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The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

INTERIM REPORT 2012

INTERIM RESULTS

The Directors of The Bank of East Asia, Limited ("BEA" or the "Bank") are pleased to announce the unaudited result^a of the Bank and its subsidiaries (the "Group") for the six months ended 30th June, 2012. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2011 audited accounts. The interim financial report is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 40.

1. Consolidated Income Statement

	6 months ended 30/6/2012	6 months ended 30/6/2011 Restated	6 months ended 31/12/2011 Restated
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	11,128	9,310	11,558
Interest expense	(6,507)	(4,910)	(6,695)
Net interest income	4,621	4,400	4,863
Fee and commission income	2,044	1,890	1,923
Fee and commission expense	(380)	(371)	(392)
Net fee and commission income	1,664	1,519	1,531
Net trading profits/(losses)	597	598	(423)
Net result from financial instruments designated at fair value through profit or loss	278	(179)	(175)
Net hedging loss	–	(3)	(2)
Other operating income	289	303	283
Non-interest income	2,828	2,238	1,214
Operating income	7,449	6,638	6,077
Operating expenses	(4,172)	(3,802)	(4,190)
Operating profit before impairment losses	3,277	2,836	1,887
(Charge for)/Write back of impairment losses on loans and advances	(125)	40	(115)
Write back of/(Charge for) impairment losses on held-to-maturity investments	11	(12)	1
Impairment losses on available-for-sale financial assets	(29)	(9)	(40)
Impairment losses	(143)	19	(154)
Operating profit after impairment losses	3,134	2,855	1,733
Net profit/(loss) on sale of available-for-sale financial assets	47	83	(24)
Net profit on sale of loans and receivables	35	3	–
Net profit on sale of subsidiaries/associates	5	15	107
Net profit on sale of fixed assets	136	132	8
Valuation gains on investment properties	222	285	119
Share of profits less losses of associates	238	202	233
Profit for the period before taxation	3,817	3,575	2,176
Income tax			
Current tax ^b			
– Hong Kong	(315)	(91)	(37)
– Outside Hong Kong	(355)	(524)	(331)
Deferred tax	(110)	(203)	(114)
Profit for the period after taxation	3,037	2,757	1,694

	6 months ended 30/6/2012	6 months ended 30/6/2011 Restated	6 months ended 31/12/2011 Restated
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Attributable to:			
Owners of the parent	2,988	2,711	1,647
Non-controlling interests	49	46	47
Profit after taxation	<u>3,037</u>	<u>2,757</u>	<u>1,694</u>
Profit for the Bank	<u>1,509</u>	<u>1,232</u>	<u>742</u>
Per share			
– Basic earnings ^c	HK\$1.35	HK\$1.24	HK\$0.72
– Diluted earnings ^c	HK\$1.35	HK\$1.24	HK\$0.72

2. Consolidated Statement of Comprehensive Income

	6 months ended 30/6/2012	6 months ended 30/6/2011	6 months ended 31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net profit	<u>3,037</u>	<u>2,757</u>	<u>1,694</u>
Other comprehensive income for the period (after taxation and reclassification adjustments):			
Premises:			
– unrealised surplus on revaluation of premises	–	4	12
– deferred taxes	–	2	1
– exchange differences	–	(4)	1
Available-for-sale investment revaluation reserve:			
– fair value changes recognised to/(from) equity	572	2	(328)
– fair value changes reclassified from/(to) income statement:			
– on impairment and amortisation	51	15	40
– on disposal	(61)	(36)	41
– deferred taxes	(91)	4	31
– exchange difference	7	(4)	4
Share of changes in equity of associates	4	(6)	13
Exchange differences on other reserves	(19)	37	45
Exchange differences on translation of:			
– accounts of overseas branches, subsidiaries and associates	(95)	313	139
Other comprehensive income	<u>368</u>	<u>327</u>	<u>(1)</u>
Total comprehensive income	<u>3,405</u>	<u>3,084</u>	<u>1,693</u>
Total comprehensive income attributable to:			
Owners of the parent	3,356	3,038	1,646
Non-controlling interests	49	46	47
	<u>3,405</u>	<u>3,084</u>	<u>1,693</u>

3. Consolidated Statement of Financial Position

	30/6/2012	30/6/2011 Restated	31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
ASSETS			
Cash and balances with banks and other financial institutions	53,100	55,910	71,761
Placements with banks and other financial institutions	70,189	78,181	62,057
Trade bills	40,530	38,023	36,823
Trading assets	8,495	7,963	5,600
Financial assets designated at fair value through profit or loss	14,890	17,168	16,663
Advances to customers and other accounts	362,383	337,286	347,950
Available-for-sale financial assets	62,134	38,229	44,910
Held-to-maturity investments	3,835	5,183	4,587
Investments in associates	4,010	3,771	3,820
Assets held for sale	5,477	–	–
Fixed assets	12,270	12,519	12,639
– Investment properties	2,795	2,890	2,940
– Other property and equipment	9,475	9,629	9,699
Goodwill and intangible assets	4,039	4,249	4,215
Deferred tax assets	135	460	377
Total Assets	641,487	598,942	611,402
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions	22,150	19,014	15,923
Deposits from customers	469,816	459,326	467,354
– Demand deposits and current accounts	54,384	52,734	56,896
– Savings deposit	78,689	80,155	77,452
– Time, call and notice deposits	336,743	326,437	333,006
Trading liabilities	2,891	3,327	4,548
Certificates of deposit issued	22,039	11,912	11,483
– At fair value through profit or loss	4,582	5,390	5,272
– At amortised cost	17,457	6,522	6,211
Current taxation	792	877	473
Debt securities issued	10,362	7,466	6,393
– At fair value through profit or loss	466	–	–
– At amortised cost	9,896	7,466	6,393
Deferred tax liabilities	576	458	461
Liabilities held for sale	4,509	–	–
Other accounts and provisions	39,470	32,645	35,982
Loan capital	13,996	12,969	16,741
– At fair value through profit or loss	–	3,733	3,178
– At amortised cost	13,996	9,236	13,563
Total Liabilities	586,601	547,994	559,358
Share capital	5,250	5,147	5,190
Reserves	45,150	41,366	42,426
Total equity attributable to owners of the parent	50,400	46,513	47,616
Non-controlling interests	4,486	4,435	4,428
Total Equity	54,886	50,948	52,044
Total Equity and Liabilities	641,487	598,942	611,402

4. Consolidated Statement of Changes in Equity

	Share capital	Share premium	Capital reserve – staff share options issued	Exchange revaluation reserve	Investment revaluation reserve	Revaluation reserve of bank premises	Capital reserve	General reserve	Other reserves	Retained profits	Total	Non-controlling interests	Total Equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1st January, 2012	5,190	12,037	140	2,390	27	1,032	86	13,744	2,202	10,768	47,616	4,428	52,044
Changes in equity													
Profit for the period	-	-	-	-	-	-	-	-	-	2,988	2,988	49	3,037
Other comprehensive income	-	-	-	(95)	478	-	-	-	(15)	-	368	-	368
Total comprehensive income	-	-	-	(95)	478	-	-	-	(15)	2,988	3,356	49	3,405
Shares issued in lieu of dividend	60	630	-	-	-	-	-	-	-	-	690	-	690
Shares issued under Staff Share Option Schemes	-	2	-	-	-	-	-	-	-	-	2	-	2
Equity settled share-based transaction	-	-	10	-	-	-	-	-	-	-	10	-	10
Transfer	-	1	(22)	-	-	(58)	48	58	312	(386)	(47)	47	-
Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	(1,223)	(1,223)	(34)	(1,257)
Reversal due to disposal of a subsidiary	-	-	-	-	-	-	(4)	-	-	-	(4)	-	(4)
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	(4)	(4)
At 30th June, 2012	5,250	12,670	128	2,295	505	974	130	13,802	2,499	12,147	50,400	4,486	54,886
At 1st January, 2011													
- As previously reported	5,105	9,331	165	1,938	258	1,023	86	15,453	2,043	8,841	44,243	4,400	48,643
- Reclassification from general reserve to share premium	-	2,181	-	-	-	-	-	(2,181)	-	-	-	-	-
- As restated	5,105	11,512	165	1,938	258	1,023	86	13,272	2,043	8,841	44,243	4,400	48,643
Changes in equity													
Profit for the period	-	-	-	-	-	-	-	-	-	2,711	2,711	46	2,757
Other comprehensive income	-	-	-	313	(19)	2	-	-	31	-	327	-	327
Total comprehensive income	-	-	-	313	(19)	2	-	-	31	2,711	3,038	46	3,084
Shares issued in lieu of dividend	34	407	-	-	-	-	-	-	-	-	441	-	441
Shares issued under Staff Share Option Schemes	8	83	-	-	-	-	-	-	-	-	91	-	91
Equity settled share-based transaction	-	-	11	-	-	-	-	-	-	-	11	-	11
Transfer	-	23	(44)	-	-	-	-	(6)	18	9	-	-	-
Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	(1,311)	(1,311)	(25)	(1,336)
Purchase of interests in businesses from non-controlling interests investors	-	-	-	-	-	-	-	-	-	-	-	7	7
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	7	7
At 30th June, 2011 as restated	5,147	12,025	132	2,251	239	1,025	86	13,266	2,092	10,250	46,513	4,435	50,948

5. Condensed Consolidated Cash Flow Statement

	6 months ended 30/6/2012	6 months ended 30/6/2011 Restated
	HK\$ Mn	HK\$ Mn
Cash used in operations	(14,773)	(1,933)
Tax paid	(347)	(370)
Net cash used in operating activities	(15,120)	(2,303)
Net cash generated from investing activities	336	425
Net cash generated from financing activities	10,289	7,396
Net (decrease)/increase in cash and cash equivalents	(4,495)	5,518
CASH AND CASH EQUIVALENTS AT 1st JANUARY	79,181	85,366
CASH AND CASH EQUIVALENTS AT 30th JUNE	74,686	90,884
Cash flows from operating activities included:		
Interest received	11,418	8,878
Interest paid	6,902	4,248
Dividend received	41	51

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, 2011 but, there is no material change in accounting policies as compared to those accounts for the six months ended 30th June, 2012. The statutory accounts for the year ended 31st December, 2011 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 14th February, 2012.
- (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, 2012. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.
- (c) (i) The calculation of basic earnings per share is based on earnings of HK\$2,824 million (six months ended 30th June, 2011: HK\$2,546 million) after the distribution of HK\$164 million (six months ended 30th June, 2011: HK\$165 million) to Hybrid Tier 1 issue holders and on the weighted average of 2,089 million (six months ended 30th June, 2011: 2,049 million) ordinary shares outstanding during the six months ended 30th June, 2012.
- (ii) The calculation of diluted earnings per share is based on earnings of HK\$2,824 million (six months ended 30th June, 2011: HK\$2,546 million) after the distribution of HK\$164 million (six months ended 30th June, 2011: HK\$165 million) to Hybrid Tier 1 issue holders and on 2,090 million (six months ended 30th June, 2011: 2,051 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2012, adjusted for the effects of all dilutive potential shares.

(d) Dividends

	6 months ended 30/6/2012 <u>HK\$ Mn</u>	6 months ended 30/6/2011 <u>HK\$ Mn</u>
Dividends payable to equity owners of the parent attributable to the interim period:		
Interim dividend declared and paid after the interim period of HK\$0.43 per share (six months ended 30th June, 2011: HK\$ 0.43 per share)	903	885
Final dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the balance sheet date and before the close of the Register of Members of the Bank, of HK\$0.56 per share	–	2
	<u>903</u>	<u>887</u>

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

6. Interest Income

	6 months ended 30/6/2012 <u>HK\$ Mn</u>	6 months ended 30/6/2011 <u>HK\$ Mn</u>	6 months ended 31/12/2011 <u>HK\$ Mn</u>
Listed securities classified as held-to-maturity or available-for-sale	197	197	191
Trading assets			
– listed	11	14	13
– unlisted	92	38	35
Interest rate swaps	808	1,405	1,922
Financial assets designated at fair value through profit or loss			
– listed	236	214	259
– unlisted	113	111	118
Loans, deposits with banks and financial institutions, trade bills, and other unlisted securities that are not at fair value through profit or loss	<u>9,671</u>	<u>7,331</u>	<u>9,020</u>
Total interest income	<u>11,128</u>	<u>9,310</u>	<u>11,558</u>

Included above is interest income accrued on impaired financial assets of HK\$41 million (six months ended 30th June, 2011: HK\$29 million, and six months ended 31st December, 2011: HK\$33 million).

7. Interest Expense

	6 months ended 30/6/2012	6 months ended 30/6/2011	6 months ended 31/12/2011
	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	3,392	2,474	3,270
Debt securities issued	170	119	90
Subordinated notes carried at amortised cost	353	166	207
Interest rate swaps	2,472	1,976	2,944
Financial instruments designated at fair value through profit or loss	105	171	170
Other borrowings	15	4	14
	<u>6,507</u>	<u>4,910</u>	<u>6,695</u>

8. Fee and Commission Income

Fee and commission income arises from the following services:

	6 months ended 30/6/2012	6 months ended 30/6/2011	6 months ended 31/12/2011
	HK\$ Mn	Restated HK\$ Mn	Restated HK\$ Mn
Corporate services	518	470	509
Credit cards	415	369	424
Loans, overdrafts and guarantees	273	233	269
Trade finance	191	221	188
Other retail banking services	177	151	122
Securities and brokerage	137	208	177
Trust and other fiduciary activities	66	60	62
Others	267	178	172
	<u>2,044</u>	<u>1,890</u>	<u>1,923</u>

of which:

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

	1,672	1,524	1,534
Fee income	2,044	1,890	1,923
Fee expenses	(372)	(366)	(389)

9. Net Trading Profits/(Losses)

	6 months ended 30/6/2012	6 months ended 30/6/2011	6 months ended 31/12/2011
	HK\$ Mn	Restated HK\$ Mn	Restated HK\$ Mn
Profit on dealing in foreign currencies	109	174	152
Profit/(Loss) on trading securities	107	6	(296)
Net gain/(loss) on derivatives	363	395	(296)
Dividend income from listed trading securities	18	23	17
	<u>597</u>	<u>598</u>	<u>(423)</u>

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

	6 months ended 30/6/2012	6 months ended 30/6/2011	6 months ended 31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Revaluation gain/(loss) on debts issued	5	(261)	103
Net loss on sale of other financial assets designated at fair value through profit or loss	(50)	(86)	(17)
Profit/(Loss) on redemption of subordinated notes issued	24	–	(4)
Revaluation gain/(loss) on other financial assets designated at fair value through profit or loss	299	168	(262)
Dividend income from financial assets designated at fair value through profit or loss	–	–	5
	<u>278</u>	<u>(179)</u>	<u>(175)</u>
Total net result from financial instruments designated at fair value through profit or loss			

11. Net Hedging Loss

	6 months ended 30/6/2012	6 months ended 30/6/2011	6 months ended 31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Fair value hedges			
– Net loss on hedged items attributable to the hedged risk	(159)	(76)	(477)
– Net gain on hedging instruments	159	73	475
	<u>–</u>	<u>(3)</u>	<u>(2)</u>

12. Other Operating Income

	6 months ended 30/6/2012	6 months ended 30/6/2011	6 months ended 31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Dividend income from available-for-sale financial assets			
– listed	4	23	13
– unlisted	19	5	48
Rental from safe deposit boxes	40	40	40
Net revenue from insurance activities	128	108	91
Rental income on properties	71	59	70
Others	27	68	21
	<u>289</u>	<u>303</u>	<u>283</u>
Total other operating income			

13. Operating Expenses

	6 months ended 30/6/2012	6 months ended 30/6/2011	6 months ended 31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Contributions to defined contribution plan	196	150	168
Equity-settled share-based payment expenses	10	11	10
Salaries and other staff costs	2,121	1,914	2,131
Total staff costs	2,327	2,075	2,309
Premises and equipment expenses excluding depreciation			
– Rental of premises	292	264	285
– Maintenance, repairs and others	277	257	292
Total premises and equipment expenses excluding depreciation	569	521	577
Depreciation on fixed assets	334	310	326
Amortisation of intangible assets	17	17	16
Other operating expenses			
– Stamp duty, overseas and PRC * business taxes, and value added taxes	291	231	260
– Communications, stationery and printing	154	144	155
– Legal and professional fees	108	115	136
– Advertising expenses	87	118	134
– Business promotions and business travel	76	62	96
– Card related expenses	43	30	39
– Insurance expenses	25	26	9
– Administration expenses of corporate services	8	5	9
– Bank charges	8	4	7
– Membership fees	6	6	6
– Donations	4	3	5
– Bank licence	2	2	2
– Others	113	133	104
Total other operating expenses	925	879	962
Total operating expenses	4,172	3,802	4,190

* PRC denotes the People's Republic of China.

14. Net Profit/(Loss) on Sale of Available-for-Sale Financial Assets

	6 months ended 30/6/2012	6 months ended 30/6/2011	6 months ended 31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net revaluation gain/(loss) transferred from reserves	61	36	(41)
(Loss)/Profit arising in the period	(14)	47	17
	47	83	(24)

15. Placements with Banks and Other Financial Institutions

	30/6/2012	30/6/2011 Restated	31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Placements with central banks	–	524	–
Placements with banks and authorised institutions	70,189	77,657	60,830
Placements with other financial institutions	–	–	1,227
	<u>70,189</u>	<u>78,181</u>	<u>62,057</u>
Maturing			
– within one month	27,176	55,723	18,440
– between one month and one year	43,013	22,458	43,617
	<u>70,189</u>	<u>78,181</u>	<u>62,057</u>

16. Trading Assets

	30/6/2012	30/6/2011	31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	664	35	–
Debt securities	3,768	4,219	1,317
Equity securities	981	1,518	1,051
Investment funds	16	18	17
	<u>5,429</u>	<u>5,790</u>	<u>2,385</u>
Trading securities	5,429	5,790	2,385
Positive fair value of derivatives	3,066	2,173	3,215
	<u>8,495</u>	<u>7,963</u>	<u>5,600</u>
Issued by:			
Central governments and central banks	669	806	551
Public sector entities	455	9	10
Banks and other financial institutions	1,254	1,017	374
Corporate entities	3,035	3,940	1,433
Other entities	16	18	17
	<u>5,429</u>	<u>5,790</u>	<u>2,385</u>
Analysed by place of listing:			
Listed in Hong Kong	760	1,527	854
Listed outside Hong Kong	602	925	717
	<u>1,362</u>	<u>2,452</u>	<u>1,571</u>
Unlisted	4,067	3,338	814
	<u>5,429</u>	<u>5,790</u>	<u>2,385</u>

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

	30/6/2012 HK\$ Mn	30/6/2011 HK\$ Mn	31/12/2011 HK\$ Mn
Debt securities	14,500	16,725	16,330
Equity securities	383	427	329
Investment funds	7	16	4
	<u>14,890</u>	<u>17,168</u>	<u>16,663</u>
Issued by:			
Central governments and central banks	452	534	452
Public sector entities	–	41	–
Banks and other financial institutions	7,089	8,514	8,036
Corporate entities	7,342	8,064	8,171
Other entities	7	15	4
	<u>14,890</u>	<u>17,168</u>	<u>16,663</u>
Analysed by place of listing:			
Listed in Hong Kong	3,317	4,035	3,689
Listed outside Hong Kong	6,669	7,779	7,572
	<u>9,986</u>	<u>11,814</u>	<u>11,261</u>
Unlisted	4,904	5,354	5,402
	<u>14,890</u>	<u>17,168</u>	<u>16,663</u>

18. Advances to Customers and Other Accounts

(a) Advances to customers and other accounts

	30/6/2012 HK\$ Mn	30/6/2011 Restated HK\$ Mn	31/12/2011 HK\$ Mn
(i) Advances to customers	330,721	312,491	321,890
Less: Impairment allowances			
– Individual	(208)	(244)	(205)
– Collective	(709)	(793)	(763)
	<u>329,804</u>	<u>311,454</u>	<u>320,922</u>
(ii) Other Accounts			
Advances to banks and other financial institutions	231	629	193
Less: Impairment allowances – Individual	(4)	(3)	(3)
	<u>227</u>	<u>626</u>	<u>190</u>
Notes and bonds	1	1	–
Certificates of deposit held	78	39	39
Accrued interest	2,846	2,638	3,136
Bankers acceptances	21,974	17,116	18,381
Other accounts	7,532	5,457	5,374
	<u>32,431</u>	<u>25,251</u>	<u>26,930</u>
Less: Impairment allowances			
– Individual	(75)	(41)	(88)
– Collective	(4)	(4)	(4)
	<u>32,352</u>	<u>25,206</u>	<u>26,838</u>
	<u>362,383</u>	<u>337,286</u>	<u>347,950</u>

(b) Advances to customers – by industry sectors

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

	30/6/2012		30/6/2011		31/12/2011	
	Gross advances HK\$ Mn	% of secured advances %	Gross advances HK\$ Mn	% of secured advances %	Gross advances HK\$ Mn	% of secured advances %
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	10,966	67.09	9,936	68.81	10,946	69.03
– Property investment	41,458	89.72	42,384	89.42	41,747	89.63
– Financial concerns	9,114	83.68	9,585	78.94	9,430	78.35
– Stockbrokers	413	79.42	912	38.47	422	85.95
– Wholesale and retail trade	9,817	34.38	6,869	35.36	7,790	33.58
– Manufacturing	6,077	38.98	4,831	39.07	5,392	42.40
– Transport and transport equipment	4,957	72.50	4,542	75.43	4,642	76.38
– Recreational activities	258	41.22	204	28.56	272	26.60
– Information technology	1,489	34.74	583	58.36	589	60.57
– Others	6,598	48.93	5,860	50.34	5,758	44.02
– Sub-total	91,147	72.08	85,706	74.38	86,988	73.73
Individuals						
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,267	100.00	1,497	100.00	1,379	100.00
– Loans for the purchase of other residential properties	26,199	99.98	28,484	99.99	27,246	99.97
– Credit card advances	3,290	0.00	3,042	0.00	3,649	0.00
– Others	14,486	76.29	13,286	77.56	14,457	70.71
– Sub-total	45,242	85.12	46,309	86.99	46,731	83.11
Total loans for use in Hong Kong	136,389	76.41	132,015	78.80	133,719	77.01
Trade finance	8,218	47.58	7,928	41.48	9,707	51.23
Loans for use outside Hong Kong *	186,114	68.74	172,548	75.16	178,464	71.37
Total advances to customers	330,721	71.38	312,491	75.84	321,890	73.10

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

	30/6/2012		30/6/2011		31/12/2011	
	Gross advances HK\$ Mn	% of secured advances %	Gross advances HK\$ Mn	% of secured advances %	Gross advances HK\$ Mn	% of secured advances %
Property development	24,283	49.13	26,848	55.88	26,038	50.83
Property investment	26,624	94.59	23,930	92.36	23,123	92.69
Wholesale and retail trade	28,206	75.62	21,681	88.99	24,619	81.17
Manufacturing	11,868	56.44	10,119	59.58	11,352	61.57
Others	54,262	62.38	48,856	75.27	52,711	68.02
	145,243	68.16	131,434	75.48	137,843	70.73

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:

	30/6/2012	30/6/2011	31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
(i) Property development			
a. Individually impaired loans	201	361	274
b. Individual impairment allowance	22	44	39
c. Collective impairment allowance	55	65	61
d. Provision charged to income statement			
– individual impairment loss	6	4	11
– collective impairment loss	7	13	16
e. Written off	7	–	7
(ii) Property investment			
a. Individually impaired loans	209	469	388
b. Individual impairment allowance	20	73	35
c. Collective impairment allowance	179	248	226
d. Provision charged to income statement			
– individual impairment loss	5	19	29
– collective impairment loss	31	47	87
e. Written off	3	7	18
(iii) Loans for purchase of residential properties			
a. Individually impaired loans	94	104	238
b. Individual impairment allowance	2	–	–
c. Collective impairment allowance	53	60	56
d. Provision charged to income statement			
– individual impairment loss	4	1	1
– collective impairment loss	3	17	20
e. Written off	–	1	1
(iv) Wholesale and retail trade			
a. Individually impaired loans	269	119	170
b. Individual impairment allowance	66	57	73
c. Collective impairment allowance	93	83	89
d. Provision charged to income statement			
– individual impairment loss	90	13	63
– collective impairment loss	18	20	30
e. Written off	47	5	30

(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.

	30/6/2012				
	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	150,497	186	457	126	242
People's Republic of China	144,957	176	315	6	221
Other Asian Countries	16,636	37	75	45	122
Others	18,631	87	382	31	124
Total	<u>330,721</u>	<u>486</u>	<u>1,229</u>	<u>208</u>	<u>709</u>
% of total advances to customers			<u>0.37%</u>		
Market value of security held against impaired advances to customers			<u>2,966</u>		

	30/6/2011				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	151,371	189	342	73	272
People's Republic of China	126,002	31	201	28	188
Other Asian Countries	13,858	47	52	30	135
Others	21,260	100	803	113	198
Total	<u>312,491</u>	<u>367</u>	<u>1,398</u>	<u>244</u>	<u>793</u>
% of total advances to customers			<u>0.45%</u>		
Market value of security held against impaired advances to customers			<u>3,035</u>		

31/12/2011

	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	149,309	179	558	66	254
People's Republic of China	136,366	21	216	24	204
Other Asian Countries	15,625	20	33	24	131
Others	20,590	31	668	91	174
Total	321,890	251	1,475	205	763
% of total advances to customers			0.46%		
Market value of security held against impaired advances to customers			3,267		

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.

19. Available-for-Sale Financial Assets

	30/6/2012 HK\$ Mn	30/6/2011 HK\$ Mn	31/12/2011 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	23,428	6,421	14,106
Certificates of deposit held	2,863	3,592	3,120
Debt securities	33,716	25,824	25,671
Equity securities	2,021	2,090	1,910
Investment funds	106	302	103
	62,134	38,229	44,910
Issued by:			
Central governments and central banks	25,352	10,794	17,751
Public sector entities	2,053	6	1,917
Banks and other financial institutions	18,216	15,683	14,202
Corporate entities	16,369	11,401	10,900
Other entities	144	345	140
	62,134	38,229	44,910
Analysed by place of listing:			
Listed in Hong Kong	4,207	2,115	1,761
Listed outside Hong Kong	9,030	7,014	6,284
	13,237	9,129	8,045
Unlisted	48,897	29,100	36,865
	62,134	38,229	44,910

20. Held-to-Maturity Investments

	30/6/2012 HK\$ Mn	30/6/2011 HK\$ Mn	31/12/2011 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	440	171	445
Certificates of deposit held	1,021	1,226	1,165
Debt securities	2,374	3,797	2,988
	<u>3,835</u>	<u>5,194</u>	<u>4,598</u>
Less: Impairment allowances	–	(11)	(11)
	<u>3,835</u>	<u>5,183</u>	<u>4,587</u>
Issued by:			
Central governments and central banks	1,303	1,751	1,372
Public sector entities	292	425	428
Banks and other financial institutions	1,493	2,420	2,335
Corporate entities	747	587	452
	<u>3,835</u>	<u>5,183</u>	<u>4,587</u>
Analysed by place of listing:			
Listed in Hong Kong	374	794	289
Listed outside Hong Kong	1,727	2,292	2,192
	<u>2,101</u>	<u>3,086</u>	<u>2,481</u>
Unlisted	1,734	2,097	2,106
	<u>3,835</u>	<u>5,183</u>	<u>4,587</u>
Fair value:			
Listed securities	2,173	3,190	2,549
Unlisted securities	1,734	2,110	2,109
	<u>3,907</u>	<u>5,300</u>	<u>4,658</u>

21. Disposal Group Held For Sale

A subsidiary of the Group is presented as a disposal group held for sale following the commitment on 21st January, 2011, to a plan to sell a subsidiary. The sale was concluded on 6th July, 2012.

At 30th June, 2012, the disposal group comprised the following assets and liabilities.

Assets classified as held for sale

	HK\$ Mn
Cash and balances with banks and other financial institutions	429
Placements with banks and other financial institutions	256
Advances to customers and other accounts	4,344
Available-for-sale financial assets	43
Held-to-maturity investments	45
Fixed assets	39
Goodwill and intangible assets	167
Deferred tax assets	154
	<u>5,477</u>

Liabilities classified as held for sale

Deposits and balances of banks and other financial institutions	41
Deposits from customers	4,279
Trading liabilities	114
Other accounts and provisions	75
	<u>4,509</u>

22. Fixed Assets

30/6/2012					
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, 2012	2,940	8,991	4,563	13,554	16,494
Additions	2	4	173	177	179
Revaluation surplus	222	–	–	–	222
Transfer to assets held for sale	–	–	(116)	(116)	(116)
Redevelopment cost	10	13	–	13	23
Disposals	(375)	–	(36)	(36)	(411)
Exchange adjustments	(4)	(34)	(14)	(48)	(52)
At 30th June, 2012	2,795	8,974	4,570	13,544	16,339
Accumulated depreciation and amortisation					
At 1st January, 2012	–	1,012	2,843	3,855	3,855
Charge for the period	–	85	249	334	334
Transfer to assets held for sale	–	–	(77)	(77)	(77)
Written back on disposal	–	(1)	(29)	(30)	(30)
Exchange adjustments	–	(5)	(8)	(13)	(13)
At 30th June, 2012	–	1,091	2,978	4,069	4,069
Net book value at 30th June, 2012	2,795	7,883	1,592	9,475	12,270
Net book value at 30th June, 2011	2,890	7,990	1,639	9,629	12,519
Net book value at 31st December, 2011	2,940	7,979	1,720	9,699	12,639
The gross amounts of the above assets are stated:					
At cost	–	8,162	4,570	12,732	12,732
At Directors' valuation – 1989	–	812	–	812	812
At professional valuation – 2012	2,795	–	–	–	2,795
	2,795	8,974	4,570	13,544	16,339

23. Trading Liabilities

	30/6/2012	30/6/2011	31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Exchange fund bills sold	7	32	–
Shares sold	14	3	10
Negative fair value of derivatives	2,870	3,292	4,538
	<u>2,891</u>	<u>3,327</u>	<u>4,548</u>

24. Other Accounts and Provisions

	30/6/2012	30/6/2011	31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Accrued interest payable	3,502	2,672	3,897
Acceptance draft payable	21,974	17,116	18,381
Other accounts	13,994	12,857	13,704
	<u>39,470</u>	<u>32,645</u>	<u>35,982</u>

25. Loan Capital

	30/6/2012	30/6/2011	31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
GBP300 million (31/12/2011: GBP262 million) step-up perpetual subordinated notes, measured at fair value through profit or loss	–	3,733	3,178
USD600 million floating rate step-up subordinated notes, measured at amortised cost	–	4,667	4,659
USD600 million subordinated notes, measured at amortised cost	5,140	4,569	5,031
USD500 million subordinated notes, (under the Euro Medium Term Note Programme), measured at amortised cost	3,925	–	3,873
SGD800 million subordinated notes, (under the Euro Medium Term Note Programme), measured at amortised cost	4,931	–	–
	<u>13,996</u>	<u>12,969</u>	<u>16,741</u>

Two tranches of loan capital of face value totalling HK\$4,654 million (USD600 million) and carrying amount totalling HK\$5,140 million (30/6/2011: HK\$4,569 million and 31/12/2011: HK\$5,031 million) were issued on 16th July, 2010 (USD450 million) and on 23rd July, 2010 (USD150 million) by the Bank. These subordinated notes carrying a coupon rate of 6.125% qualifying as supplementary capital are listed on the Singapore Stock Exchange and will mature on 16th July, 2020. Hedge ineffectiveness of HK\$3 million loss in the first half of 2012 was recorded under fair value hedge accounting.

Loan capital of face value of HK\$3,879 million (USD500 million) and carrying amount of HK\$3,925 million (31/12/2011: HK\$3,873 million) represents 6.375% subordinated notes (under the Euro Medium Term Note Programme) qualifying as supplementary capital issued on 4th November, 2011 by the Bank. The notes are listed on the Singapore Stock Exchange and will mature on 4th May, 2022. Hedge ineffectiveness of HK\$4 million loss in the first half of 2012 was recorded under the fair value hedge accounting for the USD400 million subordinated notes. The fair value as of 30th June, 2012 for the USD100 million subordinated notes was HK\$837 million (USD108 million).

Loan capital of face value of HK\$4,905 million (SGD800 million) and carrying amount of HK\$4,931 million represents two tranches of 4.25% subordinated notes (under the Euro Medium Term Note Programme) qualifying as supplementary capital issued on 13th March, 2012 (SGD600 million) and on 27th April, 2012 (SGD200 million) by the Bank. The notes are listed on the Singapore Stock Exchange and will mature on 13th September, 2022. Hedge ineffectiveness of approximately HK\$1 million profit in the first half of 2012 was recorded under the fair value hedge accounting.

On 21st March, 2012, the Bank redeemed HK\$3,193 million (GBP262 million) face value of the 6.125% step-up perpetual subordinated notes qualifying as supplementary capital which were issued on 20th March, 2007 by the Bank.

On 22nd June, 2012, the Bank redeemed HK\$4,654 million (USD600 million) face value floating rate step-up subordinated notes qualifying as supplementary capital which were issued on 21st June, 2007 by the Bank.

26. Segment Reporting

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

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

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

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

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

Financial institutions, which includes trade financing activities with correspondent banks in Hong Kong.

Other Hong Kong banking operations, which include insurance business, trust business, securities & futures broking and money lender activities in Hong Kong.

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

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

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

Other businesses include property-related business, supporting units of Hong Kong operations, investment properties, bank premises, the net results of associates and other subsidiaries in Hong Kong except for those subsidiaries which are included in other Hong Kong banking operations.

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

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

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

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

	6 months ended 30/6/2012									Total reportable segments HK\$ Mn	Inter-segment elimination		Total HK\$ Mn
	Hong Kong banking operations										Others HK\$ Mn	Inter-segment elimination HK\$ Mn	
	Personal banking HK\$ Mn	Corporate banking HK\$ Mn	Treasury markets HK\$ Mn	Wealth management HK\$ Mn	Financial institutions HK\$ Mn	Others HK\$ Mn	China operations HK\$ Mn	Overseas operations HK\$ Mn	Corporate services HK\$ Mn				
Net interest income/(expense)	941	975	(638)	161	114	84	2,482	496	2	4,617	3	1	4,621
Non-interest income/(expense)	294	299	439	156	8	257	496	160	522	2,631	379	(182)	2,828
Operating income/(expense)	1,235	1,274	(199)	317	122	341	2,978	656	524	7,248	382	(181)	7,449
Operating expenses	(678)	(87)	(58)	(74)	(6)	(242)	(1,676)	(300)	(357)	(3,478)	(875)	181	(4,172)
Operating profit/(loss) before impairment losses	557	1,187	(257)	243	116	99	1,302	356	167	3,770	(493)	-	3,277
(Charge for)/write back of impairment losses on loans and advance and other accounts	(43)	(45)	60	9	-	-	(86)	27	(4)	(82)	(43)	-	(125)
(Charge for)/write back of impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	(28)	-	-	-	-	10	-	(18)	-	-	(18)
Operating profit/(loss) after impairment losses	514	1,142	(225)	252	116	99	1,216	393	163	3,670	(536)	-	3,134
Profit/(Loss) on sale of fixed assets, available-for-sale financial assets and loans and receivables	(2)	-	41	-	-	5	-	1	-	45	173	-	218
Profit on sale of subsidiaries/associates	-	-	-	-	-	-	-	-	-	-	5	-	5
Valuation gains on investment properties	-	-	-	-	-	-	50	13	-	63	159	-	222
Share of profits less losses of associates	-	-	-	-	-	-	-	-	-	-	238	-	238
Profit/(Loss) before taxation	512	1,142	(184)	252	116	104	1,266	407	163	3,778	39	-	3,817
Depreciation for the period	(35)	(1)	(3)	(1)	-	(8)	(178)	(13)	(10)	(249)	(85)	-	(334)
Segment assets	45,014	132,072	122,007	20,184	10,242	12,008	292,551	65,536	2,999	702,613	11,538	(76,674)	637,477
Investments in associates	-	-	-	-	-	-	-	-	-	-	4,010	-	4,010
Total assets	45,014	132,072	122,007	20,184	10,242	12,008	292,551	65,536	2,999	702,613	15,548	(76,674)	641,487
Total liabilities	246,718	1,469	53,515	17,134	-	9,100	269,920	56,399	825	655,080	1,884	(70,363)	586,601

6 months ended 30/6/2011 (Restated)

	Hong Kong banking operations									Total reportable segments	Inter-segment elimination		
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	China operations	Overseas operations	Corporate services		Others	Inter-segment elimination	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn		HK\$ Mn	HK\$ Mn	HK\$ Mn
Net interest income/(expense)	922	939	(253)	138	36	43	2,270	406	1	4,502	(102)	-	4,400
Non-interest income/(expense)	322	277	27	151	7	306	433	152	471	2,146	240	(148)	2,238
Operating income/(expense)	1,244	1,216	(226)	289	43	349	2,703	558	472	6,648	138	(148)	6,638
Operating expenses	(637)	(80)	(47)	(75)	(6)	(229)	(1,502)	(280)	(314)	(3,170)	(780)	148	(3,802)
Operating profit/(loss) before impairment losses	607	1,136	(273)	214	37	120	1,201	278	158	3,478	(642)	-	2,836
(Charge for)/write back of impairment losses on loans and advance and other accounts	(32)	28	4	5	-	(2)	(59)	103	(3)	44	(4)	-	40
Impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	-	-	-	(9)	-	(12)	-	(21)	-	-	(21)
Operating profit/(loss) after impairment losses	575	1,164	(269)	219	37	109	1,142	369	155	3,501	(646)	-	2,855
Profit/(Loss) on sale of fixed assets, available-for-sale financial assets and loans and receivables	(1)	-	37	-	-	66	115	3	(1)	219	(1)	-	218
Profit on sale of subsidiaries/associates	-	-	-	-	-	-	-	15	-	15	-	-	15
Valuation gains on investment properties	-	-	-	-	-	-	20	(1)	-	19	266	-	285
Share of profits less losses of associates	-	-	-	-	-	-	-	-	-	-	202	-	202
Profit/(Loss) before taxation	574	1,164	(232)	219	37	175	1,277	386	154	3,754	(179)	-	3,575
Depreciation for the period	(34)	(1)	(2)	(1)	(1)	(10)	(156)	(14)	(9)	(228)	(82)	-	(310)
Segment assets	46,683	125,896	126,658	18,248	5,003	11,030	273,230	54,231	2,995	663,974	12,582	(81,385)	595,171
Investments in associates	-	-	-	-	-	-	-	-	-	-	3,771	-	3,771
Total assets	46,683	125,896	126,658	18,248	5,003	11,030	273,230	54,231	2,995	663,974	16,353	(81,385)	598,942
Total liabilities	253,070	1,653	39,564	20,037	-	8,098	252,880	45,266	837	621,405	2,044	(75,455)	547,994

27. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2012							
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	22,284	233	15	6	–	–	30,562	53,100
Placements with banks and other financial institutions	359	26,817	18,765	24,248	–	–	–	70,189
Trade bills	–	4,586	11,071	24,872	–	–	1	40,530
Trading assets	–	–	1,090	1,515	1,622	205	4,063	8,495
Financial assets designated at fair value through profit or loss	–	–	156	1,408	10,581	2,355	390	14,890
Advances to customers and other accounts	5,599	38,713	35,894	80,922	122,544	72,729	5,982	362,383
Available-for-sale financial assets	–	12,006	9,873	6,738	27,136	4,254	2,127	62,134
Held-to-maturity investments	–	931	187	963	1,685	69	–	3,835
Assets held for sale	–	5,477	–	–	–	–	–	5,477
Undated assets	–	–	–	–	–	–	20,454	20,454
Total assets	28,242	88,763	77,051	140,672	163,568	79,612	63,579	641,487
Liabilities								
Deposits and balances of banks and other financial institutions	1,549	9,838	4,886	5,653	224	–	–	22,150
Deposits from customers	134,350	125,634	110,610	86,887	12,298	37	–	469,816
– Demand deposits and current accounts	54,384	–	–	–	–	–	–	54,384
– Savings deposit	78,689	–	–	–	–	–	–	78,689
– Time, call and notice deposits	1,277	125,634	110,610	86,887	12,298	37	–	336,743
Trading liabilities	–	–	7	–	–	–	2,884	2,891
Certificates of deposit issued	–	2,105	3,545	12,708	3,681	–	–	22,039
Current taxation	–	–	–	792	–	–	–	792
Liabilities held for sale	–	4,509	–	–	–	–	–	4,509
Debt securities issued	–	–	1,952	3,536	4,874	–	–	10,362
Loan capital	–	–	–	–	3,925	10,071	–	13,996
Other liabilities	1,175	4,413	9,405	12,228	4,479	1,906	6,440	40,046
Total liabilities	137,074	146,499	130,405	121,804	29,481	12,014	9,324	586,601
Net gap	(108,832)	(57,736)	(53,354)	18,868	134,087	67,598		

31/12/2011

	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	40,392	210	43	125	–	–	30,991	71,761
Placements with banks and other financial institutions	1,027	17,413	14,569	29,048	–	–	–	62,057
Trade bills	55	5,459	11,471	19,833	–	–	5	36,823
Trading assets	–	–	–	572	683	62	4,283	5,600
Financial assets designated at fair value through profit or loss	–	–	648	826	12,119	2,737	333	16,663
Advances to customers and other accounts	5,466	33,888	35,816	76,810	117,738	73,072	5,160	347,950
Available-for-sale financial assets	107	3,382	7,990	7,950	20,149	3,319	2,013	44,910
Held-to-maturity investments	–	1,088	339	1,307	1,622	231	–	4,587
Undated assets	–	–	–	–	–	–	21,051	21,051
Total assets	47,047	61,440	70,876	136,471	152,311	79,421	63,836	611,402
Liabilities								
Deposits and balances of banks and other financial institutions	711	4,688	1,425	8,485	423	–	191	15,923
Deposits from customers	135,783	137,548	101,956	76,692	15,375	–	–	467,354
– Demand deposits and current accounts	56,896	–	–	–	–	–	–	56,896
– Savings deposit	77,452	–	–	–	–	–	–	77,452
– Time, call and notice deposits	1,435	137,548	101,956	76,692	15,375	–	–	333,006
Trading liabilities	–	–	–	–	–	–	4,548	4,548
Certificates of deposit issued	–	1,110	1,658	5,386	3,329	–	–	11,483
Current taxation	–	–	–	473	–	–	–	473
Debt securities issued	–	–	–	241	6,152	–	–	6,393
Loan capital	–	–	3,178	4,659	–	8,904	–	16,741
Other liabilities	1,926	4,775	7,036	9,820	312	1	12,573	36,443
Total liabilities	138,420	148,121	115,253	105,756	25,591	8,905	17,312	559,358
Net gap	(91,373)	(86,681)	(44,377)	30,715	126,720	70,516		

28. Deferred Tax Assets and Liabilities Recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the period are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation	Revaluation of properties	Impairment losses on financial assets	Revaluation of available for-sale securities	Tax losses	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1st January, 2012	366	150	(94)	(57)	(25)	(256)	84
(Credited)/Charged to consolidated income statement	(5)	12	40	-	14	49	110
Charged to reserves	-	-	-	91	-	-	91
Transfer to assets held for sale	-	-	21	-	-	133	154
Exchange and other adjustments	(1)	-	-	-	-	3	2
At 30th June, 2012	<u>360</u>	<u>162</u>	<u>(33)</u>	<u>34</u>	<u>(11)</u>	<u>(71)</u>	<u>441</u>
Balance as at 30th June, 2011	<u>316</u>	<u>142</u>	<u>(179)</u>	<u>(24)</u>	<u>(99)</u>	<u>(158)</u>	<u>(2)</u>
Balance as at 31st December, 2011	<u>366</u>	<u>150</u>	<u>(94)</u>	<u>(57)</u>	<u>(25)</u>	<u>(256)</u>	<u>84</u>

29. Reserves

	30/6/2012	30/6/2011 Restated	31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Share premium	12,670	12,025	12,037
General reserve	13,802	13,266	13,744
Revaluation reserve on bank premises	974	1,025	1,032
Investment revaluation reserve	505	239	27
Exchange revaluation reserve	2,295	2,251	2,390
Other reserves	2,757	2,310	2,428
Retained profits*	12,147	10,250	10,768
Total	<u>45,150</u>	<u>41,366</u>	<u>42,426</u>
Proposed dividends, not provided for	<u>903</u>	<u>885</u>	<u>1,059</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, 2012, HK\$4,252 million (31st December, 2011: HK\$4,065 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.

30. Consolidated Cash Flow Statement

(a) Purchase of subsidiaries

	30/6/2012	30/6/2011
	HK\$ Mn	HK\$ Mn
Net assets acquired		
Cash and balances with banks and other financial institutions	–	15
Advances and other accounts less provisions	–	18
Fixed assets	–	1
Current taxation	–	(3)
Other accounts and provisions	–	(10)
	–	21
Goodwill arising on consolidation	9	63
	9	84
Total purchase price	9	84
Less: Cash and cash equivalents acquired	–	(15)
	9	69
Cash flow on acquisition net of cash acquired	9	69

(b) Disposal of subsidiary

	30/6/2012	30/6/2011
	HK\$ Mn	HK\$ Mn
Cash and balances with banks and other financial institutions	2	–
Advances and other accounts less provisions	10	–
Goodwill	7	–
Other accounts and provisions	(6)	–
	13	–
Add: Gain on disposal	–	–
Less: Cash and cash equivalents disposed	(2)	–
	11	–
Cash flow on disposal of subsidiary	11	–

(c) **Cash and cash equivalents**

	30/6/2012	30/6/2011
	HK\$ Mn	Restated HK\$ Mn
(i) Components of cash and cash equivalents in the consolidated cash flow statement		
Cash and balances with banks and other financial institutions	23,890	30,096
Placements with banks and other financial institutions with original maturity within three months	31,637	57,748
Treasury bills with original maturity within three months	18,222	1,798
Certificates of deposit held with original maturity within three months	937	1,015
Debt securities with original maturity within three months	–	227
	<u>74,686</u>	<u>90,884</u>
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks and other financial institutions	53,100	55,910
Placements with banks and other financial institutions	70,189	78,181
Treasury bills, certificates of deposit held and debt securities		
– trading assets	4,432	4,254
– designated at fair value through profit or loss	14,500	16,725
– advances and other accounts	79	40
– available-for-sale	60,007	35,837
– held-to-maturity	3,835	5,183
	<u>82,853</u>	<u>62,039</u>
Amount shown in the consolidated statement of financial position	206,142	196,130
Less: Amounts with an original maturity of beyond three months	(102,246)	(79,432)
Cash balance with central bank subject to regulatory restriction	(29,210)	(25,814)
	<u>74,686</u>	<u>90,884</u>
Cash and cash equivalents in the consolidated cash flow statement	<u>74,686</u>	<u>90,884</u>

31. Off-balance Sheet Exposures

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

	30/6/2012	31/12/2011
	HK\$ Mn	Restated HK\$ Mn
Contractual amounts of contingent liabilities and commitments		
Direct credit substitutes	9,747	10,456
Transaction-related contingencies	1,567	1,159
Trade-related contingencies	1,887	2,321
Commitments that are unconditionally cancellable without prior notice	44,979	41,114
Other commitments with an original maturity – up to 1 year	94,847	76,774
– over 1 year	18,422	16,657
	<u>171,449</u>	<u>148,481</u>
Credit risk weighted amounts	<u>61,184</u>	<u>49,965</u>
Fair value		
Assets		
Exchange rate contracts	1,160	1,446
Interest rate contracts	1,544	1,305
Equity contracts	256	337
Others	106	127
	<u>3,066</u>	<u>3,215</u>
Liabilities		
Exchange rate contracts	847	2,236
Interest rate contracts	1,689	1,898
Equity contracts	229	292
Others	105	112
	<u>2,870</u>	<u>4,538</u>
Notional amounts of derivatives		
Exchange rate contracts	460,139	366,496
Interest rate contracts	132,124	143,341
Equity contracts	14,982	11,984
Others	3,516	3,091
	<u>610,761</u>	<u>524,912</u>
Credit risk weighted amounts		
Exchange rate contracts	3,502	3,168
Interest rate contracts	1,587	1,256
Equity contracts	510	328
Others	240	108
	<u>5,839</u>	<u>4,860</u>

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

(b) Capital Commitments

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

	30/6/2012	31/12/2011
	HK\$ Mn	HK\$ Mn
Expenditure authorised and contracted for	153	171
Expenditure authorised but not contracted for	203	213
	<u>356</u>	<u>384</u>

32. Material Related Party Transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Bank's directors and certain of the highest paid employees, is as follows:

	30/6/2012	30/6/2011
	HK\$ Mn	HK\$ Mn
Short-term employee benefits	56	60
Post-employment benefits	2	2
Equity compensation benefits	10	11
	<u>68</u>	<u>73</u>

- (b)** The Group maintains certain retirement benefit schemes for its staff. In the six months ended 30th June, 2012, the total amount of contributions the Group made to the schemes was HK\$71 million (six months ended 30th June, 2011: HK\$63 million).

The Group enters into a number of transactions with the Group's related parties, including its associates, and key management personnel and their close family members and companies controlled or significantly influenced by them. The transactions include accepting deposits from and extending credit facilities to them. All interest rates in connection with the deposits taken and credit facilities extended are under terms and conditions normally applicable to customers of comparable standing.

The interest received from and interest paid to the Group's related parties for the six months ended 30th June, 2012, outstanding balances of amounts due from and due to them at 30th June, 2012 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2012 are aggregated as follows:

	Key management personnel		Associates	
	30/6/2012	30/6/2011 Restated	30/6/2012	30/6/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	58	47	–	9
Interest expense	30	19	–	–
Amounts due from	6,527	7,029	–	974
Amounts due to	4,529	3,969	126	4
Maximum amounts due from	8,274	9,382	15	1,028
Maximum amounts due to	7,663	7,256	201	4
Committed facilities to	3,519	3,747	14	10

33. Basis of Consolidation

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

The capital adequacy ratio and liquidity ratio of the Group are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation base for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other businesses incidental to banking business.

List of subsidiaries for financial reporting consolidation:

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

Evatthouse Corporate Services Pte. Ltd.
 Far East Bank Nominees Limited
 FEB (1989) Limited (in Member's Voluntary
 Winding-up)
 Fortra Services Limited
 Gainsville Limited
 Gladwood Limited
 Global Success Ltd.
 Golden Empire International Inc.
 Golden Properties Finance Ltd.
 Golden Queen International Ltd.
 Golden Wings International Ltd.
 Grimma Company Limited
 ICEA Capital Limited
 * Innovate Holdings Limited
 International Holdings Corporation
 Kaliwood Corporation
 Keen Sight Development Limited
 Leader One Limited
 Linkwall Investments Limited
 Maccabee (Nominees) Limited
 Mache Holdings Limited
 Mache Nominees Limited
 Mactors Limited
 Maintex Limited
 Malplaquet Limited
 Manchester Property Holdings Ltd.
 Menroy Registrars Limited
 Nola Company Limited
 Norpac Holdings Limited
 Outsource Centre Pte. Ltd.
 Overseas Nominees Limited
 Pen Ling Limited
 PFA Registration Services Sdn. Bhd.
 PFA Services Sdn. Bhd.
 Powerhouse Worldwide Limited
 Premier Dragon Development Limited
 Ramillies Limited
 Red Phoenix Limited
 Richard Tozer Nominees Ltd
 Roebuck Limited
 Rontors Limited
 Rosland Corporate Management Limited
 Secretaries Limited
 Secretarius Services Sdn. Bhd.
 * Shaanxi Fuping BEA Rural Bank Corporation
 Shaftesbury Property Holdings Limited
 Shaftesbury Property Investments Limited
 Shareg Nominees Limited
 Skyray Holdings Limited
 Speedfull Limited
 Standard Registrars Limited
 Strath Corporate Services Holdings Limited
 Strath Corporate Services Limited
 Strath Fiduciaries Limited
 Sunshine Dynamic Company Limited
 Swan Nominees Limited
 Tabernacle Assets Limited
 Teeroy Limited
 Tengis International Limited
 Tengis Services Limited
 * The Bank of East Asia (China) Limited
 The Bank of East Asia (Nominees) Limited
 The Bank of East Asia (Nominees) Private
 Limited
 * The Bank of East Asia (U.S.A.) N.A.
 The Bank of East Asia Charitable Foundation
 Limited
 The Bank of East Asia Nominees (UK) Limited
 Travelsafe Limited
 Tricor (B) Sdn. Bhd.
 Tricor (Labuan) Limited
 Tricor Abacus Limited
 Tricor Asia Limited
 Tricor Authorised Representative Limited
 Tricor Board Dynamics Sdn Bhd
 Tricor Business Services Sdn. Bhd.
 Tricor Caribbean Limited
 Tricor Consultancy (Beijing) Limited
 Tricor Corporate Secretaries Limited
 Tricor Corporate Secretary Limited
 Tricor Corporate Services Sdn. Bhd.
 Tricor Custodian Limited
 Tricor EACS (Hong Kong) Limited
 Tricor Executive Recruitment Ltd.
 Tricor Executive Resources Limited
 Tricor Firmley Limited
 Tricor Friendly Limited
 Tricor Global Limited
 Tricor Greater China Limited
 Tricor Holdings Limited
 Tricor Holdings Pte. Ltd.
 Tricor International Trustee Limited
 Tricor Investor Services Limited
 Tricor Investor Services Sdn. Bhd.
 Tricor Japan Limited
 Tricor K.K.
 TRICOR KNOWLEDGE HOUSE SDN BDH
 (formerly known as Total Corporate
 Compliance Sdn. Bhd.)
 Tricor Nominees Limited
 Tricor Outsourcing (Thailand) Ltd.
 Tricor Progressive Limited
 Tricor Representatives Limited
 Tricor Roots Business Intelligence Sdn Bhd.
 Tricor Roots Consulting Sdn Bhd.
 Tricor Roots Governance Sdn. Bhd.
 TRICOR SAAS SDN BHD (formerly known as
 Total Express & Document Storage Sdn. Bhd.)
 Tricor Secretaries Limited
 Tricor Securities Limited
 Tricor Services (Brunei) Ltd
 Tricor Services (BVI) Limited
 Tricor Services (Macau) Limited
 Tricor Services (Malaysia) Sdn. Bhd.
 Tricor Services (UK) Limited
 Tricor Services Limited
 Tricor Signatory Limited
 Tricor Singapore Pte. Ltd.
 Tricor Standard Limited

Tricor Strath Limited	* Tung Shing Securities (Brokers) Limited
Tricor Subscribers Limited	* Tung Shing Services (Brokers) Limited
Tricor Tax Services Sdn. Bhd.	Turquandia Limited
Tricor Tengis Limited	U Care Hong Kong Medical Limited
Tricor Trustco (Labuan) Limited	United Chinese (Nominee) Limited
TRICOR-ATC EUROPE LLP	Vanceburg Limited
Trident Corporate Management Limited	Virtual Success Limited
Trident Nominees Limited	W.T. (Secretaries) Limited
Tristan Company Limited	Wai Chiu Company Limited
Tudor Nominees Limited	Wai Hop Company Limited
Tung Shing Bullion (Brokers) Limited	# WCS Nominees Limited
* Tung Shing Financial Services (Brokers) Limited	Westboro Limited
* Tung Shing Futures (Brokers) Limited	Wilfred Co., Ltd.
* Tung Shing Holdings (BVI) Limited	Witcombe Corporation
* Tung Shing Holdings Company Limited carrying on business in Hong Kong as Tung Shing (Brokers) Holdings Company Limited	# Woodside Corporate Services Limited
	# Woodside Secretaries Limited
	WT Management (PTC) Inc

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

These companies were acquired on 25th May, 2012 with the group's effective holdings of 56.71%.

34. Comparative Figures

From the financial statements for the year ended 31st December, 2011, the Bank changed the basis of accounting for the interim scrip dividend from bonus share approach to reinvestment approach, which is considered a more accurate method to reflect the legal form of scrip dividends. The Share Premium and General Reserve Accounts for the period from 1991 to 2010 are restated accordingly to reflect the new approach.

The 2011 figures in Note 8 and 9 – Fee and Commission Income and Net Trading Profits have been restated to better reflect the swaps upfront income and expense in net trading profits instead of fees and commissions.

The 2011 figures in Note 26 – Segment Reporting have been restated due to an addition of two reportable segments for reporting to the Group's most senior executive management with effect from 2012.

For other restatements, the comparative figure has been restated to conform with current period's presentation.

35. Statement of Compliance

The Interim Results together with the Supplementary Financial Information on pages 32 to 39 comply fully with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority, the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and HKAS 34 "Interim Financial Reporting" issued by the HKICPA in October 2004.

SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy Ratio and Capital Base

(a) Capital adequacy ratio

	<u>30/6/2012</u>	<u>30/6/2011</u>	<u>31/12/2011</u>
	%	%	%
Capital adequacy ratio	13.2	12.6	13.7
Core capital adequacy ratio	9.7	9.4	9.4

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

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 98(2) of the Banking Ordinance. Subsidiaries not included in consolidation for regulatory purposes are securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Banking (Capital) Rules and the Banking Ordinance. The Bank's shareholdings in these subsidiaries are deducted from its core capital and supplementary capital as determined in accordance with Part 3 of the Banking (Capital) Rules.

The principal subsidiaries that are not included in consolidation for regulatory purposes are:

Blue Cross (Asia-Pacific) Insurance Limited
BEA Life Limited
East Asia Futures Limited
East Asia Securities Company Limited

The Group operates subsidiaries in a number of countries and territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the banking group.

(b) Group capital base after deductions

	30/6/2012	30/6/2011 Restated	31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Core capital			
Paid up ordinary share capital	5,250	5,147	5,190
Share premium	12,670	12,025	12,037
Reserves	19,522	18,598	17,847
Profit and loss account	1,341	1,323	2,169
Non-controlling interests	3,715	3,726	3,555
Deduct: Goodwill	(1,494)	(1,658)	(1,658)
Net deferred tax assets	(135)	(460)	(377)
Other intangible assets	(22)	(27)	(26)
	<u>40,847</u>	<u>38,674</u>	<u>38,737</u>
Less: Core capital items deductions	<u>(3,298)</u>	<u>(3,461)</u>	<u>(3,319)</u>
Total core capital	<u>37,549</u>	<u>35,213</u>	<u>35,418</u>
Eligible supplementary capital			
Reserves attributable to fair value gains on revaluation of holdings of land and building	970	970	970
Revaluation reserves for fair value gains on revaluation of holdings of available-for-sale equities and debt securities	137	83	32
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	135	78	2
Regulatory reserve for general banking risks	186	86	163
Collectively assessed impairment allowances	73	106	93
Surplus provisions	1,841	1,056	1,849
Perpetual subordinated debt	–	3,756	3,163
Term subordinated debt	13,369	9,294	13,146
	<u>16,711</u>	<u>15,429</u>	<u>19,418</u>
Less: Supplementary capital items deductions	<u>(3,298)</u>	<u>(3,461)</u>	<u>(3,319)</u>
Total supplementary capital	<u>13,413</u>	<u>11,968</u>	<u>16,099</u>
Total capital base	<u>50,962</u>	<u>47,181</u>	<u>51,517</u>

B. Liquidity Ratio

	6 months ended 30/6/2012	6 months ended 30/6/2011	The year ended 31/12/2011
	%	%	%
Average liquidity ratio for the period	45.5	41.0	42.8

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.

	30/6/2012			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	46,746	2,323	69,304	118,373
Asian countries, excluding People's Republic of China	17,903	6,396	11,677	35,976
North America	11,228	590	3,393	15,211
Western Europe	8,436	–	1,812	10,248
	30/6/2011			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	18,418	2,981	60,501	81,900
Asian countries, excluding People's Republic of China	20,134	4,062	17,759	41,955
North America	10,269	304	11,147	21,720
Western Europe	24,194	–	1,494	25,688
	31/12/2011			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	38,220	2,122	69,168	109,510
Asian countries, excluding People's Republic of China	18,329	5,056	19,734	43,119
North America	7,009	269	3,219	10,497
Western Europe	10,477	–	1,253	11,730

D. Non-bank Mainland Exposures

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

	30/6/2012			
	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	172,014	79,773	251,787	27
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	32,591	2,693	35,284	4
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	16,507	1,865	18,372	1
Total	221,112	84,331	305,443	32
	30/6/2011			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	166,448	50,746	217,194	32
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	23,869	2,807	26,676	4
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	14,084	1,566	15,650	–
Total	204,401	55,119	259,520	36
	31/12/2011			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	164,801	66,182	230,983	87
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	28,295	2,742	31,037	1
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	15,865	1,643	17,508	–
Total	208,961	70,567	279,528	88

E. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	30/6/2012		30/6/2011		31/12/2011	
	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	124	0.0	141	0.0	92	0.0
– 1 year or less but over 6 months	235	0.1	42	0.0	60	0.0
– Over 1 year	127	0.0	184	0.1	99	0.1
	486	0.1	367	0.1	251	0.1
Rescheduled advances to customers	209	0.1	389	0.1	392	0.1
Total overdue and rescheduled advances	695	0.2	756	0.2	643	0.2
Secured overdue advances	377	0.1	230	0.1	152	0.1
Unsecured overdue advances	108	0.0	137	0.0	99	0.1
Market value of security held against secured overdue advances	811		588		439	
Individual impairment allowance made on loans overdue for more than 3 months	104		117		84	

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, 2012, 30th June, 2011 and 31st December, 2011; nor were there any rescheduled advances to banks and other financial institutions on these three dates.

(b) Other overdue and rescheduled assets

	30/06/2012		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	–	–	–
– 1 year or less but over 6 months	–	–	–
– Over 1 year	–	–	4
	–	–	4
Rescheduled assets	–	–	–
Total other overdue and rescheduled assets	–	–	4
	30/06/2011		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	–	–	–
– 1 year or less but over 6 months	–	–	–
– Over 1 year	–	–	–
	–	–	–
Rescheduled assets	–	–	4
Total other overdue and rescheduled assets	–	–	4

	31/12/2011		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
– 6 months or less but over 3 months	–	–	8
– 1 year or less but over 6 months	–	–	–
– Over 1 year	–	–	–
	–	–	8
Rescheduled assets	–	–	4
Total other overdue and rescheduled assets	–	–	12

* Other assets refer to trade bills and receivables.

(c) Repossessed assets

	30/6/2012	30/6/2011	31/12/2011
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Reposessed land and buildings	43	6	22
Reposessed vehicles and equipment	–	–	–
Total reposessed assets	43	6	22

The amount represents the estimated market value of the reposessed assets as at 30th June, 2012, 30th June, 2011 and 31st December, 2011.

F. Currency Concentrations

The net positions or net structural positions in foreign currencies are disclosed when each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies. The net option position is calculated in the basis of the delta-weighted position of option contracts.

	30/6/2012			Total
	USD	RMB	Others	
Spot assets	140,820	581,707	68,751	791,278
Spot liabilities	(146,287)	(558,481)	(72,001)	(776,769)
Forward purchases	117,738	82,946	11,904	212,588
Forward sales	(110,410)	(107,004)	(8,755)	(226,169)
Net options position	127	–	(13)	114
Net long/(short) non-structural position	1,988	(832)	(114)	1,042

	30/6/2011 (Restated)			
	HK\$ Mn			
	USD	RMB	Others	Total
Spot assets	161,401	495,519	63,385	720,305
Spot liabilities	(130,836)	(495,659)	(67,982)	(694,477)
Forward purchases	89,070	81,924	10,616	181,610
Forward sales	(119,433)	(82,260)	(6,111)	(207,804)
Net options position	32	–	63	95
Net long/(short) non-structural position	<u>234</u>	<u>(476)</u>	<u>(29)</u>	<u>(271)</u>

	31/12/2011 (Restated)			
	HK\$ Mn			
	USD	RMB	Others	Total
Spot assets	156,922	528,371	57,111	742,404
Spot liabilities	(133,641)	(525,238)	(68,347)	(727,226)
Forward purchases	85,518	78,521	17,094	181,133
Forward sales	(107,971)	(82,764)	(5,769)	(196,504)
Net options position	31	–	(25)	6
Net long/(short) non-structural position	<u>859</u>	<u>(1,110)</u>	<u>64</u>	<u>(187)</u>

	30/6/2012			
	HK\$ Mn			
	USD	RMB	Others	Total
Net structural position	<u>2,490</u>	<u>8,539</u>	<u>749</u>	<u>11,778</u>

	30/6/2011			
	HK\$ Mn			
	USD	RMB	Others	Total
Net structural position	<u>2,579</u>	<u>8,422</u>	<u>774</u>	<u>11,775</u>

	31/12/2011			
	HK\$ Mn			
	USD	RMB	Others	Total
Net structural position	<u>2,573</u>	<u>8,631</u>	<u>734</u>	<u>11,938</u>

The above figures are disclosed in accordance with the return relating to foreign currency positions the Bank submitted to the Hong Kong Monetary Authority pursuant to section 63 of the Banking Ordinance in respect of the interim reporting period, which are computed on the consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes.



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

INTRODUCTION

We have reviewed the interim financial report set out on pages 1 to 31 which comprises the consolidated statement of financial position of The Bank of East Asia, Limited as of 30th June, 2012 and the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June, 2012 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, 2nd August, 2012

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK\$0.43 (2011: HK\$0.43) per share for the six months ended 30th June, 2012. The interim dividend will be paid in cash with an option to receive new, fully paid shares in lieu of cash, to shareholders whose names appear on the Register of Members at the close of business on Thursday, 23rd August, 2012. Details of the scrip dividend and the election form will be sent to shareholders on or about Thursday, 23rd August, 2012. 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 Friday, 14th September, 2012.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed on Wednesday, 22nd August, 2012 and Thursday, 23rd August, 2012. In order to qualify for the above interim dividend, all transfer documents should be lodged for registration with Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, by 4:00 p.m. on Tuesday, 21st August, 2012.

FINANCIAL REVIEW

Financial Performance

For the first six months of 2012, the Group achieved a profit attributable to owners of the parent of HK\$2,988 million, representing an increase of HK\$277 million or 10.2%, compared to the HK\$2,711 million earned in the same period last year. Basic earnings per share were HK\$1.35. Return on average equity and return on average assets were 12.2% and 1.0%, respectively.

During the first six months of 2012, the Group's net interest income increased by HK\$221 million, or 5.0%, to HK\$4,621 million. Net fee and commission income rose by HK\$145 million, or 9.6%, to HK\$1,664 million, while overall non-interest income increased by HK\$590 million, or 26.4%.

Total operating expenses increased by 9.7% to HK\$4,172 million. Due to higher income growth in the first half of 2012, the cost-to-income ratio slightly fell to 56.0% from 57.3% for 2011.

Operating profit before impairment losses was HK\$3,277 million, an increase of HK\$441 million, or 15.6%, as compared to the corresponding period in 2011.

The charge for impairment losses on loans and advances increased to HK\$125 million. This contrasts with a write back of HK\$40 million when compared with the same period in 2011. Total impairment losses increased to HK\$143 million.

Operating profit after impairment losses was HK\$3,134 million, an increase of 9.8%.

The Bank recorded a net profit on disposal of fixed assets of HK\$136 million, mainly due to disposal of several investment properties in Hong Kong. The Bank also recorded a valuation gain on investment properties of HK\$222 million. The Group shared after-tax profits from associates of HK\$238 million.

After accounting for income taxes, profit after taxation rose to HK\$3,037 million, or 10.1%, compared to the HK\$2,757 million recorded in the corresponding period in 2011. Profit attributable to owners of the parent rose to HK\$2,988 million, an increase of 10.2%.

Financial Position

Total consolidated assets of the Group rose by HK\$30,085 million, or 4.9%, during the first half of 2012. Gross advances to customers increased by 2.7% to HK\$330,721 million. Total equity increased to HK\$54,886 million, up 5.5%.

Total deposits grew by 2.7% to HK\$491,855 million, while total deposits from customers rose by 0.5% to HK\$469,816 million. Demand deposits and current account balances decreased by HK\$2,512 million, or 4.4%, compared to the balance at year-end 2011. Savings deposits increased by HK\$1,237 million, an increase of 1.6%, while time deposits increased to HK\$336,743 million, an increase of 1.1%, when compared with the year-end position.

As disclosed in a separate note, the Bank completed the disposal of 80% of its interest in The Bank of East Asia (U.S.A.) N.A. ("BEA USA") in July 2012. Therefore, in accordance with prevailing accounting requirements, BEA USA was not consolidated in the Group's balance sheet at the end of June 2012. Furthermore, if BEA USA's assets and liabilities had not been consolidated in determining the Group's financial position at the end of 2011, the Group's loans and total deposits would have grown 4.2% and 3.7% respectively, for the first half of 2012.

After taking into account all certificates of deposit issued, the loan-to-deposit ratio was 67.2% at the end of June 2012, which is the same as the loan-to-deposit ratio at the end of 2011.

RECOGNITION

During the first six months of 2012, the BEA Group's performance was recognised by leading government agencies, companies, publications, and business associations. Awards received included:

- "2012 Best SME's Partner Award" from The Hong Kong General Chamber of Small and Medium Business (BEA has been the winner of this award for five consecutive years);
- "The Best World Card Programme Launched in 2011 in Hong Kong – Winner (BEA SupremeGold World MasterCard)", "The Highest Growth Rate in 2011 Premium Product Cardholder Spending in Hong Kong – Winner", "The Highest Growth Rate in 2011 Cardholder Spending in Hong Kong – Winner", "The Highest Growth Rate in 2011 Number of Open Cards in Hong Kong – 1st Runner Up", "The Highest Growth Rate in 2011 Outstandings in Hong Kong – 2nd Runner Up", "The Highest Market Share in 2011 Cross-border Merchant Purchase Volume in Hong Kong – 2nd Runner Up", "The Highest Growth Rate in 2011 Merchant Purchase Volume in Hong Kong – 2nd Runner Up" from MasterCard Worldwide; and
- the "Exclusive Visa Acceptance Award" from Visa Inc.

The Bank of East Asia (China) Limited ("BEA China") earned the following distinctions:

- "2011 Distinctive Financial Services for Small Enterprises among Financial Institutions in China" from the China Banking Regulatory Commission ("CBRC");
- "Golden Award – Most Popular Product Award" for the Bull Bear Series of Investment Financial Products from *Money Weekly* and VNU Exhibitions; and
- the "UnionPay Award for Business Collaboration" from China UnionPay.

Blue Cross (Asia-Pacific) Insurance Limited ("Blue Cross"), the Bank's wholly-owned general insurance subsidiary, received:

- "The 12th Capital Outstanding Enterprise Awards – Medical and General Insurance" from *CAPITAL magazine*; and
- the "TVB Most Popular TV Commercial Awards 2012 – Info-service" from Television Broadcasts Limited.

ECONOMIC OVERVIEW

The European sovereign debt crisis continued to weigh on the global economy in the first six months of 2012, as Europe's rigid austerity policies suppressed demand. Hong Kong could not escape the effects, and growth in exports slowed to just 0.3% in the first six months of 2012.

Nevertheless, Hong Kong's non-export sector performed well. The economy benefitted from robust tourist spending and government investment in infrastructure projects. Retail sales grew by 13.5% in the first five months and unemployment dropped to 3.2% in June. Property prices continued to climb, gaining 9.6% in the first five months. However, total transactions fell by an annualised 21% during the period, indicating that the rise in prices may be outpacing demand.

Looking ahead, Hong Kong's real Gross Domestic Product ("GDP") is expected to grow by 2.5% for the year as a whole.

On the Mainland, the Central Government's tight monetary policies have been successful in reining in inflation and property prices, paving the way for a soft landing. The Consumer Price Index ("CPI") eased to 2.2% in June 2012 from 4.1% in December 2011. However, these policies have also dragged down economic growth. In the first half of 2012, Mainland GDP grew by 7.8%, down from 9.2% in 2011.

Reacting to the slowing economy, during the first half of 2012 the People's Bank of China reduced the Renminbi ("RMB") Required Reserve Ratio ("RRR") twice, each time by 0.5%, and the RMB benchmark deposit and loan rates once, both by 0.25%. As a result, the benchmark one-year lending rate dropped from 6.56% to 6.31% and the deposit rate from 3.5% to 3.25%.

With inflation moderating and external demand weak, expectations are high that the Central Government will act to stimulate the economy. Possible initiatives include government subsidies, accelerated tax reform, incentives to encourage rural household consumption, and further reductions in the RRR.

OPERATIONS REVIEW

Business – Hong Kong

As of 30th June, 2012, the aggregate of BEA's total loans to customers, trade bills and debt investments increased by 7.0%, while customer deposits grew by 0.9% compared to the figures reported at the end of 2011.

Corporate and Commercial Banking

In the first half of 2012, the downside effects of the global economic uncertainty were counterbalanced by sustained loan demand from enterprises in Hong Kong and Mainland China. This demand was partially sustained by the strength of the Hong Kong property market and the relatively lower cost of financing in Hong Kong than on the Mainland. As a result, the Bank's corporate loan and trade bills portfolio registered moderate growth. This growth was delivered without sacrificing loan quality; as such, the impaired loan ratio remained at a very low level.

In addition to its active participation in the syndicated loan market, BEA continued to co-arrange club deal facilities for mid-cap companies, which generally commanded better pricing. BEA made a sustained effort to improve the overall yield of its assets by repricing new loans and those coming up for renewal, and by adding more medium-term notes and bonds issued by local blue chips and Mainland corporations to its interest-earning assets.

BEA continued to benefit from the strong synergies between its networks in Hong Kong and Mainland China, and was well-positioned to capture RMB lending opportunities arising from the steady trend of favourable policy changes. With the implementation of the RMB Foreign Direct Investment Scheme as well as the recently announced plan for exploring cross-border lending in RMB on a pilot basis in the Qianhai Bay Economic Zone in Shenzhen, demand for offshore RMB loans in Hong Kong from both Mainland-based and local corporations is expected to grow further.

BEA remains a committed partner to small and medium enterprise (“SME”) customers. It served as a Participating Lender in The Hong Kong Mortgage Corporation’s (“HKMC”) SME Financing Guarantee Scheme, and actively promoted the newly launched 80% loan guarantee products to SME customers. The Bank successfully expanded its equipment financing portfolio by 13% during the first half of 2012 despite the unfavourable market conditions in the manufacturing sector, increasing its market share in this business area.

Personal Banking

BEA continued to optimise its service distribution channels in Hong Kong to meet customer demand and cater to changing banking habits. The Bank opened Kennedy Town Branch, Laguna City SupremeGold Centre, and Tin Shui Wai i-Financial Centre, and closed One Peking Branch and the adjacent SupremeGold Centre. As of 31st July, 2012, BEA operated a total of 88 branches, 62 SupremeGold Centres, and 7 i-Financial Centres in Hong Kong.

BEA also expanded its network of Automated Teller Machines (“ATMs”), installing a total of 41 ATMs in The Link’s shopping centres and in MTR stations during the first half of 2012. The Bank currently operates a total of 234 ATMs in Hong Kong and is the third largest ATM operator among the JETCO member banks.

The Bank continued to enhance its mobile banking service, which became an increasingly important distribution channel during the period. For the first half of 2012, downloads of the BEA App and the total number of mobile banking users increased by 45% and 30% respectively when compared to the end of 2011.

To foster interactive communications and build affinity with different customer segments, BEA launched the “BEA Facebook Fan Page” programme in June 2012. Through “viral sharing”, the Bank aims to build brand awareness and expand its customer base.

BEA has also stepped up promotional efforts to expand its customer base in order to absorb new deposits and increase cross-selling opportunities. In January 2012, the Bank introduced a programme that encouraged people with salaried income to open a Supreme Account for auto payroll service. The campaign was very successful, resulting in significant growth in the number of Supreme Accounts opened during the first half of 2012.

Anticipating an increase in RMB deployment channels, BEA has continued to seek new RMB deposits. Despite an overall decline in RMB deposits in Hong Kong in the first half of 2012, BEA’s local RMB deposits recorded modest growth during the period, largely due to the impact of a highly effective promotion campaign launched in February 2012.

BEA is committed to providing retail shops and small businesses in the community with comprehensive banking services via its extensive branch network. The Bank also collaborated with the HKMC in the launch of the Microfinance Scheme to extend microfinance loans and offer ancillary support facilities to borrowers in Hong Kong.

During the period under review, BEA continued to enrich its year-round dining and entertainment offers for credit card users. The Bank encouraged spending with the UnionPay Dual Currency PLATINUM Credit Card by offering spending rewards and exclusive year-round discounts at selected restaurants.

Through these initiatives, the Bank recorded steady growth in credit card receivables and cardholder spending. Furthermore, the Bank’s merchant acquiring business recorded 12% growth in sales volume in the first half of 2012.

Following the rebound of the Hong Kong property market in March 2012, BEA launched competitive residential mortgage plans to expand its mortgage loan business in the second quarter. The Bank also refined mortgage plans for non-residential properties such as shops and offices to tap business opportunities where higher yields could be earned. BEA was among the top five banks in Hong Kong in terms of new mortgage loan registrations for the first half of 2012.

Insurance and MPF Services

In the first half of 2012, the Bank's life insurance business achieved encouraging growth in new premium income, with a 20% rise year on year. The new 2-Year QuickPay Endowment Insurance (2012-I) plan and WealthSaver RMB Insurance plan were major contributors to this growth. To tie in with the increase in the number of babies born in the Year of Dragon, a new education savings plan, Top Scholar Savings Insurance, was launched in June.

Blue Cross registered premium income growth of 11% in the first half of 2012. The travel insurance business performed particularly well, recording a 20% rise in premium income compared to the same period in the previous year. In addition, premium income generated through the Company's e-platform continued to deliver impressive results, achieving growth of more than 30% year on year.

Bank of East Asia (Trustees) Limited ("BEA Trustees") recorded encouraging growth in its MPF business in the first six months of 2012. Total membership grew to more than 524,000, with over 37,800 new members joining its Master Trust Scheme and Industry Scheme. In January 2012, six new constituent funds were launched under BEA Trustees' MPF schemes. In March, new features were also introduced to the BEA App to enable members to manage their MPF accounts via iPhone and Android phones.

In July 2012, BEA Trustees further enhanced its competitiveness by lowering the management fees for 10 constituent funds under its Master Trust Scheme by up to 23%. In the same month, the Company launched two RMB & HKD Money Market Funds with at least 50% of assets denominated in RMB.

Investment Services

Ongoing volatility across global equity markets and a lack of clarity on the macro-economic outlook caused retail investors to shift from equities towards yield or income-oriented investments with greater downside protection. The Bank responded by enhancing its retail selection of structured deposits linked to currencies and interest rates. In the first half of 2012, income generated by these two instruments increased by 24% on the same period last year.

The Bank's mutual fund distribution business enjoyed a 70% increase in revenue and a 40% increase in assets under custody as compared with the same period in 2011, with strong increases in both retail and private banking. Instrumental in this was the launch, in April 2012, of the new BEA Union Investment Asia Pacific Multi Income Fund (the "APM Fund"). This fund, which is a unit trust dynamically linked to three key high-yielding Asian asset classes, offers an attractive monthly payout while providing downside protection.

Private Banking and Trust & Fiduciary Services

Private Banking also saw an increase in demand for more defensive products, such as currency-linked deposits, fixed income products, high-yield bond funds and other mutual funds. RMB and insurance products continued to gain traction, particularly among Chinese entrepreneurs. At the end of June 2012, Private Banking assets under management recorded a 9% growth comparing to the position at the end of 2011.

Through effective cross-selling to the Group's customers in Hong Kong and the Mainland, the total number of private and corporate trust clients increased by 9% in the first six months of 2012 compared to the end of 2011. The total value of unit trust funds under our trustee administration services increased by 15% over the same period, largely due to the success of new products.

Broking Operations

The average daily turnover on the Stock Exchange of Hong Kong fell by more than 20% year on year, and commission income derived from securities and futures broking operations dropped accordingly. With the decline in the number of initial public offerings ("IPO") in Hong Kong in the first half of 2012, interest income earned on financing of new share purchases at IPO also dropped.

Even as turnover fell, BEA continued to invest in upgrading its systems in order to provide customers with ever-more convenient and efficient broking services at competitive prices. The Bank's wholly-owned subsidiary, Tung Shing (Brokers) Group, launched bullion trading services as well as securities borrowing and lending services to better cater to clients' needs.

Business – Greater China ex-Hong Kong

Mainland China Operations

BEA China, BEA's locally-incorporated subsidiary bank on the Mainland, recorded stable growth during the first half of the year amid a slowing Chinese economy.

Mainland loan demand started to fall in early 2012 as government tightening measures took hold. Nevertheless, BEA China achieved moderate loan growth during the first six months of the year and continued to expand its deposit base. As of 30th June, 2012, BEA China's total loans outstanding and deposits increased by 5.2% and 2.9%, respectively, compared to the figures reported at the end of 2011. BEA China has maintained a loan-to-deposit ratio of around 70% since June 2011, well below the statutory limit of 75% set by the China Banking Regulatory Commission ("CBRC").

In the first half of 2012, the net interest margin achieved by BEA China narrowed slightly due to fierce competition for deposits. Meanwhile, the impaired loan ratio increased slightly to 0.17%. BEA China's success in maintaining such a low level can be ascribed to its prudent credit risk management and control.

The rise in the Mainland CPI eased to 2.2% in June, leading many to believe that inflation is now under control. This would provide the Central Government with more room to introduce stimulus measures to revive economic growth. BEA China is prepared to extend credit facilities to those industries supported by the Chinese Government and expand its product range to meet the diverse needs of customers.

BEA China continued to expand its branch network in the first half of 2012, opening Kunming Branch and three sub-branches, namely Xi'an North Taihua Road Sub-branch, Shunde Sub-branch, and Tianjin Binhai Sub-branch. Shunde Sub-branch is BEA China's seventh "cross-location" sub-branch in Guangdong Province. As of the end of June 2012, BEA China operated 24 branches, 83 sub-branches, 11 24-hour self-service banking centres, and over 420 ATMs on the Mainland.

In addition to the BEA China network, BEA operates a branch in Shanghai, a representative office in Fuzhou, and a rural bank in Fuping County, Shaanxi Province. With 111 outlets in 33 cities, BEA and BEA China together operate one of the most extensive networks of any foreign bank on the Mainland.

BEA China continues to add new retail customers as the branch network expands. BEA China will further broaden its product range and enhance its personal banking, wealth management, and investment services to boost retail loans and deposits.

BEA China issued RMB senior unsecured bonds (the "Bonds") to institutional investors for an aggregate principal amount of RMB1 billion in Hong Kong in May 2012. The Bonds received an overwhelming response from the market, and were over-subscribed by more than 2.5 times the original issue size. The issue of the Bonds provided BEA China with an effective funding source to support its ongoing growth, enhance its asset and liability structure, and improve its overall liquidity management.

In response to the "Regulation Governing Capital of Commercial Banks (Provisional)" promulgated by the CBRC in June 2012, BEA China conducted an analysis of its ability to meet the new minimum capital requirements. Initial results of the simulation indicate that BEA China's capital adequacy ratio is well above the regulatory requirements.

Macau and Taiwan Operations

BEA operates a full-service branch and four sub-branches in Macau. As part of its ongoing efforts to enhance the range and quality of its services, the Macau Branch introduced new ATM card and SupremeGold services to customers in April 2012.

To diversify its trust business and increase fee income, in March of this year, BEA's Taiwan operations launched a number of investment services including custodian service for investment securities.

BEA's wholly-owned subsidiary, BEA Wealth Management Services (Taiwan) Limited ("BEAWMS") officially opened its second outlet in Taiwan, Taichung Branch, in February 2012. With the opening of this outlet, BEAWMS is better able to serve its customers in Central Taiwan.

Business – International

In the first half of 2012, BEA's international operations recorded steady year-on-year growth in earnings.

Celebrating its 60th Anniversary in May 2012, BEA's Singapore Branch continued to record strong growth in loan assets and revenue on the back of robust trade finance business between China and Singapore.

Riding on the strong demand for prime central London properties from Hong Kong and Asian investors, BEA's operations in the United Kingdom registered satisfactory growth in both residential and commercial mortgages in the first half of this year. During the period under review, the London Branch also developed closer ties with BEA China, to meet burgeoning investment demand from high net-worth customers on the Mainland.

The Bank's branches in the UK will continue to expand their client network. Having launched debit card services in June 2012, the UK branches plan to introduce mobile banking in the second half of the year.

BEA's operations in the United States performed well, despite a persistently weak domestic economy. After-tax profit soared as a result of increased net interest and fee income. The impaired loan ratio of the Bank's US operations declined further from its position at the end of 2011.

In January 2011, the Bank entered into a share sale agreement with Industrial and Commercial Bank of China Limited for the disposal of an 80% interest in The Bank of East Asia (U.S.A.) N.A. Having received the required regulatory approval in Hong Kong, the Mainland and the US, the transaction was completed in July 2012. Moving forward, BEA will focus on its wholesale banking businesses in the US through its federal branches in New York and Los Angeles.

Other Subsidiaries

Credit Gain Finance Company Limited

Despite intense competition in Hong Kong's mature personal loan market, Credit Gain Finance Company Limited ("Credit Gain") recorded double-digit loan growth between 31st December, 2011 and 30th June, 2012. The Company's success can largely be attributed to its flexible business strategies and effective marketing campaigns. In March 2012, Credit Gain launched the Interest-Only Loan to give customers greater convenience in servicing their loans. Credit Gain will continue to focus on enhancing its product mix and reinforcing its brand in the sub-prime loan market.

Tricor Holdings Limited

Despite global economic uncertainty, Tricor Holdings Limited ("Tricor") reported 11% growth in gross revenue for the first six months of the year, compared to the same period in 2011. Fee revenue generated during the period amounted to HK\$524 million, a record-high figure and an important contribution to the BEA Group's fee and commission income during the first half of the year. However, increases in staff and overhead costs continued to present challenges to Tricor's operations.

Tricor Hong Kong experienced growing demand from publicly listed companies for its corporate compliance and company secretarial services. Furthermore, approximately 65% of all newly-listed companies in Hong Kong during the first six months of 2012 used Tricor's share registration services. Tricor's overseas offices continued to be a significant contributor to the Company's total revenue. Tricor Malaysia, in particular, reported strong growth in profit during the first half of the year.

BEA Union Investment Management Limited

Despite market volatility, BEA Union Investment Management Limited ("BEA Union") registered growth of 10% in assets under management in the first half of 2012. This growth was largely due to the successful launch of the BEA Union Investment Asia Pacific Multi Income Fund, which raised over US\$100 million in its first month, as well as increased investment by institutional clients and the successful cross-selling of products to existing customers of the Bank.

BEA Union also worked closely with the Bank to increase its penetration in the MPF market. To offer more fund choices to scheme members, six new constituent funds were introduced in January 2012 to the BEA (MPF) Master Trust Scheme and the BEA (MPF) Industry Scheme.

The investment environment will remain challenging in the second half of 2012. BEA Union will continue to focus on enhancing its client services and expanding its product range to retail and institutional clients.

Our People

As of 30th June, 2012, the BEA Group was supported by 12,346 employees:

	As of 30th June, 2012	As of 31st December, 2011
Hong Kong	5,642	5,709
Greater China ex-Hong Kong	5,419	5,277
Overseas	1,285	1,252
Total	12,346	12,238

In view of the competitive market environment, the Bank focused on service quality by recruiting high calibre front-line staff. In order to attract the best candidates and maintain a stable and professional work force, the Bank regularly reviews its human resources policies and remuneration packages.

The Bank continued to place emphasis on training to further enhance staff competence. In particular, the Bank stepped up training in change management to improve efficiency in the workplace.

Corporate Social Responsibility

The BEA Group supports the communities it serves through a wide range of social and environmental programmes. In recognition of their exemplary corporate citizenship, BEA, Blue Cross, and Credit Gain were each named "Caring Company" by the Hong Kong Council of Social Service for the ninth, fourth, and second consecutive year, respectively. In June 2012, the Bank received the President's Award from The Community Chest of Hong Kong for the thirteenth consecutive year. The Bank also continued to support higher education, offering scholarships to students in recognition of outstanding academic performance.

Five palliative care rooms under the "Palliative Care in Residential Care Homes for the Elderly" Programme established by The Bank of East Asia Charitable Foundation, "la Caixa" Foundation, and The Salvation Army Hong Kong and Macau Command ("The Salvation Army") were completed by the end of June 2012. As an integral part of the programme, the Salvation Army also focused on building its palliative care team and developing a public education programme to communicate the benefits of palliative care to the community.

Future Prospects

As the signs of a significant economic slowdown in the Mainland economy have become more apparent, the Chinese Government has introduced a series of stimulus measures and adopted a more accommodative monetary policy. This will help stabilise growth in the region. Looking ahead, the slow pace of economic recovery in the US is expected to quicken in the second half of the year. This will boost slumping exports in Hong Kong, and stimulate economic growth in the months ahead.

BEA will further optimise the allocation of resources, strengthen its financial services, and extend efforts to capture cross-border business opportunities and referrals from the "China-Hong Kong Link" initiative.

BEA China will continue to develop its branch network in strategic locations and upgrade various e-distribution channels to enhance its services to retail customers on the Mainland. The subsidiary bank will also expand its product range, focussing on new opportunities to further diversify its sources of income.

In Hong Kong, BEA will further explore the business potential of RMB financial services by developing and introducing new RMB products and services, such as RMB insurance and RMB investment and fund products. The Bank will also devote additional resources to further customise services provided to Mainland customers, including corporate entities and high net worth individuals.

RISK MANAGEMENT DIVISION

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

The Risk Management Division is responsible for Group policy with regard to different types of risk such as credit risk, market risk and operational risk, etc. In this regard, the Division assesses regulatory requirements, in particular the requirements under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority, and carries out the following job mandates:–

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

FINANCIAL RISK MANAGEMENT

The Group has in place a risk management system to identify, measure, monitor, control and report on the various types of risk that the Group faces and, where appropriate, to set strategy and allocate capital to cover those risks. The Group's risk tolerance level is approved by the Board of Directors. Risk management policies, covering the areas credit risk, market risk, operational risk, liquidity risk, interest rate risk, strategic risk, legal risk and reputation risk, are approved by the Board after endorsement by the Risk Management Committee, or approved by the Board's delegated specialised risk management committees. The Risk Management Committee comprises the Group's Chairman and Chief Executive, Senior Advisors, Deputy Chief Executives and the Group Chief Risk Officer. An independent centralised risk management unit, Risk Management Division, 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 are set for different levels. The Board of Directors approves the core control limits and delegates approval of detailed control limits to the Credit Committee. Risk, return and market situation are considered when setting all limits. Active limit monitoring is undertaken.

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

In evaluating the credit risk associated with an individual customer or counterparty, financial strength and repayment ability are always the primary considerations. Credit risk may be mitigated by obtaining collateral from the customer or counterparty.

Stress tests on the Group's credit risk are conducted regularly. The results are reviewed by the Credit Committee and reported to the Risk Management Committee and to the Board of Directors regularly. If necessary, remedial actions will be taken.

The Group has established policies, procedures and rating systems to identify, measure, monitor, control and report credit risk. In this connection, guidelines for management of credit risk have been laid down in the Group's Credit Risk Management Manual. These guidelines stipulate delegated lending authorities, credit extension criteria, credit monitoring processes, internal rating structure, credit recovery and provisioning policy. They are reviewed and enhanced on an on-going basis to cater for market changes, statutory requirements and best practice in risk management processes. The Credit Risk Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to credit risk.

(b) Market risk management

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

Management of the Group's market risk is governed by the market risk management policies, which are approved by the Board of Directors or the Asset and Liability Management Committee. The Board of Directors has delegated the responsibility for day-to-day 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 Department under the Risk Management Division of the Group is responsible for monitoring activities relating to market risk.

The Asset and Liability Management Committee deals with all market risk and liquidity risk related issues of the Group. It is also responsible for conducting a regular review of interest rates trends and deciding the corresponding future business strategy.

The use of derivatives for proprietary trading and the sale of derivatives to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk, as part of its asset and liability management process. The principal derivative instruments used by the Group are interest rate, foreign exchange and equity related contracts, in the form of both over-the-counter derivatives and exchange traded derivatives. Most of the Group's derivative positions have been entered into to meet customer demand and to manage the risk of these and other trading positions.

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

(i) Currency risk

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

Structural foreign currency positions, which arise mainly from foreign currency investments in the Group's branches, subsidiaries and associated companies, are excluded from value-at-risk ("VaR") measurements, as related gains or losses are taken to reserves. Such foreign currency positions are managed with the principal objective of ensuring that the Group's reserves are protected from exchange rate fluctuations. The Group seeks to match closely its foreign currency denominated assets with corresponding liabilities in the same currencies.

(ii) *Interest rate risk*

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

(iii) *Equity risk*

The Group's equity positions arise from equity investment and dynamic hedging of customer-driven business. Equity risk is managed daily by the Investment Department within the limits approved by the Board of Directors or the Asset and Liability Management Committee.

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 authority to set detailed control limits to the Asset and Liability Management Committee. Risk, return and market conditions are considered when setting limits. Active limit monitoring is carried out.

In this connection, the Asset and Liability Management Committee monitors the related market risk arising from risk-taking activities of the Group, to ensure that overall and individual market risks are within the Group's risk tolerance level. Risk exposures are monitored on a frequent basis to ensure that they are within established control limits.

Stress tests on the Group's market risk are conducted regularly. The results are reviewed by the Asset and Liability Management Committee and reported to the Risk Management Committee and to the Board of Directors regularly. If necessary, remedial actions will be taken.

The Group quantifies the market risk of the underlying trading portfolio by means of VaR. VaR is a statistical estimate that measures the potential losses in market value of a portfolio as a result of unfavourable movements in market rates and prices, if positions are held unchanged over a certain horizon time period.

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

Structural foreign exchange positions arising from net investments in branches and subsidiaries are not included in the VaR for the foreign exchange trading position.

The book value of listed shares, as well as the book value of private equity funds and unlisted equities (collectively the "Unlisted Securities"), are subject to limits and these are monitored by the management of the Group. The Unlisted Securities and listed non-trading equities are not included in the VaR for the equity trading position, and are managed through delegated limits. The limits are subject to regular review by the Asset and Liability Management Committee.

Value-at-risk statistics

	Year 2012 1st-half			
	At 30th June HK\$'Mn	Maximum HK\$'Mn	Minimum HK\$'Mn	Mean HK\$'Mn
VaR for total trading activities	29	38	23	29
VaR for foreign exchange trading positions*	5	8	4	6
VaR for interest rate trading positions	3	5	2	3
VaR for equity trading positions	25	32	19	24

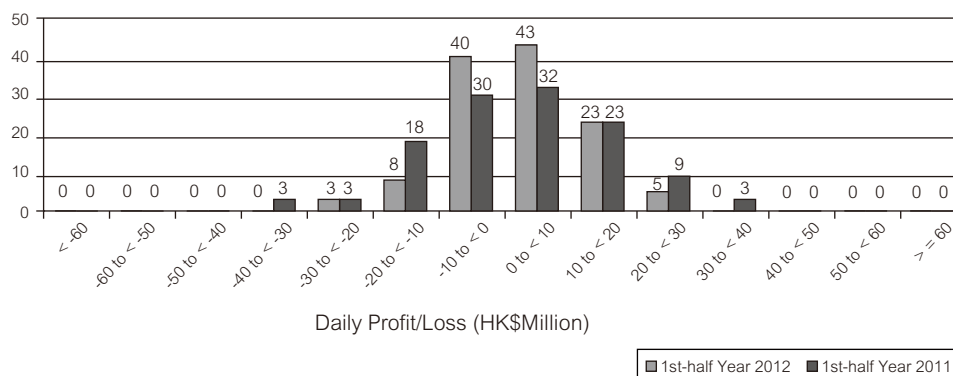
	Year 2011 1st-half			
	At 30th June HK\$'Mn	Maximum HK\$'Mn	Minimum HK\$'Mn	Mean HK\$'Mn
VaR for total trading activities	35	45	28	35
VaR for foreign exchange trading positions*	4	5	1	3
VaR for interest rate trading positions	4	7	2	4
VaR for equity trading positions	30	41	25	31

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

The average daily profit for all trading activities (including foreign exchange, interest rate and equity trading activities) in the first six months of 2012 was HK\$2.35 million (average daily profit of HK\$2.12 million in the first six months of 2011). The standard deviation of the daily profit/loss for the period was HK\$10.25 million (standard deviation of HK\$14.08 million for the same period in 2011). The frequency distribution of daily profit/loss is shown below:

**DAILY DISTRIBUTION OF TRADING ACTIVITIES RELATED PROFIT/LOSS
– 1st-half Year 2012 vs 1st-half Year 2011**

Number of days



(c) Operational risk management

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

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

The Group has implemented a centralised operational risk management framework. In this connection, the Board of Directors reviews and approves the core policies for operational risk management, and it has delegated the responsibility for day-to-day operational risk management to the Operational Risk Management Committee. The Operational Risk Management Committee regularly reports the status of operational risk management to the Board of Directors via the Risk Management Committee. The Operational Risk Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to operational risk.

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

Moreover, stress tests on the Group's operational risk are conducted regularly. The results are reviewed by the Operational Risk Management Committee and reported to the Risk Management Committee and to the Board of Directors regularly. If necessary, remedial actions are taken.

(d) Liquidity risk management

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

The management of the Group's liquidity risk is governed by the liquidity risk management policies, which are endorsed by the Risk Management Committee and approved by the Board of Directors or the Asset and Liability Management Committee. The Asset and Liability Management Committee is delegated by the Board of Directors to oversee the Group's liquidity risk management, set the strategy and policy for managing liquidity risk and the means for ensuring that such strategy and policy are implemented. Liquidity is managed daily by the Treasury Markets Division within the limits approved by the Board of Directors or the Asset and Liability Management Committee. The Asset and Liability Management Department under the Risk Management Division of the Group is responsible for monitoring the activities relating to liquidity risk. The Internal Audit Department performs periodic reviews to make sure the liquidity risk management functions are carried out effectively.

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

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

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

In the first half of 2012, BEA issued HKD, USD and TWD floating rate debt securities with a face value of HK\$545 million, US\$38.6 million and TWD 551.76 million respectively, HKD, USD, RMB, GBP and SGD fixed rate debt securities with a face value of HK\$754 million, US\$416.2 million, RMB5,015.2 million, GBP118 million and SGD35 million respectively, and HKD, USD and RMB zero coupon debt securities with a face value of HK\$1,171 million, US\$1,359.4 million and RMB200 million respectively. The Bank redeemed a quantity of debt securities amounting to HK\$10,066 million equivalent upon maturity.

At the end of June 2012, the face value of the outstanding debt securities issued was HK\$32,456 million, with a carrying amount equal to HK\$32,401 million.

Maturity Profile of Debt Securities Issued

As at 30th June, 2012

(All expressed in millions of dollars)

	Total Face Value	Year of Maturity					
		2012	2013	2014	2015	2016	2017
Floating Rate							
HKD	775	50	260		385	80	
USD	109	20	89				
TWD	552		552				
Fixed Rate (Note)							
HKD	2,623	435	310	600	531	613	134
USD	376	172	174	10		20	
RMB	10,572	3,026	6,546		1,000		
GBP	98	98					
SGD	105	105					
Zero Coupon							
HKD	255	255					
USD	1,278	880	298	50	50		
RMB	200	200					
Total Debt Securities Issued in HKD equivalent							
	32,456	14,830	13,054	1,065	2,525	848	134

Note:

Associated interest rate swaps have been entered for long term debt securities

In the first half of 2012, BEA issued SGD loan capital with a face value of SGD800 million. The Bank redeemed a quantity of loan capital amounting to HK\$7,847 million equivalent.

At the end of June 2012, the face value of the outstanding loan capital issued was HK\$13,438 million equivalent, with a carrying amount equal to HK\$13,996 million.

Maturity Profile of Loan Capital

As at 30th June, 2012

(All expressed in millions of dollars)

Currency	Total Face Value	Year of Maturity	
		2020	2022
USD (Note 1)	1,100	600	500
SGD (Note 2)	800		800
Total Loan Capital issued In HKD equivalent		4,655	8,783

Notes:

1. US\$500 million loan capital matured in 2022 would be callable on 4th May, 2017
2. Callable on 13th September, 2017

(e) Interest rate risk management

The management of the Group's interest rate risk is governed by the interest rate risk management policies, which are approved by the Board of Directors or the Asset and Liability Management Committee. The Asset and Liability Management Committee is delegated by the Board of Directors to oversee the Group's interest rate risk management, set the strategy and policy for managing interest rate risk and the means for ensuring that such strategy and policy are implemented. Interest rate risk is managed daily by the Treasury Markets Division within the limits approved by the Board of Directors or the Asset and Liability Management Committee. The Asset and Liability Management Department under the Risk Management Division of the Group is responsible for monitoring the activities relating to interest rate risk. The Internal Audit Department performs periodic reviews to make sure that the interest rate risk management functions are implemented effectively.

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

Stress tests on the Group's interest rate risk are conducted regularly. The results are reviewed by the Asset and Liability Management Committee and reported to the Risk Management Committee and to the Board of Directors regularly. If necessary, remedial actions will be taken.

Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on both sides of the balance sheet and is performed on a monthly basis. Sensitivity limits are set to control the Group'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 management of the Group's strategic risk is governed by the strategic risk management policies which are approved by the Board of Directors or the Asset and Liability Management Committee. The Board of Directors has delegated responsibility for ongoing strategic risk management to the Asset and Liability Management Committee. The Asset and Liability Management Committee reports to the Board of Directors via the Risk Management Committee. The Risk Management Division monitors the activities under the Group's prevailing interest earning assets mix and funding strategies and regularly reports the status to the Asset and Liability Management Committee and 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 judgements may disrupt or otherwise negatively affect the operations or financial condition of the Group.

Reputation risk is the risk that the Group's reputation is damaged by one or more than one reputation event as reflected from negative publicity about the Group's business practices, conduct or financial condition. Such negative publicity, whether true or not, may impair public confidence in the Group, result in costly litigation, or lead to a decline in the Group's customer base, business or revenue.

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

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

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the changes to information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) since publication of the Bank's Annual Report 2011 up to 2nd August, 2012 (being the date of approval of the Bank's Interim Report 2012) are set out below:

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

In accordance with the Corporate Governance Code of the Listing Rules effective on 1st April, 2012, the Nomination Committee ("NC") of the Bank shall be chaired by the Chairman of the Board or an independent non-executive director ("INED") and comprises a majority of INEDs. To this effect, Dr. the Hon. Sir David Li Kwok-po, Chairman of the Board, was appointed Chairman of the NC and Mr. Eric Li Fook-chuen was redesignated as Deputy Chairman of NC; and 3 INEDs, namely Dr. Thomas Kwok Ping-kwong, Mr. Kenneth Lo Chin-ming and Mr. Kuok Khoon-ean were appointed as additional members of NC; all with effect from 21st March, 2012.

Experience including other directorships and major appointments

Dr. the Hon. Sir David Li Kwok-po ceased to be a director of COSCO Pacific Limited and the Chairman of The Hong Kong Management Association.

Professor Arthur Li Kwok-cheung was appointed a Member of the Executive Council of Hong Kong Special Administrative Region and an INED of The Wharf (Holdings) Limited.

Mr. Winston Lo was elected as a life member of the Cornell University Council.

Dr. Thomas Kwok Ping-kwong ceased to be a government appointed member of the Commission on Strategic Development.

Mr. Kuok Khoon-ean was appointed an Independent Director of IHH Healthcare Berhad (listed in Malaysia).

Changes in Directors' emoluments

Subsequent to the changes in membership of the NC as described above, the fees received by the Directors in respect of their appointment to the NC have been revised with effect from 21st March, 2012:

- (1) Dr. the Hon. Sir David Li Kwok-po receives a fee of HK\$60,000 per annum as Chairman of the NC.
- (2) Mr. Eric Li Fook-chuen receives a fee of HK\$35,000 per annum as Deputy Chairman of the NC.
- (3) Dr. Thomas Kwok Ping-kwong, Mr. Kenneth Lo Chin-ming and Mr. Kuok Khoon-ean each receives a fee of HK\$35,000 per annum as a member of the NC.

With effect from 1st April, 2012, the base salary payable to Dr. the Hon. Sir David Li Kwok-po, Chief Executive of the Bank, has been increased from HK\$9.0 million to HK\$9.5 million on an annualised basis.

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

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30th June, 2012, 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") (the "Register") were as follows:

I. Long positions in ordinary shares of the Bank:

Name	Capacity and nature	No. of shares	Total	% of issued share capital
David LI Kwok-po	Beneficial owner	53,306,739	55,073,560 ¹	2.62
	Interest of spouse	1,610,125		
	Interest of corporation	156,696		
Arthur LI Kwok-cheung	Beneficial owner	10,114,289	24,304,256 ²	1.16
	Founder of discretionary trust	14,189,967		
Allan WONG Chi-yun	Beneficial Owner	360,677	13,886,407 ³	0.66
	Interest of spouse	136		
	Founder of discretionary trust	13,525,594		
WONG Chung-hin	Beneficial owner	51,491	430,035 ⁴	0.02
	Interest of spouse	378,544		
LEE Chau-kee	Beneficial owner	2,092,183	3,192,183 ⁵	0.16
	Interest of corporation	1,100,000		
Aubrey LI Kwok-sing	Beneficial owner	25,730	34,400,281 ⁶	1.64
	Interest of spouse	19,490		
	Beneficiary of discretionary trust	34,355,061		
Winston LO Yau-lai	–	–	Nil	Nil
KHOO Kay-peng	Interest of corporation	5,524,572	5,524,572 ⁷	0.27
Thomas KWOK Ping-kwong	–	–	Nil	Nil
Richard LI Tzar-kai	Interest of corporation	128,600	128,600 ⁸	0.01
Kenneth LO Chin-ming	–	–	Nil	Nil
Eric LI Fook-chuen	Beneficial owner	4,699,740	36,724,344 ⁹	1.75
	Founder and beneficiary of discretionary trust	22,808,858		
	Interest of corporation	9,215,746		
Stephen Charles LI Kwok-sze	Beneficial owner	11,950,352	14,842,376 ¹⁰	0.71
	Interest of children	546,631		
	Beneficiary of discretionary trusts	2,345,393		
William DOO Wai-hoi	–	–	Nil	Nil
KUOK Khoon-ean	–	–	Nil	Nil
Valiant CHEUNG Kin-piu	–	–	Nil	Nil
Isidro FAINÉ CASAS	–	–	Nil	Nil

Notes:

- 1 *David LI Kwok-po was the beneficial owner of 53,306,739 shares and he was deemed to be interested in 1,610,125 shares through the interests of his spouse, Penny POON Kam-chui. He was also deemed to be interested in 156,696 shares held by David LI Kwok-po Charitable Foundation Limited, a charitable institution of which David LI Kwok-po is a director and the sole member.*
- 2 *Arthur LI Kwok-cheung was the beneficial owner of 10,114,289 shares. Arthur LI Kwok-cheung made a voluntary disclosure of 14,189,967 shares held by a discretionary trust of which he is the founder but has no influence on how the trustee exercises his discretion.*
- 3 *Allan WONG Chi-yun was the beneficial owner of 360,677 shares and he was deemed to be interested in 136 shares through the interests of his spouse, Margaret KWOK Chi-wai. He was also deemed to be interested in 13,525,594 shares held by a discretionary trust, Allan Wong 2011 Trust, of which Allan WONG Chi-yun is a founder and an eligible beneficiary.*
- 4 *WONG Chung-hin was the beneficial owner of 51,491 shares and he was deemed to be interested in 378,544 shares through the interests of his spouse, LAM Mei-lin.*
- 5 *LEE Shau-kee was the beneficial owner of 2,092,183 shares.*

LEE Shau-kee was deemed to be interested in 1,100,000 shares held through Superfun Enterprises Limited ("Superfun"). Superfun was wholly owned by The Hong Kong and China Gas Company Limited which was 39.88% held by Henderson Land Development Company Limited ("Henderson Land").

Henderson Land was deemed to be 61.92% held by Henderson Development Limited ("Henderson Development"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of Henderson Development. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by LEE Shau-kee.
- 6 *Aubrey LI Kwok-sing was the beneficial owner of 25,730 shares and he was deemed to be interested in 19,490 shares through the interests of his spouse, Elizabeth WOO. The remaining 34,355,061 shares were held by The Fook Wo Trust, a discretionary trust in which Aubrey LI Kwok-sing is one of the discretionary beneficiaries.*
- 7 *KHOO Kay-peng was deemed to be interested in 5,524,572 shares, out of which (i) 1,231,841 shares were held through Bonham Industries Limited, a company in which he (and his spouse) held 100% of the issued capital, and (ii) 4,292,731 shares were held through the Malayan United Industries Berhad Group of which he is the Chairman and Chief Executive and a deemed substantial shareholder.*
- 8 *Richard LI Tzar-kai was deemed to be interested in 128,600 shares which were held by PineBridge Investments LLC ("PBI LLC") in its capacity as an investment manager. PBI LLC is an indirect subsidiary of Chiltonlink Limited which is 100% owned by Richard LI Tzar-kai.*
- 9 *Eric LI Fook-chuen was the beneficial owner of 4,699,740 shares, and 22,808,858 shares were held by New Jerico Limited. Eric LI Fook-chuen is the sole director of New Jerico Limited. The only one share in New Jerico Limited is held by The New Elico Trust, of which Eric LI Fook-chuen is the founder and a discretionary beneficiary. Eric LI Fook-chuen was also deemed to be interested in 9,215,746 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 11,950,352 shares, and he was deemed to be interested in 546,631 shares through the interests of his children under the age of 18. Of the remaining 2,345,393 shares, (i) 2,150,000 shares were held by a discretionary trust, Settlement of Dr. Simon F. S. Li, of which Stephen Charles LI Kwok-sze, his spouse and his children under the age of 18 were beneficiaries and (ii) 195,393 shares were held by a discretionary trust, Longevity Trust, of which his children under the age of 18 were beneficiaries.*

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

Shares options, being unlisted physically settled equity derivatives, to subscribe for the ordinary shares of the Bank were granted to David LI Kwok-po pursuant to the approved Staff Share Option Schemes. Information in relation to these share options during the six months ended 30th June, 2012 was shown in the following section under the heading "Information on Share Options".

III. Interests in Hybrid Tier I Capital Instruments:

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

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

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

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

INFORMATION ON SHARE OPTIONS

Information in relation to share options disclosed in accordance with the Listing Rules was as follows:

(1) Movement of share options during the six months ended 30th June, 2012:

Name	Date of Grant	Number of Share Options				Outstanding at 30/6/2012
		Outstanding at 1/1/2012	Granted	Exercised	Lapsed	
David LI Kwok-po	10/5/2007 ^a	1,100,000	–	–	1,100,000	Nil
	05/5/2008 ^a	2,200,000	–	–	–	2,200,000
	05/5/2009 ^a	Nil	–	–	–	Nil
	06/7/2010 ^a	2,000,000	–	–	–	2,000,000
	05/5/2011 ^b	666,000 ^{T1}	–	–	–	666,000
	05/5/2011 ^b	666,000 ^{T2}	–	–	–	666,000
	05/5/2011 ^b	668,000 ^{T3}	–	–	–	668,000
	10/5/2012 ^c	–	666,000 ^{T1}	–	–	666,000
	10/5/2012 ^c	–	666,000 ^{T2}	–	–	666,000
	10/5/2012 ^c	–	668,000 ^{T3}	–	–	668,000
Aggregate of other Employees*	10/5/2007 ^a	935,000	–	–	935,000	Nil
	05/5/2008 ^a	1,870,000	–	–	–	1,870,000
	05/5/2009 ^a	3,515,000	–	110,000 ^d	–	3,405,000
	06/7/2010 ^a	3,950,000	–	–	–	3,950,000
	05/5/2011 ^b	1,314,000 ^{T1}	–	–	–	1,314,000
	05/5/2011 ^b	1,314,000 ^{T2}	–	–	–	1,314,000
	05/5/2011 ^b	1,322,000 ^{T3}	–	–	–	1,322,000
	10/5/2012 ^c	–	1,314,000 ^{T1}	–	–	1,314,000
	10/5/2012 ^c	–	1,314,000 ^{T2}	–	–	1,314,000
	10/5/2012 ^c	–	1,322,000 ^{T3}	–	–	1,322,000

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

Notes:

a Particulars of share options granted in years 2007 to 2010:

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

b Particulars of share options granted in year 2011:

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

c Share options granted in year 2012:

(i) Particulars:

<u>Date of Grant</u>	<u>Tranche</u>	<u>Vesting Period</u>	<u>Exercise Period</u>	<u>Exercise Price Per Share HK\$</u>
10/5/2012	T1	10/5/2012 – 09/5/2013	10/5/2013 – 10/5/2018	28.99
10/5/2012	T2	10/5/2012 – 09/5/2014	10/5/2014 – 10/5/2019	28.99
10/5/2012	T3	10/5/2012 – 09/5/2015	10/5/2015 – 10/5/2020	28.99

(ii) The closing price of the shares of the Bank on 9th May, 2012 (being the business day immediately preceding 10th May, 2012 on which the options were granted) was HK\$28.90.

(iii) Fair value of share options granted during the six months ended 30th June, 2012 and assumptions are as follows:

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>30/06/2012</u>
Fair value at measurement date	
– Tranche 1	HK\$3.95
– Tranche 2	HK\$4.02
– Tranche 3	HK\$3.99
Share price	HK\$28.90
Exercise price	HK\$28.99
Expected volatility (expressed as weighted average volatility used in the modelling under trinomial lattice model)	22.08%
Option life	
– Tranche 1	6 years
– Tranche 2	7 years
– Tranche 3	8 years
Expected dividends	3.87%
Risk-free interest rate (based on Exchange Fund Notes)	0.45%

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

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

d The half-year weighted average (“HWA”) closing price of the shares of the Bank immediately before the date on which the Options were exercised during the six months ended 30th June, 2012:

<u>Date of Grant</u>	<u>No. of Options Exercised</u>	<u>Exercise Price Per Share HK\$</u>	<u>HWA Closing Price HK\$</u>
05/5/2009	110,000	21.25	29.89

(2) No share options were cancelled during the six months ended 30th June, 2012.

(3) The accounting policy adopted for share options:

The option exercise price is equal to the higher of:

- (a) the closing price of the Bank's ordinary shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the relevant options;
- (b) an amount equivalent to the average closing price of the Bank's ordinary shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the relevant options; and
- (c) the nominal value of the Bank's ordinary shares.

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

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

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

Save as disclosed above, as at 30th June, 2012, 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

As at 30th June, 2012, the interests or short positions of substantial shareholders in the shares and underlying shares of the Bank as recorded in the register required to be kept under section 336 of the SFO (the "Register") were as follows:

Long positions in ordinary shares of the Bank:

<u>Name</u>	<u>Capacity and nature</u>	<u>No. of shares</u>	<u>% of issued share capital</u>
CaixaBank, S.A.	Beneficial owner	359,127,708 ¹	17.10
Caja de Ahorros y Pensiones de Barcelona	Interest of corporation	359,127,708 ¹	17.10
Guoco Management Company Limited	Beneficial owner	316,781,772 ^{2,3}	15.09 ⁴
Guoco Group Limited	Interest of corporation	316,781,772 ²	15.09
GuoLine Overseas Limited	Interest of corporation	316,781,772 ²	15.09 ⁴
GuoLine Capital Assets Limited	Interest of corporation	316,781,772 ²	15.09 ⁴
Hong Leong Company (Malaysia) Berhad	Interest of corporation	316,781,772 ^{2,3}	15.09
HL Holdings Sdn Bhd	Interest of corporation	316,781,772 ²	15.09
Quek Leng Chan	Interest of corporation	316,781,772 ²	15.09
Hong Leong Investment Holdings Pte. Ltd.	Interest of corporation	316,781,772 ³	15.09
Davos Investment Holdings Private Limited	Interest of corporation	316,781,772 ³	15.09
KWEK Leng Kee	Interest of corporation	316,781,772 ³	15.09

Notes:

1 As at 30th June, 2012, Caja de Ahorros y Pensiones de Barcelona held a controlling interest in CaixaBank, S.A. which directly held the above 359,127,708 shares (equivalent to approximately 17.10% of the issued share capital of the Bank as at 30th June, 2012). Caja de Ahorros y Pensiones de Barcelona was deemed to be interested in the above 359,127,708 shares of the Bank.

2 The references to 316,781,772 shares of the Bank in Notes 2 and 3 relate to the same block of shares. Guoco Management Company Limited was the beneficial owner of 316,781,772 shares. Hong Leong Company (Malaysia) Berhad was deemed to be interested in the 316,781,772 shares held by Guoco Management Company Limited by virtue of its 100% interest in GuoLine Capital Assets Limited which owned a 100% interest in GuoLine Overseas Limited. GuoLine Overseas Limited held a 71.52% interest in Guoco Group Limited which in turn owned a 100% interest in Guoco Management Company Limited. GuoLine Capital Assets Limited, GuoLine Overseas Limited and Guoco Group Limited were all deemed to be interested in the 316,781,772 shares held by Guoco Management Company Limited.

Quek Leng Chan was deemed to be interested in the 316,781,772 shares held by Guoco Management Company Limited by virtue of his 100% interest in HL Holdings Sdn Bhd ("HLH"). Hong Leong Company (Malaysia) Berhad was 49.27% owned by Quek Leng Chan as to 2.424% under his personal name and 46.534% via HLH which was wholly-owned by him and 0.311% via Newton (L) Limited.

3 The references to 316,781,772 shares of the Bank in Notes 2 and 3 relate to the same block of shares. Hong Leong Company (Malaysia) Berhad was 34.69% held by Hong Leong Investment Holdings Pte. Ltd. which was in turn 33.59% held by Davos Investment Holdings Private Limited. Hong Leong Investment Holdings Pte. Ltd. and Davos Investment Holdings Private Limited were deemed to be interested in the 316,781,772 shares held by Guoco Management Company Limited by virtue of their interests in Hong Leong Company (Malaysia) Berhad.

Kwek Leng Kee was deemed to be interested in the 316,781,772 shares held by Guoco Management Company Limited by virtue of his 41.92% interest in Davos Investment Holdings Private Limited.

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

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

DEALINGS IN LISTED SECURITIES OF THE BANK

During the six months ended 30th June, 2012, the Bank fully redeemed GBP262.263 million face value of the 6.125% step-up perpetual subordinated notes (the "Perpetual Notes") qualifying as supplementary capital. The Perpetual Notes were issued on 20th March, 2007 and were listed on the Singapore Stock Exchange. After full redemption on 21st March, 2012, the Perpetual Notes were delisted on 23rd March, 2012. Moreover, the Bank also fully redeemed US\$600 million face value of the floating rate step-up subordinated notes due 2017 (the "2017 Notes") qualifying as supplementary capital. The 2017 Notes were issued on 21st June, 2007 and were listed on the Singapore Stock Exchange. After full redemption on 22nd June, 2012, the 2017 Notes were delisted on 26th June, 2012. Save for the aforesaid redemption of the Perpetual Notes and 2017 Notes, 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, 2012.

COMPLIANCE WITH CORPORATE GOVERNANCE 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.

The Corporate Governance Code (the "New Code"), issued by the Stock Exchange in October 2011, is the new edition of the Code on Corporate Governance Practices (the "Former Code"), and is applicable to financial reports covering an accounting period which ends after 1st April, 2012. During the accounting period for the six months ended 30th June, 2012, BEA has complied with all the Code Provisions set out in the New Code during the period from 1st April, 2012 to 30th June, 2012 as well as the Former Code during the period from 1st January, 2012 to 31st March, 2012, except for Code Provision A.2.1 as explained below.

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

Dr. the Hon. Sir David LI Kwok-po is the Chairman & Chief Executive of the Bank. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Bank. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and highly qualified individuals. The Board meets at approximately quarterly intervals to discuss issues affecting operations of the Bank. There is a strong independent element in the composition of the Board. Of the 17 Board members, 9 are Independent Non-executive Directors. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Bank to make and implement decisions promptly and efficiently. The Board believes that Sir David's appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects and management of the Bank.

COMPLIANCE WITH MODEL CODE

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

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

After specific enquiries made, all Directors confirmed that they had complied with the required standard set out in the Model Code and the Bank's Policy at all the applicable times during the six months ended 30th June, 2012.

By order of the Board

David LI Kwok-po

Chairman & Chief Executive

Hong Kong, 2nd August, 2012

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

* Non-executive Directors

** Independent Non-executive Directors