. Individually impaired loans	576	188	309
b. Individual impairment allowance	74	38	29
c. Collective impairment allowance	185	137	212
d. Provision charged to income statement			
– individual impairment loss	61	30	60
– collective impairment loss	15	33	119
e. Written off	1	19	52
(iii) Loans for purchase of residential properties			
a. Individually impaired loans	129	129	135
b. Individual impairment allowance	–	1	–
c. Collective impairment allowance	27	21	32
d. Provision charged to income statement			
– individual impairment loss	1	–	1
– collective impairment loss	7	3	23
e. Written off	–	–	1
(iv) Wholesale and retail trade			
a. Individually impaired loans	206	379	310
b. Individual impairment allowance	111	164	162
c. Collective impairment allowance	70	41	58
d. Provision charged to income statement			
– individual impairment loss	23	80	185
– collective impairment loss	14	7	21
e. Written off	52	53	131

**(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.

	30/6/2010				
	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>		
	30/6/2009				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	118,160	365	624	268	316
People's Republic of China	80,169	271	494	90	98
Other Asian Countries	10,185	232	353	169	166
Others	22,878	118	895	140	56
Total	<u>231,392</u>	<u>986</u>	<u>2,366</u>	<u>667</u>	<u>636</u>
% of total advances to customers			<u>1.02%</u>		
Market value of security held against impaired advances to customers			<u>4,636</u>		



31/12/2009

	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	121,538	217	407	103	299
People's Republic of China	93,084	177	373	34	86
Other Asian Countries	10,103	213	382	247	178
Others	22,929	284	1,286	150	248
<b>Total</b>	<b>247,654</b>	<b>891</b>	<b>2,448</b>	<b>534</b>	<b>811</b>
% of total advances to customers			0.99%		
Market value of security held against impaired advances to customers			4,839		

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

There were no impaired advances to banks and other financial institutions as at 30th June, 2010, 30th June, 2009 and 31st December, 2009; nor were there any individual impairment allowances made for them on these three respective dates.

## 18. Available-for-Sale Financial Assets

	30/6/2010 HK\$ Mn	30/6/2009 HK\$ Mn	31/12/2009 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	5,691	11,437	5,425
Certificates of deposit held	1,834	594	972
Debt securities	29,212	10,536	22,599
Equity securities	1,837	1,198	1,810
Investment funds	228	107	77
	<b>38,802</b>	<b>23,872</b>	<b>30,883</b>
Issued by:			
Central governments and central banks	13,978	11,521	12,787
Public sector entities	427	5	236
Banks and other financial institutions	15,502	10,012	14,199
Corporate entities	8,719	2,227	3,584
Other entities	176	107	77
	<b>38,802</b>	<b>23,872</b>	<b>30,883</b>
Analysed by place of listing:			
Listed in Hong Kong	2,229	515	1,957
Listed outside Hong Kong	6,587	4,232	5,512
	<b>8,816</b>	<b>4,747</b>	<b>7,469</b>
Unlisted	29,986	19,125	23,414
	<b>38,802</b>	<b>23,872</b>	<b>30,883</b>

## 19. Held-to-Maturity Investments

	30/6/2010	30/6/2009	31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	64	123	189
Certificates of deposit held	2,046	2,709	2,245
Debt securities	4,715	4,658	4,843
	<u>6,825</u>	<u>7,490</u>	<u>7,277</u>
Less: Impairment allowances	(38)	(116)	(38)
	<u>6,787</u>	<u>7,374</u>	<u>7,239</u>
Issued by:			
Central governments and central banks	1,482	673	1,510
Public sector entities	443	554	621
Banks and other financial institutions	3,865	5,182	4,328
Corporate entities	997	965	780
	<u>6,787</u>	<u>7,374</u>	<u>7,239</u>
Analysed by place of listing:			
Listed in Hong Kong	969	360	952
Listed outside Hong Kong	2,950	2,857	2,984
	<u>3,919</u>	<u>3,217</u>	<u>3,936</u>
Unlisted	2,868	4,157	3,303
	<u>6,787</u>	<u>7,374</u>	<u>7,239</u>
Fair value:			
Listed securities	4,026	3,193	3,998
Unlisted securities	2,894	4,165	3,320
	<u>6,920</u>	<u>7,358</u>	<u>7,318</u>

## 20. Fixed Assets

30/6/2010

	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, 2010	2,095	8,572	3,673	12,245	14,340
Additions	–	42	209	251	251
Additions through acquisition	–	–	36	36	36
Revaluation surplus	127	–	–	–	127
Transfer from investment properties to bank premises	(66)	66	–	66	–
Disposals	–	(54)	(75)	(129)	(129)
Exchange adjustments	1	42	8	50	51
At 30th June, 2010	2,157	8,668	3,851	12,519	14,676
Accumulated depreciation and amortisation					
At 1st January, 2010	–	775	2,098	2,873	2,873
Additions through acquisition	–	–	34	34	34
Charge for the period	–	59	222	281	281
Written back on disposal	–	(26)	(65)	(91)	(91)
Exchange adjustments	–	3	2	5	5
At 30th June, 2010	–	811	2,291	3,102	3,102
Net book value at 30th June, 2010	2,157	7,857	1,560	9,417	11,574
Net book value at 30th June, 2009	2,218	7,169	1,630	8,799	11,017
Net book value at 31st December, 2009	2,095	7,797	1,575	9,372	11,467
The gross amounts of the above assets are stated:					
At cost	–	7,845	3,851	11,696	11,696
At Directors' valuation – 1989	–	823	–	823	823
At professional valuation – 2010	2,157	–	–	–	2,157
	2,157	8,668	3,851	12,519	14,676

## 21. Trading Liabilities

	30/6/2010	30/6/2009	31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Exchange fund bills sold	–	800	–
Shares sold	2	–	6
Negative fair value of derivatives	2,513	1,210	1,449
	<u>2,515</u>	<u>2,010</u>	<u>1,455</u>

## 22. Other Accounts and Provisions

	30/6/2010	30/6/2009	31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Accrued interest payable	1,320	1,037	1,089
Acceptance draft payable	11,556	7,833	7,976
Other accounts	22,942	8,617	9,441
	<u>35,818</u>	<u>17,487</u>	<u>18,506</u>

## 23. Loan Capital

	30/6/2010	30/6/2009	31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
USD550 million 5.625% subordinated notes, measured at fair value through profit or loss	4,278	4,071	4,281
GBP300 million 6.125% step-up perpetual subordinated notes, measured at fair value through profit or loss	3,234	3,321	3,431
USD600 million floating rate step-up subordinated notes, measured at amortised cost	4,665	4,643	4,647
	<u>12,177</u>	<u>12,035</u>	<u>12,359</u>

Loan capital of face value of HK\$4,282 million (US\$550,000,000) and carrying amount of HK\$4,278 million represents 5.625% subordinated notes qualifying as tier 2 capital which were issued on 13th December, 2005 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 13th December, 2015. The notes are redeemable at the option of the Bank on 14th December, 2010.

Loan capital of face value of HK\$3,515 million (GBP300,000,000) and carrying amount of HK\$3,234 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\$4,671 million (US\$600,000,000) and carrying amount of HK\$4,665 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.

## 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 except for properties, 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		
	Personal banking	Corporate banking	Treasury markets	Wealth management	China operations	Overseas operations	Corporate services		Others	Inter-segment elimination	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn		HK\$ Mn	HK\$ Mn	HK\$ Mn
Net interest income	1,041	478	26	86	1,641	341	1	3,614	55	-	3,669
Non-interest income	260	40	19	137	284	90	419	1,249	616	(122)	1,743
Operating income	1,301	518	45	223	1,925	431	420	4,863	671	(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	(3)	166	760	176	149	2,375	(238)	-	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	(3)	168	773	50	147	2,226	(257)	-	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	8	168	780	49	147	2,243	313	-	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	176,936	45,886	3,648	502,348	26,174	(53,675)	474,847
Investments in associates	-	-	-	-	-	-	-	-	3,255	-	3,255
Total assets	46,909	91,776	127,104	10,089	176,936	45,886	3,648	502,348	29,429	(53,675)	478,102
Total liabilities	225,551	4,078	27,634	14,722	159,021	37,763	1,710	470,479	9,778	(48,317)	431,940

	Hong Kong banking operations							Total reportable segments HK\$ Mn	Others HK\$ Mn	Inter-segment elimination HK\$ Mn	Total HK\$ Mn
	Personal banking	Corporate banking	Treasury markets	Wealth management	China operations	Overseas operations	Corporate services				
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn				
Net interest income/(expense)	899	342	260	63	1,450	352	1	3,367	(133)	-	3,234
Non-interest income/(expense)	205	463	(155)	91	162	216	399	1,381	448	(112)	1,717
Operating income	1,104	805	105	154	1,612	568	400	4,748	315	(112)	4,951
Operating expenses	(715)	(52)	(53)	(50)	(924)	(264)	(244)	(2,302)	(851)	112	(3,041)
Operating profit/(loss) before impairment losses	389	753	52	104	688	304	156	2,446	(536)	-	1,910
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(56)	(48)	-	(23)	7	(341)	(4)	(465)	(9)	-	(474)
Impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	(9)	-	-	-	-	(9)	(10)	-	(19)
Operating profit/(loss) after impairment losses	333	705	43	81	695	(37)	152	1,972	(555)	-	1,417
Profit/(Loss) on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and loans and receivables	(2)	-	41	-	22	-	-	61	21	-	82
Valuation gains/(losses) on investment properties	-	-	-	-	-	(2)	-	(2)	91	-	89
Share of profits less losses of associates	-	-	-	-	-	-	-	-	79	-	79
Profit/(Loss) before taxation	331	705	84	81	717	(39)	152	2,031	(364)	-	1,667
Depreciation for the period	(35)	(1)	(2)	(1)	(89)	(13)	(8)	(149)	(103)	-	(252)
Segment assets	42,304	63,516	133,816	6,576	134,488	42,588	3,590	426,878	18,437	(36,011)	409,304
Investments in associates	-	-	-	-	-	-	-	-	2,553	-	2,553
Total assets	42,304	63,516	133,816	6,576	134,488	42,588	3,590	426,878	20,990	(36,011)	411,857
Total liabilities	210,946	536	19,727	12,278	120,726	38,293	1,670	404,176	8,550	(34,787)	377,939

## 25. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2010							Total HK\$ Mn
	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	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
<b>Assets</b>								
Cash and balances with banks and other financial institutions	11,686	87	12	41	–	–	15,653	27,479
Placements with banks and other financial institutions	–	44,375	3,055	10,719	–	–	–	58,149
Trade bills	91	773	1,429	772	–	–	10	3,075
Trading assets	–	955	872	2	1,385	186	3,187	6,587
Financial assets designated at fair value through profit or loss	–	–	17	706	10,648	3,642	344	15,357
Advances to customers and other accounts	5,159	40,840	23,581	55,463	104,152	68,958	4,373	302,526
Available-for-sale financial assets	–	3,616	7,865	8,871	13,532	2,853	2,065	38,802
Held-to-maturity investments	24	1,110	349	1,342	3,302	660	–	6,787
Undated assets	–	–	–	–	–	–	19,340	19,340
<b>Total assets</b>	<u>16,960</u>	<u>91,756</u>	<u>37,180</u>	<u>77,916</u>	<u>133,019</u>	<u>76,299</u>	<u>44,972</u>	<u>478,102</u>
<b>Liabilities</b>								
Deposits and balances of banks and other financial institutions	511	7,100	2,992	2,523	78	10	11	13,225
Deposits from customers	128,227	114,256	61,853	44,579	12,080	–	–	360,995
– Demand deposits and current accounts	49,726	–	–	–	–	–	–	49,726
– Savings deposit	77,280	–	–	–	–	–	–	77,280
– Time, call and notice deposits	1,221	114,256	61,853	44,579	12,080	–	–	233,989
Trading liabilities	–	–	–	–	–	–	2,515	2,515
Certificates of deposit issued	–	–	–	502	1,058	–	–	1,560
Current taxation	–	–	–	355	–	–	–	355
Debt securities issued	–	–	–	–	4,780	–	–	4,780
Loan capital	–	–	–	4,278	7,899	–	–	12,177
Other liabilities	1,797	13,608	2,764	7,701	137	–	10,326	36,333
<b>Total liabilities</b>	<u>130,535</u>	<u>134,964</u>	<u>67,609</u>	<u>59,938</u>	<u>26,032</u>	<u>10</u>	<u>12,852</u>	<u>431,940</u>
<b>Net gap</b>	<u>(113,575)</u>	<u>(43,208)</u>	<u>(30,429)</u>	<u>17,978</u>	<u>106,987</u>	<u>76,289</u>		



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	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
<b>Assets</b>								
Cash and balances with banks and other financial institutions	18,156	26	48	-	-	-	11,482	29,712
Placements with banks and other financial institutions	-	35,006	15,471	17,468	-	-	-	67,945
Trade bills	38	332	1,028	443	-	-	6	1,847
Trading assets	-	-	126	949	1,949	100	2,598	5,722
Financial assets designated at fair value through profit or loss	-	-	15	108	7,835	2,085	349	10,392
Advances to customers and other accounts	4,410	26,242	14,803	50,376	100,562	61,317	4,093	261,803
Available-for-sale financial assets	-	1,438	3,639	9,241	13,012	1,666	1,887	30,883
Held-to-maturity investments	-	729	602	1,306	4,011	591	-	7,239
Undated assets	-	-	-	-	-	-	18,539	18,539
<b>Total assets</b>	<b>22,604</b>	<b>63,773</b>	<b>35,732</b>	<b>79,891</b>	<b>127,369</b>	<b>65,759</b>	<b>38,954</b>	<b>434,082</b>
<b>Liabilities</b>								
Deposits and balances of banks and other financial institutions	291	5,774	4,155	1,613	20	-	33	11,886
Deposits from customers	129,231	104,732	53,276	44,222	11,067	-	-	342,528
- Demand deposits and current accounts	46,380	-	-	-	-	-	-	46,380
- Savings deposit	81,711	-	-	-	-	-	-	81,711
- Time, call and notice deposits	1,140	104,732	53,276	44,222	11,067	-	-	214,437
Trading liabilities	-	-	-	-	-	-	1,455	1,455
Certificates of deposit issued	-	-	295	1,119	1,094	304	-	2,812
Current taxation	-	-	-	147	-	-	-	147
Debt securities issued	-	-	-	-	4,346	-	-	4,346
Loan capital	-	-	-	4,281	8,078	-	-	12,359
Other liabilities	590	2,391	2,522	4,940	873	-	7,710	19,026
<b>Total liabilities</b>	<b>130,112</b>	<b>112,897</b>	<b>60,248</b>	<b>56,322</b>	<b>25,478</b>	<b>304</b>	<b>9,198</b>	<b>394,559</b>
<b>Net gap</b>	<b>(107,508)</b>	<b>(49,124)</b>	<b>(24,516)</b>	<b>23,569</b>	<b>101,891</b>	<b>65,455</b>		

## 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, 2010	305	349	23	39	(216)	(302)	198
Other movements	2	-	-	-	-	1	3
Charged/(credited) to consolidated income statement	-	-	(87)	-	27	32	(28)
Credited to reserves	-	-	-	(8)	-	-	(8)
Additions through acquisition of subsidiary	(1)	-	-	-	(4)	-	(5)
Exchange and other adjustments	-	-	1	-	4	-	5
At 30th June, 2010	<u>306</u>	<u>349</u>	<u>(63)</u>	<u>31</u>	<u>(189)</u>	<u>(269)</u>	<u>165</u>
Balance as at 30th June, 2009	<u>343</u>	<u>281</u>	<u>(71)</u>	<u>11</u>	<u>(401)</u>	<u>(27)</u>	<u>136</u>
Balance as at 31st December, 2009	<u>305</u>	<u>349</u>	<u>23</u>	<u>39</u>	<u>(216)</u>	<u>(302)</u>	<u>198</u>

## 27. Reserves

	30/6/2010 HK\$ Mn	30/6/2009 HK\$ Mn	31/12/2009 HK\$ Mn
Share premium	9,288	4,509	4,526
General reserve	15,172	14,649	14,866
Revaluation reserve on bank premises	929	931	928
Investment revaluation reserve	192	(79)	286
Exchange revaluation reserve	1,353	1,010	1,169
Other reserves	1,841	1,471	1,774
Retained profits*	7,921	6,466	6,993
Total	<u>36,696</u>	<u>28,957</u>	<u>30,542</u>
Proposed dividends, not provided for	<u>772</u>	<u>516</u>	<u>968</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, 2010, HK\$2,185 million (31st December, 2009: HK\$1,857 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

	30/6/2010	30/6/2009
	HK\$ Mn	HK\$ Mn
Net assets acquired		
Cash and balances with banks and other financial institutions	310	19
Advances and other accounts less provisions	473	19
Fixed assets	2	7
Deferred tax assets	3	–
Current taxation	(2)	–
Other accounts and provisions	(471)	(2)
	315	43
Goodwill arising on consolidation	34	–
Intangible assets acquired	2	–
	351	43
Less: Cash and cash equivalents acquired	(310)	(19)
	41	24

### (b) Disposal of subsidiaries

	30/6/2010	30/6/2009
	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	–

**(c) Cash and cash equivalents**

	30/6/2010	30/6/2009
	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	12,991	11,487
Placements with banks and other financial institutions with original maturity within three months	38,085	51,912
Treasury bills with original maturity within three months	4,264	2,817
Certificates of deposit held with original maturity within three months	644	826
Debt securities with original maturity within three months	321	284
	<u>56,305</u>	<u>67,326</u>
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks and other financial institutions	27,479	19,283
Placements with banks and other financial institutions	58,149	85,667
Treasury bills, certificates of deposit held and debt securities		
– trading assets	3,400	2,127
– designated at fair value through profit or loss	15,013	6,173
– advances and other accounts	39	39
– available-for sale	36,737	22,567
– held-to-maturity	6,787	7,374
	<u>61,976</u>	<u>38,280</u>
Amount shown in the consolidated statement of financial position	147,604	143,230
Less: Amounts with an original maturity of beyond three months	(76,811)	(68,108)
Cash balance with central bank subject to regulatory restriction	(14,488)	(7,796)
	<u>56,305</u>	<u>67,326</u>
Cash and cash equivalents in the consolidated cash flow statement	<u>56,305</u>	<u>67,326</u>

## 29. Off-balance Sheet Exposures

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

	30/6/2010	31/12/2009
	HK\$ Mn	HK\$ Mn
Contractual amounts of contingent liabilities and commitments		
Direct credit substitutes	8,091	7,341
Transaction-related contingencies	1,097	1,293
Trade-related contingencies	1,828	1,331
Commitments that are unconditionally cancellable		
without prior notice	41,511	41,555
Other commitments		
– up to 1 year	24,446	21,606
– over 1 year	19,363	14,112
	<u>96,336</u>	<u>87,238</u>
Total	<u>96,336</u>	<u>87,238</u>
Credit risk weighted amounts	<u>29,983</u>	<u>27,305</u>
Fair value		
Assets		
Exchange rate contracts	638	317
Interest rate contracts	889	587
Options purchased/written		
– exchange rate contracts	63	9
– equity contracts	44	55
	<u>1,634</u>	<u>968</u>
Liabilities		
Exchange rate contracts	262	139
Interest rate contracts	2,158	1,279
Options purchased/written		
– exchange rate contracts	65	9
– equity contracts	28	22
	<u>2,513</u>	<u>1,449</u>
Notional amounts of derivatives		
Exchange rate contracts	117,936	43,809
Interest rate contracts	93,149	70,757
Equity contracts	4,009	3,051
	<u>215,094</u>	<u>117,617</u>
Credit risk weighted amounts		
Exchange rate contracts	1,814	567
Interest rate contracts	572	350
Equity contracts	144	90
Debt security & other commodity	5	6
	<u>2,535</u>	<u>1,013</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:

	30/6/2010	31/12/2009
	HK\$ Mn	HK\$ Mn
Expenditure authorised and contracted for	133	338
Expenditure authorised but not contracted for	19	65
	<u>152</u>	<u>403</u>

**30. Material Related Party Transactions**

The Group maintains certain retirement benefit schemes for its staff. In the six month ended 30th June, 2010, the total amount of contributions the Group made to the schemes was HK\$47 million (six months ended 30th June, 2009: HK\$37 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, 2010, outstanding balances of amounts due from and due to them at 30th June, 2010 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2010 are aggregated as follows:

	Key management personnel		Subsidiaries		Associates	
	30/6/2010	30/6/2009	30/6/2010	30/6/2009	30/6/2010	30/6/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	45	106	379	266	2	1
Interest expense	7	18	304	52	-	-
Amounts due from	6,002	7,307	18,188	10,671	1,266	50
Amounts due to	5,319	3,624	2,680	1,622	4	6
Maximum amounts due from	7,764	8,702	18,188	15,953	1,471	282
Maximum amounts due to	9,277	7,574	2,680	2,295	16	18

### 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 Business Consultants Sdn. Bhd.	Crystal Gleaming Limited
Abacus Company Administration Sdn. Bhd.	Delanez Limited
Abacus (Nominees) Limited	Denroy Nominees Limited
Abacus Share Registrars Limited	Dersale Limited
Acheson Limited	Digex Limited
Alamo Investments Limited	Directra Overseas Services Inc.
Albridge Corporate Advisory Services Ltd	Directra Services Limited
Albridge Services London Ltd	EA China Finance Limited
Alhart Limited	EA Nominees Limited
Ample Delight Limited	EA Securities Limited
Asia Management Services Sdn Berhad	EACS (First director) Inc.
Asia Securities Sdn Bhd	East Asia Corporate Services (BVI) Limited
Asia Strategic Capital Limited	East Asia Corporate Services (Nominees) Ltd.
Asia Strategic Investment Management Limited	* East Asia Electronic Data Processing
Bagatelle Services Limited	(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 Brokerage (Taiwan) Limited	East Asia Indonesian Holdings Limited
BEA Life Limited	East Asia International Trustees Holdings (BVI)
BEA Pacific Asia Limited	Limited
BEA Pacific Holding Company Limited	* East Asia Investment Holdings Limited
BEA Pacific Nominee Limited	* East Asia Investments Holdings (BVI) Ltd.
BEA Union Investment Management Limited	East Asia Marketing Limited
BEA Wealth Management Services (Taiwan)	East Asia Properties Holding Company Limited
Limited	East Asia Properties Investment Company
Becmac Limited	Limited (in Members' Voluntary Winding-up)
Beecroft Limited	* East Asia Properties (US), Inc.
Bentley Services Limited	East Asia Property Agency Company Limited
Blue Care (BVI) Holdings Limited	East Asia Property Development (Shanghai)
Blue Care JV (BVI) Holdings Limited	Limited
Blue Care Medical Services Limited	East Asia Property Holdings (Jersey) Limited
Blue Cross (Asia-Pacific) Insurance Limited	East Asia Property Management (China) Limited
Branford Investments Limited	East Asia Property Management (Guangzhou)
Camceb Limited	Limited
Cane Garden Bay Limited	East Asia Secretarial Services Ltd.
Capico Asset Management Sdn. Bhd.	East Asia Secretaries (BVI) Limited
Caribbean Corporate Services Ltd.	East Asia Secretaries Limited
CCSL St. Lucia Ltd.	East Asia Securities Company Limited
Central Town Limited	* East Asia Services (Holdings) Limited
Century Able Limited	East Asia Strategic Holdings Limited
Cheam Holdings Limited	Elemen Limited
Cheam Nominees Limited	Epsilon Registration Services Sdn. Bhd.
Chua, Woo & Company Sdn. Bhd.	Equity Trustee Limited
Clacton Company Limited	Essex Nominees Limited
Clancy Limited	Evatthouse Corporate Services Pte. Ltd.
Corona Light Limited	Far East Bank Nominees Limited
* Credit Gain Finance Company Limited	FEB (1989) Limited

Flowery World Corporation  
 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.  
 Goldmond Company Limited  
 Goldmond Finance Company Limited  
 Grimma Company Limited  
 \* ICEA Capital Limited  
 \* ICEA Securities Asia Limited (in Members' Voluntary Winding-up)  
 \* 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  
 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  
 Radstock Holdings Ltd.  
 Ramillies Limited  
 Red Phoenix Limited  
 Richard Tozer Nominees Ltd  
 Rioja Limited  
 Roebuck Limited  
 Rontors Limited  
 Rosland Corporate Management Limited  
 Secretaries Limited  
 Secretarius Services Sdn. Bhd.  
 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 Nominees (UK) Limited  
 Total Corporate Compliance Sdn. Bhd.  
 Total Express & Document Storage Sdn. Bhd.  
 Travelsafe Limited  
 Tricor (B) Sdn. Bhd.  
 Tricor (Labuan) Limited  
 Tricor Abacus Limited  
 Tricor Aldbridge LLP  
 Tricor Asia Limited  
 Tricor Business Services Sdn. Bhd.  
 Tricor Caribbean Limited  
 Tricor China Limited  
 Tricor Consultancy (Beijing) 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 Nominees Limited  
 Tricor Outsourcing (Thailand) Ltd.  
 Tricor Progressive Limited  
 Tricor Representatives Limited  
 Tricor Secretaries Limited  
 Tricor Services (Brunei) Ltd  
 Tricor Services (BVI) Limited  
 Tricor Services (Macau) Limited  
 Tricor Services (Malaysia) Sdn. Bhd.  
 Tricor Services (UK) Limited  
 Tricor Services Limited  
 Tricor Signatory Limited  
 Tricor Singapore Pte. Ltd.  
 Tricor Standard Limited  
 Tricor Strath Limited  
 Tricor Tax Services Sdn. Bhd.  
 Tricor Tengis Limited  
 Tricor Trustco (Labuan) Limited  
 Trident Corporate Management Limited  
 Trident Nominees Limited  
 Tristan Company Limited  
 Tudor Nominees Limited  
 Tung Shing Financial Services (Brokers) Limited  
 Tung Shing Futures (Brokers) Limited  
 Tung Shing Holdings (BVI) Limited  
 \* Tung Shing Holdings Company Limited  
 \* Tung Shing Securities (Brokers) Limited  
 \* Tung Shing Services (Brokers) Limited



Turquandia Limited  
U Care Hong Kong Medical Limited  
United Chinese (Nominee) Limited  
Vanceburg Limited  
Virtual Success Limited  
Vitaway (Mauritius) Limited  
W.T. (Secretaries) Limited

Wai Chiu Company Limited  
Wai Hop Company Limited  
Westboro 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**

The comparative figures in respect of segment reporting for the first half of 2009 have been restated due to the change in the presentation of information for reporting to the Group's most senior executive management for the purposes of resource allocation and performance assessment with effect from 2010. Changes in grouping were made to certain subsidiaries incorporated outside Hong Kong and certain supporting units operating in Hong Kong, which were formerly grouped based on geographic location of the legal entity or operation. In 2010, they were regrouped according to the cluster of cash generating units to which they relate.

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 32 to 38 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

	30/6/2010	30/6/2009	31/12/2009
	%	%	%
Capital adequacy ratio	13.8	13.0	13.3
Core capital adequacy ratio	10.3	8.4	9.4

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

	30/6/2010	30/6/2009	31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Core capital			
Paid up ordinary share capital	5,079	4,604	4,623
Share premium	9,288	4,509	4,526
Reserves	19,135	18,438	17,647
Profit and loss account	720	332	1,553
Minority interests	3,727	–	3,826
Deduct: Goodwill	(1,659)	(1,624)	(1,624)
Net deferred tax assets	(347)	(154)	(317)
Other intangible assets	(28)	(957)	(27)
	<u>35,915</u>	<u>25,148</u>	<u>30,207</u>
Less: Core capital items deductions	(3,756)	(2,955)	(3,672)
Total core capital	<u>32,159</u>	<u>22,193</u>	<u>26,535</u>
Eligible supplementary capital			
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	967	869	916
Revaluation reserves for fair value gains on revaluation of holdings of available-for-sale equities and debt securities	54	–	63
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	119	240	424
Regulatory reserve for general banking risks	202	121	134
Collectively assessed impairment allowances	138	79	153
Surplus provisions	637	955	435
Perpetual subordinated debt	3,511	3,877	3,743
Term subordinated debt	8,946	8,902	8,910
	<u>14,574</u>	<u>15,043</u>	<u>14,778</u>
Less: Supplementary capital items deductions	(3,756)	(2,955)	(3,672)
Total supplementary capital	<u>10,818</u>	<u>12,088</u>	<u>11,106</u>
Total capital base	<u>42,977</u>	<u>34,281</u>	<u>37,641</u>

## B. Liquidity Ratio

	6 months ended 30/6/2010	6 months ended 30/6/2009	The year ended 31/12/2009
	%	%	%
Average liquidity ratio for the period	43.1	43.8	43.3

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.

	30/6/2010			
	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
	30/6/2009			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	10,052	1,372	29,936	41,360
Asian countries, excluding People's Republic of China	20,006	2,796	11,785	34,587
North America	10,157	240	9,055	19,452
Western Europe	63,883	–	1,737	65,620
	31/12/2009			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	9,717	1,683	37,795	49,195
Asian countries, excluding People's Republic of China	17,241	2,464	12,917	32,622
North America	9,147	382	12,927	22,456
Western Europe	50,624	–	1,490	52,114

## D. Non-bank Mainland Exposures

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

	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	–
<b>Total</b>	<b>144,942</b>	<b>26,677</b>	<b>171,619</b>	<b>39</b>
	30/6/2009			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	89,804	18,643	108,447	86
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	13,651	2,245	15,896	22
Other counterparties the exposures to whom are considered to be non – bank Mainland exposures	4,712	8	4,720	2
<b>Total</b>	<b>108,167</b>	<b>20,896</b>	<b>129,063</b>	<b>110</b>
	31/12/2009			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	97,002	22,570	119,572	36
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	15,085	2,302	17,387	10
Other counterparties the exposures to whom are considered to be non – bank Mainland exposures	7,540	12	7,552	–
<b>Total</b>	<b>119,627</b>	<b>24,884</b>	<b>144,511</b>	<b>46</b>

## E. Overdue, Rescheduled and Repossessed Assets

### (a) Overdue and rescheduled advances

	30/6/2010		30/6/2009		31/12/2009	
	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	173	0.1	258	0.1	96	0.1
– 1 year or less but over 6 months	81	0.0	531	0.2	515	0.2
– Over 1 year	329	0.1	197	0.1	280	0.1
	583	0.2	986	0.4	891	0.4
Rescheduled advances to customers	452	0.2	390	0.2	489	0.2
Total overdue and rescheduled advances	1,035	0.4	1,376	0.6	1,380	0.6
Secured overdue advances	350	0.1	436	0.2	561	0.2
Unsecured overdue advances	233	0.1	550	0.2	330	0.2
Market value of security held against secured overdue advances	1,948		2,129		2,168	
Individual impairment allowance made on loans overdue for more than 3 months	202		489		309	

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, 2010, 30th June, 2009 and 31st December, 2009; nor were there any rescheduled advances to banks and other financial institutions on these three dates.

**(b) Other overdue and rescheduled assets**

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

	31/12/2009		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	–	–	–
– 1 year or less but over 6 months	–	–	–
– Over 1 year	–	–	1
			1
Rescheduled assets	–	–	–
Total other overdue and rescheduled assets	–	–	1

\* Other assets refer to trade bills and receivables.

**(c) Repossessed assets**

	30/6/2010	30/6/2009	31/12/2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Reposessed land and buildings	75	47	48
Reposessed vehicles and equipment	–	1	–
Total reposessed assets	75	48	48

The amount represents the estimated market value of the reposessed assets as at 30th June, 2010, 30th June, 2009 and 31st December, 2009.

**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.

	30/6/2010			Total
	USD	CNY	Others	
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 position	1,992	8,843	1,807	12,642

	30/6/2009 HK\$ Mn			
	USD	CNY	Others	Total
Spot assets	73,785	108,771	50,045	232,601
Spot liabilities	(72,807)	(102,527)	(52,373)	(227,707)
Forward purchases	60,064	15,509	18,892	94,465
Forward sales	(58,633)	(15,766)	(15,021)	(89,420)
Net options position	9	–	(7)	2
Net long position	<u>2,418</u>	<u>5,987</u>	<u>1,536</u>	<u>9,941</u>
	31/12/2009 HK\$ Mn			
	USD	CNY	Others	Total
Spot assets	82,024	121,752	55,280	259,056
Spot liabilities	(79,661)	(116,345)	(55,086)	(251,092)
Forward purchases	59,917	27,419	11,016	98,352
Forward sales	(57,946)	(27,850)	(8,726)	(94,522)
Net options position	(45)	–	34	(11)
Net long position	<u>4,289</u>	<u>4,976</u>	<u>2,518</u>	<u>11,783</u>
	30/6/2010 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	<u>2,470</u>	<u>6,667</u>	<u>629</u>	<u>9,766</u>
	30/6/2009 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	<u>2,179</u>	<u>6,596</u>	<u>964</u>	<u>9,739</u>
	31/12/2009 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	<u>2,432</u>	<u>6,605</u>	<u>1,012</u>	<u>10,049</u>





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

**INTRODUCTION**

We have reviewed the interim financial report set out on pages 1 to 31 which comprises the consolidated statement of financial position of The Bank of East Asia, Limited as of 30th June, 2010 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, 2010 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, 12th August, 2010

## **INTERIM DIVIDEND**

The Directors are pleased to declare an interim dividend of HK\$0.38 (2009: HK\$0.28) per share for the six months ended 30th June, 2010. 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, 2nd September, 2010. Details of the scrip dividend and the election form will be sent to shareholders on or about Thursday, 2nd September, 2010. 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, 27th September, 2010.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Bank will be closed on Wednesday, 1st September, 2010 and Thursday, 2nd September, 2010. 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, 31st August, 2010.

## **FINANCIAL REVIEW**

### **Financial Performance**

For the first six months of 2010, the Group achieved a profit after tax of HK\$2,116 million, representing an increase of 75.6% over same period last year. Basic earnings per share were HK\$0.95. Return on average equity was 10.3%, while return on average assets was 0.9%.

Benefiting from an increase in loans and advances to customers and an improvement in the net interest margin, the Group's net interest income increased by HK\$435 million, or 13.5%, to HK\$3,669 million. Non-interest income increased by HK\$26 million, or 1.5%. Net fee and commission income increased by HK\$344 million, or 34.0%, to HK\$1,357 million.

Total operating expenses increased by 7.7% over the corresponding period in 2009 to HK\$3,275 million, as the Group continued to invest in support of future growth. The cost-to-income ratio dropped slightly to 60.5% in the first half of 2010.

Operating profit before impairment losses for the first six months of 2010 was HK\$2,137 million, an increase of HK\$227 million, or 11.9%, compared to the corresponding period in 2009.

The charge for impairment losses on loans and advances decreased by HK\$324 million, or 68.3%, to HK\$150 million, reflecting the improving economic environment. Total impairment losses decreased by HK\$325 million, or 65.9%.

Operating profit after impairment losses increased by 39.0% to HK\$1,969 million.

In January, BEA completed the disposal of a 70% interest in a banking subsidiary in Canada and recorded a net profit of HK\$230 million. For the first six months of 2010, BEA recorded a valuation gain on investment properties of HK\$127 million and shared after-tax profits from associates of HK\$179 million.

Profit after taxation rose to HK\$2,116 million, an increase of 75.6%, over the HK\$1,205 million recorded in the corresponding period in 2009. Profit attributable to owners of the parent rose to HK\$2,077 million, an increase of 77.6%.

### **Financial Position**

Total consolidated assets of the Group rose by HK\$44,020 million, or 10.1%, during the first half of 2010 to HK\$478,102 million. Gross advances to customers increased by 12.3% to HK\$278,210 million.

Total deposits grew by 5.0% to HK\$362,555 million, while total deposits from customers rose by 5.4% to HK\$360,995 million. Demand deposits and current account balances increased by HK\$3,346 million, or 7.2%, compared to the balance at year-end 2009. Savings deposits decreased to HK\$77,280 million, a drop of 5.4%, while time deposits increased to HK\$233,989 million, an increase of 9.1%, when compared with the year-end position.

After taking into account all debt instruments issued, the loan-to-deposit ratio was 76.7% at the end of June 2010, 5.0% higher than the 71.7% reported at the end of 2009.

### Maturity Profile of Certificates of Deposit Issued

As at 30th June, 2010

(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity				
			2011	2012	2013	2014	2015
<b>Floating Rate Certificates of Deposit</b>							
Issued in 2009	HKD	150	150				
Issued in 2008	USD	30	30				
<b>Fixed Rate (Note) Certificates of Deposit</b>							
Issued in 2010	HKD	100		100			
Issued in 2008	USD	15	15				
<b>Zero Coupon Certificates of Deposit</b>							
Issued in 2007	USD	140			40	50	50
<b>Total Debts issued in HKD equivalent</b>		<b>1,689</b>	<b>500</b>	<b>100</b>	<b>311</b>	<b>389</b>	<b>389</b>

Note:

Associated interest rate swaps have been entered

### Maturity Profile of Loan Capital

As at 30th June, 2010

(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity		
			2015	2017	Perpetual
Issued in 2005	Note 1	USD	550	550	
Issued in 2007	Note 2	USD	600	600	
Issued in 2007	Note 3	GBP	300		300
<b>Total Loan Capital issued in HKD equivalent</b>			<b>12,468</b>	<b>4,282</b>	<b>3,515</b>

Notes:

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

## **OPERATIONS REVIEW**

The Hong Kong economy staged a strong recovery in the first half of 2010, supported by double-digit growth in exports and retail sales. As of June, the total value of outstanding Hong Kong dollar loans had grown 10.7% year-on-year. In the first half of 2010, the value of all property transactions was up 51.2% compared to the same period last year.

Benefiting from a rebound in exports, Mainland China experienced robust GDP growth in the first six months of 2010. However, tightening measures implemented by the Chinese government to curb credit expansion and property prices limited growth in new loans to RMB4.6 trillion and cooled the property market in the first half of the year.

Capitalising on the strong recovery, BEA recorded healthy growth in both advances and deposits for the period under review. Meanwhile, despite the mainland's tightening measures, The Bank of East Asia (China) Limited ("BEA China") reported sustained growth in loans and deposits. BEA China also took advantage of new liberalisation measures under the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") to further extend the reach of its growing branch network.

### ***Recognition***

During the first six months of 2010, the BEA Group received a number of awards in recognition of its exceptional performance. These included:

- "2010 Best SME's Partner Award" organised by The Hong Kong Chamber of Small and Medium Business Limited (BEA has won this award three years in a row);
- Visa's Silver Award for Largest Merchant Sales Volume Growth;
- Visa's Innovation Achievement Award; and
- MasterCard's "Best Premium Card Programme Launched in 2009" for BEA World MasterCard.

In addition, BEA and Blue Cross (Asia-Pacific) Insurance Limited ("Blue Cross") were both named a "Caring Company" by The Hong Kong Council of Social Service for the seventh and second consecutive year, respectively.

Meanwhile, BEA China was named "Best Private Banking Brand among Foreign Banks in China" by the *21st Century Business Herald* in its 2009 Golden-Shell Award of Finance programme.

### **Business – Hong Kong**

During the period under review, total advances to customers increased by 23.94% while customer deposits increased by 4.16% compared to the year-end figures as of 31st December, 2009.

#### ***Corporate and Commercial Banking***

The Bank's corporate and commercial loan business grew significantly during the first half of 2010 on the back of enhanced pricing and a nearly 20% rise in the loan balance against the figure reported at the end of 2009.

The strong appetite of mainland enterprises for offshore investment capital ensured that the local stock market remained vibrant in the first half of the year. BEA acted as a receiving bank for five initial public offering ("IPO") projects, and the total value of staggings issued by the BEA Group increased by more than 400% compared to the same period last year.

Meanwhile, BEA's small and medium-sized enterprise ("SME") customers continued to benefit from the Hong Kong Government's enhanced Special Loan Guarantee Scheme. With the rebound in exports during the period under review, BEA experienced significant growth in trade finance services, and trade-related loan balances rose approximately 94% during the first six months of 2010. By leveraging its extensive branch and client networks in Hong Kong and on the mainland, the Bank was able to capture the opportunities created by the surge in exports and the recent relaxation of the regulations governing cross-boundary RMB trade settlement and trade finance services.

BEA also launched a number of treasury products for corporate clients during the first six months of the year. Going forward, the Bank will focus on expanding its treasury product range to meet the diverse needs of its clients.

In January 2010, BEA rolled out its re-designed Corporate Cyberbanking website, including a wide range of new features and value-added services that enhance the value of the site for end users. New features continue to be added. For example, a new liquidity management service was launched in June 2010 to assist customers in managing their funds more efficiently.

### **Retail Banking**

As part of the ongoing Branch Rationalisation Programme, during the first half of this year, BEA closed its Sai Wan Ho and Metropolis branches, and opened a new SupremeGold Centre adjacent to its Whampoa Garden Branch. In addition, to strengthen its presence in the Tsim Sha Tsui district, the Bank relocated its Jordan Branch to iSQUARE. As of 30th June, 2010, the Bank operated a total of 140 outlets in Hong Kong, comprising 88 branches and 52 SupremeGold Centres.

Despite fierce competition in the mortgage market, BEA enjoyed steady growth in its property loans business in the first half of the year. BEA's residential mortgage loan portfolio grew above the market-average rate by focussing on newly emerging opportunities. During the period under review, BEA also introduced a Mobile Mortgage Centre offering one-stop mortgage service including instant application processing and approval for prospective buyers when the Hong Kong Housing Society released the remaining units under the Sandwich Class Housing Scheme for sale.

BEA's consumer finance business experienced double-digit growth in credit card advances and cardholder spending year-on-year. Supported by an increase in the numbers of merchant clients and their outlets, the Bank's merchant sales volume was markedly higher than a year ago. Consumer loans also performed well, with the consumer loan portfolio up 80% year-on-year.

To enable iPhone and Android phone users to access general banking, stock trading, and travel insurance services more easily, BEA launched a new Cyberbanking mobile phone interface in March 2010. The Bank also introduced RMB cash withdrawal service at selected BEA ATM locations in April 2010.

BEA stepped up marketing of insurance, MPF, and investment products during the first half of 2010, focussing on the retail network channel. BEA Life Limited introduced three new insurance products, namely High Income Generator Insurance, Prosperity Link Insurance, and the second tranche of its 2-Year Fast Savings Insurance. These products further broaden the life insurance business portfolio of the Bank, which now comprises a wide variety of product choices from annuity and investment-linked to savings and endowment. The 2-Year Fast Savings Insurance plan continued to be the most popular life insurance product sold at BEA branches, reflecting high market demand for short-term savings products that offer guaranteed and steady returns.

Improved market sentiment helped BEA's mutual fund business to more than triple sales and double income over the corresponding period in 2009. To enable investors to enjoy potential growth in mainland-listed stocks, BEA Union Investment Management Limited ("BEA Union Investment") launched its China A-Share Equity Fund in April.

An expanded product range and growing investor appetite for structured products led to a 118% increase in customer transaction volume in the first six months of this year, compared to the same period in 2009. Revenue rose by 57%, year-on-year.

Bank of East Asia (Trustees) Limited ("BEA Trustees") launched two new constituent funds under each of its BEA (MPF) Master Trust Scheme and BEA (MPF) Industry Scheme in January 2010, bringing the total number of funds it offers to 18. These new funds, the BEA (MPF) Global Equity Fund, BEA (MPF) European Equity Fund, BEA (Industry Scheme) Greater China Growth Fund, and BEA (Industry Scheme) Hong Kong Growth Fund, will enhance BEA's competitive position leading up to the introduction of the "Employee Choice Arrangement".

BEA continues to attract recognition for its strong MPF fund performance. According to the Hong Kong MPF Index compiled by Mercer Investment Consulting Limited, BEA was ranked the second best MPF performer among all MPF service providers in Hong Kong, based on average return over the one-year period ended 31st March, 2010.

## **Private Banking**

Adopting a more cautious stance in the midst of market uncertainty, BEA's Private Banking clients showed a preference for low-risk investments and treasury products. Assets under management grew by 7.27% while loans grew by 35.26%, compared to the year-end figures in 2009.

Looking ahead, BEA will leverage its extensive Greater China network to cross-sell products to Private Banking clients, with a focus on insurance and trust products for wealth preservation and protection.

## **Broking Operations**

BEA's broking operations benefited from the flurry of local IPOs and improved market sentiment. To further broaden its customer base and enlarge the catchment area of its broking operations, in January 2010, BEA completed its acquisition of the Industrial and Commercial Bank of China's remaining 75% shareholding in ICEA Finance Holdings Limited ("ICEA"). As a result of the acquisition, ICEA became a wholly-owned subsidiary of BEA. ICEA's securities and futures businesses were subsequently renamed Tung Shing Securities (Brokers) Limited and Tung Shing Futures (Brokers) Limited, respectively, in April 2010.

Seeking to expand market share, BEA will continue to invest in infrastructure and technology to enhance the service and overall efficiency of its broking operations.

## **Business – Greater China ex-Hong Kong**

### **Mainland China Operations**

In demonstration of its commitment to the mainland market, BEA China made a number of key investments to enhance its operational efficiency and overall service quality. In May 2010, BEA China inaugurated its new headquarters building, BEA Finance Tower, in the heart of Shanghai's Lujiazui Financial District. In January 2010, BEA China opened a data centre in Shanghai, thereby becoming the first locally incorporated foreign bank to set up its own data centre on the mainland. The state-of-the-art data centre enhances BEA China's processing capacity and centralises the data management of its nationwide branch network, processing millions of business transactions and customer data exchanges every day.

BEA China registered steady growth in loans and deposits in the first half of 2010. Total advances to customers and deposits increased by 6.54% and 10.04%, respectively compared to the year-end figures in 2009. BEA China is firmly committed to achieving the China Banking Regulatory Commission's mandated 75% loan-to-deposit ratio by the end of 2011.

With stringent control over loan quality, BEA China has been successful in maintaining its impaired loan ratio at the relatively low level of 0.19%, despite the adverse impact of the new policies to curb property speculation introduced in the first half of 2010.

BEA China was one of the first locally incorporated foreign banks to take advantage of the new liberalisation measures of Supplement VI to the CEPA, which allows banks in Hong Kong with branch outlets in Guangdong to establish "cross-location" sub-branches within the province. During the first half of 2010, BEA China opened three "cross location" sub-branches in Foshan, Zhongshan, and Huizhou. It also opened a new sub-branch in Shanghai's Lujiazui.

Furthermore, BEA China opened a new full-service branch in Suzhou in the first half of 2010 upgrading BEA's former representative office in the city.

As of 30th June, 2010, BEA and BEA China together operated one of the most extensive networks of any foreign bank on the mainland, with 80 outlets in 25 cities.

In addition, BEA China opened two new 24-hour self-service banking centres in the first half of 2010, bringing the total number of self-service banking centres to 10. BEA China also expanded its service coverage by increasing its ATM network to more than 370 ATMs, up from 347 at the end of 2009.

BEA China will continue to focus on developing its retail banking business by launching new retail products and expanding its distribution channels to increase personal deposits and fee income.

## ***Taiwan and Macau Operations***

In Taiwan, BEA operates branches in the cities of Taipei and Kaohsiung, and provides a wide range of wealth management services through its wholly-owned subsidiary, BEA Wealth Management Services (Taiwan) Limited.

In Macau, BEA currently operates one full-service branch and three sub-branches. In response to the growing demand for banking services, BEA plans to set up a fifth outlet in Areia Preta in northern Macau in the second half of 2010.

## **Business – International**

BEA's operation in the United States continued to work through the disruption caused by the collapse of the US housing and commercial property markets. BEA and its wholly-owned subsidiary, The Bank of East Asia (U.S.A.) N.A., have taken active measures to control impaired loans, including disposal of some loans and stricter loan provisioning. While this prudent approach has led to a temporary rise in the impaired loan ratio, the Bank is cautiously optimistic that asset quality has stabilised and improvements will be seen, as the US economy continues on its path to recovery.

During the first half of 2010, BEA's United Kingdom operations performed well with double-digit growth in both residential and commercial mortgages, fuelled by increasing interest in UK properties from Hong Kong and Asian investors. This positive trend is likely to continue under the current low interest rate environment and the weakened pound sterling.

To capitalise on strong economic growth in Southeast Asia, BEA formally established its regional office in Singapore to coordinate the business strategies of the BEA Group in Singapore, Malaysia, and Indonesia. This new office has developed a more cohesive regional strategy to exploit synergies and establish stronger governance practices for future business development.

In January 2010, BEA completed the disposal of a 70% interest in The Bank of East Asia (Canada) to the Industrial and Commercial Bank of China. BEA is confident that this arrangement will create an even stronger platform to deliver quality banking services to customers in Canada.

BEA remains committed to enhancing its competitiveness through strategic alliances with key partners throughout the world. BEA will continue to devote resources to establishing strategic partnership teams in Hong Kong and Shanghai. Furthermore, the Bank will focus on identifying new avenues for collaboration and cultivate business referrals from core strategic partners.

## **Other Subsidiaries**

### ***Blue Cross (Asia-Pacific) Insurance Limited***

Blue Cross expanded its SME group medical insurance business during the first six months of 2010, with new business generating year-on-year growth of 19% in premium income. Meanwhile, online sales of travel insurance to individuals continue to grow steadily.

Expanding its services to the medical community, Blue Cross launched a new medical professional liability insurance plan, named Medical Professional Protection Insurance, in April of this year. This product is specially tailored for physicians registered in Hong Kong, and offers a range of professional liability protection based on the individual needs of a given practice.

### ***Credit Gain Finance Company Limited***

During the first half of 2010, Credit Gain Finance Company Limited ("Credit Gain") opened two new branches, increasing its network to 16. Extensive marketing and flexible business strategies enabled Credit Gain to achieve double-digit loan growth during the period under review, despite intense competition in the sub-prime personal loan business.



## **Tricor Holdings Limited**

Tricor Holdings Limited (“Tricor”) benefited from improvements in the Asia Pacific business environment, with revenue for the first half year reaching nearly HK\$420 million. Although Tricor continued to be a major contributor to the BEA Group’s fee and commission income, fee pressure from clients together with a hefty increase in rental costs in Hong Kong presented challenges to the Company during the first half year. Tricor anticipates growing demand from publicly-listed companies for its corporate compliance and company secretarial services in the second half of the year.

## **BEA Union Investment Management Limited**

BEA Union Investment recorded a 15.57% rise in assets under management, half-on-half. The Company continued to offer diversified solutions in the areas of equity, fixed income, and multi-asset investment. It successfully rolled out the BEA Union Investment China A-Share Equity Fund and re-launched the BEA Greater China Growth Fund, BEA Hong Kong Growth Fund, BEA Asia Strategic Growth Fund, and BEA Union Investment Asian Bond and Currency Fund to retail investors. BEA Union Investment also diversified its retail distribution channels in Hong Kong by partnering with a leading insurance company and an independent financial adviser. In addition, the Company expanded its institutional client base by securing a mandate from a top-tier financial institution in Greater China.

## **Operations Support**

As part of its ongoing effort to contain costs and enhance operational efficiency, the Bank completed a review of its operating structure and reorganised business departments to separate client and back-office functions.

In early 2010, the operational units of the Bank’s Property Loans and former Card Services and Consumer Finance departments were brought under separate unified management to form the new Retail Lending Services Department. This reorganisation has freed the business departments to focus on sales, marketing, and customer relations.

## **Property Redevelopment**

Plans are under way to redevelop the site formerly occupied by the United Chinese Bank Building, which is strategically located at 31-37 Des Voeux Road Central adjacent to the Mass Transit Railway’s Central and Airport Express stations. Scheduled for completion in the first quarter of 2013, the new building will consist of 27 floors (13 previously), as well as a ground floor branch. In view of the site’s prime location and the scarcity of office space in the vicinity, both the capital and rental value of the property are expected to increase after redevelopment.

## **Our People**

As of 30th June, 2010, the BEA Group was supported by 10,962 employees:

Hong Kong	5,365
Greater China Ex-Hong Kong	4,502
International	1,095
	<hr/>
Total	10,962

With the improving economic and business environment, BEA faced increasing competition to secure and retain high calibre professionals. To attract suitable candidates, BEA expanded its recruitment effort focussing on campus recruitment, career expos, recruitment days, and a staff referral programme. Furthermore, the Bank continuously seeks to upgrade its work processes and training programmes in order to provide opportunities for career advancement within the organisation.



## **Corporate Branding**

In May 2010, BEA launched a new branding campaign, tying together the Bank's traditional values and strong identity with a progressive outlook that emphasises its innovative spirit. The campaign, which is running on the platform called "Extending Your Reach", includes advertisements communicated via a variety of channels and a series of special events that reinforce BEA's commitment to its customers and the community at large.

As part of the branding campaign, BEA has developed a new brand slogan in Chinese, "同根 • 共創". The new slogan reflects the shared heritage between BEA and its customers, as well as the Bank's commitment to helping customers grow and prosper.

## **Corporate Social Responsibility**

### ***The Bank of East Asia Charitable Foundation***

In commemoration of the 90th Anniversary of the BEA Group in January 2009, The Bank of East Asia Charitable Foundation ("BEA Foundation") was established in order to support and take forward the Bank's charitable work.

In February 2010, the BEA Foundation and "la Caixa" Foundation signed a tripartite agreement with The Salvation Army, Hong Kong and Macau Command ("The Salvation Army") to provide funding of HK\$11 million to launch a new palliative care programme, "Palliative Care in Residential Care Homes for the Elderly".

The BEA Group and its staff raised more than HK\$2 million in an employer matching donation programme for the victims of the earthquake that struck Qinghai Province on 14th April, 2010. BEA and its staff in Hong Kong donated HK\$1 million in the name of the BEA Foundation to the Hong Kong Red Cross and The Salvation Army, while BEA China and Shanghai Soong Ching Ling Foundation – BEA Charity Fund donated RMB1 million to the Red Cross Society of China.

## **Environment**

BEA is committed to a green future, and continues to refine its operations and building management practices to promote energy saving and reduce greenhouse gas emissions. As a Gold Member of the Climate Change Business Forum and an Earth Partner of the Friends of the Earth (HK), BEA actively supports and participates in environmental and energy-saving events and campaigns organised by these groups. In addition, for the second consecutive year, the Bank participated in the World Wide Fund for Nature's "2010 Earth Hour" on 27th March, 2010.

As a member of the Energywise Label Scheme, BEA has carried out extensive energy-saving retrofit work at its premises. The Bank has set a target of reducing the annual power consumption at its Head Office Building in Central and BEA Tower in Kwun Tong by 4% and 2.5%, respectively, in 2010.

To step up waste reduction efforts, BEA joined the Wastewise Label Scheme under the Hong Kong Awards for Environmental Excellence. In line with this initiative, the Bank has adopted eco-friendly measures to raise the recovery rate of recyclable materials and encourage staff members to adopt best practices when using natural resources. Customers and shareholders are also encouraged to receive electronic statements, annual reports, and circulars, and to use electronic channels for applications and transactions.

## **Future Prospects**

The global economy continued to recover in the first half of 2010, although concerns regarding a possible double-dip recession grew with the European debt crisis and moves by major economies to withdraw the stimulus measures that had kept the global economy afloat through the Financial Crisis. However, the outlook for Hong Kong remains good. Economic recovery became more entrenched as 2010 progressed, with both the domestic and external sectors growing strongly, resulting in accelerating domestic loan growth. Mainland China continued to take the lead in the global recovery process, which gave rise to a strong revival in intra-regional trade.

Going forward, BEA will continue to focus on extending its leading position among foreign banks on the mainland by increasing the pace of deposit growth, diversifying income sources, strengthening treasury operations, and expanding personal banking and wealth management businesses. While maintaining a prudent risk management stance, BEA China will continue to expand and strengthen its branch network in strategic locations.

In Hong Kong, BEA will continue to focus on its core banking business while strengthening wealth management, credit cards, insurance, and corporate services to increase fee income. As the People's Bank of China relaxes restrictions on RMB business in Hong Kong, the Bank is poised to benefit from the increasingly favourable environment to further expand its RMB financial services. BEA will also step up its ongoing efforts to explore cross-selling opportunities within the Bank. Results to date have been positive, with interest in treasury and insurance products particularly strong. Furthermore, a series of initiatives have been put in place to strengthen the co-operation and communication between BEA's Head Office in Hong Kong and BEA China's mainland operations in order to leverage the scale and reach of the Group's extensive Greater China network.

BEA will also actively manage the growing regulatory scrutiny, as governments worldwide act to ward off a repeat of the Financial Crisis. The Bank will continue to consolidate and improve its information technology, risk management, corporate governance, and compliance platforms and capabilities. Further, the Bank will seek new ways to improve operating efficiency through the streamlining of operations processes and stringent cost control.

### **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;
- to co-ordinate risk-related projects;
- to report monitoring results and significant risk related issues to the specialised risk management committees, namely, Credit Committee, Asset and Liability Management Committee and Operational Risk Management Committee, and/or Risk Management Committee and/or the Board, where appropriate, so as to assist the latter to discharge their major duty of overseeing risk management activities.

### **FINANCIAL RISK MANAGEMENT**

The Group has in place a risk management system to identify, measure, monitor and control the various types of risk that the Group faces and, where appropriate, to set strategy and allocate capital against those risks. The risk management policies covering credit risk, market risk, operational risk, liquidity risk, interest rate risk, strategic risk, legal risk and reputation risk of the Group are reviewed regularly by the Management and specialised risk management committees, and recommendations are made by the Risk Management Committee, which comprises the Group's Chairman and Chief Executive, Senior Advisors, Deputy Chief Executives and the Group Chief Risk Officer, for the approval of the Board of Directors. There is an independent centralised risk management unit, 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 and control 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 their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk, as part of its asset and liability management process. The principal derivative instruments used by the Group are interest rate, foreign exchange and equity related contracts, in the form of both over-the-counter derivatives and exchange traded derivatives. Most of the Group's derivative positions have been entered into to meet customer demand and to manage the risk of these and other trading positions.

In this connection, the key types of risk to manage are:

*(i) Currency risk*

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

Structural foreign currency positions, which arise mainly from foreign currency investments in the Group's branches, subsidiaries and associated companies, are excluded from 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 (excluding credit-related unlisted securities) (collectively the "Unlisted Securities"), are subject to limits and these are monitored by the management of the Group. The Unlisted Securities and listed non-trading equities are not included in the VaR for the equity trading position, and are managed through delegated limits. The limits are subject to regular review by the Board.

Value-at-risk statistics

	Year 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

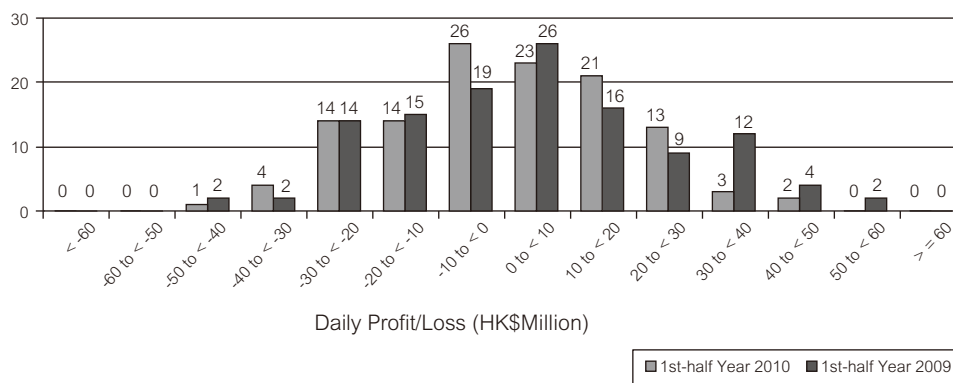
	Year 2009 1st-half			
	At 30th June HK\$'Mn	Maximum HK\$'Mn	Minimum HK\$'Mn	Mean HK\$'Mn
VaR for total trading activities	60	76	51	63
VaR for foreign exchange trading positions*	12	21	8	14
VaR for interest rate trading positions	3	4	1	2
VaR for equity trading positions	45	61	35	48

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

The average daily profit for all trading activities (including foreign exchange, interest rate and equity trading activities) in the first six months of 2010 was HK\$0.46 million (average daily loss of HK\$3.51 million in the first six months of 2009). The standard deviation of the daily profit/loss for the period was HK\$18.34 million (standard deviation of HK\$21.58 million for the same period in 2009). The frequency distribution of daily profit/loss is shown below:

**DAILY DISTRIBUTION OF TRADING ACTIVITIES RELATED PROFIT/LOSS  
– 1st-half Year 2010 vs 1st-half Year 2009**

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 and monitor operational risk and to comply with the relevant regulatory requirements.

The Group has implemented a centralised operational risk management framework. In this connection, the Board of Directors reviews and approves the policies for operational risk management, and it has delegated the responsibility for ongoing operational risk management to the Operational Risk Management Committee. The Operational Risk Management Committee regularly reports on the status of operational risk management to the Board of Directors via the Risk Management Committee. Operational Risk Management 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 focussing 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 and monitor these risks and, in particular, to comply with the relevant regulatory requirements.

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

## **CHANGES TO INFORMATION IN RESPECT OF DIRECTORS**

In accordance with Rule 13.51B(1) of the 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) between 1st January, 2010 (being the commencement date of the reporting period for the Bank's 2010 Interim Report) and 12th August, 2010 (being the date of approval of the Bank's 2010 Interim Report) are set out below:

### **Position held with the Bank**

Dr. William Mong Man-wai, Non-executive Director, passed away on 21st July, 2010. The Board of Directors and the Bank are greatly saddened by the passing of Dr. Mong, who had been a great asset to the Board and to the Bank Group since his appointment in 1995. His wise counsel, guidance and valuable contributions will be sorely missed.

### **Experience including other directorships and major appointments**

Dr. the Hon. Sir David Li Kwok-po ceased to be the Chairman of the Advisory Council to the Australian International School. Dr. Li was named an Honorary Fellow of the School of Accountancy, Central University of Finance and Economics. Dr. Li was appointed as a Companion of the Chartered Management Institute.

Professor Arthur Li Kwok-cheung became a non-executive director of BioDiem Ltd. (listed in Australia).

Dr. Allan Wong Chi-yun became a member of the Commission on Strategic Development, a member of the Greater Pearl River Delta Business Council and a council member of the University of Hong Kong. Dr. Wong was also appointed as a member of the Board of the Airport Authority of Hong Kong.

Mr. Thomas Kwok Ping-kwong ceased to be a government-appointed member of the Exchange Fund Advisory Committee.

Tan Sri Dr. Khoo Kay-peng became Chairman of Pan Malaysian Industries Berhad (listed in Malaysia).

Mr. Kenneth Lo Chin-ming ceased to be the Chairman of IBT Venture Co. Mr. Lo also became Chairman (formerly Vice Chairman) of the Chinese National Association of Industry and Commerce.

Mr. William Doo Wai-hoi was awarded the "Chevalier de la Légion d'Honneur". Mr. Doo was also appointed as an Independent Non-executive Director of Neo-China Land Group (Holdings) Limited.

Dr. Isidro Fainé Casas became Chairman (formerly Deputy Chairman) of the Association of Spanish Savings Banks. Dr. Fainé was also appointed as the Deputy Chairman of Sociedad General de Aguas de Barcelona, S.A.



## Change in Directors' emoluments

- (1) The scales of Director's fees, and fees for membership of the Audit Committee, Nomination Committee and Remuneration Committee, which have been changed with effect from 1st January, 2010, are outlined below:

	2010 <u>(HK\$ per annum)</u>	2009 <u>(HK\$ per annum)</u>
<b>Board of Directors:</b>		
Chairman	350,000	300,000
Other Directors	230,000	200,000
<b>Audit Committee:</b>		
Chairman	120,000	100,000
Other members	70,000	60,000
<b>Nomination Committee:</b>		
Chairman	60,000	50,000
Other members	35,000	30,000
<b>Remuneration Committee:</b>		
Chairman	60,000	50,000
Other members	35,000	30,000

- (2) With effect from 1st April, 2010, the base salary payable to Dr. the Hon. Sir David Li Kwok-po, Chief Executive of the Bank, has been increased from HK\$8.4 million to HK\$8.6 million on an annualised basis.

In line with the "Guideline on a Sound Remuneration System" issued by the Hong Kong Monetary Authority in March 2010, up to 60% of the variable remuneration of Dr. Li will be deferred over a period of 3 years to ensure that the payout of incentives is appropriately aligned with the long-term value creation and time horizon of risks involved in his duties.

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, 2010, 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	46,492,863	48,007,177 <sup>1</sup>	2.36
	Interest of spouse	1,514,314		
Arthur LI Kwok-cheung	Beneficial owner	9,613,420	22,958,976 <sup>2</sup>	1.13
	Founder of discretionary trust	13,345,556		
Allan WONG Chi-yun	Beneficial Owner	339,217	13,060,071 <sup>3</sup>	0.64
	Interest of spouse	136		
	Founder of discretionary trust	12,720,718		
WONG Chung-hin	Beneficial owner	51,491	430,035 <sup>4</sup>	0.02
	Interest of spouse	378,544		
LEE Shau-kee	Beneficial owner	2,092,183	3,192,183 <sup>5</sup>	0.16
	Interest of corporation	1,100,000		
Aubrey LI Kwok-sing	Beneficial owner	25,730	34,020,872 <sup>6</sup>	1.68
	Interest of spouse	18,626		
	Beneficiary of discretionary trust	33,976,516		
Winston LO Yau-lai	–	–	Nil	Nil
KHOO Kay-peng	Interest of corporation	5,287,213	5,287,213 <sup>7</sup>	0.26
Thomas KWOK Ping-kwong	–	–	Nil	Nil
Richard LI Tzar-kai	Interest of corporation	5,568,860	5,568,860 <sup>8</sup>	0.27
Kenneth LO Chin-ming	–	–	Nil	Nil
Eric LI Fook-chuen	Beneficial owner	4,291,634	34,562,988 <sup>9</sup>	1.70
	Founder and beneficiary of discretionary trust	21,451,555		
	Interest of corporation	8,819,799		
Stephen Charles LI Kwok-sze	Beneficial owner	11,602,560	14,351,652 <sup>10</sup>	0.71
	Interest of children	530,724		
	Beneficiary of discretionary trusts	2,218,368		
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 46,492,863 shares and he was deemed to be interested in 1,514,314 shares through the interests of his spouse, Penny POON Kam-chui. As at the date of this Report, David LI Kwok-po was beneficially interested in 55,152,863 shares (including 260,000 shares acquired after 30th June, 2010), of which 8,400,000 shares were options granted to him (including 2,000,000 shares which were options granted to him after 30th June, 2010) under the Staff Share Option Schemes.
- 2 Arthur LI Kwok-cheung was the beneficial owner of 9,613,420 shares. Arthur LI Kwok-cheung made a voluntary disclosure of 13,345,556 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 339,217 shares and he was deemed to be interested in 136 shares through the interests of his spouse, Margaret KWOK Chi-wai. He was also deemed to be interested in 12,720,718 shares held by a discretionary trust, The Wong Chung Man 1984 Trust, of which Allan WONG Chi-yun was a founder.
- 4 WONG Chung-hin was the beneficial owner of 51,491 shares and he was deemed to be interested in 378,544 shares through the interests of his spouse, LAM Mei-lin.
- 5 LEE Shau-kee was the beneficial owner of 2,092,183 shares.  
  
LEE Shau-kee was deemed to be interested in 1,100,000 shares held through Superfun Enterprises Limited ("Superfun"). Superfun was wholly owned by The Hong Kong and China Gas Company Limited which was 39.88% held by Henderson Land Development Company Limited ("Henderson Land").  
  
Henderson Land was deemed to be 64.85% 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 18,626 shares through the interests of his spouse, Elizabeth WOO. The remaining 33,976,516 shares were held by The Fook Wo Trust, a discretionary trust in which Aubrey LI Kwok-sing was one of the discretionary beneficiaries.
- 7 KHOO Kay-peng was deemed to be interested in 5,287,213 shares out of which (a) 1,178,916 shares were held through Bonham Industries Limited, a company in which he held 99.9% of the issued capital, and (b) 4,108,297 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 5,568,860 shares held by certain corporations in their capacity as investment managers, out of which (i) 5,390,120 shares were held by PineBridge Investments Asia Limited ("PBI A"), and (ii) 178,740 shares were held by PineBridge Investments LLC ("PBI LLC"). PBI A and PBI LLC were indirect subsidiaries of Chitonlink Limited which was 100% owned by Richard LI Tzar-kai.
- 9 Eric LI Fook-chuen was the beneficial owner of 4,291,634 shares, and 21,451,555 shares were held by New Jerico (PTC) Limited in the capacity of trustee of The Jerico Unit Trust. Eric LI Fook-chuen is the sole director of New Jerico (PTC) Limited. All the units in The Jerico Unit Trust are held by The New Elico Trust, of which Eric LI Fook-chuen is the founder and a discretionary beneficiary. Eric LI Fook-chuen was also deemed to be interested in 8,819,799 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 11,602,560 shares, and he was deemed to be interested in 530,724 shares through the interests of his children under the age of 18. Of the remaining 2,218,368 shares, (i) 2,034,600 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) 183,768 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, 2010 was shown in the following section under the heading "Information on Share Options".

## III. Interests in debentures of the Bank:

Name	Capacity and nature	Amount of debentures
David LI Kwok-po	Beneficial owner <sup>Note</sup>	GBP1,000,000

*Note:* David LI Kwok-po was the beneficial owner of the above interests in the 6.125% step-up perpetual subordinated notes issued by the Bank. The perpetual subordinated notes, with a face value of GBP300 million, were issued by the Bank in 2007 and are listed on Singapore Exchange Securities Trading Limited.

## IV. Interests in debentures of associated corporation of the Bank:

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

*Notes:*

<sup>1</sup> 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%.

<sup>2</sup> 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%.

## V. Interests in Hybrid Tier I Capital Instruments:

Allan WONG Chi-yun was the beneficial owner of the following capital instruments <sup>Note</sup>:

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, 2010:

Name	Date of Grant <sup>a</sup>	Number of Share Options				Outstanding at 30/6/2010
		Outstanding at 1/1/2010	Granted	Exercised	Lapsed	
David Li Kwok-po	03/5/2005	1,100,000	–	1,100,000 <sup>b</sup>	–	Nil
	03/5/2006	1,100,000	–	–	–	1,100,000
	10/5/2007	1,100,000	–	–	–	1,100,000
	05/5/2008	2,200,000	–	–	–	2,200,000
	05/5/2009	2,000,000	–	–	–	2,000,000
Aggregate of other Employees*	03/5/2005	3,087,000	–	3,087,000 <sup>b</sup>	–	Nil
	03/5/2006	880,000	–	–	–	880,000
	10/5/2007	935,000	–	–	–	935,000
	05/5/2008	1,870,000	–	–	–	1,870,000
	05/5/2009	4,100,000	–	–	–	4,100,000
Other Participants**	03/5/2005	550,000	–	550,000 <sup>b</sup>	–	Nil
	03/5/2006	715,000	–	–	165,000	550,000
	10/5/2007	715,000	–	–	165,000	550,000
	05/5/2008	1,430,000	–	–	330,000	1,100,000
	05/5/2009	500,000	–	–	–	500,000

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

\*\* Other Participants refer to two former employees who ceased to be employees of the Bank in 2009 and 2010. The share options were granted to them prior to their cessation as employees of the Bank.

Notes:

a Particulars of share options:

Date of Grant	Vesting Period	Exercise Period	Exercise Price Per Share HK\$
03/5/2005	03/5/2005 – 02/5/2006	03/5/2006 – 03/5/2010	20.86 <sup>c</sup>
03/5/2006	03/5/2006 – 02/5/2007	03/5/2007 – 03/5/2011	30.04 <sup>c</sup>
10/5/2007	10/5/2007 – 09/5/2008	10/5/2008 – 10/5/2012	42.84 <sup>c</sup>
05/5/2008	05/5/2008 – 04/5/2009	05/5/2009 – 05/5/2013	40.09 <sup>c</sup>
05/5/2009	05/5/2009 – 04/5/2010	05/5/2010 – 05/5/2014	21.25

b 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, 2010:

Date of Grant	No. of Options Exercised	Exercise Price Per Share HK\$	HWA Closing Price HK\$
03/5/2005	4,737,000	20.86	28.78

c After adjusting for the one for ten bonus issue of shares in 2009.

(2) No share options were cancelled during the six months ended 30th June, 2010.

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

Save as disclosed above, as at 30th June, 2010, 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, 2010, the interests and short positions of Substantial Shareholders and Other Persons of the Bank in the shares and underlying shares of the Bank as recorded in the Register required to be kept under section 336 of the SFO were as follows:

### **Long Position in ordinary shares of the Bank:**

<u>Name</u>	<u>Capacity and nature</u>	<u>No. of shares</u>	<u>% of issued share capital</u>
Negocio de Finanzas e Inversiones I, S.L.U.	Beneficial owner	302,258,869 <sup>1</sup>	14.99
Criteria CaixaCorp, S.A.	Interest of corporation	302,258,869 <sup>1</sup>	14.99
Caja de Ahorros y Pensiones de Barcelona	Interest of corporation	302,258,869 <sup>1</sup>	14.99
Guoco Management Company Limited	Beneficial owner	185,278,726 <sup>2,3</sup>	9.12 <sup>4</sup>
Guoco Group Limited	Interest of corporation	185,278,726 <sup>2</sup>	9.12
GuoLine Overseas Limited	Interest of corporation	185,278,726 <sup>2,3</sup>	9.12 <sup>4</sup>
GuoLine Capital Assets Limited	Interest of corporation	185,278,726 <sup>2</sup>	9.12 <sup>4</sup>
Hong Leong Company (Malaysia) Berhad	Interest of corporation	185,278,726 <sup>2,3</sup>	9.12
HL Holdings Sdn Bhd	Interest of corporation	185,278,726 <sup>2</sup>	9.12
Quek Leng Chan	Interest of corporation	185,278,726 <sup>2</sup>	9.12
Hong Leong Investment Holdings Pte. Ltd.	Interest of corporation	185,278,726 <sup>3</sup>	9.12
Davos Investment Holdings Private Limited	Interest of corporation	185,278,726 <sup>3</sup>	9.12
Kwek Leng Kee	Interest of corporation	185,278,726 <sup>3</sup>	9.12

Notes:

- 1 As at 30th June, 2010, Caja de Ahorros y Pensiones de Barcelona was holding a 79.45% interest in Criteria CaixaCorp, S.A. which was the sole shareholder of Negocio de Finanzas e Inversiones I, S.L.U. Caja de Ahorros y Pensiones de Barcelona and Criteria CaixaCorp, S.A. were deemed to be interested in the 302,258,869 shares held by Negocio de Finanzas e Inversiones I, S.L.U.

The Bank was notified that the shareholdings of the above three corporations had been increased to 304,508,907 shares as at 14th May, 2010 (equivalent to approximately 14.99% of the issued share capital of the Bank on such date and 30th June, 2010). Such increases in shareholdings were not required to be disclosed under Part XV of the SFO.

- 2 The references to 185,278,726 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 185,278,726 shares (equivalent to approximately 9.12% of the issued share capital of the Bank at the time of disclosure pursuant to Part XV of the SFO). Hong Leong Company (Malaysia) Berhad was deemed to be interested in the 185,278,726 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 185,278,726 shares held by Guoco Management Company Limited.

Quek Leng Chan was deemed to be interested in the 185,278,726 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 held as to 46.68% and 2.43% by HLH and Quek Leng Chan respectively.

- 3 The references to 185,278,726 shares of the Bank in Notes 2 and 3 relate to the same block of shares. Hong Leong Company (Malaysia) Berhad was 34.49% held by Hong Leong Investment Holdings Pte. Ltd. which was 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 185,278,726 shares (equivalent to approximately 9.12% of the issued share capital of the Bank at the time of disclosure pursuant to Part XV of the SFO) held by Guoco Management Company Limited by virtue of their interests in Hong Leong Company (Malaysia) Berhad.

Kwek Leng Kee was deemed to be interested in the 185,278,726 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, 2010.

## **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, 2010, 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, nine are Independent Non-executive Directors. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Bank to make and implement decisions promptly and efficiently. The Board believes that Sir David's appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects and management of the Bank.

## **COMPLIANCE WITH MODEL CODE**

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

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

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, 2010.

By order of the Board

**David LI Kwok-po**

*Chairman & Chief Executive*

Hong Kong, 12th August, 2010

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