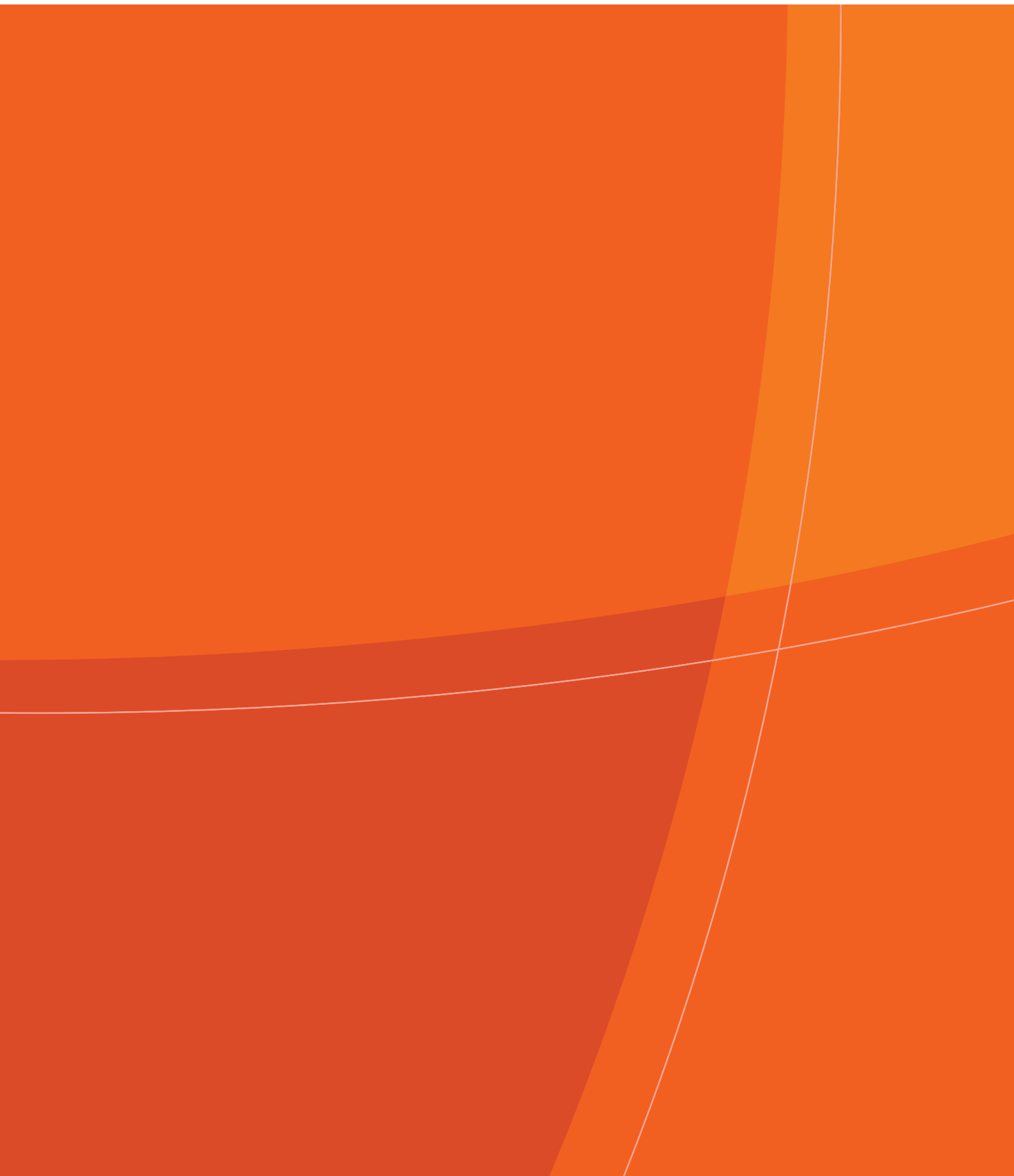


The Bank of East Asia, Limited

Interim Report 2008

(Stock Code: 23)



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

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

The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

Interim Report 2008

INTERIM RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the unaudited results^a of the Bank and its subsidiaries (the "Group") for the six months ended 30th June, 2008. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2007 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 34.

1. Consolidated Profit and Loss Account

	6 months ended 30/6/2008	6 months ended 30/6/2007	6 months ended 31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	8,832	8,210	10,099
Interest expense	(5,349)	(5,448)	(6,884)
Net interest income	3,483	2,762	3,215
Fee and commission income	1,425	1,168	1,440
Fee and commission expense	(238)	(211)	(260)
Net fee and commission	1,187	957	1,180
Net trading profits	(82)	396	1,021
Net result from financial instruments designated at fair value through profit or loss	(1,043)	161	(1,315)
Other operating income	271	202	235
Non-interest Income	333	1,716	1,121
Operating income	3,816	4,478	4,336
Operating expenses	(2,764)	(2,179)	(2,512)
Operating profit before impairment losses	1,052	2,299	1,824
Impairment losses on loans and advances	(89)	(136)	(80)
Impairment losses on held-to-maturity investments	(33)	–	(42)
Impairment losses on available-for-sale financial assets	(198)	–	(228)
Impairment losses on associates	–	–	(41)
Write back of impairment losses on bank premises	5	116	16
Impairment losses	(315)	(20)	(375)
Operating profit after impairment losses	737	2,279	1,449
Net profit on sale of available-for-sale financial assets	185	78	589
Net (loss)/profit on sale of subsidiaries/associates	(9)	–	406
Net (loss)/profit on sale of fixed assets	(2)	(2)	1
Valuation gains on investment properties	198	21	272
Share of profits less losses of associates	95	52	40
Profit for the period before taxation	1,204	2,428	2,757
Income tax			
Current tax ^b			
– Hong Kong	(4)	(259)	1
– Overseas	(235)	(150)	(181)
Deferred tax	(35)	(108)	(267)
Profit for the period after taxation	930	1,911	2,310
Attributable to:			
Equity holders of the Group	894	1,877	2,267
Minority interests	36	34	43
Profit after taxation	930	1,911	2,310
Profit for the Bank	196	1,285	1,719
Proposed dividends	384	753	1,858

	6 months ended 30/6/2008	6 months ended 30/6/2007	6 months ended 31/12/2007
	HK\$	HK\$	HK\$
Per share			
– Basic earnings ^c	0.54	1.20	1.44
– Diluted earnings ^c	0.54	1.20	1.43
– Dividends	0.23	0.48	1.18

2. Consolidated Balance Sheet

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
ASSETS			
Cash and balances with banks and other financial institutions	10,551	8,268	14,187
Placements with banks and other financial institutions	70,889	72,347	94,704
Trade bills	979	679	812
Trading assets	5,519	4,937	4,847
Financial assets designated at fair value through profit or loss	7,461	9,606	8,658
Advances to customers and other accounts	263,636	214,279	235,406
Available-for-sale financial assets	13,349	12,520	12,217
Held-to-maturity investments	10,802	10,619	10,761
Investments in associates	2,737	1,128	2,793
Fixed assets	7,899	6,155	6,856
– Investment properties	2,245	1,388	1,726
– Other property and equipment	5,654	4,767	5,130
Goodwill and intangible assets	2,756	2,650	2,668
Deferred tax assets	82	26	70
Total Assets	396,660	343,214	393,979
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions	26,623	43,494	39,060
Deposits from customers	300,238	230,799	284,186
– Demand deposits and current accounts	26,536	17,561	29,990
– Savings deposit	52,832	45,162	49,216
– Time, call and notice deposits	220,870	168,076	204,980
Trading liabilities	2,731	1,707	2,372
Certificates of deposit issued	7,826	10,050	12,165
– At fair value through profit or loss	4,521	7,027	7,660
– At amortised cost	3,305	3,023	4,505
Current taxation	218	495	229
Deferred tax liabilities	744	678	872
Other accounts and provisions	10,840	14,089	10,997
Loan capital	13,352	13,548	13,652
– At fair value through profit or loss	8,682	8,864	8,983
– At amortised cost	4,670	4,684	4,669
Total Liabilities	362,572	314,860	363,533
Share capital	4,177	3,921	3,936
Reserves	29,564	24,181	26,163
Total equity attributable to equity holders of the Group	33,741	28,102	30,099
Minority interests	347	252	347
Total Equity	34,088	28,354	30,446
Total Equity and Liabilities	396,660	343,214	393,979

3. Consolidated Summary Statement of Changes in Equity

	6 months ended 30/6/2008	6 months ended 30/6/2007
	HK\$ Mn	HK\$ Mn
Total equity as at 1st January	30,446	27,645
Net income/(loss) recognised directly in equity		
Release/(recognition) of net deferred tax liabilities on		
– Revaluation reserve on bank premises	1	(3)
– Investment revaluation reserve on available-for-sale financial assets	80	18
Revaluation surplus on bank premises transferred to investment properties	10	18
Capital reserve on share-based transactions	24	12
Reversal upon disposal of available-for-sale financial assets	(101)	(30)
Changes in fair value of available-for-sale financial assets	(466)	(222)
Exchange and other adjustments	603	107
	151	(100)
Net profit for the period		
Attributable to:		
Equity holders of the Group	894	1,877
Minority interests	36	34
	930	1,911
Total recognised income and expenses for the period (of which HK\$36 million (six months ended 30th June 2007: HK\$34 million) is attributable to minority interests)	1,081	1,811
Dividends paid during the period	(1,963)	(1,600)
Movements in shareholders' equity arising from capital transactions with equity holders of the Group:		
Shares issued under Staff Share Option Schemes	97	114
Shares issued in lieu of dividends	520	548
Subscription of new shares	3,942	–
	4,559	662
Movements in minority interests		
Purchase of interests in businesses from minority interests investors	(35)	(15)
Reversal upon disposal of available-for-sale financial assets	–	(149)
	(35)	(164)
Balance as at 30th June	34,088	28,354

4. Condensed Consolidated Cash Flow Statement

	6 months ended 30/6/2008	6 months ended 30/6/2007
	HK\$ Mn	HK\$ Mn
Cash used in operations	(33,211)	(5,714)
Tax paid	(262)	(248)
Net cash used in operating activities	(33,473)	(5,962)
Net cash used in investing activities	(577)	(622)
Net cash (used in)/generated from financing activities	(2,524)	7,069
Net (decrease)/increase in cash and cash equivalents	(36,574)	485
CASH AND CASH EQUIVALENTS AT 1st JANUARY	103,718	76,709
CASH AND CASH EQUIVALENTS AT 30th JUNE	67,144	77,194
Cash flows from operating activities included:		
Interest received	8,983	7,989
Interest paid	5,572	5,178
Dividend received	42	37

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, 2007 but there is no material change as compared to those accounts, nor for the six months ended 30th June, 2008. The statutory accounts for the year ended 31st December, 2007 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 15th February, 2008.
- (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, 2008 (for the six months ended 30th June, 2007: 17.5%). Taxation for overseas 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\$894 million (six months ended 30th June, 2007: HK\$1,877 million) and on the weighted average of 1,661 million (six months ended 30th June, 2007: 1,559 million) ordinary shares outstanding during the six months ended 30th June, 2008.
- (ii) The calculation of diluted earnings per share is based on earnings of HK\$894 million (six months ended 30th June, 2007: HK\$1,877 million) and on 1,666 million (six months ended 30th June, 2007: 1,569 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2008, adjusted for the effects of all dilutive potential shares.
- (d) On 3rd January, 2008, the Bank issued 78,700,000 ordinary shares at HK\$50.24 per new share to Negocio de Finanzas e Inversiones I, SLU which is a wholly owned subsidiary of Criteria CaixaCorp, S.A. ("Criteria"). Criteria is a listed Spanish holding company controlled by "la Caixa", a leading Spanish financial institution focused in retail banking. These 78,700,000 shares represent approximately 5.0% of the entire issued share capital of the Bank prior to the new issue and approximately 4.76% of the entire issued share capital of the Bank as enlarged by the new issue. The issue price represents a discount of approximately 2.45% to the closing price of HK\$51.50 per share quoted on the Stock Exchange on 27th December, 2007.

5. Interest Income

	6 months ended 30/6/2008	6 months ended 30/6/2007	6 months ended 31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Listed securities classified as held-to-maturity or available-for-sale	113	74	80
Trading assets			
– listed	–	2	2
– unlisted	2	21	14
Interest rate swaps	411	268	502
Financial assets designated at fair value through profit or loss			
– listed	60	68	84
– unlisted	192	187	239
Loans, deposits with banks and financial institutions, trade bills, and other unlisted securities that are not at fair value through profit or loss	8,054	7,590	9,178
	<u>8,832</u>	<u>8,210</u>	<u>10,099</u>
Total interest income	<u>8,832</u>	<u>8,210</u>	<u>10,099</u>

Included above is interest income accrued on impaired financial assets of HK\$33 million (six months ended 30th June, 2007: HK\$28 million, and six months ended 31st December, 2007: HK\$1 million).

6. Interest Expense

	6 months ended 30/6/2008	6 months ended 30/6/2007	6 months ended 31/12/2007
	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	4,319	4,701	5,732
Subordinated notes carried at amortised cost	100	126	139
Interest rate swaps	516	341	577
Financial instruments designated at fair value through profit or loss	409	279	433
Other borrowings	5	1	3
	<u>5,349</u>	<u>5,448</u>	<u>6,884</u>
Total interest expense	<u>5,349</u>	<u>5,448</u>	<u>6,884</u>

7. Fee and Commission Income

Fee and commission income arises from the following services:

	6 months ended 30/6/2008	6 months ended 30/6/2007	6 months ended 31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Corporate services	416	361	392
Loans, overdrafts and guarantees	283	170	216
Credit cards	220	179	221
Securities and brokerage	146	177	266
Other retail banking services	99	88	103
Trade finance	68	55	58
Trust and other fiduciary activities	59	27	57
Others	134	111	127
	<u>1,425</u>	<u>1,168</u>	<u>1,440</u>

8. Net Trading Profits

	6 months ended 30/6/2008	6 months ended 30/6/2007	6 months ended 31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Profit on dealing in foreign currencies	190	84	89
(Loss)/Profit on trading securities	(536)	194	658
Profit on other dealing activities	241	106	248
Dividend income from listed trading securities	23	12	26
	<u>(82)</u>	<u>396</u>	<u>1,021</u>

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

	6 months ended 30/6/2008	6 months ended 30/6/2007	6 months ended 31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net (losses)/gains	(1,043)	161	(1,315)
	<u>(1,043)</u>	<u>161</u>	<u>(1,315)</u>

10. Other Operating Income

	6 months ended 30/6/2008	6 months ended 30/6/2007	6 months ended 31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Dividend income from available-for-sale financial assets			
– listed	13	15	27
– unlisted	6	10	11
Rental from safe deposit boxes	44	44	44
Net revenue from insurance activities	111	55	84
Rental income on properties	40	34	38
Others	57	44	31
	<u>271</u>	<u>202</u>	<u>235</u>

11. Operating Expenses

	6 months ended 30/6/2008	6 months ended 30/6/2007	6 months ended 31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Contributions to defined contribution plan	106	79	85
Equity-settled share-based payment expenses	24	12	16
Salaries and other staff costs	1,333	1,042	1,234
Total staff costs	1,463	1,133	1,335
Premises and equipment expenses excluding depreciation			
– Rental of premises	177	134	154
– Maintenance, repairs and others	204	146	197
Total premises and equipment expenses excluding depreciation	381	280	351
Depreciation on fixed assets	197	163	163
Amortisation of intangible assets	1	1	1
Other operating expenses			
– Stamp duty, overseas and PRC * business taxes, and value added taxes	162	87	130
– Advertising expenses	140	131	139
– Communications, stationery and printing	132	107	126
– Legal and professional fees	90	71	94
– Business promotions and business travel	48	38	44
– Card related expenses	37	32	28
– Insurance expenses	30	23	10
– Donations	8	1	7
– Bank charges	4	2	3
– Membership fees	4	3	3
– Administration expenses of secretarial business	3	11	10
– Bank licence	2	3	2
– Others	62	93	66
Total other operating expenses	722	602	662
Total operating expenses	2,764	2,179	2,512

* PRC denotes the People's Republic of China.

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

	6 months ended 30/6/2008	6 months ended 30/6/2007	6 months ended 31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net revaluation gain/(loss) transferred from reserves	101	30	(57)
Profit arising in the period	84	48	646
	185	78	589

13. Trading Assets

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	1,598	997	1,195
Debt securities	12	196	18
Equity securities	1,845	2,563	1,808
Investment funds	242	265	274
	<u>3,697</u>	<u>4,021</u>	<u>3,295</u>
Trading securities	3,697	4,021	3,295
Positive fair value of derivatives	1,822	916	1,552
	<u>5,519</u>	<u>4,937</u>	<u>4,847</u>
Issued by:			
Central governments and central banks	1,598	997	1,195
Public sector entities	27	189	19
Banks and other financial institutions	625	1,068	546
Corporate entities	1,432	1,753	1,524
Other entities	15	14	11
	<u>3,697</u>	<u>4,021</u>	<u>3,295</u>
Analysed by place of listing:			
Listed in Hong Kong	1,634	2,357	1,627
Listed outside Hong Kong	238	281	211
	<u>1,872</u>	<u>2,638</u>	<u>1,838</u>
Unlisted	1,825	1,383	1,457
	<u>3,697</u>	<u>4,021</u>	<u>3,295</u>

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

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Certificates of deposit held	–	49	50
Debt securities	7,461	9,556	8,608
Equity securities	–	1	–
	<u>7,461</u>	<u>9,606</u>	<u>8,658</u>
Issued by:			
Public sector entities	183	131	184
Banks and other financial institutions	1,362	1,560	1,096
Corporate entities	5,916	7,915	7,378
	<u>7,461</u>	<u>9,606</u>	<u>8,658</u>
Analysed by place of listing:			
Listed in Hong Kong	1,807	1,697	1,755
Listed outside Hong Kong	933	1,250	796
	<u>2,740</u>	<u>2,947</u>	<u>2,551</u>
Unlisted	4,721	6,659	6,107
	<u>7,461</u>	<u>9,606</u>	<u>8,658</u>

15. Advances to Customers and Other Accounts

(a) Advances to Customers and Other Accounts

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
(i) Advances to customers	245,408	202,871	218,184
Less: Impairment allowances			
– Individual	(183)	(296)	(264)
– Collective	(447)	(467)	(433)
	<u>244,778</u>	<u>202,108</u>	<u>217,487</u>
(ii) Other Accounts			
Advances to banks and other financial institutions*	9,154	2,109	5,674
Notes and bonds	270	331	262
Certificates of deposit held	39	39	39
Accrued interest	1,761	1,394	1,912
Bankers acceptances	2,309	470	1,425
Other accounts	5,368	7,861	8,638
	<u>18,901</u>	<u>12,204</u>	<u>17,950</u>
Less: Impairment allowances			
– Individual	(33)	(24)	(25)
– Collective	(10)	(9)	(6)
	<u>18,858</u>	<u>12,171</u>	<u>17,919</u>
	<u><u>263,636</u></u>	<u><u>214,279</u></u>	<u><u>235,406</u></u>

* The above advances to banks and other financial institutions include:

- (a) Receivables from reverse repurchase agreements under which the Group and the Bank obtain securities on terms which permit them to re-pledge or resell securities to others in the absence of default. At 30th June, 2008, the fair value of financial assets accepted as collateral that the Group is permitted to sell or re-pledge under such terms is HK\$219 million (30/6/2007: Nil and 31/12/2007: HK\$1,275 million).
- (b) Statutory reserve deposits with a central bank of HK\$8,584 million (30/6/2007: HK\$1,300 million and 31/12/2007: HK\$3,666 million).

(b) Advances to customers – by industry sectors

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

	30/6/2008		30/6/2007		31/12/2007	
	Gross advances	% of secured advances	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%	HK\$ Mn	%
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	8,240	62.88	8,079	63.33	9,080	66.41
– Property investment	27,378	87.23	22,627	96.61	26,023	87.04
– Financial concerns	2,621	62.35	469	61.09	1,932	76.71
– Stockbrokers	633	98.19	998	87.32	659	99.60
– Wholesale and retail trade	2,590	59.12	1,360	52.64	1,469	50.12
– Manufacturing	2,338	46.84	2,243	49.10	1,934	48.35
– Transport and transport equipment	4,332	67.84	4,190	73.68	4,345	70.36
– Recreational activities	286	90.82	290	92.81	285	90.81
– Information technology	6	40.06	4	44.03	5	38.89
– Others	10,497	72.19	20,434	86.53	9,673	72.40
– Sub-total	58,921	75.90	60,694	84.01	55,405	77.27
Individuals						
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,158	100.00	1,070	100.00	1,041	100.00
– Loans for the purchase of other residential properties	34,641	99.80	38,030	99.59	36,245	99.68
– Credit card advances	2,483	0.00	2,276	0.00	2,619	0.00
– Others	6,326	75.86	5,322	71.75	5,450	70.57
– Sub-total	44,608	90.85	46,698	91.58	45,355	90.43
Total loans for use in Hong Kong	103,529	82.34	107,392	87.30	100,760	83.20
Trade finance	4,197	55.15	3,664	56.74	3,714	57.09
Loans for use outside Hong Kong *	137,682	74.78	91,815	69.72	113,710	72.67
Total advances to customers	245,408	77.63	202,871	78.79	218,184	77.27

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

	30/6/2008		30/6/2007		31/12/2007	
	Gross advances	% of secured advances	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%	HK\$ Mn	%
Property development	13,952	66.83	7,967	68.24	11,399	72.07
Property investment	24,677	87.22	17,617	94.22	22,049	92.58
Wholesale and retail trade	20,778	90.57	6,637	72.90	11,276	84.46
Manufacturing	10,431	65.35	7,603	44.64	7,418	47.35
Others	31,187	65.24	21,505	58.85	27,173	59.45
	101,025	76.05	61,329	69.99	79,315	72.90

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:

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
(i) Property development			
a. Individually impaired loans	212	182	305
b. Individual impairment allowance	7	91	90
c. Collective impairment allowance	37	35	35
d. Provision charged to profit and loss			
– individual impairment loss	1	–	–
– collective impairment loss	5	9	12
e. Written off	90	–	–
(ii) Property investment			
a. Individually impaired loans	267	36	23
b. Individual impairment allowance	–	–	–
c. Collective impairment allowance	86	93	89
d. Provision charged to profit and loss			
– individual impairment loss	–	–	–
– collective impairment loss	10	11	27
e. Written off	–	1	–
(iii) Loans for purchase of residential properties			
a. Individually impaired loans	143	226	189
b. Individual impairment allowance	2	9	6
c. Collective impairment allowance	22	30	25
d. Provision charged to profit and loss			
– individual impairment loss	1	9	7
– collective impairment loss	2	1	3
e. Written off	2	10	6
(iv) Wholesale and retail trade			
a. Individually impaired loans	139	71	112
b. Individual impairment allowance	40	24	24
c. Collective impairment allowance	43	29	27
d. Provision charged to profit and loss			
– individual impairment loss	18	14	39
– collective impairment loss	15	6	11
e. Written off	4	1	8

(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.

	30/6/2008				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	124,582	184	424	78	226
People's Republic of China	85,679	97	500	15	111
Other Asian Countries	11,803	310	174	83	81
Others	23,344	36	214	7	29
Total	<u>245,408</u>	<u>627</u>	<u>1,312</u>	<u>183</u>	<u>447</u>
% of total advances to customers			<u>0.53%</u>		
Market value of security held against impaired advances to customers			<u>4,015</u>		
	30/6/2007				
	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	126,988	285	657	167	268
People's Republic of China	46,404	73	368	50	107
Other Asian Countries	10,117	66	155	79	65
Others	19,362	18	30	–	27
Total	<u>202,871</u>	<u>442</u>	<u>1,210</u>	<u>296</u>	<u>467</u>
% of total advances to customers			<u>0.60%</u>		
Market value of security held against impaired advances to customers			<u>2,332</u>		

31/12/2007

	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	123,539	296	622	148	265
People's Republic of China	62,518	114	334	87	84
Other Asian Countries	10,340	57	90	28	60
Others	21,787	1	196	1	24
Total	218,184	468	1,242	264	433
% of total advances to customers			0.57%		
Market value of security held against impaired advances to customers			3,647		

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, 2008, 30th June, 2007 and 31st December, 2007; nor were there any individual impairment allowances made for them on these three respective dates.

16. Available-for-Sale Financial Assets

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	3,115	4,325	2,869
Certificates of deposit held	615	868	807
Debt securities	8,470	4,565	6,797
Equity securities	969	2,670	1,602
Investment funds	180	92	142
	13,349	12,520	12,217
Issued by:			
Central governments and central banks	4,026	4,437	2,914
Public sector entities	2,382	207	2,337
Banks and other financial institutions	4,641	4,899	4,076
Corporate entities	1,855	2,732	2,586
Other entities	445	245	304
	13,349	12,520	12,217
Analysed by place of listing:			
Listed in Hong Kong	498	1,794	1,025
Listed outside Hong Kong	4,194	2,887	2,548
	4,692	4,681	3,573
Unlisted	8,657	7,839	8,644
	13,349	12,520	12,217

17. Held-to-Maturity Investments

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	88	118	67
Certificates of deposit held	1,827	1,857	1,625
Debt securities	8,983	8,644	9,111
	<u>10,898</u>	<u>10,619</u>	<u>10,803</u>
Less: Impairment allowances	(96)	–	(42)
	<u>10,802</u>	<u>10,619</u>	<u>10,761</u>
Issued by:			
Central governments and central banks	5,441	5,466	5,411
Public sector entities	354	721	664
Banks and other financial institutions	3,745	3,203	3,507
Corporate entities	1,262	1,229	1,179
	<u>10,802</u>	<u>10,619</u>	<u>10,761</u>
Analysed by place of listing:			
Listed in Hong Kong	296	192	194
Listed outside Hong Kong	2,272	1,777	2,129
	<u>2,568</u>	<u>1,969</u>	<u>2,323</u>
Unlisted	8,234	8,650	8,438
	<u>10,802</u>	<u>10,619</u>	<u>10,761</u>
Market value:			
Listed securities	2,524	1,955	2,330
Unlisted securities	8,275	8,519	8,463
	<u>10,799</u>	<u>10,474</u>	<u>10,793</u>

18. Fixed Assets

	30/6/2008				
	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, 2008	1,726	4,609	2,711	7,320	9,046
Additions	–	359	290	649	649
Additions through acquisition	303	–	15	15	318
Revaluation surplus	198	–	–	–	198
Revaluation of bank premises transferred to investment properties	–	9	–	9	9
Transfer from bank premises to investment properties	17	(17)	–	(17)	–
Disposals	–	(12)	(58)	(70)	(70)
Exchange adjustments	1	64	46	110	111
At 30th June, 2008	2,245	5,012	3,004	8,016	10,261
Accumulated depreciation and amortisation					
At 1st January, 2008	–	617	1,573	2,190	2,190
Additions through acquisition	–	–	11	11	11
Charge for the period	–	37	160	197	197
Revaluation of bank premises transferred to investment properties	–	(1)	–	(1)	(1)
Impairment loss	–	(6)	–	(6)	(6)
Written back on disposals	–	(12)	(49)	(61)	(61)
Exchange adjustments	–	10	22	32	32
At 30th June, 2008	–	645	1,717	2,362	2,362
Net book value at 30th June, 2008	2,245	4,367	1,287	5,654	7,899
Net book value at 30th June, 2007	1,388	3,787	980	4,767	6,155
Net book value at 31st December, 2007	1,726	3,992	1,138	5,130	6,856
The gross amounts of the above assets are stated:					
At cost	–	4,185	3,004	7,189	7,189
At Directors' valuation – 1989	–	827	–	827	827
At professional valuation – 2008	2,245	–	–	–	2,245
	2,245	5,012	3,004	8,016	10,261

19. Trading Liabilities

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Exchange fund bills sold	1,328	698	1,098
Exchange fund notes sold	–	32	33
	<u>1,328</u>	<u>730</u>	<u>1,131</u>
Negative fair value of derivatives	1,403	977	1,241
	<u>2,731</u>	<u>1,707</u>	<u>2,372</u>

20. Other Accounts and Provisions

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Accrued interest payable	1,364	1,125	1,587
Bankers acceptance	2,309	471	1,425
Other accounts	7,167	12,493	7,985
	<u>10,840</u>	<u>14,089</u>	<u>10,997</u>

21. Loan Capital

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
USD550 million 5.625% subordinated notes, measured at fair value through profit or loss	4,303	4,290	4,383
GBP300 million 6.125% step-up perpetual subordinated notes, measured at fair value through profit or loss	4,379	4,574	4,600
USD600 million floating rate step-up subordinated notes, measured at amortised cost	4,670	4,684	4,669
	<u>13,352</u>	<u>13,548</u>	<u>13,652</u>

Loan capital of face value of HK\$4,290 million (US\$550,000,000) and carrying amount of HK\$4,303 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 Stock Exchange of Hong Kong Limited and will mature on 13th December, 2015.

Loan capital of face value of HK\$4,672 million (GBP300,000,000) and carrying amount of HK\$4,379 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 Exchange Securities Trading Limited.

Loan capital of face value of HK\$4,680 million (US\$600,000,000) and carrying amount of HK\$4,670 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 Exchange Securities Trading Limited and will mature on 22nd June, 2017.

22. Segment Reporting

Segment information is presented in respect of the Group's business or geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Personal financial services include branch operations, personal Internet banking, consumer finance, property loans, credit card business and private banking to personal customers.

Corporate banking business includes corporate lending and loan syndication, asset based lending, commercial lending, enterprise lending, securities lending, trust services, mandatory provident fund business and corporate Internet banking.

Investment banking business includes treasury operations, securities broking and dealing, and provision of internet security trading services.

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

Other businesses include bancassurance, insurance business and property-related business.

Unallocated items mainly comprise the central management unit, bank premises, and any items which cannot be reasonably allocated to specific business segments.

6 months ended 30/6/2008

	Personal Financial Services	Corporate Banking	Investment Banking	Corporate Services	Others	Unallocated	Inter- segment elimination	Consolidated
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net interest income	750	2,001	707	1	24	-	-	3,483
Other operating income from external customers	571	305	(1,054)	408	73	30	-	333
Inter-segment income	-	-	-	-	-	97	(97)	-
Operating income	1,321	2,306	(347)	409	97	127	(97)	3,816
Operating expenses	(1,108)	(877)	(288)	(248)	(145)	(98)	-	(2,764)
Inter-segment expenses	(77)	(11)	(4)	-	(1)	(4)	97	-
Operating profit before impairment losses	136	1,418	(639)	161	(49)	25	-	1,052
Impairment losses on loans and advances	(11)	(77)	-	(2)	1	-	-	(89)
Write back of impairment losses on bank premises	-	-	-	-	-	5	-	5
Impairment losses on available-for-sale financial assets, held-to-maturity investments and associates	-	-	(231)	-	-	-	-	(231)
Operating profit after impairment losses	125	1,341	(870)	159	(48)	30	-	737
Profit on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and subsidiaries/associates	-	(9)	185	-	-	(2)	-	174
Valuation gains on investment properties	-	-	-	-	198	-	-	198
Share of profits less losses of associates	2	84	25	-	(16)	-	-	95
Profit before taxation	127	1,416	(660)	159	134	28	-	1,204
Depreciation for the period	(79)	(46)	(17)	(9)	(5)	(41)	-	(197)

6 months ended 30/6/2007

	Personal Financial Services	Corporate Banking	Investment Banking	Corporate Services	Others	Unallocated	Inter- segment elimination	Consolidated
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net interest income	1,052	1,175	523	1	11	-	-	2,762
Other operating income from external customers	461	248	540	367	81	19	-	1,716
Inter-segment income	-	-	-	-	-	78	(78)	-
Operating income	1,513	1,423	1,063	368	92	97	(78)	4,478
Operating expenses	(908)	(565)	(281)	(211)	(92)	(122)	-	(2,179)
Inter-segment expenses	(62)	(8)	(4)	-	(1)	(3)	78	-
Operating profit before impairment losses	543	850	778	157	(1)	(28)	-	2,299
Impairment losses on loans and advances	(25)	(111)	1	(3)	2	-	-	(136)
Write back of impairment losses on bank premises	-	-	-	-	-	116	-	116
Operating profit after impairment losses	518	739	779	154	1	88	-	2,279
Profit on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and subsidiaries/associates	-	-	78	-	-	(2)	-	76
Valuation gains on investment properties	-	-	-	-	21	-	-	21
Share of profits less losses of associates	1	9	25	-	17	-	-	52
Profit before taxation	519	748	882	154	39	86	-	2,428
Depreciation for the period	(61)	(33)	(13)	(7)	(4)	(45)	-	(163)

23. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2008						Total HK\$ Mn
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
Assets							
Cash and balances with banks and other financial institutions	10,147	69	-	-	-	335	10,551
Placements with banks and other financial institutions	-	59,490	11,399	-	-	-	70,889
Trade bills	42	889	26	-	-	22	979
Trading assets	-	1,598	-	1	11	3,909	5,519
Financial assets designated at fair value through profit or loss	-	-	730	6,031	700	-	7,461
Advances to customers and other accounts	5,334	40,764	47,719	91,039	62,391	16,389	263,636
Available-for-sale financial assets	-	4,915	2,165	3,965	1,155	1,149	13,349
Held-to-maturity investments	-	2,573	4,867	2,394	968	-	10,802
Undated assets	-	-	-	-	-	13,474	13,474
Total assets	15,523	110,298	66,906	103,430	65,225	35,278	396,660
Liabilities							
Deposits and balances of banks and other financial institutions	1,071	14,024	11,455	41	10	22	26,623
Deposits from customers	81,676	175,195	32,943	10,195	229	-	300,238
- Demand deposits and current accounts	26,536	-	-	-	-	-	26,536
- Savings deposit	52,832	-	-	-	-	-	52,832
- Time, call and notice deposits	2,308	175,195	32,943	10,195	229	-	220,870
Trading liabilities	-	1,129	199	-	-	1,403	2,731
Certificates of deposit issued	-	52	5,236	1,968	570	-	7,826
Current taxation	-	-	218	-	-	-	218
Loan capital	-	-	-	13,352	-	-	13,352
Undated liabilities	-	-	-	-	-	11,584	11,584
Total liabilities	82,747	190,400	50,051	25,556	809	13,009	362,572
Net gap	(67,224)	(80,102)	16,855	77,874	64,416		

31/12/2007

	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets							
Cash and balances with banks and other financial institutions	13,583	63	–	–	–	541	14,187
Placements with banks and other financial institutions	–	90,574	4,130	–	–	–	94,704
Trade bills	58	624	91	–	–	39	812
Trading assets	–	798	397	–	18	3,634	4,847
Financial assets designated at fair value through profit or loss	–	155	523	7,980	–	–	8,658
Advances to customers and other accounts	4,211	36,840	34,529	83,440	61,708	14,678	235,406
Available-for-sale financial assets	–	1,922	4,681	2,899	971	1,744	12,217
Held-to-maturity investments	–	970	6,096	2,607	1,088	–	10,761
Undated assets	–	–	–	–	–	12,387	12,387
Total assets	17,852	131,946	50,447	96,926	63,785	33,023	393,979
Liabilities							
Deposits and balances of banks and other financial institutions	3,722	17,592	17,685	50	10	1	39,060
Deposits from customers	81,228	178,156	17,107	7,659	36	–	284,186
– Demand deposits and current accounts	29,990	–	–	–	–	–	29,990
– Savings deposit	49,216	–	–	–	–	–	49,216
– Time, call and notice deposits	2,022	178,156	17,107	7,659	36	–	204,980
Trading liabilities	–	1,098	–	33	–	1,241	2,372
Certificates of deposit issued	–	288	9,663	1,326	888	–	12,165
Current taxation	–	–	229	–	–	–	229
Loan capital	–	–	–	9,269	4,383	–	13,652
Undated liabilities	–	–	–	–	–	11,869	11,869
Total liabilities	84,950	197,134	44,684	18,337	5,317	13,111	363,533
Net gap	(67,098)	(65,188)	5,763	78,589	58,468		

24. Deferred Tax Assets and Liabilities Recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet 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, 2008	321	274	58	94	(59)	114	802
Charged/(credited) to consolidated profit and loss account	11	-	25	-	(7)	6	35
Credited to reserves	-	(1)	-	(80)	-	-	(81)
Additions through acquisition	14	-	-	-	(2)	-	12
Exchange and other adjustments	-	-	-	-	-	(106)	(106)
At 30th June, 2008	<u>346</u>	<u>273</u>	<u>83</u>	<u>14</u>	<u>(68)</u>	<u>14</u>	<u>662</u>
Balance as at 30th June, 2007	<u>291</u>	<u>214</u>	<u>3</u>	<u>92</u>	<u>(13)</u>	<u>65</u>	<u>652</u>
Balance as at 31st December, 2007	<u>321</u>	<u>274</u>	<u>58</u>	<u>94</u>	<u>(59)</u>	<u>114</u>	<u>802</u>

25. Reserves

	30/6/2008 HK\$ Mn	30/6/2007 HK\$ Mn	31/12/2007 HK\$ Mn
Share premium	4,924	1,087	1,118
General reserve	14,524	13,806	14,004
Revaluation reserve on bank premises	876	851	866
Investment revaluation reserve	(11)	627	476
Exchange revaluation reserve	1,257	268	672
Other reserves	209	165	153
Retained profits*	<u>7,785</u>	<u>7,377</u>	<u>8,874</u>
Total	<u>29,564</u>	<u>24,181</u>	<u>26,163</u>
Proposed dividends, not provided for	<u>384</u>	<u>753</u>	<u>1,858</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, 2008, HK\$2,228 million (31st December, 2007: HK\$2,100 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.

26. Consolidated Cash Flow Statement

(a) Purchase of subsidiaries

	30/6/2008	30/6/2007
	HK\$ Mn	HK\$ Mn
Cash and balances with banks and other financial institutions	12	–
Advances and other accounts less provisions	10	4
Fixed assets	4	–
Goodwill	25	–
Other accounts and provisions	(46)	(2)
	5	2
Goodwill arising on consolidation	31	35
Total purchase price	36	37
Less: Cash and cash equivalents acquired	(12)	–
Cash flow on acquisition net of cash acquired	24	37

(b) Cash and cash equivalents

	30/6/2008	30/6/2007
	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	10,551	8,268
Placements with banks and other financial institutions with original maturity within three months	52,576	64,453
Treasury bills with original maturity within three months	2,649	4,016
Certificates of deposit held with original maturity within three months	404	457
Debt securities with original maturity within three months	964	–
	67,144	77,194
(ii) Reconciliation with the consolidated balance sheet		
Cash and balances with banks and other financial institutions	10,551	8,268
Placements with banks and other financial institutions	70,889	72,347
Treasury bills and certificates of deposit held		
– trading assets	1,610	997
– designated at fair value through profit or loss	7,461	49
– advances and other accounts	39	39
– available-for sale	12,386	5,193
– held-to-maturity	10,802	1,975
	32,298	8,253
Amount shown in the consolidated balance sheet	113,738	88,868
Less: Amounts with an original maturity of beyond three months	(46,594)	(11,674)
Cash and cash equivalents in the consolidated cash flow statement	67,144	77,194

27. Off-balance Sheet Exposures

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

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Contractual amounts of contingent liabilities and commitments			
– Direct credit substitutes	9,535	6,365	8,496
– Transaction-related contingencies	2,269	1,296	976
– Trade-related contingencies	1,561	1,546	1,493
– Commitments that are unconditionally cancellable without prior notice	51,952	40,939	49,117
– Other commitments with an original maturity			
– up to 1 year	4,716	4,331	4,510
– over 1 year	13,035	15,574	14,144
Total	83,068	70,051	78,736
– Aggregate credit risk weighted amount	24,405	13,738	18,725
Notional amounts of derivatives			
– Exchange rate contracts	84,112	22,885	45,679
– Interest rate contracts	52,099	29,737	28,340
– Equity contracts	11,039	9,941	13,772
– Others	63	200	–
Total	147,313	62,763	87,791
– Aggregate credit risk weighted amount	875	920	401
– Aggregate replacement costs	1,822	916	1,552

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

(b) **Capital Commitments**

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

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Expenditure authorised and contracted for	2,256	533	1,557
Expenditure authorised but not contracted for	62	–	20
	2,318	533	1,577

28. Material Related Party Transactions

The Group maintains certain retirement benefit schemes for its staff. In the six month ended 30th June, 2008, the total amount of contributions the Group made to the schemes was HK\$52 million (six months ended 30th June, 2007: HK\$45 million).

The Group enters into a number of transactions with the Group's related parties, including its associates, and key management personnel and their close family members and companies controlled or significantly influenced by them. The transactions include accepting deposits from and extending credit facilities to them. Except that there is interest free shareholder's advance extended to one (31st December, 2007: one) associate amounting to HK\$7 million at 30th June, 2008 (31st December, 2007: HK\$7 million), all interest rates in connection with the deposits taken and credit facilities extended are under terms and conditions normally applicable to customers of comparable standing.

The interest received from and interest paid to the Group's related parties for the six months ended 30th June, 2008, outstanding balances of amounts due from and due to them at 30th June, 2008 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2008 are aggregated as follows:

	Key management personnel		Subsidiaries		Associates	
	30/6/2008	30/6/2007	30/6/2008	30/6/2007	30/6/2008	30/6/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	135	130	468	348	5	6
Interest expense	52	62	77	81	-	-
Amounts due from	11,305	7,989	20,435	21,193	532	235
Amounts due to	3,781	4,814	2,739	1,471	3	14
Maximum amounts due from	12,151	10,982	20,435	23,699	519	424
Maximum amounts due to	6,359	7,631	2,739	1,894	17	47

29. Basis of Consolidation

Unless otherwise stated, all financial information contained in this interim report are prepared according to the consolidation basis for accounting purposes.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation basis 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.

30. Statement of Compliance

The Interim Results together with the Supplementary Financial Information on pages 26 to 33 complies fully with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority, the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and HKAS 34 "Interim Financial Reporting" issued by the HKICPA in October, 2004.

SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy Ratio and Capital Base

(a) Capital adequacy ratio

	30/6/2008	30/6/2007	31/12/2007
	%	%	%
Capital adequacy ratio	14.7	13.1	12.6
Core capital adequacy ratio	9.4	7.7	7.4

Capital ratios at 30th June, 2008 and 31st December, 2007 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 and the internal models approach for the calculation of market risk and standardised approach for operational risk.

Capital ratios at 30th June, 2007 were compiled in accordance with the basic approach for the calculation of the credit risk, the standardised (market risk) approach for market risk and the basic indicator 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

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Core capital			
Paid up ordinary share capital	4,177	3,921	3,936
Share premium	4,924	1,087	1,118
Reserves	18,469	17,236	16,884
Profit and loss account	215	700	873
Deduct: Goodwill	(1,625)	(1,616)	(1,616)
Other intangible assets	(25)	(12)	(11)
	26,135	21,316	21,184
Less: Core capital items deductions	(2,825)	(2,570)	(2,742)
Total core capital	23,310	18,746	18,442
Eligible supplementary capital			
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	936	628	788
Revaluation reserves for fair value gains on revaluation of holdings of available-for-sale equities and debt securities	–	81	128
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	–	2	2
Regulatory reserve for general banking risks	226	944	247
Collectively assessed impairment allowances	44	468	51
Surplus provisions	869	–	694
Perpetual subordinated debt	4,659	4,693	4,661
Term subordinated debt	8,955	8,973	8,952
	15,689	15,789	15,523
Less: Supplementary capital items deductions	(2,825)	(2,571)	(2,742)
Total supplementary capital	12,864	13,218	12,781
Total capital base	36,174	31,964	31,223

B. Liquidity Ratio

	6 months ended 30/6/2008	6 months ended 30/6/2007	The year ended 31/12/2007
	%	%	%
Average liquidity ratio for the period	38.8	43.2	43.5

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.

	30/6/2008			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	19,808	1,922	51,102	72,832
Asian countries, excluding People's Republic of China	12,317	1,450	12,876	26,643
North America	4,982	5,270	9,263	19,515
Western Europe	56,782	–	4,312	61,094
	30/6/2007			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	20,547	2,964	26,125	49,636
Asian countries, excluding People's Republic of China	12,076	1,598	11,260	24,934
North America	10,055	5,333	8,670	24,058
Western Europe	40,684	–	2,708	43,392
	31/12/2007			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	23,281	7,386	36,395	67,062
Asian countries, excluding People's Republic of China	14,535	1,471	11,478	27,484
North America	7,101	5,303	8,947	21,351
Western Europe	67,486	–	4,784	72,270

D. Non-bank Mainland Exposures

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

	30/6/2008			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	93,252	17,908	111,160	35
Companies and individuals outside Mainland where the credit is granted for use in Mainland	14,514	2,736	17,250	5
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	3,359	27	3,386	–
Total	111,125	20,671	131,796	40
	30/6/2007			
	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	54,327	11,686	66,013	146
Companies and individuals outside Mainland where the credit is granted for use in Mainland	12,147	3,593	15,740	4
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	295	–	295	–
Total	66,769	15,279	82,048	150
	31/12/2007			
	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	76,128	15,247	91,375	184
Companies and individuals outside Mainland where the credit is granted for use in Mainland	11,848	2,785	14,633	1
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	1,729	27	1,756	–
Total	89,705	18,059	107,764	185

E. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	30/6/2008		30/6/2007		31/12/2007	
	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	109	0.1	148	0.1	151	0.1
– 1 year or less but over 6 months	359	0.1	96	0.0	168	0.1
– Over 1 year	159	0.1	198	0.1	149	0.0
	627	0.3	442	0.2	468	0.2
Rescheduled advances to customers	263	0.1	305	0.2	283	0.1
Total overdue and rescheduled advances	890	0.4	747	0.4	751	0.3
Secured overdue advances	490	0.2	286	0.1	261	0.1
Unsecured overdue advances	137	0.1	156	0.1	207	0.1
Market value of security held against secured overdue advances	2,233		491		1,553	
Individual impairment allowance made on loans overdue for more than 3 months	115		102		136	

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, 2008, 30th June, 2007 and 31st December, 2007; nor were there any rescheduled advances to banks and other financial institutions on these three dates.

(b) Other overdue and rescheduled assets

	30/06/2008		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	–	–	1
– 1 year or less but over 6 months	1	1	–
– Over 1 year	–	–	–
	1	1	1
Rescheduled assets	–	–	–
Total other overdue and rescheduled assets	1	1	1
	30/06/2007		
	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	–	4
– 1 year or less but over 6 months	1	–	–
– Over 1 year	1	–	13
	3	–	17
Rescheduled assets	–	–	–
Total other overdue and rescheduled assets	3	–	17

	31/12/2007		
	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	1	–	–
– Over 1 year	1	–	4
	2	–	4
Rescheduled assets	–	–	–
Total other overdue and rescheduled assets	2	–	4

* Other assets refer to trade bills and receivables.

(c) Repossessed assets

	30/6/2008	30/6/2007	31/12/2007
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Repossessed land and buildings	150	38	19
Repossessed vehicles and equipment	1	5	1
Total repossessed assets	151	43	20

The amount represents the estimated market value of the repossessed assets as at 30th June, 2008, 30th June, 2007 and 31st December, 2007.

F. Currency Concentrations

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

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

	30/6/2007 HK\$ Mn			
	USD	CNY	Others	Total
Spot assets	88,361	39,559	38,862	166,782
Spot liabilities	(81,774)	(37,286)	(43,394)	(162,454)
Forward purchases	22,838	576	13,521	36,935
Forward sales	(27,862)	(631)	(8,100)	(36,593)
Net options position	(45)	–	26	(19)
Net long position	1,518	2,218	915	4,651

	31/12/2007 HK\$ Mn			
	USD	CNY	Others	Total
Spot assets	94,859	75,601	44,405	214,865
Spot liabilities	(82,587)	(70,383)	(47,120)	(200,090)
Forward purchases	36,089	3,399	15,231	54,719
Forward sales	(45,224)	(4,418)	(11,369)	(61,011)
Net options position	(10)	–	22	12
Net long position	<u>3,127</u>	<u>4,199</u>	<u>1,169</u>	<u>8,495</u>
	30/6/2008 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	<u>1,996</u>	<u>6,615</u>	<u>1,056</u>	<u>9,667</u>
	30/6/2007 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	<u>1,788</u>	<u>2,002</u>	<u>702</u>	<u>4,492</u>
	31/12/2007 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	<u>1,792</u>	<u>4,771</u>	<u>891</u>	<u>7,454</u>

G. Additional Disclosures on Structured Investments

Collateralized Debt Obligations (CDO)

The nominal value of the Bank's CDO portfolio was US\$730 million as at 30th June, 2008. A summary of the Bank's CDO investment is as follows:

Year of maturity	Number of securities	Nominal amount US\$ m	MTM losses during 1H 2008 US\$ m	Accumulated MTM losses up to 30/6/2008		Amount net of accumulated MTM losses as at 30/6/2008 US\$ m	Current ratings
				US\$ m	Percentage to nominal amount		
2009	3	140	11.6	17.1	12.1%	122.9	Moody's: Baa1 S&P's: A/BBB+
2010	9	460	120.0	191.9	41.7%	268.1	Moody's: Baa3 to Ba2 S&P's: A- to BBB-
2012	2	130	36.2	86.9	66.8%	43.1	Moody's: Baa1 S&P's: BBB-
Total	14	730	167.8	295.9	40.5%	434.1	

As at 30th June, 2008, the Bank's CDO portfolio comprised 14 securities (all mezzanine tranches), of which 12 were of investment grade ratings while 2 fell in the Ba range. None of the Bank's CDO investments have direct or indirect exposures to mortgage-backed securities or U.S. sub-prime residential mortgages. The average maturity of the portfolio was approximately 2 years and 4 months. As at 30th June, 2008, the Bank's CDO investments saw no defaults witnessed in any of the underlying reference entities.

The global credit market conditions continued to deteriorate in the first six months of 2008, resulting in a further tightening CDO market, particularly in the U.S. and thus in devaluation of the Bank's CDO investments. In accordance with the Bank's accounting policy, and after taking into account various factors such as the current market conditions, and credit quality and maturity of the CDO investments, the Bank made mark-to-market losses for US\$128.1 million against its CDO portfolio for the financial year ended 31st December, 2007 and an additional loss for US\$167.8 million during the six months ended 30th June, 2008. As at the end of June 2008, the carrying amount of its CDO portfolio stood at US\$434.1 million, or approximately 0.9% of the Bank's consolidated assets.

Structured Investment Vehicles (SIVs)

The Bank has minimal exposures in SIVs. As at 30th June, 2008, the nominal value of the Bank's SIV portfolio, which are all sponsored by banks, was only US\$67 million.

In accordance with the Bank's impairment assets policy, the Bank has fully provided for 3 SIV investments, namely, Whistlejacket Capital Limited, Beta Finance Corporation and Five Finance Corporation. In the financial year ended 31st December, 2007, the Bank provided for impairment losses of US\$34.6 million against its SIV investments and an additional US\$29.7 million of impairment losses in the six months ended 30th June 2008. At 30th June, 2008, total impairment allowance for SIV investments amounted to US\$64.3 million, representing 96.0% of the Bank's gross SIV investments, and the net exposure amounted to US\$2.7 million.



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 25 which comprises the consolidated balance sheet of The Bank of East Asia, Limited as at 30th June, 2008 and the consolidated profit and loss account, the consolidated summary 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 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 an interim financial report consists of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June, 2008 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, 5th August, 2008

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK\$0.23 (2007: HK\$0.48) per share for the six months ended 30th June, 2008. 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 Tuesday, 26th August, 2008. Details of the scrip dividend and the election form will be sent to shareholders on or about Tuesday, 26th August, 2008. 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 Wednesday, 17th September, 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 25th August, 2008 to Tuesday, 26th August, 2008. 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 Friday, 22nd August, 2008.

FINANCIAL REVIEW

Financial Performance

For the first six months of 2008, the Group achieved a profit after tax of HK\$930 million. Basic earnings per share were HK\$0.54. Return on average equity was 5.4%, while return on average assets was 0.5%.

Due to good loan growth in the first half of 2008, as well as interest earned on the proceeds of the issue of new shares in January 2008, the Group's net interest income increased by HK\$721 million, or 26.1%, to HK\$3,483 million. Non-interest income dropped by HK\$1,383 million, or 80.6%, mainly due to the revaluation loss recorded on collateralised debt obligations and a decrease in trading profits. However, net fee and commission income grew strongly, rising by HK\$230 million, or 24.0%, to HK\$1,187 million.

Total operating expenses increased by 26.9% over the corresponding period in 2007 to HK\$2,764 million, due to the continuing expansion of the Group's activities. The cost to income ratio rose from 48.7% in the first half of 2007 to 72.4% in the corresponding period in 2008.

Operating profit before impairment losses for the first six months was HK\$1,052 million, a decrease of HK\$1,247 million, or 54.2%, compared to the corresponding period in 2007.

The charge for impairment losses on loans and advances decreased by HK\$47 million, or 34.5%, to HK\$89 million. In addition, a charge of HK\$231 million was recorded for impairment losses on notes issued by structured investment vehicles. As a result, total impairment losses increased by HK\$295 million, or 1,451.3%.

The operating profit after impairment losses decreased by 67.7% to HK\$737 million. In the first six months of 2008, BEA shared after-tax profits from associates of HK\$95 million.

Profit after taxation was HK\$930 million, a decrease of 51.3%, over the HK\$1,911 million recorded in the corresponding period in 2007. Profit attributable to equity holders of the Group was HK\$894 million, a decrease of 52.4%.

Financial Position

Total consolidated assets of the Group grew by HK\$2,681 million, or 0.7%, during the first half of 2008 to HK\$396,660 million. Gross advances to customers grew by 12.5% to HK\$245,408 million.

Total deposits rose by 4.0% to HK\$308,064 million, while total deposits from customers rose by 5.6% to HK\$300,238 million. Demand deposits and current account balances decreased by HK\$3,454 million, or 11.5%, compared to the balance at year-end 2007. Savings deposits increased to HK\$52,832 million, a rise of 7.3%, while time deposits increased to HK\$220,870 million, a rise of 7.8%, when compared with the year-end position.

During the first half of 2008, BEA issued HKD fixed rate certificates of deposit with a face value of HK\$1,450 million, HKD floating rate certificates of deposit with a face value of HK\$450 million, USD fixed rate certificates of deposit with a face value of US\$65 million and USD floating rate certificates of deposit with a face value of US\$105 million. The Bank redeemed a quantity of certificates of deposit amounting to HK\$7,385 million equivalent upon maturity, and repurchased its own certificates of deposit amounting to HK\$6 million equivalent. The Bank also issued and redeemed a number of short term TWD fixed-rate certificates of deposit.

After taking into account all debt instruments issued, the loan-to-deposit ratio was 79.7% at the end of June 2008, being 6.1 percentage point higher than the 73.6% reported at the end of 2007.

At the end of June 2008, the face value of the outstanding debt portfolio was HK\$8,179 million, with a carrying amount equal to HK\$7,826 million.

Maturity Profile of Debts Issued

As at 30th June, 2008

(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity							
			2008	2009	2010	2011	2013	2014	2015	
Floating Rate Certificates of Deposit										
Issued in 2006	HKD	500		500						
Issued in 2007	HKD	1,630	1,630							
Issued in 2008	HKD	450		350	100					
Issued in 2008	USD	105	35	40		30				
Fixed Rate Certificates of Deposit										
Issued in 2006	HKD	500		500						
Issued in 2007	HKD	370	370							
Issued in 2008	HKD	1,450	300	650	500					
Issued in 2008	USD	65			50	15				
Issued in 2008	TWD	1,530	1,530							
Zero Coupon Certificates of Deposit										
Issued in 2006	USD	50				50				
Issued in 2007	USD	150					50	50	50	
Total Debts issued in HKD equivalent			8,179	2,966	2,312	990	741	390	390	390

Maturity Profile of Loan Capital

As at 30th June, 2008

(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity			
			2015	2017	Perpetual	
Issued in 2005	Note 1	USD	550	550		
Issued in 2007	Note 2	USD	600		600	
Issued in 2007	Note 3	GBP	300		300	
Total Loan Capital issued in HKD equivalent			13,642	4,290	4,680	4,672

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

PERSONAL BANKING

Branch Distribution

As part of its ongoing project to strengthen the branch network, BEA continues to implement the Branch Rationalisation Programme. During the first half of 2008, the Bank carried out an extensive renovation at Tai Wai Branch, and opened the Tai Wai SupremeGold Centre to enhance BEA's wealth management services in the district. In addition, Tsz Wan Shan Branch was expanded to provide a more spacious and pleasant environment to serve customers. At the end of June 2008, BEA operated a total of 91 branches and 46 SupremeGold Centres in Hong Kong.

Cyberbanking

The number of Cyberbanking customers continued to increase during the first half of 2008. By the end of June 2008, the Bank had more than 411,000 registered Cyberbanking users, representing a growth of 12% compared with the corresponding period last year. The average daily usage volume exceeded 281,000 transactions.

Corporate Cyberbanking also expanded its customer base. By the end of June 2008, over 21,100 corporate customers had registered with BEA's Corporate Cyberbanking, representing an increase of 7% year-on-year.

Property Loans

Mortgage business remained highly competitive during the first half of the year, as the number of property transactions surged in the first quarter of 2008. However, market enthusiasm waned in the second quarter.

BEA launched several innovative promotions during the period in order to attract new business. The Bank joined with the Hong Kong Mortgage Corporation Limited to extend the Mortgage Insurance Programme to mortgage loans secured by non-owner occupied residential properties. The Programme thus offers enhanced flexibility for property investors.

In April, BEA launched a promotional programme during the sales of Home Ownership Scheme (HOS) surplus flats. BEA also proactively offered instant one-stop banking services to HOS flat purchasers.

Consumer Loans

Consumer Finance Department

The Bank partnered with a number of well-known organisations and professional firms to offer credit facilities customised for their customers, executives and employees. A new overdraft programme targeted at middle to high-income earners drew an encouraging response.

Credit Gain Finance

Credit Gain Finance opened four branches in the first half of the year, bringing the total number of branches to 12.

A number of marketing campaigns were launched to capture new business in the secured loan and small business loan segments. The company has achieved substantial year-on-year growth in terms of loan portfolio and number of accounts.

Credit Gain will continue to increase its market share by expanding its branch network and exploring new market segments.

Credit Cards

The aggregate card base grew to more than 1.1 million during the period, as the Bank continued to aggressively promote its card products. Card acquisition campaigns were targeted at both a younger general audience, and at the affluent. These were complemented by card usage campaigns, many offered in association with the Bank's credit card partners. BEA is placing particular emphasis on the PLATINUM card segment, emphasising dining and travel privileges in order to encourage both local and overseas spending.

BEA introduced a new design for its core card face, coinciding with the launch of the "EMV chip credit card" in May 2008. The new card face highlights the vibrant and dynamic image of BEA, and emphasises Bank's dedication to striving for the best.

The strong performance of BEA's credit card unit garnered several awards during the past six months. **The Bank was named the winner of the award for "2007 Highest Growth Rate in Commercial Products Cardholder Spending in Hong Kong – MasterCard". It was also second runner-up in the category "2007 Highest Growth Rate in Number of Open Cards in Hong Kong – MasterCard" and winner of the bronze prize in the category "2007 Largest Merchant Sales Volume Growth in Hong Kong – Visa". BEA was also named second runner-up for "2007 Highest Number of Merchant Terminals in Hong Kong – China Unionpay".**

CORPORATE BANKING

The first half of 2008 witnessed a slowdown in the local corporate loan market. Loan demand slackened in light of the prudent investment strategies adopted by local property investors and developers, and the reduced financing activities of Mainland enterprises under the tightened macro-economic policies of the Mainland Government. However, we recorded good growth in loan volume, while the tightened liquidity allowed for an overall upward adjustment in pricing.

BEA continued to maintain an active presence in the syndicated loan market in the first half of 2008, both as coordinating arranger and as a participant. BEA has striven to improve its yield return and prudently expand its clientele base by focusing on high quality local and Mainland enterprises in face of the uncertain external financial environment.

On the commercial loan side, the Bank continued to provide tailor-made financing packages to suit the trade finance and capital needs of local corporations for their operations in Hong Kong and the Mainland. In the last half year, further advances have been made in the unsecured business loan market. For example, the product promotion "Business Ready Cash" was directed at retailers from a cross-section of industries. The Bank remained an active participant in the government-sponsored SME Loan Guarantee Scheme, and welcomed the government's expansion of the Scheme in March 2008 to increase equipment finance and working capital loans to small and medium sized enterprises ("SMEs"). **As a result of BEA's strenuous efforts to assist SMEs, The Hong Kong Chamber of Small and Medium Business Ltd conferred the "2008 SME's Best Partner Award" upon the Bank.**

The Bank collaborated with the Hong Kong Productivity Council to provide green financing packages for the participants in the Cleaner Production Campaign and the TURN Pilot Project. These projects are aimed at supporting the effort by Hong Kong manufacturers in Guangdong province to improve productivity, adopt cleaner production practices and move upmarket. Enterprises are keen to upgrade their production equipment, and this has provided significant opportunities for the Bank to expand its machinery leasing business.

BEA remained a key player in the taxi loan business. The Bank also captured strong market share in the receiving bank business during the first half of 2008, handling seven Initial Public Offerings ("IPOs"), notwithstanding the slack IPO market.

In addition to lending services, the Bank offered a full-range of banking services to corporate customers, including treasury tools for hedging foreign exchange and interest rate risk and corporate general insurance. A series of seminars were organised to highlight changing market and regulatory conditions of interest to corporate clients.

Bank of East Asia (Trustees) Limited

Mandatory Provident Fund (MPF)

According to the Mercer MPF Index compiled by Mercer Investment Consulting, BEA was ranked No. 3 among all MPF providers, based on average return over the five-year period ended 31st March, 2008. BEA continues to monitor market trends and take proactive action to ensure that its MPF offerings remain highly competitive.

Trust Services

Bank of East Asia (Trustees) Limited was appointed the Hong Kong Representative for two additional overseas funds during the first half of this year. Lehman Brothers Asset Management (Ireland) Limited selected BEA as the Hong Kong Representative for the Lehman Brothers Alpha Fund plc, while Hamon Ireland Limited appointed BEA as the Hong Kong Representative for its Hamon Asian Funds.

Bank of East Asia (Trustees) Limited recorded a more than 50% growth in revenue from its private trust and unit trust businesses during the first half of 2008, compared with the same period last year.

WEALTH MANAGEMENT

Structured Products

The Bank successfully adjusted its structured product strategy in line with present market conditions, by embedding more protection features to counter the extremely volatile equity market conditions. The new strategy was well received and the overall transaction volume expanded by 34% year-on-year. The designated unit of the Bank recorded a profit growth of more than 40% in the first half of 2008.

Total product transaction volume on the Mainland grew more than threefold year-on-year, as the Bank anticipated the changing appetite of clients and introduced more short tenor Renminbi denominated principal protected products.

Furthermore, the structured product unit of the Bank expanded its role as a service unit for other operations and subsidiaries under the Group, including BEA China, by providing multi-class derivative hedging solutions to customers in a timely and competitive manner. The Bank has effectively enlarged its equity derivatives portfolio management operation by expanding its customer base for equity hedging solutions beyond the retail customer level and into local commercial banks.

Investment Fund Services

The Bank launched two BEA branded mutual funds in the first half of 2008, namely the BEA Global Resources Fund and the BEA Hong Kong Dollar Bond Fund. The former draws on interest in the surging demand for natural resources, while the latter offers investors a conservative investment choice in the current volatile market environment. Investment fund assets under the Bank's custody increased by more than 26% year-on-year.

In June, the Bank upgraded its versatile financial planning and fund investment system, Wealthplus, to offer clients a more flexible tool to manage their wealth with BEA. The enhancements included a portfolio growth monitoring engine, which keeps investors abreast of their returns without the need to exhaustively track every transaction detail.

BEA strengthened its fund offering on the Mainland by introducing eight new products based on the Qualified Domestic Institutional Investors ("QDII") platform (Jijinbao). Each product has distinct risk and return characteristics. **21st Century Business Herald named BEA's Jijinbao Series – BEA Hong Kong Growth Fund the "Best QDII Wealth Management Product" and the "Best Foreign Currency Wealth Management Product" for 2007.**

BEA Union Investment Management Limited ("BEA Union Investment")

BEA Union Investment continued to expand in Asian markets, with a focus on new mutual funds for retail investors, new mandates from top tier Asian institutional investors as well as new product ideas for MPF business. Growth of over 16% year-on-year was recorded in the first half of 2008.

To enhance brand recognition within Asia, representatives from BEA Union Investment have participated as speakers in several high-profile industry conferences in China, Hong Kong and Taiwan. Starting from June, BEA Union Investment has regularly provided market commentary on CNBC Asia. Furthermore, the company produces a newspaper column for Metro Daily.

BEA Union Investment has made a significant impact on the market in its first year of operation, recently winning four industry awards. In addition to the two awards from 21st Century Business Herald described above, in March BEA Union Investment won the “Best of the Best Performance Award in ASEAN Region (3 years)” and “Best MPF Manager (5 years) – Merit Award” given by Asia Asset Management.

Insurance Business

BEA Life Limited (“BEA Life”), a wholly-owned subsidiary of the Bank, commenced business in January 2008. BEA Life has been employing bancassurance strategies to develop the life insurance business of the Bank. It offers an extensive range of life insurance products and services, including whole life, endowment, annuity, retirement and term plans. The first BEA branded investment-linked insurance plan, “Capital Link Insurance”, was launched in February 2008. This has been followed by roll-out of additional new insurance plans, including “Savings Express Insurance” and “Critical Illness Insurance Series”. Following the launch of these products, the life insurance business of the Bank registered very strong growth. Premium income in the first half of 2008 has already exceeded that for all of 2007, as measured by the new business index.

The Bank has successfully expanded its sales channels. Premium income from life and general insurance generated through the Internet and via telemarketing increased by 72% and 32% year-on-year, respectively.

Blue Cross (Asia-Pacific) Insurance Limited (“Blue Cross”), the Bank’s general insurance arm, registered growth of 17% in premium income in the first half of 2008, aided by increases of 23% from medical insurance and 14% from travel insurance.

A new media exposure campaign, including title sponsorship of several TV programmes, was launched in May in order to enhance branding and reinforce Blue Cross’ professional image in medical insurance. **In June, Blue Cross received the “Capital Weekly Service Award 2008 – Medical Insurance” in recognition of its service excellence.**

Private Banking

BEA’s Private Banking business registered a 10% rise in assets under management during the period. Year-on-year gross income grew by 46%.

In line with strategic objectives, the Bank extended its private banking service to Mainland China in the second quarter, opening four centres in the cities of Beijing, Shanghai, Guangzhou and Shenzhen. This business expansion has enriched the Bank’s service platform for high net worth individuals in China, with teams on the Mainland and in Hong Kong working closely together to offer clients the most appropriate solutions for their wealth management objectives.

Given volatile market conditions, the private banking unit has advised clients to adopt a more conservative stand aimed at capital preservation. As a result, more emphasis has been placed on fixed income investments and establishing market neutral positions. Despite the current caution, BEA Private Banking remains optimistic about the long-term prospects of Asian economies, in particular, China. Clients are recommended to hold higher cash positions and accumulate quality equities slowly.

INVESTMENT BANKING AND SERVICES

East Asia Securities Company Limited – Securities Cybertrading

East Asia Securities is committed to using proven technology to improve and expand its brokerage service network. When compared with the corresponding period last year, the company registered a rise of 26% in the number of Cybertrading accounts. As of 30th June, 2008, more than 73% of the Company’s securities clients had subscribed to Cybertrading.

The volume of transactions executed via the Cybertrading platform, expressed as a percentage of total turnover, reached 62% of the number of trades and 18% of the gross transaction value over the period under review.

With the dramatic increase in the market turnover and trading volume conducted through Cybertrading, East Asia Securities further upgraded its Automated Phone Service capacity in the second quarter of 2008.

On 2nd June, 2008, East Asia Securities launched a new promotional campaign for share margin financing. The promotional campaign has been well received and attracted a significant number of new margin clients.

East Asia Futures Limited – Futures Cybertrading

East Asia Futures, the wholly-owned futures and option broking arm of the Bank, recorded steady growth in trading volume during the period, exceeding the volume recorded last year. The strong performance in the face of poor market sentiment follows the launch of the Futures Cybertrading Service during the first half of 2008.

In addition, East Asia Futures has instituted various incentive schemes to encourage clients to execute trades via its user-friendly electronic trading platform. The schemes have generated strong positive response from clients. Currently, the volume of transactions executed via the Futures Cybertrading System, expressed as a percentage of total turnover, accounts for some 67% of the number of trades and 55% of transaction value. As of 30th June, 2008, more than 72% of the company's clients have subscribed for the Futures Cybertrading Service.

East Asia Futures will implement additional hardware upgrades before the end of 2008 in order to maintain the reliability and improve the performance of its electronic trading system.

CHINA OPERATIONS

BEA China celebrated its first anniversary in April this year, and looked back on an exceptional year of strong growth.

BEA and BEA China operate one of the most extensive networks of any foreign banks on the Mainland, with service coverage extending to 19 cities. At present, BEA has 60 outlets on the Mainland. A total of 12 new outlets were added this year, including a branch in Tianjin and 11 sub-branches located at Shenzhen Longhua, Zhuhai Ningxi, Xi'an Hi-Tech District, Dalian Xing Hai Bay, Chengdu Yulin, Beijing Wangjing, Chongqing Jiangbei, Shanghai Lianyang, Shenyang Wu'ai, Guangzhou Bin Jiang Dong and Shenzhen Huaqiangbei.

BEA China further expanded its service coverage by significantly increasing the number of Automatic Teller Machines (ATMs) during the first half of 2008. The Bank now operates over 150 ATMs on the Mainland, up from 95 at the end of 2007. Furthermore, BEA China launched a series of Renminbi debit cards in May 2008, becoming the first foreign bank to launch Renminbi debit cards on the Mainland. Customers of BEA China can now use the debit cards to settle transactions at any China UnionPay-affiliated outlets and access their bank accounts and BEA banking services at any China UnionPay-affiliated ATM.

BEA China has launched private banking services in Beijing, Shanghai, Guangzhou and Shenzhen.

Macau's economy continued to grow in the first half of 2008. Macau Taipa Sub-branch was opened in March, bringing the total number of BEA outlets in Macau to four. The Bank also introduced its own ATMs to the Macau market for the first time in the first half of this year, establishing six ATMs by the end of June.

The Bank continues to operate two branches in Taiwan.

OVERSEAS OPERATIONS

Two new branches were added to the branch network of The Bank of East Asia (U.S.A.) N.A. ("BEA-USA") during the period, one at San Gabriel, Los Angeles County and one at South San Francisco. BEA-USA currently has a total of 12 outlets – three in New York, five in Los Angeles and four in San Francisco. Plans are under way to open three additional branches in California in the next 18 months.

In June 2008, BEA-USA relocated its branch in City of Industry to Hacienda Heights and renamed the branch as Hacienda Heights Branch. The new location enables BEA-USA to provide residents and businesses of this vibrant community with more convenient access to the Bank's full range of banking services.

As part of its strategic plan, the Bank's subsidiary in Canada, The Bank of East Asia (Canada), is conducting a feasibility study on opening a new branch in Calgary, Alberta.

In the United Kingdom, the Bank launched a new product – Mini Cash Individual Saving Account – in March 2008. A new Debit Card service will be offered for the first time in the second half of 2008. In addition, the Bank is carrying out a feasibility study on the launch of local Internet banking services. All these new initiatives aim at enlarging the customer base of the Bank in the United Kingdom.

Plans are also underway to implement a new treasury and core banking system for BEA Singapore Branch. Construction work for the new BEA Singapore Branch Building at 60 Robinson Road is on schedule. Construction of the new building will be completed in the third quarter of 2008, and the premises will be ready for occupation in the first quarter of 2009.

CORPORATE SERVICES

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

During the first six months of the year, Tricor has continued to achieve healthy growth in its gross revenue and made significant contribution to the BEA Group’s fee and commission income earnings. Despite the economic uncertainty, the demand for Tricor’s accounting, payroll outsourcing, corporate compliance and secretarial services has remained strong. In addition, the overseas operation, with its growing number of offices, has made an important contribution to Tricor’s total revenue. However, the depressed IPO activity in the capital markets in Hong Kong has had an adverse impact on Tricor’s revenue on IPO and share registration services. This, combined with increasing professional staff costs and overheads, has slightly diluted Tricor’s net profit margin during the first six months.

In early 2008, Tricor completed its acquisition of a major corporate services group in Malaysia, making Tricor Malaysia the leading corporate services practice in that country. March 2008 also saw the establishment of a Tricor office in the UK. Tricor now operates in 18 cities and employs some 1,380 professional and support staff, compared with a staff complement of 1,150 at the end of 2007.

HUMAN RESOURCES

Bank of East Asia Group employees at the end of June 2008:

Hong Kong	5,289
Other Greater China	4,138
Overseas	1,140
	<hr/>
Total	10,567

The Bank has developed and executed a series of strategies to attract, nurture and retain talent. In order to keep abreast of the best market practice in compensation and benefits, the Bank has invited an external consultant to perform a review of the Performance Reward System. Workflows and personnel administration are reviewed on a continuous basis to improve operational efficiency.

The Training and Development Department has further expanded the range of training options, launching customised training projects in areas such as team building and service improvement.

CORPORATE SOCIAL RESPONSIBILITY

BEA China donated RMB1 million to the Red Cross Society of China Headquarters for disaster relief, responding to the massive dislocation caused by the severe snowstorms in January and February.

In May, the BEA Group has launched a matching donation programme for the victims of the Sichuan Earthquake, matching any contribution made by its employees. As a result, the BEA Group made a corporate donation of RMB3 million to the Red Cross Society of China Headquarters and Red Cross Society of China Sichuan Branch.

BEA China is the main sponsor of the Chinese National Fencing Team in the Beijing Olympic Games, and is a strategic partner of the Chinese Fencing Association. BEA China wishes the team every success at the Games, and looks forward to the long-term development of the Country’s fencing talents based on the pursuit of excellence and respect for one’s opponent.

FUTURE PROSPECTS

In the first half of 2008, BEA maintained the growth momentum of its core business. The Bank sought out areas of strong demand growth, including wealth management and the Mainland China market as a whole. Looking forward, loan growth and new business opportunities will be challenging in the near term, as the business environment will be affected by the adverse impact of the sub-prime crisis on the United States and economies worldwide. Global inflation will pose a particular challenge. Nevertheless, the Mainland is expected to maintain its strong growth trend.

BEA will further intensify and strengthen its wealth management capability, including private banking, structured products, asset management, insurance and investment fund services, to better serve high-net-worth individuals. BEA will continue to optimise its cross-selling networks through leveraging the leading corporate services and share registration services of Tricor and the insurance businesses of Blue Cross and BEA Life. In parallel, the Bank will also continue to identify ROE accretive expansion opportunities through acquisitions and strategic alliances in Hong Kong, China and elsewhere.

To enhance and consolidate its leadership position on the Mainland, BEA will continue to widen product and service ranges proactively as well as establish new branches in strategic locations in order to capture emerging business opportunities. In other overseas locations, the Bank will further expand its services to better serve its target customers.

The Bank will continue to put emphasis on improving and augmenting operating productivity and efficiency. Major initiatives include branch network rationalisation, back office operation processes simplification, resources redistribution to improve cost-efficiency of operations. In addition, BEA will continue to put significant investment in information technology, risk management practices and corporate governance. Last but not least, BEA will raise its commitment to delivering ever better products and services in order to excel in the marketplace.

FINANCIAL RISK MANAGEMENT

The Group has adopted a strict risk management regime 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, interest rate risk, liquidity risk, strategic risk, operational 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 & Chief Executive; Executive Director & Deputy Chief Executive; General Manager & Head of Investment Banking Division; General Manager & Head of Strategic Planning & Control Division (concurrently Group Chief Financial Officer and Chief Compliance Officer); Head of Operations Support Division; and Chief Risk Officer; for the approval of the Board of Directors. An independent centralised risk management function is 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 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 Credit Committee. Risk, return and market conditions are considered when setting limits. Active limit monitoring is carried out.

The Credit Committee is responsible for all credit risk related issues of the Group. 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 identifies and manages credit risk through target market definitions, formulation of credit policies, credit approval process and monitoring of asset quality. In this connection, the Credit Committee is responsible for monitoring activities relating to credit risk, and there are established policies, procedures and rating systems to identify, measure, monitor and control credit risk. Moreover, guidelines for management of credit risk have been laid down in the Group's Credit Manual. These guidelines stipulate delegated lending authorities, credit extension criteria, credit monitoring process, internal rating structure, credit recovery and provisioning policy. They are reviewed and enhanced on an ongoing basis to cater for changes in the market, statutory requirements and best practice risk management processes.

(b) Market risk management

Market risk arises from all market risk sensitive financial instruments, including debt securities, foreign exchange contracts, equity and derivative instruments, and 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 interest rate trends.

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 derivatives instruments used by the Group are interest rate, foreign exchange and equity related contracts, in the form of both over-the-counter derivatives and exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to manage the risk of these and other trading positions.

(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 Department within the limits approved by the Board of Directors. The instruments used to manage interest rate risk include interest rate swaps and other derivatives.

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. 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 computed 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 Bank. 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 2008 1st-half			
	At 30th June HK\$'000	Maximum HK\$'000	Minimum HK\$'000	Mean HK\$'000
VaR for total trading activities	60,979	124,867	48,488	71,604
VaR for foreign exchange trading positions*	2,120	3,509	1,590	2,121
VaR for interest rate trading positions	111	1,050	84	321
VaR for equity trading positions	59,096	123,056	47,510	70,382
	Year 2007 1st-half			
	At 30th June HK\$'000	Maximum HK\$'000	Minimum HK\$'000	Mean HK\$'000
VaR for total trading activities	38,614	50,214	21,639	35,776
VaR for foreign exchange trading positions*	1,212	2,299	590	1,172
VaR for interest rate trading positions	363	885	83	255
VaR for equity trading positions	37,577	49,288	21,481	34,917

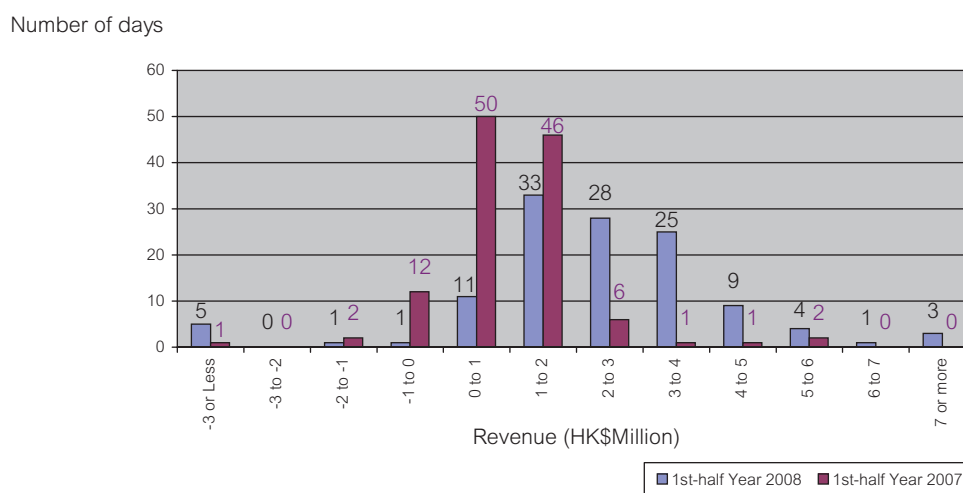
* Including all foreign exchange positions but excluding structured foreign exchange positions.

Foreign exchange and Interest rate risks related revenue statistics

The average daily revenue earned from foreign exchange and interest rate trading activities in the first six months of 2008 was HK\$1.94 million (HK\$0.93 million in the first six months of 2007).

The standard deviation of the daily revenues was HK\$5.43 million (HK\$1.14 million in 2007). The frequency distribution of daily revenue is shown below:

DAILY DISTRIBUTION OF FOREIGN EXCHANGE AND INTEREST RATE RISKS RELATED REVENUES – 1st-half Year 2008 vs 1st-half Year 2007



(c) Operational risk management

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

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

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

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

Furthermore, self-assessments have been performed by parties concerned within the Group to ensure compliance with the requirements of the HKMA Supervisory Policy Manual concerning Operational Risk Management and Banking (Capital) Rules (the "Capital Rules"). The result, which has been reviewed independently by the Internal Audit Department, was satisfactory.

(d) Liquidity risk management

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

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

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

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

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

(e) Interest rate risk management

The management of the Bank's interest rate risk is governed by the Interest Rate Risk Management Policy, endorsed by Risk Management Committee and approved by the Board of Directors. The Asset and Liability Management Committee is delegated by the Board of Directors to oversee the Bank's interest rate risk management, set the strategy and policy for managing interest rate risk and the means for ensuring that such strategy and policy are implemented. Interest rate risk is managed on a daily basis by the Treasury Department within the limits approved by the Board of Directors, with the activities of the Treasury Department monitored for compliance with the Interest Rate Risk Management Manual and Policy. The Internal Audit Department performs periodic reviews to make sure the interest rate risk management functions are carried out effectively.

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

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

Sensitivity analysis to interest rate changes of 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. This analysis is performed on monthly basis. Sensitivity limits are set to control the Bank's interest rate risk exposure under both earnings and economic value perspectives. The results are reported to the Asset and Liability Management Committee and the Board of Directors on a regular basis.

(f) Strategic risk management

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

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

(g) Legal risk and reputation risk management

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

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

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

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30th June, 2008, the interests and short positions of the Directors and Chief Executive of the Bank in the shares, underlying shares and debentures of the Bank and its associated corporations as recorded in the Register required to be kept under section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

I. Long positions in shares of the Bank

Name	Capacity and nature	No. of shares	Total	% of issued share capital
David LI Kwok-po	Beneficial owner	34,944,279	36,273,538 ¹	2.17
	Interest of spouse	1,329,259		
WONG Chung-hin	Beneficial owner	46,810	390,941 ²	0.02
	Interest of spouse	344,131		
LEE Shau-kee	Beneficial owner	647,985	1,647,985 ³	0.10
	Interest of corporation	1,000,000		
Allan WONG Chi-yun	Interest of spouse	124	11,166,290 ⁴	0.67
	Founder of discretionary trust	11,166,166		
Aubrey LI Kwok-sing	Beneficial owner	23,391	30,695,436 ⁵	1.84
	Interest of spouse	16,667		
	Beneficiary of discretionary trust	30,655,378		
Arthur LI Kwok-cheung	Beneficial owner	8,601,432	20,535,947 ⁶	1.23
	Founder of discretionary trust	11,934,515		
Joseph PANG Yuk-wing	Beneficial owner	1,500,000	1,500,000	0.09
William MONG Man-wai	Beneficial owner	1,205,648	6,698,309 ⁷	0.40
	Interest of corporation	5,492,661		
Winston LO Yau-lai	–	–	Nil	Nil
KHOO Kay-peng	Interest of corporation	1,034,847	1,034,847 ⁸	0.06
Thomas KWOK Ping-kwong	–	–	Nil	Nil
Richard LI Tzar-kai	–	–	Nil	Nil
TAN Man-kou	–	–	Nil	Nil
Kenneth LO Chin-ming	–	–	Nil	Nil
Eric LI Fook-chuen	Beneficial owner	2,312,201	28,833,106 ⁹	1.73
	Founder and beneficiary of discretionary trust	18,769,731		
	Interest of corporation	7,751,174		
Stephen Charles LI Kwok-sze	Beneficial owner	11,423,332	13,845,169 ¹⁰	0.83
	Interest of children	469,925		
	Beneficiary of discretionary trusts	1,951,912		
KUOK Khoon-ean	–	–	Nil	Nil
William DOO Wai-hoi	–	–	Nil	Nil

Notes:

- 1 *David LI Kwok-po was the beneficial owner of 34,944,279 shares and he was deemed to be interested in 1,329,259 shares through the interests of his spouse, Penny POON Kam-chui.*
- 2 *WONG Chung-hin was the beneficial owner of 46,810 shares and he was deemed to be interested in 344,131 shares through the interests of his spouse, LAM Mei-lin.*
- 3 *LEE Shau-kee was the beneficial owner of 647,985 shares.*

LEE Shau-kee was deemed to be interested in 1,000,000 shares held through Superfun Enterprises Limited ("Superfun"). Superfun was wholly owned by The Hong Kong and China Gas Company Limited which was 39.06% held by Henderson Land Development Company Limited ("Henderson Land").

Henderson Land was 53.01% 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.
- 4 *Allan WONG Chi-yun was deemed to be interested in 124 shares through the interests of his spouse, Margaret KWOK Chi-wai. He was also deemed to be interested in 11,166,166 shares held by a discretionary trust, The Wong Chung Man 1984 Trust, of which Allan WONG Chi-yun was a founder.*
- 5 *Aubrey LI Kwok-sing was the beneficial owner of 23,391 shares and he was deemed to be interested in 16,667 shares through the interests of his spouse, Elizabeth WOO. The remaining 30,655,378 shares were held by The Fook Wo Trust, a discretionary trust in which Aubrey LI Kwok-sing was one of the discretionary beneficiaries.*
- 6 *Arthur LI Kwok-cheung was the beneficial owner of 8,601,432 shares. Arthur LI Kwok-cheung made a voluntary disclosure of 11,934,515 shares held by a discretionary trust of which he is the founder but has no influence on how the trustee exercises his discretion.*
- 7 *William MONG Man-wai was the beneficial owner of 1,205,648 shares. Of the remaining 5,492,661 shares, (i) 4,752,798 shares were held through Shun Hing Electronic Trading Co. Ltd., (ii) 668,323 shares were held through Shun Hing Technology Co. Ltd., and (iii) 71,540 shares were held through Shun Hing Advertising Co. Ltd. Such corporations are accustomed to act in accordance with the directions or instructions of William MONG Man-wai who is the Chairman of these corporations.*
- 8 *KHOO Kay-peng was deemed to be interested in 1,034,847 shares which were held through Bonham Industries Limited, a company in which he held 99.9% of the issued capital.*
- 9 *Eric LI Fook-chuen was the beneficial owner of 2,312,201 shares, and 18,769,731 shares were held by New Jerico Limited in the capacity of trustee of The Jerico Unit Trust. Eric LI Fook-chuen is the sole director of New Jerico 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 7,751,174 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 11,423,332 shares, and he was deemed to be interested in 469,925 shares through the interests of his children under the age of 18. Of the remaining 1,951,912 shares, (i) 1,790,600 shares were held by a discretionary trust, Settlement of Dr. Simon F. S. Li, of which Stephen LI Kwok-sze, his spouse and his children under the age of 18 were beneficiaries and (ii) 161,312 shares were held by a discretionary trust, Longevity Trust, of which his children under the age of 18 were beneficiaries.*

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

Shares options, being unlisted physically settled equity derivatives, to subscribe for the ordinary shares of the Bank were granted to David LI Kwok-po and Joseph PANG Yuk-wing pursuant to the approved Staff Share Option Schemes. Information in relation to these shares options during the six months ended 30th June, 2008 was shown in the following section under the heading "Information on Share Options".

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

INFORMATION ON SHARE OPTIONS

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

(1) Movement of share options during the six months ended 30th June, 2008:

Name	Date of Grant ^a	Number of Share Options				Outstanding at 30/6/2008
		Outstanding at 1/1/2008	Granted	Exercised	Lapsed	
David LI Kwok-po	02/5/2003	1,000,000	–	1,000,000 ^c	–	Nil
	22/4/2004	1,000,000	–	–	–	1,000,000
	03/5/2005	1,000,000	–	–	–	1,000,000
	03/5/2006	1,000,000	–	–	–	1,000,000
	10/5/2007	1,000,000	–	–	–	1,000,000
	05/5/2008	–	2,000,000 ^b	–	–	2,000,000
Joseph PANG Yuk-wing	02/5/2003	500,000	–	500,000 ^c	–	Nil
	22/4/2004	500,000	–	–	–	500,000
	03/5/2005	500,000	–	–	–	500,000
	03/5/2006	500,000	–	–	–	500,000
	10/5/2007	500,000	–	–	–	500,000
	05/5/2008	–	1,000,000 ^b	–	–	1,000,000
Aggregate of other Employees*	02/5/2003	205,000	–	205,000 ^c	–	Nil
	22/4/2004	1,915,000	–	525,000 ^c	–	1,390,000
	03/5/2005	5,230,000	–	525,000 ^c	–	4,705,000
	03/5/2006	1,200,000	–	–	–	1,200,000
	10/5/2007	1,250,000	–	–	–	1,250,000
	05/5/2008	–	2,500,000 ^b	–	–	2,500,000
Other Participant**	02/5/2003	500,000	–	500,000 ^c	–	Nil
	22/4/2004	500,000	–	500,000 ^c	–	Nil
	03/5/2005	500,000	–	500,000 ^c	–	Nil
	03/5/2006	500,000	–	500,000 ^c	–	Nil

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

** Other Participant refers to a former Executive Director who retired and resigned as a Director of the Bank with effect from 1st May, 2007. The options granted to him prior to his retirement and resignation were exercised in full during the six months ended 30th June, 2008.

Notes:

a Particulars of share options:

<u>Date of Grant</u>	<u>Vesting Period</u>	<u>Exercise Period</u>	<u>Exercise Price Per Share HK\$</u>
02/5/2003	02/5/2003 – 01/5/2004	02/5/2004 – 02/5/2008	14.90
22/4/2004	22/4/2004 – 21/4/2005	22/4/2005 – 22/4/2009	23.23
03/5/2005	03/5/2005 – 02/5/2006	03/5/2006 – 03/5/2010	22.95
03/5/2006	03/5/2006 – 02/5/2007	03/5/2007 – 03/5/2011	33.05
10/5/2007	10/5/2007 – 09/5/2008	10/5/2008 – 10/5/2012	47.13
05/5/2008	05/5/2008 – 04/5/2009	05/5/2009 – 05/5/2013	44.10

b (i) The closing price of the shares of the Bank immediately before 5th May, 2008 on which the options were granted was HK\$44.35.

(ii) Fair value of share options granted during the six months ended 30th June, 2008 and assumptions:

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

	<u>30/06/2008</u>
Fair value at measurement date	HK\$15.27
Share price	HK\$44.10
Exercise price	HK\$44.10
Expected volatility (expressed as weighted average volatility used in the modelling under trinomial lattice model)	48.88%
Option life	5 years
Expected dividends	4.64%
Risk-free interest rate (based on Exchange Fund Notes)	2.48%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

c The half-year weighted average ("HWA") closing price of the shares of the Bank immediately before the date on which the Options were exercised during the six months ended 30th June, 2008:

<u>Date of Grant</u>	<u>No. of Options Exercised</u>	<u>Exercise Price Per Share HK\$</u>	<u>HWA Closing Price HK\$</u>
02/5/2003	2,205,000	14.90	42.32
22/4/2004	1,025,000	23.23	43.79
03/5/2005	1,025,000	22.95	42.75
03/5/2006	500,000	33.05	41.30

(2) No share options were cancelled during the six months ended 30th June, 2008.

(3) The accounting policy adopted for share options:

The option exercise price equals the fair value of the underlying shares at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received. The fair value of share options granted to employees is recognised as an expense in the profit and loss account with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the trinomial model, taking into account terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to those share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

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

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

Save as disclosed above, as at 30th June, 2008, 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, 2008, the interests and short positions of Substantial Shareholders and Other Persons of the Bank in the shares and underlying shares of the Bank as recorded in the Register required to be kept under section 336 of the SFO were as follows:

Long Position in shares of the Bank

<u>Name</u>	<u>Capacity and nature</u>	<u>No. of shares</u>	<u>% on issued share capital</u>
Negocio de Finanzas e Inversiones I, S.L.U.	Beneficial owner	151,063,572 ¹	9.04
Criteria CaixaCorp, S.A.	Interest of corporation	151,063,572 ¹	9.04
Caja de Ahorros y Pensiones de Barcelona	Interest of corporation	151,063,572 ¹	9.04

¹ *Caja de Ahorros y Pensiones de Barcelona was holding a 79.45% interest in Criteria CaixaCorp, S.A. which was the sole shareholder of Negocio de Finanzas e Inversiones I, S.L.U. Caja de Ahorros y Pensiones de Barcelona and Criteria CaixaCorp, S.A. were deemed to be interested in the 151,063,572 shares held by Negocio de Finanzas e Inversiones I, S.L.U.*

The Bank was notified that the shareholdings of the above three corporations were increased to 162,322,372 shares (equivalent to approximately 9.72% of the issued share capital of the Bank) as at 30th June, 2008. Such increases in shareholdings were not required to be disclosed under Part XV of 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, 2008.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES AND MODEL CODE

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, 2008, except for Code Provision A.2.1 as explained below.

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

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

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

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

Specific enquiries have been made on all Directors of the Bank including a retired Director and those who have become Directors during the six months ended 30th June, 2008. 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, 2008.

By order of the Board

David LI Kwok-po

Chairman & Chief Executive

Hong Kong, 5th August, 2008

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