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BEA 東亞銀行

The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)
(Stock Code: 23)

ANNOUNCEMENT OF 2013 INTERIM RESULTS

INTERIM RESULTS

The Directors of The Bank of East Asia, Limited ("BEA" or the "Bank") are pleased to announce the unaudited results[a] of the Bank and its subsidiaries (the "Group") for the six months ended 30th June, 2013.

1. Consolidated Income Statement

	6 months ended 30/6/2013 HK$ Mn	6 months ended 30/6/2012 HK$ Mn
Interest income	11,915	11,128
Interest expense	(6,251)	(6,507)
Net interest income	5,664	4,621
Fee and commission income	2,407	2,044
Fee and commission expense	(426)	(380)
Net fee and commission income	1,981	1,664
Net trading profits	883	597
Net result from financial instruments designated at fair value through profit or loss	(538)	278
Net hedging loss	(14)	-
Other operating income	344	289
Non-interest income	2,656	2,828
Operating income	8,320	7,449
Operating expenses	(4,507)	(4,172)
Operating profit before impairment losses	3,813	3,277
Impairment losses on loans and advances	(182)	(125)
Write back of impairment losses on held-to-maturity investments	-	11
Impairment losses on available-for-sale financial assets	(1)	(29)
Impairment losses	(183)	(143)
Operating profit after impairment losses	3,630	3,134
Net profit on sale of available-for-sale financial assets	59	47
Net profit on sale of loans and receivables	-	35
Net profit on sale of subsidiaries	-	5
Net profit on sale of fixed assets	-	136
Valuation gains on investment properties	319	222
Share of profits less losses of associates	378	238
Profit for the period before taxation	4,386	3,817
Income tax		
Current tax[b]		
- Hong Kong	(415)	(315)
- Outside Hong Kong	(440)	(355)
Deferred tax	(101)	(110)
Profit for the period after taxation	3,430	3,037
Attributable to:		
Owners of the parent	3,376	2,988
Non-controlling interests	54	49
Profit after taxation	3,430	3,037
Profit for the Bank	1,755	1,509
Per share		
- Basic earnings[c]	HK$1.43	HK$1.35
- Diluted earnings[c]	HK$1.43	HK$1.35

2. Consolidated Statement of Comprehensive Income

	6 months ended 30/6/2013	6 months ended 30/6/2012
	HK$ Mn	HK$ Mn
Net profit	3,430	3,037
Other comprehensive income for the period (after taxation and reclassification adjustments):		
Item that will not be reclassified to income statement:		
Premises:		
- unrealised surplus on revaluation of premises	670	-
- exchange differences	2	-
Items that may be reclassified subsequently to income statement:		
Available-for-sale investment revaluation reserve:		
- fair value changes recognised (from)/to equity	(382)	572
- fair value changes reclassified from/(to) income statement:		
- on impairment and amortisation	15	51
- on disposal	(100)	(61)
- deferred taxes	54	(91)
- exchange difference	(1)	7
Share of changes in equity of associates	2	4
Exchange differences on other reserves	33	(19)
Exchange differences on translation of:		
- accounts of overseas branches, subsidiaries and associates	123	(95)
Other comprehensive income	416	368
Total comprehensive income	3,846	3,405
Total comprehensive income attributable to:		
Owners of the parent	3,792	3,356
Non-controlling interests	54	49
	3,846	3,405

3. Consolidated Statement of Financial Position

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
ASSETS		
Cash and balances with banks and other financial institutions	53,055	85,512
Placements with banks and other financial institutions	52,976	50,618
Trade bills	54,253	55,740
Trading assets	8,960	7,338
Financial assets designated at fair value through profit or loss	12,170	15,169
Advances to customers and other accounts	423,823	387,273
Available-for-sale financial assets	64,547	64,731
Held-to-maturity investments	4,977	4,320
Investments in associates	4,918	4,677
Fixed assets	13,628	12,552
- Investment properties	4,610	3,100
- Other property and equipment	9,018	9,452
Goodwill and intangible assets	4,008	4,041
Deferred tax assets	118	143
Total Assets	697,433	692,114
EQUITY AND LIABILITIES		
Deposits and balances of banks and other financial institutions	18,054	30,597
Deposits from customers	498,026	498,770
- Demand deposits and current accounts	61,519	68,950
- Savings deposit	84,417	86,549
- Time, call and notice deposits	352,090	343,271
Trading liabilities	4,225	3,827
Certificates of deposit issued	38,427	27,370
- At fair value through profit or loss	8,532	6,095
- At amortised cost	29,895	21,275
Current taxation	1,481	988
Debt securities issued	7,167	8,657
- At fair value through profit or loss	383	698
- At amortised cost	6,784	7,959
Deferred tax liabilities	650	626
Other accounts and provisions	50,843	45,377
Loan capital - at amortised cost	13,639	14,263
Total Liabilities	632,512	630,475
Share capital	5,654	5,568
Reserves	54,759	51,585
Total equity attributable to owners of the parent	60,413	57,153
Non-controlling interests	4,508	4,486
Total Equity	64,921	61,639
Total Equity and Liabilities	697,433	692,114

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, 2013	5,568	16,083	135	2,769	1,012	976	130	13,823	2,611	14,046	57,153	4,486	61,639
Changes in equity													
Profit for the period	-	-	-	-	-	-	-	-	-	3,376	3,376	54	3,430
Other comprehensive income	-	-	-	123	(414)	672	-	-	35	-	416	-	416
Total comprehensive income	-	-	-	123	(414)	672	-	-	35	3,376	3,792	54	3,846
Shares issued in lieu of dividend	84	908	-	-	-	-	-	-	-	-	992	-	992
Shares issued under Staff Share Option Schemes	2	30	-	-	-	-	-	-	-	-	32	-	32
Equity settled share-based transaction	-	-	11	-	-	-	-	-	-	-	11	-	11
Transfer	-	4	(60)	-	-	-	-	30	493	(467)	-	-	-
Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	(1,567)	(1,567)	(35)	(1,602)
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	3	3
At 30th June, 2013	5,654	17,025	86	2,892	598	1,648	130	13,853	3,139	15,388	60,413	4,508	64,921
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

5. Condensed Consolidated Cash Flow Statement

	6 months ended 30/6/2013 HK$ Mn	6 months ended 30/6/2012 HK$ Mn
Cash used in operations	(51,288)	(14,773)
Tax paid	(356)	(347)
Net cash used in operating activities	(51,644)	(15,120)
Net cash (used in)/generated from investing activities	(441)	336
Net cash generated from financing activities	8,101	10,289
Net decrease in cash and cash equivalents	(43,984)	(4,495)
CASH AND CASH EQUIVALENTS AT 1st JANUARY	99,738	79,181
CASH AND CASH EQUIVALENTS AT 30th JUNE	55,754	74,686
Cash flows from operating activities included:		
Interest received	11,907	11,418
Interest paid	6,135	6,902
Dividend received	39	41

Notes:

(a) The information in this announcement is not audited or reviewed by the external auditors but is extracted from the interim report prepared under HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Hence this announcement does not constitute the Group's statutory accounts. The interim report, which has been reviewed by the Bank's Audit Committee, is prepared on a basis consistent with the accounting policies and methods of computation adopted in the 2012 audited accounts, except for the accounting policy changes required under new HKFRSs and amendments that are first effective for the current accounting period as described in section 6 below, and 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 HKICPA, whose unmodified review report is included in the interim report which will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank, together with the disclosures required by the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA"), by 30th September, 2013 as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Banking (Disclosure) Rules. The statutory accounts for the year ended 31st December, 2012 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 26th February, 2013.

(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, 2013. 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$3,213 million (six months ended 30th June, 2012: HK$2,824 million) after the distribution of HK$163 million (six months ended 30th June, 2012: HK$164 million) to Hybrid Tier 1 issue holders and on the weighted average of 2,243 million (six months ended 30th June, 2012: 2,089 million) ordinary shares outstanding during the six months ended 30th June, 2013.

(ii) The calculation of diluted earnings per share is based on earnings of HK$3,213 million (six months ended 30th June, 2012: HK$2,824 million) after the distribution of HK$163 million (six months ended 30th June, 2012: HK$164 million) to Hybrid Tier 1 issue holders and on 2,245 million (six months ended 30th June, 2012: 2,090 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2013, adjusted for the effects of all dilutive potential shares.

(d) Dividends

	6 months ended 30/6/2013	6 months ended 30/6/2012
	HK$ Mn	HK$ Mn
Dividends payable to equity owners of the parent attributable to the interim period:		
Interim dividend declared and paid after the interim period of HK$0.43 per share (six months ended 30th June, 2012: HK$0.43 per share)	973	903
Second interim dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the end of the reporting period and before the close of the Register of Members of the Bank, of HK$0.63 per share (2011: HK$0.51 per share)	1	-
	974	903

The interim dividend has not been recognised as a liability at the end of the reporting period.

6. Changes in Accounting Policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to income statement in the future if certain conditions are met separately from those that would never be reclassified to income statement. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1st January, 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim results announcement as a result of adopting HKFRS 12.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in Note 32. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group because the Group does not have any reportable segments with total assets or total liabilities materially different from the amounts reported in the last annual financial statements.

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7.

7. Interest Income

	6 months ended 30/6/2013	6 months ended 30/6/2012
	HK$ Mn	HK$ Mn
Securities classified as held-to-maturity or available-for-sale		
- listed	323	197
- unlisted	489	466
Trading assets		
- listed	8	11
- unlisted	128	92
Interest rate swaps	823	808
Financial assets designated at fair value through profit or loss		
- listed	215	236
- unlisted	96	113
Loans, deposits with banks and financial institutions, and trade bills	9,833	9,205
Total interest income	11,915	11,128

Included above is interest income accrued on impaired financial assets of HK$41 million (six months ended 30th June, 2012: HK$41 million).

8. Interest Expense

	6 months ended 30/6/2013	6 months ended 30/6/2012 Restated
	HK$ Mn	HK$ Mn
Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost	4,808	4,841
Debt securities issued	151	170
Subordinated notes carried at amortised cost	373	353
Interest rate swaps	854	1,023
Financial instruments designated at fair value through profit or loss	64	105
Other borrowings	1	15
Total interest expense	6,251	6,507

9. Fee and Commission Income

Fee and commission income arises from the following services:

	6 months ended 30/6/2013 HK$ Mn	6 months ended 30/6/2012 HK$ Mn
Corporate services	531	518
Credit cards	471	415
Loans, overdrafts and guarantees	468	273
Other retail banking services	235	177
Trade finance	216	191
Securities and brokerage	168	137
Trust and other fiduciary activities	98	66
Others	220	267
Total fee and commission income	2,407	2,044
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	1,990	1,672
Fee income	2,407	2,044
Fee expenses	(417)	(372)

10. Net Trading Profits

	6 months ended 30/6/2013 HK$ Mn	6 months ended 30/6/2012 HK$ Mn
Profit on dealing in foreign currencies	322	109
(Loss)/Profit on trading securities	(97)	107
Net gain on derivatives	638	363
Dividend income from listed trading securities	20	18
Total net trading profits	883	597

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

	6 months ended 30/6/2013 HK$ Mn	6 months ended 30/6/2012 HK$ Mn
Revaluation gain on debts issued	17	5
Net loss on sale of other financial assets designated at fair value through profit or loss	(341)	(50)
Profit on redemption of subordinated notes issued	-	24
Revaluation (loss)/gain on other financial assets designated at fair value through profit or loss	(214)	299
Total net result from financial instruments designated at fair value through profit or loss	(538)	278

12. Net Hedging Loss

	6 months ended 30/6/2013	6 months ended 30/6/2012
	HK$ Mn	HK$ Mn
Fair value hedges		
- Net gain/(loss) on hedged items attributable to the hedged risk	275	(159)
- Net (loss)/gain on hedging instruments	(289)	159
	(14)	-

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the six months ended 30th June, 2013.

13. Other Operating Income

	6 months ended 30/6/2013	6 months ended 30/6/2012
	HK$ Mn	HK$ Mn
Dividend income from available-for-sale financial assets		
- listed	4	4
- unlisted	15	19
Rental from safe deposit boxes	38	40
Net revenue from insurance activities	153	128
Rental income on properties	66	71
Others	68	27
Total other operating income	344	289

14. Operating Expenses

	6 months ended 30/6/2013 HK$ Mn	6 months ended 30/6/2012 HK$ Mn
Contributions to defined contribution plan		
- Hong Kong	73	71
- Outside Hong Kong	149	125
Equity-settled share-based payment expenses	11	10
Salaries and other staff costs	2,327	2,121
Total staff costs	2,560	2,327
Premises and equipment expenses excluding depreciation		
- Rental of premises	314	292
- Maintenance, repairs and others	288	277
Total premises and equipment expenses excluding depreciation	602	569
Depreciation on fixed assets	330	334
Amortisation of intangible assets	16	17
Other operating expenses		
- Stamp duty, overseas and PRC* business taxes, and value added taxes	337	291
- Communications, stationery and printing	150	154
- Legal and professional fees	89	108
- Advertising expenses	88	87
- Business promotions and business travel	76	76
- Card related expenses	46	43
- Insurance expenses	23	25
- Donations	17	4
- Membership fees	7	6
- Administration expenses of corporate services	6	8
- Bank charges	5	8
- Bank licence	2	2
- Others	153	113
Total other operating expenses	999	925
Total operating expenses	4,507	4,172

* PRC denotes the People's Republic of China.

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

	6 months ended 30/6/2013 HK$ Mn	6 months ended 30/6/2012 HK$ Mn
Net revaluation gain transferred from reserves	100	61
Loss arising in the period	(41)	(14)
	59	47

16. Net Profit on Sale of Fixed Assets

	6 months ended 30/6/2013	6 months ended 30/6/2012
	HK$ Mn	HK$ Mn
Net profit on sale of investment properties	-	137
Net loss on sale of bank premises, furniture, fixtures and equipment	-	(1)
	-	136

17. Placements with Banks and Other Financial Institutions

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
Placements with banks and authorised institutions	52,953	50,381
Placements with central banks	23	237
	52,976	50,618
Maturing		
- within one month	32,763	25,409
- between one month and one year	20,213	25,209
	52,976	50,618

18. Trading Assets

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
Treasury bills (including Exchange Fund Bills)	670	9
Debt securities	4,096	3,048
Equity securities	1,245	1,138
Investment funds	19	18
Trading securities	6,030	4,213
Positive fair value of derivatives	2,930	3,125
	8,960	7,338
Issued by:		
Central governments and central banks	1,697	26
Public sector entities	247	336
Banks and other financial institutions	785	681
Corporate entities	3,282	3,152
Other entities	19	18
	6,030	4,213
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	18	15
Listed outside Hong Kong	344	342
	362	357
Unlisted	4,404	2,700
	4,766	3,057
Equity securities		
Listed in Hong Kong	965	904
Listed outside Hong Kong	280	234
	1,245	1,138
Investment funds		
Listed in Hong Kong	7	8
Listed outside Hong Kong	12	10
	19	18
	6,030	4,213

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

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
Debt securities	11,866	14,751
Equity securities	291	412
Investment funds	13	6
	12,170	15,169
Issued by:		
Central governments and central banks	360	450
Banks and other financial institutions	6,090	6,794
Corporate entities	5,707	7,920
Other entities	13	5
	12,170	15,169
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	1,679	3,330
Listed outside Hong Kong	6,199	6,792
	7,878	10,122
Unlisted	3,988	4,629
	11,866	14,751
Equity securities		
Listed in Hong Kong	93	224
Listed outside Hong Kong	198	188
	291	412
Investment funds		
Listed outside Hong Kong	12	-
Unlisted	1	6
	13	6
	12,170	15,169

20. Advances to Customers and Other Accounts

(a) Advances to customers and other accounts

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
(i) Advances to customers	383,240	350,720
Less: Impairment allowances		
- Individual	(310)	(238)
- Collective	(678)	(681)
	382,252	349,801
(ii) Other Accounts		
Advances to banks and other financial institutions	6	146
Less: Impairment allowances - Individual	(4)	(4)
	2	142
Notes and bonds	1	1
Certificates of deposit held	78	77
Accrued interest	2,696	2,688
Customer liability under acceptance	28,890	24,633
Other accounts	9,948	9,962
	41,613	37,361
Less: Impairment allowances		
- Individual	(25)	(28)
- Collective	(19)	(3)
	41,569	37,330
	423,823	387,273

(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 HKMA.

	30/6/2013		31/12/2012	
	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK$ Mn	%	HK$ Mn	%
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	15,087	62.73	13,460	71.28
- Property investment	39,097	88.69	39,522	90.10
- Financial concerns	14,389	85.17	11,557	86.79
- Stockbrokers	2,912	91.68	804	85.26
- Wholesale and retail trade	11,856	36.82	10,232	41.50
- Manufacturing	6,295	33.12	6,331	34.07
- Transport and transport equipment	5,989	59.47	5,414	64.01
- Recreational activities	128	41.81	215	44.22
- Information technology	598	14.75	1,170	8.28
- Others	9,186	53.63	7,580	47.25
- Sub-total	105,537	70.25	96,285	72.25
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,089	100.00	1,171	100.00
- Loans for the purchase of other residential properties	25,490	99.99	25,337	99.98
- Credit card advances	3,805	0.00	3,802	0.00
- Others	17,256	78.23	16,297	75.17
- Sub-total	47,640	84.12	46,607	83.15
Total loans for use in Hong Kong	153,177	74.57	142,892	75.80
Trade finance	5,014	33.60	5,156	41.08
Loans for use outside Hong Kong *	225,049	71.22	202,672	70.42
Total advances to customers	383,240	72.07	350,720	72.18

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

	30/6/2013		31/12/2012	
	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK$ Mn	%	HK$ Mn	%
Property development	31,343	55.35	27,835	55.35
Property investment	29,709	91.61	29,895	98.45
Wholesale and retail trade	33,520	67.09	26,872	74.89
Manufacturing	11,127	46.10	10,116	46.81
Others	63,843	72.08	57,015	63.41
	169,542	69.72	151,733	69.76

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:

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
(i) Property development		
a. Individually impaired loans	175	166
b. Individual impairment allowance	19	21
c. Collective impairment allowance	61	59
d. Provision charged to income statement		
- individual impairment loss	-	7
- collective impairment loss	14	18
e. Written off	-	8
(ii) Property investment		
a. Individually impaired loans	168	174
b. Individual impairment allowance	6	7
c. Collective impairment allowance	155	177
d. Provision charged to income statement		
- individual impairment loss	-	12
- collective impairment loss	19	56
e. Written off	-	19
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	128	102
b. Individual impairment allowance	1	1
c. Collective impairment allowance	53	54
d. Provision charged to income statement		
- individual impairment loss	1	5
- collective impairment loss	5	8
e. Written off	-	1
(iv) Wholesale and retail trade		
a. Individually impaired loans	334	264
b. Individual impairment allowance	97	77
c. Collective impairment allowance	104	94
d. Provision charged to income statement		
- individual impairment loss	66	170
- collective impairment loss	22	24
e. Written off	42	120

(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.

	30/6/2013				
	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	166,377	219	379	83	206
People's Republic of China	176,162	612	706	182	278
Other Asian Countries	21,117	35	87	30	106
Others	19,584	70	273	15	88
Total	383,240	936	1,445	310	678
% of total advances to customers			0.38%		
Market value of security held against impaired advances to customers			3,520		

	31/12/2012				
	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	159,038	171	338	84	208
People's Republic of China	151,588	375	453	119	232
Other Asian Countries	19,446	29	43	17	118
Others	20,648	81	304	18	123
Total	350,720	656	1,138	238	681
% of total advances to customers			0.32%		
Market value of security held against impaired advances to customers			2,947		

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.

21. Available-for-Sale Financial Assets

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
Treasury bills (including Exchange Fund Bills)	16,842	22,873
Certificates of deposit held	2,393	2,914
Debt securities	42,647	36,546
Equity securities	2,457	2,307
Investment funds	208	91
	64,547	64,731
Issued by:		
Central governments and central banks	18,492	23,087
Public sector entities	1,905	2,198
Banks and other financial institutions	20,970	20,855
Corporate entities	22,934	18,462
Other entities	246	129
	64,547	64,731
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	7,376	5,450
Listed outside Hong Kong	11,971	12,519
	19,347	17,969
Unlisted	42,535	44,364
	61,882	62,333
Equity securities		
Listed in Hong Kong	509	553
Listed outside Hong Kong	1,135	978
	1,644	1,531
Unlisted	813	776
	2,457	2,307
Investment funds		
Listed outside Hong Kong	48	19
Unlisted	160	72
	208	91
	64,547	64,731

22. Held-to-Maturity Investments

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
Treasury bills (including Exchange Fund Bills)	534	615
Certificates of deposit held	1,163	1,070
Debt securities	3,280	2,635
	4,977	4,320
Issued by:		
Central governments and central banks	1,573	1,552
Public sector entities	289	316
Banks and other financial institutions	946	1,108
Corporate entities	2,169	1,344
	4,977	4,320
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	797	627
Listed outside Hong Kong	1,945	1,527
	2,742	2,154
Unlisted	2,235	2,166
	4,977	4,320
Fair value:		
Listed securities	2,763	2,295
Unlisted securities	2,241	2,179
	5,004	4,474

23. Fixed Assets

	30/6/2013				
	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, 2013	3,100	9,054	4,671	13,725	16,825
Additions	9	109	171	280	289
Revaluation surplus	319	-	-	-	319
Revaluation of bank premises transferred to investment properties	-	664	-	664	664
Transfer from bank premises to investment properties	1,145	(1,145)	-	(1,145)	-
Redevelopment cost	37	49	-	49	86
Disposals	-	(1)	(41)	(42)	(42)
Exchange adjustments	-	46	14	60	60
At 30th June, 2013	4,610	8,776	4,815	13,591	18,201
Accumulated depreciation and amortisation					
At 1st January, 2013	-	1,170	3,103	4,273	4,273
Charge for the period	-	87	243	330	330
Revaluation of bank premises transferred to investment properties	-	(6)	-	(6)	(6)
Written off on disposal	-	-	(39)	(39)	(39)
Exchange adjustments	-	7	8	15	15
At 30th June, 2013	-	1,258	3,315	4,573	4,573
Net book value at 30th June, 2013	4,610	7,518	1,500	9,018	13,628
Net book value at 31st December, 2012	3,100	7,884	1,568	9,452	12,552
The gross amounts of the above assets are stated:					
At cost	-	7,964	4,815	12,779	12,779
At Directors' valuation - 1989	-	812	-	812	812
At professional valuation - 2013	4,610	-	-	-	4,610
	4,610	8,776	4,815	13,591	18,201

24. Trading Liabilities

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
Shares sold	1	21
Negative fair value of derivatives	4,224	3,806
	4,225	3,827

25. Other Accounts and Provisions

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
Accrued interest payable	4,028	3,912
Acceptance draft payable	28,890	24,633
Other accounts	17,925	16,832
	50,843	45,377

26. Loan Capital

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
USD600 million subordinated notes, measured at amortised cost	4,870	5,139
USD500 million subordinated notes, (under the Euro Medium Term Note Programme), measured at amortised cost	3,917	3,976
SGD800 million subordinated notes, (under the Euro Medium Term Note Programme), measured at amortised cost	4,852	5,148
	13,639	14,263

Two tranches of loan capital of face value totalling HK$4,654 million (USD600 million) and carrying amount totalling HK$4,870 million (31/12/2012: HK$5,139 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$5 million loss in the first half of 2013 (first half 2012: HK$3 million loss) was recorded under fair value hedge accounting.

Loan capital of face value of HK$3,878 million (USD500 million) and carrying amount of HK$3,917 million (31/12/2012: HK$3,976 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$0.025 million loss in the first half of 2013 (first half 2012: HK$4 million loss) was recorded under the fair value hedge accounting for the USD400 million subordinated notes. The fair value as of 30th June, 2013 for the USD100 million subordinated notes was HK$844 million (USD109 million) (31/12/2012: HK$772 million (USD99.6 million)).

Loan capital of face value of HK$4,893 million (SGD800 million) and carrying amount of HK$4,852 million (31/12/2012: HK$5,148 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 HK$1 million loss in the first half of 2013 (first half 2012: HK$1 million profit) was recorded under the fair value hedge accounting.

27. 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 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, money lender activities and corporate financial advisory in Hong Kong.

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

Overseas operations include the back office unit for overseas banking operations in Hong Kong, all branches, subsidiaries and associates operated in overseas, except those subsidiaries carrying out corporate services 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 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 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 30/6/2013												
	Hong Kong banking operations												
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	China operations	Overseas operations	Corporate services	Total reportable segments	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	HK$ Mn
Net interest income/(expense)	1,083	1,164	(7)	136	34	93	2,600	468	2	5,573	90	1	5,664
Non-interest income/(expense)	361	349	(31)	207	10	298	631	155	535	2,515	306	(165)	2,656
Operating income	1,444	1,513	(38)	343	44	391	3,231	623	537	8,088	396	(164)	8,320
Operating expenses	(720)	(91)	(58)	(84)	(6)	(256)	(1,936)	(227)	(373)	(3,751)	(920)	164	(4,507)
Operating profit/(loss) before impairment losses	724	1,422	(96)	259	38	135	1,295	396	164	4,337	(524)	-	3,813
(Charge for)/write back of impairment losses on loans and advances and other accounts	(40)	(1)	1	(2)	-	(6)	(159)	29	(4)	(182)	-	-	(182)
Impairment losses on available-for-sale financial assets	-	-	-	-	-	(1)	-	-	-	(1)	-	-	(1)
Operating profit/(loss) after impairment losses	684	1,421	(95)	257	38	128	1,136	425	160	4,154	(524)	-	3,630
Profit on sale of fixed assets, available-for-sale financial assets and loans and receivables	-	3	44	-	-	5	5	1	-	58	1	-	59
Valuation gains on investment properties	-	-	-	-	-	-	-	167	-	167	152	-	319
Share of profits less losses of associates	-	-	-	-	-	2	90	286	-	378	-	-	378
Profit/(Loss) before taxation	684	1,424	(51)	257	38	135	1,231	879	160	4,757	(371)	-	4,386
Depreciation for the period	(36)	(1)	(4)	(1)	-	(10)	(174)	(9)	(13)	(248)	(82)	-	(330)
Segment assets	46,762	153,678	105,604	26,072	13,777	14,420	333,950	67,514	3,042	764,819	24,139	(96,443)	692,515
Investments in associates	-	-	-	-	-	60	603	4,254	1	4,918	-	-	4,918
Total assets	46,762	153,678	105,604	26,072	13,777	14,480	334,553	71,768	3,043	769,737	24,139	(96,443)	697,433
Total liabilities	247,005	1,495	62,970	18,206	-	10,879	308,353	56,546	814	706,268	3,233	(76,989)	632,512

	6 months ended 30/6/2012 (Restated)												
	Hong Kong banking operations												
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	China operations	Overseas operations	Corporate services	Total reportable segments	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	HK$ Mn
Net interest income/(expense)	1,238	491	(343)	79	109	85	2,427	471	2	4,559	61	1	4,621
Non-interest income	294	299	439	156	8	257	507	161	522	2,643	367	(182)	2,828
Operating income	1,532	790	96	235	117	342	2,934	632	524	7,202	428	(181)	7,449
Operating expenses	(678)	(87)	(57)	(74)	(6)	(242)	(1,678)	(300)	(358)	(3,480)	(873)	181	(4,172)
Operating profit/(loss) before impairment losses	854	703	39	161	111	100	1,256	332	166	3,722	(445)	-	3,277
(Charge for)/write back of impairment losses on loans and advances and other accounts	(43)	(46)	60	9	-	-	(86)	27	(3)	(82)	(43)	-	(125)
(Charge for)/write back of impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	(28)	-	-	(1)	-	11	-	(18)	-	-	(18)
Operating profit/(loss) after impairment losses	811	657	71	170	111	99	1,170	370	163	3,622	(488)	-	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	-	-	-	-	-	2	30	202	-	234	4	-	238
Profit/(Loss) before taxation	809	657	112	170	111	106	1,251	585	163	3,964	(147)	-	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	11,995	292,551	65,536	2,999	702,600	11,551	(76,674)	637,477
Investments in associates	-	-	-	-	-	55	332	3,623	-	4,010	-	-	4,010
Total assets	45,014	132,072	122,007	20,184	10,242	12,050	292,883	69,159	2,999	706,610	11,551	(76,674)	641,487
Total liabilities	246,718	1,469	53,515	17,134	-	9,098	269,920	56,399	825	655,078	1,886	(70,363)	586,601

28. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2013							
	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	18,020	37	47	117	-	-	34,834	53,055
Placements with banks and other financial institutions	150	32,613	14,781	5,432	-	-	-	52,976
Trade bills	148	7,932	15,181	30,992	-	-	-	54,253
Trading assets	-	435	541	2,029	1,666	95	4,194	8,960
Financial assets designated at fair value through profit or loss	-	-	237	2,657	7,069	1,903	304	12,170
Advances to customers and other accounts	7,406	56,091	38,740	86,012	146,657	81,589	7,328	423,823
Available-for-sale financial assets	118	3,441	8,730	15,409	28,451	5,733	2,665	64,547
Held-to-maturity investments	52	1,277	321	748	2,533	46	-	4,977
Undated assets	-	-	-	-	-	-	22,672	22,672
Total assets	25,894	101,826	78,578	143,396	186,376	89,366	71,997	697,433
Liabilities								
Deposits and balances of banks and other financial institutions	1,364	7,316	4,590	4,417	367	-	-	18,054
Deposits from customers	147,289	109,725	105,354	116,696	18,947	11	4	498,026
- Demand deposits and current accounts	61,519	-	-	-	-	-	-	61,519
- Savings deposit	84,417	-	-	-	-	-	-	84,417
- Time, call and notice deposits	1,353	109,725	105,354	116,696	18,947	11	4	352,090
Trading liabilities	-	-	-	-	-	-	4,225	4,225
Certificates of deposit issued	-	6,342	8,331	17,438	6,316	-	-	38,427
Current taxation	-	-	-	1,481	-	-	-	1,481
Debt securities issued	-	-	234	5,554	1,379	-	-	7,167
Loan capital	-	-	-	-	8,769	4,870	-	13,639
Other liabilities	1,219	7,908	11,051	15,626	6,081	2,188	7,420	51,493
Total liabilities	149,872	131,291	129,560	161,212	41,859	7,069	11,649	632,512
Net gap	(123,978)	(29,465)	(50,982)	(17,816)	144,517	82,297		

	31/12/2012							
	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	55,308	46	70	91	-	-	29,997	85,512
Placements with banks and other financial institutions	-	25,409	5,581	19,628	-	-	-	50,618
Trade bills	5	7,758	9,295	38,673	-	-	9	55,740
Trading assets	-	72	400	1,327	1,165	93	4,281	7,338
Financial assets designated at fair value through profit or loss	-	-	129	1,447	10,804	2,371	418	15,169
Advances to customers and other accounts	5,791	46,793	33,877	84,085	132,032	77,479	7,216	387,273
Available-for-sale financial assets	-	14,589	7,500	5,907	29,307	5,030	2,398	64,731
Held-to-maturity investments	107	1,102	201	985	1,879	46	-	4,320
Undated assets	-	-	-	-	-	-	21,413	21,413
Total assets	61,211	95,769	57,053	152,143	175,187	85,019	65,732	692,114
Liabilities								
Deposits and balances of banks and other financial institutions	1,128	19,221	4,306	5,801	141	-	-	30,597
Deposits from customers	157,048	144,532	84,329	98,893	13,968	-	-	498,770
- Demand deposits and current accounts	68,950	-	-	-	-	-	-	68,950
- Savings deposit	86,549	-	-	-	-	-	-	86,549
- Time, call and notice deposits	1,549	144,532	84,329	98,893	13,968	-	-	343,271
Trading liabilities	-	-	-	-	-	-	3,827	3,827
Certificates of deposit issued	-	3,122	3,548	14,907	5,793	-	-	27,370
Current taxation	-	-	-	988	-	-	-	988
Debt securities issued	-	-	3,146	4,152	1,359	-	-	8,657
Loan capital	-	-	-	-	9,124	5,139	-	14,263
Other liabilities	1,090	6,373	11,122	12,347	5,150	2,174	7,747	46,003
Total liabilities	159,266	173,248	106,451	137,088	35,535	7,313	11,574	630,475
Net gap	(98,055)	(77,479)	(49,398)	15,055	139,652	77,706		

29. 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, 2013	392	163	(42)	63	(10)	(83)	483
(Credited)/Charged to consolidated income statement	(25)	89	41	-	(2)	(2)	101
Credited to reserves	-	-	-	(54)	-	-	(54)
Exchange and other adjustments	(1)	1	3	-	(1)	-	2
At 30th June, 2013	366	253	2	9	(13)	(85)	532
Balance as at 31st December, 2012	392	163	(42)	63	(10)	(83)	483

30. Reserves

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
Share premium	17,025	16,083
General reserve	13,853	13,823
Revaluation reserve on bank premises	1,648	976
Investment revaluation reserve	598	1,012
Exchange revaluation reserve	2,892	2,769
Other reserves	3,355	2,876
Retained profits*	15,388	14,046
Total	54,759	51,585
Proposed dividends, not provided for	973	1,403

*A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance ("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 HKMA. As at 30th June, 2013, HK$5,071 million (31st December, 2012: HK$4,580 million) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the HKMA.

31. Consolidated Cash Flow Statement

(a) Purchase of subsidiaries

	30/6/2013	30/6/2012
	HK$ Mn	HK$ Mn
Net assets acquired		
Goodwill arising on consolidation	-	9
Total purchase price	-	9
Cash flow on acquisition net of cash acquired	-	9

(b) Disposal of subsidiary

	30/6/2013	30/6/2012
	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)
Cash flow on disposal of subsidiary	-	11

(c) Cash and cash equivalents

	30/6/2013	30/6/2012
	HK$ Mn	HK$ Mn
(i) Components of cash and cash equivalents in the consolidated cash flow statement		
Cash and balances with banks and other financial institutions	19,853	23,890
Placements with banks and other financial institutions with original maturity within three months	26,467	31,637
Treasury bills with original maturity within three months	7,518	18,222
Certificates of deposit held with original maturity within three months	1,035	937
Debt securities with original maturity within three months	881	-
	55,754	74,686
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks and other financial institutions	53,055	53,100
Placements with banks and other financial institutions	52,976	70,189
Treasury bills, certificates of deposit held and debt securities		
- trading assets	4,766	4,432
- designated at fair value through profit or loss	11,866	14,500
- advances and other accounts	79	79
- available-for-sale	61,882	60,007
- held-to-maturity	4,977	3,835
	83,570	82,853
Amount shown in the consolidated statement of financial position	189,601	206,142
Less : Amounts with an original maturity of beyond three months	(100,645)	(102,246)
Cash balance with central bank subject to regulatory restriction	(33,202)	(29,210)
Cash and cash equivalents in the consolidated cash flow statement	55,754	74,686

32. Fair Values of Financial Instruments

(a) Financial instruments carried at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following hierarchy of methods:

Level 1 – Quoted market price in an active market for an identical instrument.

Level 2 – Valuation techniques based on observable input. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or counterparty quotations. For all other financial instruments categorised within Level 2 and Level 3, the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and various market widely recognised option pricing models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, equity prices, foreign currency exchange rates, index prices, historical or implied volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter (OTC) derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses valuation models, which usually are developed from recognised valuation methodologies. For financial instruments categorised within Level 3, some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation control function, namely Financial Instruments Valuation Group ("FIVG") which comprises control units independent of front office management. Procedures for price verification have been established. Any pricing models to be used would be subject to a rigorous validation and approval process.

The table below analyses financial instruments carried at fair value, by valuation method:

	30/6/2013				31/12/2012			
	Level One	Level Two	Level Three	Total	Level One	Level Two	Level Three	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Recurring fair value measurement								
Assets								
Trading assets	5,832	2,155	973	8,960	4,009	2,775	554	7,338
Financial assets designated at fair value through profit or loss	8,182	3,988	-	12,170	10,416	4,753	-	15,169
Available-for-sale financial assets	49,486	14,087	974	64,547	51,988	11,978	765	64,731
	63,500	20,230	1,947	85,677	66,413	19,506	1,319	87,238
Liabilities								
Trading liabilities	1	3,272	952	4,225	21	3,244	562	3,827
Financial liabilities designated at fair value through profit or loss	-	8,915	-	8,915	-	6,793	-	6,793
	1	12,187	952	13,140	21	10,037	562	10,620

During the six months ended 30th June, 2013, there were no transfers between Level 1 and Level 2 or transfers into or out of Level 3 (2012: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(b) Information about significant unobservable inputs in Level 3 valuations

	Valuation technique	**Significant unobservable input(s)**
Unlisted available-for-sale equity instruments	Discounted cash flow model	Forecasted cash flows and terminal growth rate
Structured derivatives	Option model	Expected volatility

The fair value of unlisted available-for-sale equity instruments is determined using the discounted cash flow model and the significant unobservable inputs used in the fair value measurement are forecasted cash flows and terminal growth rate. The fair value measurement is positively correlated to the net cash inflows and terminal growth rate.

The fair value of embedded options in structured derivatives is determined using option valuation model and the significant unobservable input used in the fair value measurement is the expected volatility. The fair value of the instrument is positively correlated to the expected volatility.

Valuation of financial instruments in Level 3 is subject to the same valuation control framework as described in Note 32(a) and reviewed regularly by FIVG.

(1) Valuation of financial instruments with significant unobservable inputs

Movements in the recognised fair values of instruments with significant unobservable inputs were as follows:

	30/6/2013		
	Trading assets – Positive fair value of derivatives	Available-for-sale financial assets	Total
	HK$ Mn	HK$ Mn	HK$ Mn
Assets			
At 1st January, 2013	554	765	1,319
Purchases	-	141	141
Settlements	(139)	(40)	(179)
Changes in fair value recognised in the income statement	558	-	558
Changes in fair value recognised in the other comprehensive income	-	108	108
At 30th June, 2013	973	974	1,947
Total gains or losses for the period included in available-for-sale fair value reserve of the other comprehensive income for assets held at the end of the reporting period	-	108	108
Total gains or losses for the period included in the income statement for assets held at the end of the reporting period recorded in net trading income	558	-	558

	31/12/2012		
	Trading assets – Positive fair value of derivatives	Available-for-sale financial assets	Total
	HK$ Mn	HK$ Mn	HK$ Mn
Assets			
At 1st January, 2012	351	676	1,027
Purchases	-	136	136
Settlements	(87)	(76)	(163)
Changes in fair value recognised in the income statement	290	(62)	228
Changes in fair value recognised in the other comprehensive income	-	89	89
Exchange adjustments	-	2	2
At 31st December, 2012	554	765	1,319
Total gains or losses for the year included in available-for-sale fair value reserve of the other comprehensive income for assets held at the end of the reporting period	-	89	89
Total gains or losses for the year included in the income statement for assets held at the end of the reporting period recorded in net trading income	290	(62)	228

	30/6/2013
	Trading liabilities – Negative fair value of derivatives
	HK$ Mn
Liabilities	
At 1st January, 2013	562
Settlements	(162)
Changes in fair value recognised in the income statement	552
At 30th June, 2013	952
Total gains or losses for the period included in the income statement for liabilities held at the end of the reporting period recorded in net trading income	552

	31/12/2012
	Trading liabilities – Negative fair value of derivatives
	HK$ Mn
Liabilities	
At 1st January, 2012	333
Settlements	(87)
Changes in fair value recognised in the income statement	316
At 31st December, 2012	562
Total gains or losses for the year included in the income statement for liabilities held at the end of the reporting period recorded in net trading income	316

(2) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions

	30/6/2013			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Trading assets	81	(81)	-	-
Available-for-sale financial assets	-	-	81	(81)
	81	(81)	81	(81)
Trading liabilities	79	(79)	-	-

	31/12/2012			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Trading assets	46	(46)	-	-
Available-for-sale financial assets	-	-	64	(64)
	46	(46)	64	(64)
Trading liabilities	47	(47)	-	-

The fair values of financial instruments are in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The table above shows the sensitivity of fair values due to parallel movement of plus or minus 10 per cent in reasonably possible alternative assumptions.

(c) Fair values of financial instruments carried at other than fair value

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented below:

(i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the end of the reporting period.

(ii) The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value.

(iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(iv) The fair value of unquoted equity investments is estimated, if possible, using the applicable dividend discount model, or share of net asset value in the investment, or applying a discount to the market value of investments with a lock-up period.

(v) The fair value of unlisted open-ended investment funds is estimated using the net asset value per share as reported by the managers of such funds.

(vi) The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charted by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The carrying amounts of the financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30th June, 2013 and 31st December, 2012 except as follows:

	30/6/2013		31/12/2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Financial assets				
Held-to-maturity investments	4,977	5,004	4,320	4,474
Financial liabilities				
Certificates of deposits issued	29,895	29,886	21,275	21,289
Debt securities issued	6,784	6,914	7,959	8,103
Subordinated liabilities	13,639	14,209	14,263	15,105

33. Off-balance Sheet Exposures

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

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
Contractual amounts of contingent liabilities and commitments		
Direct credit substitutes	16,856	13,303
Transaction-related contingencies	3,062	2,364
Trade-related contingencies	1,822	1,930
Commitments that are unconditionally cancellable without prior notice	52,862	52,631
Other commitments with an original maturity		
- up to 1 year	112,754	103,119
- over 1 year	34,303	36,433
Total	221,659	209,780
Credit risk weighted amounts	70,551	71,525
Fair value of derivatives		
Assets		
Exchange rate contracts	1,193	1,279
Interest rate contracts	1,083	1,502
Equity contracts	548	191
Others	106	153
	2,930	3,125
Liabilities		
Exchange rate contracts	2,212	1,559
Interest rate contracts	1,399	1,924
Equity contracts	507	170
Others	106	153
	4,224	3,806
Notional amounts of derivatives		
Exchange rate contracts	539,360	407,120
Interest rate contracts	168,567	150,152
Equity contracts	16,054	13,673
Others	4,055	3,478
	728,036	574,423
Credit risk weighted amounts		
Exchange rate contracts	6,228	2,878
Interest rate contracts	1,556	1,618
Equity contracts	898	574
Others	648	301
	9,330	5,371

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:

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
Expenditure authorised and contracted for	360	403
Expenditure authorised but not contracted for	79	124
	439	527

34. 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:

	30/6/2013	30/6/2012
	HK$ Mn	HK$ Mn
Short-term employee benefits	64	56
Post-employment benefits	2	2
Equity compensation benefits	11	10
	77	68

(b) The Group maintains certain retirement benefit schemes for its staff. In the six months ended 30th June, 2013, the total amount of contributions the Group made to the schemes was HK$74 million (six months ended 30th June, 2012: HK$71 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, 2013, outstanding balances of amounts due from and due to them at 30th June, 2013 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2013 are aggregated as follows:

	Key management personnel		Associates	
	30/6/2013	30/6/2012	30/6/2013	30/6/2012
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Interest income	59	58	5	-
Interest expense	24	30	-	-
Amounts due from	7,782	6,527	965	-
Amounts due to	4,745	4,529	7	126
Maximum amounts due from	9,394	8,274	1,061	15
Maximum amounts due to	6,511	7,663	719	201
Committed facilities to	3,353	3,519	-	14

35. Basis of Consolidation

Unless otherwise stated, all financial information contained in this interim results announcement 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.

36. Comparative Figures

The 2012 figures in Note 27 – Segment Reporting have been restated due to the modification of the internal fund transfer pricing methodology of the Bank with a view to further enhancing the allocation process of interest income and expenses of Hong Kong banking operations, as well as the new grouping of associates for reporting to the Group's senior management with effect from 2012.

Certain comparative figures have been reclassified to conform with current period's presentation.

SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy Ratio

	30/6/2013	31/12/2012
	%	%
Total capital ratio	14.8	14.3
Tier 1 capital ratio	11.2	10.7
Common Equity Tier 1 capital ratio	10.5	n.a.

Capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules ("the Capital Rules") issued by the HKMA. The ratios as of 30th June, 2013 were compiled in accordance with the amended Capital Rules effective from 1st January, 2013 for the implementation of the "Basel III" capital accord, whereas the ratios as of 31st December, 2012 were compiled in accordance with the "pre-amended Capital Rules" as in force immediately before 1st January, 2013. 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 3C of the Capital Rules. Subsidiaries not included in consolidation for regulatory purposes are non-financial companies and the 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 Capital Rules and the Banking Ordinance. The Bank's shareholdings in these subsidiaries are deducted from its Tier 1 capital and Tier 2 capital subject to the thresholds and transitional arrangements as determined in accordance with Part 3 and Schedule 4H of the Capital Rules respectively.

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
Tricor Holdings Limited and its subsidiaries

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 Group.

B. Liquidity Ratio

	6 months ended 30/6/2013	The year ended 31/12/2012
	%	%
Average liquidity ratio for the period	46.6	46.6

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 HKMA for its regulatory purposes, and is in accordance with the Fourth Schedule to the 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.

	30/6/2013			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
People's Republic of China	38,997	2,703	83,983	125,683
Asian countries, excluding People's Republic of China	11,765	5,537	25,196	42,498
North America	8,234	40	3,398	11,672
Western Europe	7,039	-	1,949	8,988

	31/12/2012			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
People's Republic of China	42,804	2,480	67,285	112,569
Asian countries, excluding People's Republic of China	17,941	8,570	23,401	49,912
North America	7,946	316	3,328	11,590
Western Europe	6,754	306	3,608	10,668

D. Non-bank Mainland Exposures

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

	30/6/2013			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Type of counterparties				
Mainland entities	207,302	62,933	270,235	83
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	37,642	3,027	40,669	7
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	24,294	2,815	27,109	6
Total	269,238	68,775	338,013	96

	31/12/2012			
	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	184,652	64,253	248,905	98
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	32,777	2,669	35,446	8
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	20,065	2,630	22,695	4
Total	237,494	69,552	307,046	110

E. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	30/6/2013		31/12/2012	
	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	348	0.1	255	0.1
- 1 year or less but over 6 months	216	0.1	181	0.0
- Over 1 year	372	0.1	220	0.1
	936	0.3	656	0.2
Rescheduled advances to customers	76	0.0	91	0.0
Total overdue and rescheduled advances	1,012	0.3	747	0.2
Secured overdue advances	751	0.2	483	0.1
Unsecured overdue advances	185	0.0	173	0.0
Market value of security held against secured overdue advances	2,707		2,026	
Individual impairment allowance made on loans overdue for more than 3 months	206		182	

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

(b) Advances to bank

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
Advances to bank overdue for		
- 6 months or less but over 3 months	-	6
- 1 year or less but over 6 months	6	-
- Over 1 year	-	-
	6	6
Rescheduled advances to bank	-	-
Total overdue and rescheduled advances	6	6

(c) Other overdue and rescheduled assets

	30/6/2013		
	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

	31/12/2012		
	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

* Other assets refer to trade bills and receivables.

(d) Repossessed assets

	30/6/2013	31/12/2012
	HK$ Mn	HK$ Mn
Repossessed land and buildings	17	10
Repossessed vehicles and equipment	-	-
Total repossessed assets	17	10

The amount represents the estimated market value of the repossessed assets as at 30th June, 2013 and 31st December, 2012.

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.

	30/6/2013 HK$ Mn			
	USD	RMB	Others	Total
Spot assets	171,658	671,471	63,455	906,584
Spot liabilities	(155,376)	(648,572)	(78,783)	(882,731)
Forward purchases	111,544	79,503	22,764	213,811
Forward sales	(125,604)	(102,686)	(7,496)	(235,786)
Net options position	(60)	-	2	(58)
Net long/(short) non-structural position	2,162	(284)	(58)	1,820

	31/12/2012 HK$ Mn			
	USD	RMB	Others	Total
Spot assets	150,217	632,345	76,590	859,152
Spot liabilities	(156,498)	(606,456)	(77,307)	(840,261)
Forward purchases	113,306	74,073	11,656	199,035
Forward sales	(104,331)	(100,518)	(11,257)	(216,106)
Net options position	(438)	-	5	(433)
Net long/(short) non-structural position	2,256	(556)	(313)	1,387

	30/6/2013 HK$ Mn			
	USD	RMB	Others	Total
Net structural position	2,476	8,839	744	12,059

	31/12/2012 HK$ Mn			
	USD	RMB	Others	Total
Net structural position	2,488	8,703	764	11,955

The above figures are disclosed in accordance with the return relating to foreign currency positions the Bank submitted to the HKMA 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 HKMA for its regulatory purposes.

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK$0.43 (2012: HK$0.43) per share for the six months ended 30th June, 2013. 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, 22nd August, 2013. Details of the scrip dividend and the election form will be sent to shareholders on or about Thursday, 22nd August, 2013. 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, 13th September, 2013.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed on Wednesday, 21st August, 2013 and on Thursday, 22nd August, 2013. 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, 20th August, 2013.

FINANCIAL REVIEW

Financial Performance

For the first six months of 2013, the Group achieved a profit attributable to owners of the parent of HK$3,376 million, representing an increase of HK$388 million or 13.0%, compared with the HK$2,988 million earned in the same period last year. Basic earnings per share were HK$1.43. Return on average equity and return on average assets were 11.6% and 1.0%, respectively.

During the first six months of 2013, the Group's net interest income increased by HK$1,043 million, or 22.6%, to HK$5,664 million, primarily due to growth in advances to customers and a widening of the net interest margin. Net fee and commission income rose by HK$317 million, or 19.0%, to HK$1,981 million. However, due to lower contributions from trading activities and the investment portfolio compared with the corresponding period of 2012, non-interest income dropped by 6.1% to HK$2,656 million. Operating income increased by 11.7% to HK$8,320 million.

Total operating expenses rose by 8.0% to HK$4,507 million. Operating efficiency further improved as the cost-to-income ratio fell from 56.0% in the first half of 2012 to 54.2% in the first half of 2013. If the Business Tax and surcharges applied to the Bank's China operations are excluded from operating expenses and grouped under taxation, the adjusted cost-to-income ratio would decrease from 52.3% to 50.4%.

Operating profit before impairment losses was HK$3,813 million, an increase of HK$536 million, or 16.3%, as compared with the corresponding period in 2012.

Impairment losses grew by 27.3% to HK$183 million, mainly related to loans and advances. Nevertheless, impairment losses were still at a low and manageable level.

Operating profit after impairment losses was HK$3,630 million, an increase of 15.8% or HK$496 million.

Net profit on disposal of available-for-sale financial assets increased to HK$59 million. Valuation gains on investment properties increased to HK$319 million, mainly due to a rise in property prices in Hong Kong and the United States ("US"). Due to the strong performance of associates, the Group shared after-tax profits from associates of HK$378 million.

After accounting for income taxes, profit after taxation rose to HK$3,430 million, an increase of 13.0% over the HK$3,037 million recorded in the corresponding period in 2012. Profit attributable to owners of the parent rose to HK$3,376 million, an increase of 13.0%.

Financial Position

Total consolidated assets of the Group rose by HK$5,319 million, or 0.8%, during the first half of 2013 from the position as of the end of 2012. Gross advances to customers increased by 9.3% to HK$383,240 million. Total equity increased to HK$64,921 million, up 5.3%.

Total deposits grew by 2.0% to HK$536,453 million, while total deposits from customers decreased by 0.1% to HK$498,026 million. Demand deposits and current account balances decreased by HK$7,431 million, or 10.8%, compared with the balance at year-end 2012. Savings deposits decreased to HK$84,417 million, a drop of 2.5%, while time deposits increased by HK$8,819 million, an increase of 2.6%, when compared with the year-end position.

After taking into account all certificates of deposits issued, the loan-to-deposit ratio was 71.4% at the end of June 2013, 4.7 percentage points higher than the 66.7% reported at the end of 2012.

RECOGNITION

During the first six months of 2013, the Group received a number of awards in recognition of its exceptional performance. These included:

- "2013 Best SME's Partner Award" from The Hong Kong General Chamber of Small and Medium Business (for the sixth consecutive year);

- "The Highest Growth Rate in 2012 Cardholder Spending in Hong Kong – Winner" and "The Highest Growth Rate in 2012 Outstandings in Hong Kong – 2nd Runner Up" (for card issuance) and "The Highest Market Share in 2012 Cross-border Merchant Purchase Volume in Hong Kong – 2nd Runner Up" (for merchant acquiring) from MasterCard Worldwide;

- "2012 Innovative Award – Exclusive Year-Round Reward Platform" (for card issuance) and "Outstanding Acquiring Performance Award in 2012" – UnionPay Online Payment Volume" (for merchant acquiring) from UnionPay International; and

- "Risk Management Best Fraud Control, Issuing" (for card issuance) and "Lowest Non-Fraud Chargeback Rate, Acquirer – Visa 2012 Global Service Quality Performance Awards" (for merchant acquiring) from Visa Inc.

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

- "2012 Best Customer Service Centre among Banking Institutions in Shanghai" from the Shanghai Banking Association;

- "2012 Preferred Service Provider for Small and Medium Enterprises in China" from the China Centre for the Promotion of Small and Medium Enterprise Development, Ministry of Industry and Information Technology of the People's Republic of China;

- "2012 Best Innovation Award for the Promotion of Financial Knowledge in China's Banking Industry" from the China Banking Association; and

- "Best Brand Building among Foreign Banks" in the 2013 Golden-shell Award of China Programme from the 21st Century Business Herald.

Other members of the Group also received recognition during the period under review:

- Blue Cross (Asia-Pacific) Insurance Limited ("Blue Cross") received the "Medical and General Insurance Award" in the 13th Capital Outstanding Enterprise Awards Programme organised by *Capital Magazine;*

- Credit Gain Finance Company Limited ("Credit Gain") won the "Finance Service Award" in *Capital Weekly*'s 2013 Service Awards Programme; and

- Tricor SaaS Sdn Bhd (a subsidiary of Tricor Holdings Limited in Malaysia) was awarded MSC (Multimedia Super Corridor) Malaysia Status by the Government of Malaysia in June 2013 for product enhancement through the use of multimedia technology.

In addition, BEA Union Investment Management Limited ("BEA Union") received the following awards:

- "Best Bond Fund, Asia Pacific"* in the Lipper Fund Awards Programme 2013 Hong Kong;
- "2012 Best of the Best Performance Awards – Asian Bonds Hard Currency"* from *Asia Asset Management*;
- "AsianInvestor Investment Performance Awards 2013 – Best Asian Fixed Income, US Dollar"^ from *AsianInvestor;* and
- "FSM Recommended Mutual Fund Awards 2013/14 – Asian Fixed Income"^ from Fundsupermart.com.

*awarded to the BEA Union Investment Asian Bond and Currency Fund for its 3-year performance
^awarded to the BEA Union Investment Asian Bond and Currency Fund

ECONOMIC OVERVIEW

While the US economy steadily recovered in the first half 2013, the Eurozone economy remained mired in recession. Meanwhile, China's economy looked increasingly fragile, with growing concerns over the hidden costs of economic restructuring and shadow lending. Weak external demand weighed on Hong Kong's exports, which grew by a moderate 3.9% in the first five months of 2013.

Domestic demand and tourist spending remained solid during the period. Hong Kong's unemployment rate hovered at a low level of 3.4% - 3.5% during the first half of 2013. These factors boosted private consumption, and retail sales grew by 15% during the first five months compared to the same period in the previous year. Overall, Hong Kong's economy expanded at a moderate pace of 2.8% year on year in the first quarter.

Activity in Hong Kong's property market was subdued, as market sentiment became more uncertain following the introduction of additional cooling measures by the Hong Kong government in February 2013. In the first half, the number of residential property transactions dropped by a rate of 28.7%, year on year.

Looking ahead, although the US economy is expected to experience a steady recovery, deteriorating economic conditions on the Mainland will dampen growth in the second half of the year. Hong Kong's Gross Domestic Product ("GDP") is forecast to grow at 2.7% for the year, while the inflation rate will average 4%.

On the Mainland, exports experienced negative growth of 3.1% in June 2013. Despite this lacklustre performance, no economic stimulus package is in the pipeline, as the Central Government has indicated that it is prepared to tolerate slower growth in exchange for results from its economic restructuring programme. The evidence of a slowdown is all around: The growth in retail sales and in investments in the first five months of 2013 was below the average levels for the past five years. On a positive note, weaker domestic demand has helped ease pressure on prices, as the inflation rate eased to 2.4% during the period.

Although the improving health of Western economies will help boost China's exports, a turnaround will not occur until the fourth quarter. China's GDP is forecast to grow by 7.4% in 2013, while the inflation rate is expected to average 2.6%.

OPERATIONS REVIEW

Business – Hong Kong

At 30th June, 2013, BEA Hong Kong's total loans to customers and trade bills increased by 6.7% while total deposits grew by 1.1% compared to the figures reported at the end of 2012.

In the first half of 2013, BEA undertook a major rebranding exercise and rolled out a new visual identity across the Bank's entire retail network in Hong Kong. The new branding image enhances the street-level visibility of branches, and uses a visually-powerful theme of five coloured light rays to convey BEA's core values of professionalism, customer-focus, integrity, progressiveness, and innovation. The Bank's new tagline, "Enriching Your World", and four accompanying secondary messages, communicate BEA's commitment to helping customers achieve their goals and enhance their well-being through the provision of quality banking and financial services.

Retail Banking

BEA continues to pursue its well-established strategy of growing its customer base, enhancing its service standards, modernising marketing and delivery channels, and serving the community through an extensive retail branch and ATM network.

BEA's efforts to expand its customer base are focused on the affluent retail segment. In addition to the rebranding campaign, there were a number of initiatives aimed at this segment during the first half of the year. These included bundling newly acquired SupremeGold accounts with the prestigious World MasterCard, promoting the popular BEA Credit Card fine dining and entertainment platform, and marketing the Bank's professional loan packages.

BEA is positioning itself at the forefront of modern banking, and is committed to meeting the demands of tech-savvy young professionals for ever-more convenient banking services. During the period under review, the Bank further enhanced its Cyberbanking service and revamped its Android app, the first customer-centric banking app in Hong Kong. In late March, BEA also extended its social media footprint by launching a second Facebook Page, "BEA JOY". Targeted at young professionals, the new Facebook Page aims to maximise brand exposure, expand interaction with customers, and enhance cross selling opportunities.

BEA's extensive branch network remains the core of its retail business, and is a highly effective channel for absorbing deposits and selling banking products. Over the first half of the year, the Bank continued to leverage its branch network to attract deposits, with a particular focus on SupremeGold and payroll customers as well as small local community businesses. The period also saw solid increases in the sale of mutual funds and life insurance products at retail outlets, supported by timely product launches to match customer demand.

The housing market experienced a slowdown during the first half of the year, with transaction numbers impacted by government cooling measures and the introduction of the Residential Properties (First-Hand Sales) Ordinance. Despite these headwinds, BEA maintained an average ranking of fifth place in new mortgage loan registrations in Hong Kong during the period under review.

Corporate and Commercial Banking

BEA's strong cross-border platform enabled it to continue to benefit from the growing demand for financial services among Mainland enterprises. The Bank was particularly active in facilitating borrowing in Hong Kong by Mainland corporations, and bolstered its portfolio of corporate loans and trade bills by 6% in the first half of the year when compared with the position as of the end of 2012. Meanwhile, the Bank's emphasis on cross selling contributed to solid year on year growth of 53% and 15% in commission income for treasury and insurance products, respectively.

BEA remains optimistic on the outlook for offshore loan demand from Mainland enterprises, more of which are opening offices in Hong Kong to handle their international trading business and raise financing for overseas expansion and acquisitions. Furthermore, given the ongoing easing of cross-border loan restrictions, the Bank sees significant long-term potential for growth in Renminbi ("RMB") lending into the Mainland's new economic development zones, and is actively expanding its client base to capitalise on this trend.

In order to reflect the increasing importance of Mainland customers in the Bank's strategy, the Corporate Banking Division has been restructured to create a new department that will focus exclusively on growing BEA Hong Kong's Mainland corporate client base. The department will actively source new clients from throughout China, strengthen relationships with existing Mainland clients, and enhance collaboration and cross referrals with BEA China.

Wealth Management

Mainland clients are the leading growth driver for the Bank's wealth management business. During the period under review, Private Banking continued to leverage the Group's extensive network in China to serve Mainland clients with offshore investment needs. Looking ahead, Private Banking aims to increase the proportion of Mainland clients in its overall customer base from over one quarter to over one third in the near to medium term. In addition, the Bank will further collaborate with its overseas strategic partners to acquire foreign clients seeking investment opportunities in the region.

Private Banking's efforts during the first half of the year yielded strong results. Total operating income rose by 64% versus the same period in the previous year driven by interest income and commission income. Growth in customer loans and assets under management were both satisfactory.

Insurance and MPF Services

During the first half of the year, BEA's wholly-owned life insurance arm, BEA Life Limited ("BEA Life"), launched a number of products to meet customer demand for short and medium-term maturity plans. These products were well received, and contributed to a solid 29% gain in new premium income over the same period in the previous year.

Blue Cross, BEA's wholly-owned general insurance arm, further strengthened its position as one of the leading players in medical and travel insurance, and registered a 13% year on year increase in total premium income.

BEA's insurance business is committed to innovating in response to customer demand. In the first half of 2013 Blue Cross rolled out a high-end medical plan, while BEA Life launched an annuity retirement plan to meet the needs of Hong Kong's ageing population.

Total membership under the BEA MPF schemes exceeded 551,000 at 30th June, 2013. The Bank's wholly-owned MPF service provider, Bank of East Asia (Trustees) Limited ("BEA Trustees") continued to dominate the Industry Scheme market, with growth ahead of the industry rate. The Industry Scheme, which serves employees in the construction and catering industries, has a bright outlook given the increasing number of construction projects under the Hong Kong government, as well as salary growth in the construction trade.

Broking Operations

During the initial months of the year, stock markets were generally buoyed by quantitative easing measures implemented by major central banks around the world. In particular, the Japanese stock market skyrocketed after Japan firmly declared its commitment to reflating the economy through loose monetary policy. However, concerns that the Federal Reserve System in the US may retreat from its bond purchase programme earlier than expected resulted in a sharp sell-off in equity markets in May and June. In addition, the liquidity squeeze in the Chinese interbank market towards the end of June further dampened sentiment in the local market.

BEA's broking operations benefitted from the pick up in activity in the local market, with average daily turnover on the Stock Exchange of Hong Kong rising by some 20%, year on year. Successful marketing campaigns, stringent cost-cutting measures, and product range expansion enabled the Bank to see a strong rebound in pre-tax profits from its broking operations. BEA's newly launched bullion operations performed particularly well.

The outlook for the second half of 2013 is clouded by uncertainty in the timing and degree of any tapering of quantitative easing in the US. The Bank's broking operations will continue to launch various promotional campaigns in the second half of the year to increase its market share. Moreover, the Bank will further invest in system upgrades to provide its customers with more efficient broking services and a wider range of products at competitive prices.

Business – Greater China ex-Hong Kong

Mainland China Operations

BEA China, BEA's locally-incorporated subsidiary bank on the Mainland, recorded steady growth during the first six months of 2013. As of 30th June, 2013, BEA China's total loans increased by 10.6% to HK$141,558 million, while total deposits rose by 4.8% to HK$201,281 million, compared to the figures reported at the end of 2012. During the period under review, net interest income grew by 4.8% year on year and 9.5% half on half. The rise was mainly due to satisfactory loan growth and BEA China's refined loan pricing strategy. Net fee and commission income surged 77.3% year on year, and 32.4% half on half, with growth mainly driven by a substantial increase in bills business, the sale of investment products, and loan-related fees. Net profit rose by 28.4% to HK$865 million, when compared with the second half of 2012.

In early 2013, BEA China launched a supply chain finance pilot scheme for the domestic trade market. This financing model has enabled BEA China to enhance loan yield and absorb more low-cost deposits.

The challenging domestic environment and weak global demand put pressure on the performance of some small and medium size private enterprises, while guidelines issued by the State Council in February 2013 to reinforce policies restraining speculative activities in the housing market exerted pressure on the liquidity of developers. Despite these unfavourable conditions, BEA China's proven credit risk management ensured that its impaired loan ratio remained at a relatively low level. The ratio rose to 0.43% as at the end of June 2013, an increase over the 0.27% recorded at the end of 2012.

To optimise the business potential of its branch network, BEA China rolled out the Outlet Repositioning Programme in early 2013. As part of the Programme, branch resources are being reallocated and services refined based on the location and customer profile of each outlet. For example, some outlets, especially those located in affluent urban areas, will offer a comprehensive range of corporate banking, retail banking, and wealth management services while small and newly-established outlets will primarily offer corporate banking services as well as basic personal banking services.

BEA China strategically expanded its branch network in the first half of 2013, opening the Jinan Branch and four sub-branches, namely Shenyang Hunnan, Qingyuan, Zhongshan Xiaolan, and Dongguan Chang'an sub-branches. As of the end of June 2013, BEA China operated 26 branches and 92 sub-branches, including 13 "cross-location" sub-branches in Guangdong Province, while, BEA operated a representative office in Fuzhou and a rural bank in Fuping County, Shaanxi Province. Together, BEA and BEA China maintain one of the most extensive networks of any foreign bank on the Mainland.

Macau and Taiwan Operations

BEA's Macau operation ("Macau Branch") successfully expanded its cross-border banking facilities and diversified its customer base during the first half of the year, resulting in strong loan growth. As of 30th June, 2013, the aggregate amount of outstanding loans had increased by 18.7% over the figure reported at the end of 2012. In addition, the implementation of measures to control costs and improve net interest margin enabled the Macau Branch to substantially improve its net profit by 198.9%, year on year.

Despite the unfavourable global economic environment, BEA's Taiwan operations ("Taiwan Branches") registered a 156.1% rise in net profit for the first six months of 2013 compared with the same period in 2012. The increase was driven by growth in the loan portfolio and improvement in net interest margin, following efforts to optimise the asset and liability structure of the Taiwan Branches. As at 30th June, 2013, total loans had grown to HK$5,139 million, 16.7% higher than reported at the end of 2012.

In February 2013, Taiwan Branches launched RMB services through the Domestic Banking Unit, thereby expanding the scope of RMB banking services offered by BEA to the local market in Taiwan.

Business – International

BEA's international operations once again delivered a solid performance in the first half of 2013 with satisfactory growth in after-tax profit.

In Singapore, BEA recorded strong growth in loan assets and net profit. The increase in loans was largely attributed to growth in regional business, particularly cross-border loans arranged in collaboration with BEA China, and the Bank's success in extending its syndicated loan business throughout Southeast Asia.

The launch of an offshore RMB clearing operation in Singapore in the second quarter of 2013 will boost trade flows between China and member states of the Association of Southeast Asian Nations. Anticipating growth in its RMB cross-border business, BEA's Singapore Branch has introduced an offshore banking business referral programme in conjunction with BEA China for wealthy Chinese customers. This programme aims to capture a meaningful share of the inflow of investment from China.

Demand from Hong Kong and other Asian investors for residential and commercial properties in prime locations in the United Kingdom ("UK") continued to be robust. As a result, the Bank's UK operations maintained strong momentum in its mortgage business and recorded satisfactory loan growth and net profit during the first six months of this year. In May 2013, BEA's Manchester Branch commenced operations. With the opening of this new branch in the heart of the city, adjacent to Chinatown, the Bank has established a strategic foothold in the third largest city in the UK.

Capitalising on the low interest rate environment and steady US economic recovery, BEA's operations in the US continued to record growth in loan assets. The Bank's US asset quality and impaired loan ratio also improved compared to the end of 2012.

In May 2013, BEA relocated its New York Branch from Manhattan's Chinatown to a more prominent and accessible location in Midtown, thereby strengthening the Bank's profile in the wholesale banking market.

Other Subsidiaries

Credit Gain Finance Company Limited

Despite strong competition in Hong Kong's sub-prime loan market, Credit Gain continued to expand its loan portfolio in the first half of 2013. The Company also focused on enhancing its services during the period, launching a 24-hour hotline for customers in need of loan service assistance. In April 2013, Credit Gain extended its reach beyond Hong Kong by opening its first office on the Mainland, in Shenzhen.

Tricor Holdings Limited

Tricor Holdings Limited ("Tricor") reported record-high fee revenue of HK$537 million for the first six months of 2013, making a significant contribution to the Group's fee and commission income. However, increased staff and operating costs put pressure on Tricor's profit margin during the period under review. In addition, the Company's faced challenges in recruiting and retaining experienced accountants and company secretaries in the Asia Pacific region, given the strong demand for these professionals in the market.

While recognising the global economic uncertainty and taking a prudent approach to business development, Tricor has continued to look for good investments in the region that would add value to the Company. During the second half of 2013, Tricor plans to open several new offices to enhance its global servicing capabilities.

BEA Union Investment Management Limited

Due in large part to its success in the retail and institutional sectors, BEA Union overcame market volatility to register an increase of more than 5% in assets under management during the first six months of 2013. In April 2013, BEA Union launched a new unit trust, the BEA Union Investment China Phoenix Fund, which offers investors the opportunity to invest in China-related multinational corporations.

Our People

As of 30th June, 2013, the BEA Group employed 12,471 people:

Hong Kong	5,713
Greater China ex-Hong Kong	5,615
Overseas	1,143
Total	12,471

There were no significant changes to the Group's remuneration policies and practices, bonus and share options schemes, and training schemes during the period under review.

Corporate Social Responsibility

BEA and other members of the Group manage ongoing corporate social responsibility ("CSR") programmes to align the interests of their various stakeholders. In anticipation of greater regulatory requirements in the future, the Bank issued its first standalone CSR Report in May 2013 in adherence to the Global Reporting Initiative's sustainability reporting guidelines.

BEA contributed to a wide range of charitable events in the first half of 2013, many of which it supports on an ongoing basis.

In addition, BEA China donated RMB 1 million for victims of the earthquake that struck Ya'an City in Sichuan Province in April 2013.

Blue Cross and its staff continued to participate in various events organised by the Hong Kong Physically Handicapped and Able-bodied Association ("PHAB"), receiving the "Ruby Sponsor" distinction as the top fundraiser of the PHAB Walk for Integration 2012/13 in January 2013.

For the second consecutive year, in May 2013, Credit Gain received the "Caring Enterprise Award" from The Lok Sin Tong Benevolent Society Kowloon. For the third consecutive year, Credit Gain earned the right to display the "Heart to Heart Company" logo issued by the Hong Kong Federation of Youth Groups.

On 29th May, 2013, Tricor supported "Free Ride Day" in Hong Kong, which enabled members of the general public to enjoy free rides on trams and Star Ferry routes throughout the day.

During the period under review, BEA received the following awards in recognition of its CSR efforts:

- "President's Award" from The Community Chest of Hong Kong (for the fourteenth consecutive year);
- "Class of Excellence" in the Energywi$e Label Scheme of the Hong Kong Awards for Environmental Excellence ("HKAEE") for its Head Office Building and BEA Tower;
- "Class of Excellence" in the HKAEE Wastewi$e Label Scheme for BEA Tower; and
- "Silver Award" in the Web Accessibility Recognition Scheme organised by The Office of the Government Chief Information Officer and the Equal Opportunities Commission.

In addition, BEA China received the "Best Practice of Social Responsibility Award for Year 2012" from the China Banking Association and the "Outstanding Charitable Project for Year 2012" award for its Funding Plan to Non-governmental Organisations from the China Banking Association.

Future Prospects

The operating environment is expected to remain challenging in the second half of 2013. BEA will continue to focus on developing cross-border banking business and explore ways to leverage its extensive Greater China and international network to deepen its relationships with Mainland corporations and capture opportunities arising from favourable policy changes in relation to RMB business.

In Hong Kong, the Bank will strive to further strengthen its fee-based businesses, including wealth management, credit cards, insurance, treasury and RMB financial solutions.

BEA China will continue to focus on the strategic expansion of its network and broadening its products and services to further strengthen its position in the market. Specifically, BEA China will continue to reposition its branch outlets to optimise existing resources.

In overseas markets, BEA will enhance its close strategic ties and partnerships with international financial institutions to further expand its cross-border referral business and strengthen global collaboration.

On the operations front, the Bank will focus on customer convenience and reducing operating costs by developing and rolling out new e-initiatives.

The Bank will also intensify efforts to attract the next generation of BEA customers, by extending its reach to a younger audience through targeted promotions and effective use of relevant media.

RISK MANAGEMENT

The Group has established comprehensive risk management procedures in line with the requirements set out by the HKMA to identify, measure, monitor, control, and report on the various types of risk that the Group faces, including credit risk, interest rate risk, market risk, liquidity risk and operational risk, and, where appropriate, to allocate capital to cover those risks.

To further enhance the Group's risk management framework, and in line with the best practices encouraged by the HKMA, in April 2013 the Group set up the Risk Committee, comprising the Group's Chairman and Chief Executive, two Independent Non-executive Directors and two Non-executive Directors. The major responsibility of the Risk Committee is to assist the Board of Directors to handle risk management issues, in particular strategic issues. The Risk Committee will regularly review the Group's risk appetite statement covering the major risks and submit it to the Board of Directors for approval. The related risk levels, where appropriate, are laid down in the risk management policies.

The risk management mechanisms are built around a centralised framework and include the Risk Committee, Risk Management Committee, specialised risk management committees, namely, Credit Committee, Asset and Liability Management Committee and Operational Risk Management Committee, and the Risk Management Division. These mechanisms capture the different risk-related management activities on a Group basis, including the formulation of policies, risk assessment, setting up of procedures and control limits, and ongoing monitoring before the same are reported to the Board of Directors. The mechanisms ensure compliance with the Group's policies, and legal and regulatory requirements in Hong Kong, China, and overseas. They are supplemented by active management involvement, effective internal controls, and comprehensive audits.

Management of the Group's major risks is governed by the respective risk management policies. The Group's major risk management policies and control limits are approved by the Board of Directors and they are monitored and regularly reviewed. The Board of Directors has delegated the responsibility of on-going risk management to the Risk Committee, Risk Management Committee and specialised risk management committees. Significant risk management related issues are required to be reported to the Board of Directors to assist its oversight on risk management.

Regular stress tests are carried out by the Group to assess the impact of a number of historical and hypothetical stress scenarios on the Group's financial position, in particular capital adequacy, profitability and liquidity.

Each new product launch must go through an evaluation process, which includes business and financial analysis and risk assessment. Approval for the launch of new products must be obtained from the New Product Development Working Group, the membership of which is comprised of heads of support and control units. This Working Group further reports to the New Product Development Steering Group chaired by the Bank's Group Chief Risk Officer, with other members being Division Heads of support functions.

(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 Credit Committee is responsible for all credit risk related issues of the Group, while the Credit Risk Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to credit risk. The Group identifies and manages credit risk through defining the target market segment, formulating appropriate credit policies, and carrying out credit assessment and monitoring of asset quality. Credit risk control limits are set for different levels. Risk, return and market situation are considered when setting all limits. Active limit monitoring is undertaken.

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

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

(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.

The Asset and Liability Management Committee deals with all market risk related issues of the Group. It is also responsible for conducting a regular review of interest rate trends and deciding the corresponding future business strategy. The Asset and Liability Management Department under the Risk Management Division of the Group is responsible for monitoring activities relating to market risk.

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 market risk that must be managed are:

(i) Currency risk

The Group's foreign currency positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. The Group's non-structural foreign currency exposures are denominated in USD. For other currencies, currency concentrations are maintained below 10% of the total net position in all non-structural foreign currencies of the Group. 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, Investment Committee 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.

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 VaR is derived from the underlying variances and co-variances 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 and a one-year historical observation period. An equal or higher weighting scheme is applied to more recent observations under which higher VaR should be used.

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.

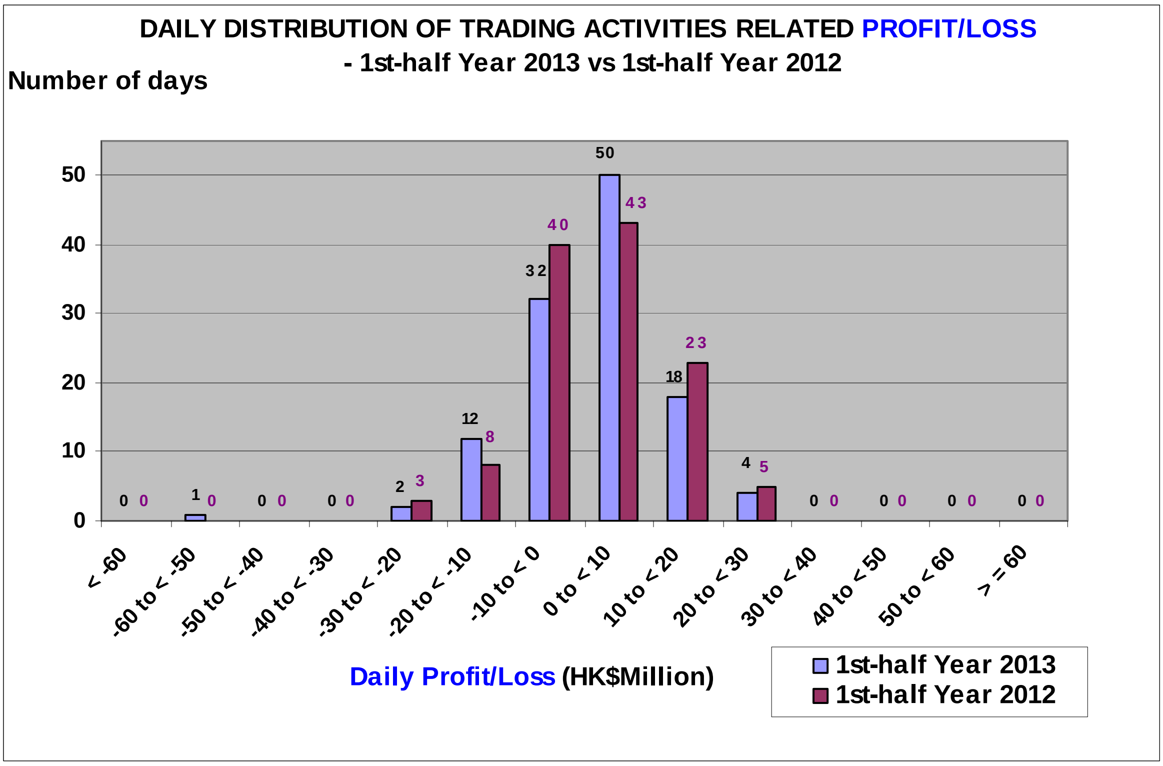
Value-at-risk statistics

	Year 2013 1st-half			
	At 30th June HK$ Mn	Maximum HK$ Mn	Minimum HK$ Mn	Mean HK$ Mn
VaR for total trading activities	43	43	26	29
VaR for foreign exchange trading positions*	9	10	4	7
VaR for interest rate trading positions	10	10	2	3
VaR for equity trading positions	32	32	21	23

	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

** 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 2013 was HK$1.42 million (average daily profit of HK$2.35 million in the first six months of 2012). The standard deviation of the daily profit/loss for the period was HK$11.03 million (standard deviation of HK$10.25 million for the same period in 2012). The frequency distribution of daily profit/loss is shown below:



(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 Operational Risk Management Committee is responsible for overseeing operational risk management of the Group while the Operational Risk Management Department under the Risk Management Division is responsible for monitoring activities relating to operational risk.

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

(d) Liquidity risk management

Liquidity pertains to the Group's ability to meet obligations as they fall due. Funding liquidity relates to the ability to meet expected and unexpected current and future cash flow and collateral needs without affecting daily operations or the financial position. Market liquidity concerns the inability to offset or eliminate a position at market price because of inadequate market depth or market disruption.

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 Asset and Liability Management Committee is delegated by the Board of Directors to oversee the Group's liquidity risk management. The Asset and Liability Management Committee sets the strategy, policy and limits for managing liquidity risk and the means for ensuring that such strategy and policy are implemented. Regular meetings are held to review the compliance status of the monitoring matrix established and the need for any change in strategy and policy. Liquidity is managed daily by the Capital Markets & Liquidity Management Department under the Treasury Markets Division within the limits. 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's strong retail customer base provides a significant portion of the Group's funding. The retail customer base constitutes a broad spectrum of depositors with whom the Group maintains strong relationships. Funding diversification is achieved by issuance of certificates of deposit, medium term notes and subordinated debts. Professional markets are accessed for the purposes of providing additional funding, maintaining a presence in local money markets and optimising asset and liability maturities.

Internally, intra-group funding transactions are carried out at arm's length and treated in a manner in line with other third party transactions, with regular monitoring and appropriate control.

In addition to observing the statutory liquidity ratio, the Group has established different liquidity metrics, including but not limited to the liquidity ratio, loan-to-deposit ratio, cumulative mismatch ratio, funding concentration ratios, intra-group exposure threshold and cross currency funding ratio to measure and analyse the Group's liquidity risks. As a majority of the Group's liquidity risk arises from the maturity mismatch gap between the Group's asset and liability portfolios, the Group manages liquidity risk by conducting cash flow analysis and projections. These are carried out on a regular basis to identify funding needs arising from on- and off- balance sheet items in a specific time bucket over a set of time horizons. The Group also holds 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. Contingent funding sources are maintained to provide strategic liquidity to meet unexpected and material cash outflows.

The Group also conducts stress testing regularly to analyse liquidity risk. In the Group's stress test, both on- and off-balance sheet items with cash flow impact are considered, with applicable hypothetical as well as historical assumptions. Both funding and market liquidity risks are addressed. Three stress scenarios, namely the institution-specific crisis, the general market crisis and the combined crisis are adopted with minimum survival period defined according to HKMA's latest Supervisory Policy Manual "Sound Systems and Controls for Liquidity Risk Management".

With reference to the stress-testing results, the Group identifies potential vulnerabilities within the Group, and formulates a Contingency Funding Plan that describes the Group's strategy for dealing with any liquidity problem and the procedures for making up cash flow deficits in emergency situations.

The Contingency Funding Plan is designed to be pro-active and pre-emptive, and stipulates the following 3 stages:

In the first stage, the Group utilises early warning indicators, which cover both qualitative and quantitative measures, and monitors both internal and external factors. Should there be any early signs of significant impact on the Group's liquidity position, management is informed.

In the second stage, a Crisis Management Committee, which is chaired by Senior Management, is formed to handle the crisis. Strategy and procedures for obtaining contingency funding, as well as roles and responsibilities of parties concerned, are clearly stated.

In the final stage, a detailed review is carried out to recommend necessary improvements to avoid incidents of a similar nature in future.

Annual drill test is conducted and the Contingency Funding Plan is subject to regular review in order to cope with the changes of business environment. Any significant changes to the Contingency Funding Plan are approved by the Board.

In the first half of 2013, BEA issued floating rate certificates of deposits and debt securities with a face value of HK$572.8 million and US$340 million, respectively; fixed rate certificates of deposits and debt securities with a face value of HK$1,200 million, US$183.6 million, RMB2,715.5 million, GBP790 million and SGD103 million, respectively; and zero coupon certificates of deposits and debt securities with a face value of HK$2,898 million, US$993.2 million, RMB740 million, GBP50 million and JPY5,000 million, respectively. The Group redeemed a quantity of certificates of deposits and debt securities amounting to HK$21,964 million equivalent upon maturity.

At the end of June 2013, the face value of the outstanding debt securities issued was HK$45,658 million, with a carrying amount equal to HK$45,594 million.

Maturity Profile of Certificates of Deposits and Debt Securities Issued
As at 30th June, 2013
(All expressed in millions of dollars)

	Total	**Year of Maturity**				
	Face Value	**2013**	**2014**	**2015**	**2016**	**2017**
Floating Rate						
HKD	1,038		83	385	570	
USD	680	92	482	106		
Fixed Rate *(Note 1)*						
HKD	3,078	230	950	531	1,233	134
USD	873	753	100		20	
RMB	10,309	7,297	1,792	1,220		
GBP	380	380				
SGD	103	35	68			

Zero Coupon						
HKD	2,518	1,773	745			
USD	845	574	221	50		
RMB	905	50	600			255
GBP	50	50				
SGD	27	27				
JPY *(Note 2)*	5,000	5,000				
Total Certificates of Deposits and Debt Securities issued in HKD equivalent	45,658	28,133	11,446	3,665	1,958	456

Note:

1. *Associated interest rate swaps have been entered for managing interest rate risk along with long-term certificates of deposits and debt securities if deemed necessary.*
2. *Foreign exchange swap to USD has been entered for the JPY 5,000 million certificate of deposit.*

At the end of June 2013, the face value of the outstanding loan capital issued was HK$13,426 million equivalent, with a carrying amount equal to HK$13,639 million.

Maturity Profile of Loan Capital
As at 30th June, 2013
(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	13,426	4,654	8,772

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 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 strategies and policies 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.

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 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 Asset and Liability Management Committee is responsible for ongoing strategic risk management. The Risk Management Division monitors the activities under the Group's prevailing interest earning asset mix and funding strategies and regularly reports the status to the Asset and Liability Management Committee, Risk Management Committee, Risk Committee and the Board of Directors, where appropriate.

(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 event that results in 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 Operational Risk Management Committee is responsible for overseeing risk management of legal risk and reputation risk of the Group.

DEALINGS IN LISTED SECURITIES OF THE BANK

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the six months ended 30th June, 2013.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Group are committed to maintaining the highest corporate governance standards and consider such commitment essential in balancing the interests of shareholders, customers and employees; and in upholding accountability and transparency.

The Bank has complied with all the Code Provisions set out in Appendix 14, Corporate Governance Code of the Listing Rules, throughout the accounting period for the six months ended 30th June, 2013, with the exception of Code Provision A.2.1 as explained below.

Throughout the accounting period for the six months ended 30th June, 2013, the Bank has followed the module on "Corporate Governance of Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual CG-1 issued by HKMA.

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 division of responsibilities between the Chairman and the Chief Executive is clearly established and set out in the job mandate of the Chairman and Chief Executive. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and highly qualified individuals. The Board meets regularly 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.

The Bank received confirmations from Directors that they have spent sufficient time performing their responsibilities as Directors of the Bank and have given sufficient time and attention to the Bank's affairs.

All Directors acknowledged that they have participated, from time to time, in continuous professional development to develop and refresh their knowledge and skills for carrying out their duties and responsibilities as Directors of the Bank.

The Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30th June, 2013.

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 Dealing – 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 Dealing – 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 (including any Director who resigned during the six months ended 30th June, 2013) 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, 2013.

By order of the Board
David LI Kwok-po
Chairman & Chief Executive

Hong Kong, 1st August, 2013

As at the date of this announcement, 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**, 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**, Dr. Isidro FAINÉ CASAS* and Mr. Peter LEE Ka-kit*.*

* Non-executive Directors
** Independent Non-executive Directors