BEA 東亞銀行

The Bank of East Asia, Limited
東亞銀行有限公司
(Incorporated in Hong Kong with limited liability in 1918)
(Stock Code: 23)

ANNOUNCEMENT OF 2014 INTERIM RESULTS

INTERIM RESULTS

The Board of Directors of the Bank is pleased to announce the unaudited results (Note 1(a)) of the Group for the six months ended 30th June, 2014. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2013 audited accounts, except for the accounting policy changes that are expected to be reflected in the 2014 audited accounts. Details of these changes in accounting policies are set out in Note 2. The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the HKICPA.

Consolidated Income Statement

	6 months ended 30/6/2014	6 months ended 30/6/2013 Restated
	HK$ Mn	HK$ Mn
Interest income	13,684	11,915
Interest expense	(7,443)	(6,251)
Net interest income	6,241	5,664
Fee and commission income	2,579	2,407
Fee and commission expense	(438)	(426)
Net fee and commission income	2,141	1,981
Net trading profits	538	626
Net result from financial instruments designated at fair value through profit or loss	(53)	(281)
Net hedging loss	(1)	(14)
Other operating income	336	344
Non-interest income	2,961	2,656
Operating income	9,202	8,320
Operating expenses	(4,893)	(4,507)
Operating profit before impairment losses	4,309	3,813
Impairment losses on loans and advances	(319)	(182)
Write back of impairment losses on held-to-maturity investments	3	-
Impairment losses on available-for-sale financial assets	-	(1)
Impairment losses	(316)	(183)
Operating profit after impairment losses	3,993	3,630
Net profit on sale of available-for-sale financial assets	68	59
Net loss on disposal of fixed assets	(3)	-
Valuation gains on investment properties	115	319
Share of profits less losses of associates	309	378
Profit for the period before taxation	4,482	4,386
Income tax		
Current tax (Note 1(b))		
- Hong Kong	(406)	(415)
- Outside Hong Kong	(407)	(440)
Deferred tax	(37)	(101)
Profit for the period after taxation	3,632	3,430
Attributable to:		
Owners of the parent	3,580	3,376
Non-controlling interests	52	54
Profit after taxation	3,632	3,430
Profit for the Bank	1,790	1,755
Per share		
- Basic earnings (Note 1(c))	HK$1.48	HK$1.43
- Diluted earnings (Note 1(c))	HK$1.48	HK$1.43

Consolidated Statement of Comprehensive Income

	6 months ended 30/6/2014 HK$ Mn	6 months ended 30/6/2013 HK$ Mn
Net profit	3,632	3,430
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)	2
Items that may be reclassified subsequently to income statement:		
Available-for-sale investment revaluation reserve:		
- fair value changes recognised to/(from) equity	732	(382)
- fair value changes reclassified from/(to) income statement:		
- on impairment and amortisation	1	15
- on disposal	(43)	(100)
- deferred taxes	(131)	54
- exchange differences	5	(1)
Share of changes in equity of associates	(24)	2
Exchange differences on other reserves	(80)	33
Exchange differences on translation of:		
- accounts of overseas branches, subsidiaries and associates	(473)	123
Other comprehensive income	(15)	416
Total comprehensive income	3,617	3,846
Total comprehensive income attributable to:		
Owners of the parent	3,565	3,792
Non-controlling interests	52	54
	3,617	3,846

Consolidated Statement of Financial Position

	30/6/2014	31/12/2013
	HK$ Mn	HK$ Mn
ASSETS		
Cash and balances with banks and other financial institutions	61,451	68,777
Placements with banks and other financial institutions	63,886	57,372
Trade bills	66,768	59,932
Trading assets	4,641	5,331
Financial assets designated at fair value through profit or loss	10,738	11,606
Positive fair value of derivatives	3,834	3,625
Advances to customers and other accounts	479,192	448,255
Available-for-sale financial assets	86,154	71,589
Held-to-maturity investments	5,504	5,048
Investments in associates	5,814	4,779
Fixed assets	13,278	13,530
- Investment properties	4,433	4,400
- Other property and equipment	8,845	9,130
Goodwill and intangible assets	3,983	3,990
Deferred tax assets	106	120
Total Assets	805,349	753,954
EQUITY AND LIABILITIES		
Deposits and balances of banks and other financial institutions	27,753	28,923
Deposits from customers	559,512	534,971
- Demand deposits and current accounts	64,264	69,259
- Savings deposit	92,480	92,936
- Time, call and notice deposits	402,768	372,776
Trading liabilities	39	11
Negative fair value of derivatives	3,315	4,545
Certificates of deposit issued	48,691	42,929
- At fair value through profit or loss	12,349	8,509
- At amortised cost	36,342	34,420
Current taxation	1,516	1,353
Debt securities issued	23,966	4,728
- At fair value through profit or loss	6,367	150
- At amortised cost	17,599	4,578
Deferred tax liabilities	801	647
Other accounts and provisions	54,755	53,981
Loan capital - at amortised cost	13,791	13,632
Total Liabilities	734,139	685,720
Capital and reserves		
Share capital: nominal value	-	5,724
Other statutory capital reserves	-	17,770
Share capital and other statutory capital reserves	24,622	23,494
Other reserves	42,036	40,188
Total equity attributable to owners of the parent	66,658	63,682
Non-controlling interests	4,552	4,552
Total Equity	71,210	68,234
Total Equity and Liabilities	805,349	753,954

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, 2014	5,724	17,770	69	2,874	978	1,642	200	13,877	3,770	16,778	63,682	4,552	68,234
Changes in equity													
Profit for the period	-	-	-	-	-	-	-	-	-	3,580	3,580	52	3,632
Other comprehensive income	-	-	-	(473)	564	(2)	-	-	(104)	-	(15)	-	(15)
Total comprehensive income	-	-	-	(473)	564	(2)	-	-	(104)	3,580	3,565	52	3,617
Shares issued in lieu of dividend	1,096	-	-	-	-	-	-	-	-	-	1,096	-	1,096
Shares issued under Staff Share Option Schemes	26	-	-	-	-	-	-	-	-	-	26	-	26
Equity settled share-based transaction	-	-	11	-	-	-	-	-	-	-	11	-	11
Transfer	6	-	(6)	-	-	-	30	56	32	(118)	-	-	-
Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	(1,722)	(1,722)	(53)	(1,775)
Purchase of interests in businesses from non-controlling interests investors	-	-	-	-	-	-	-	-	-	-	-	1	1
Transition to no-par value regime on 3rd March, 2014 (Note 1(e))	17,770	(17,770)	-	-	-	-	-	-	-	-	-	-	-
At 30th June, 2014	24,622	-	74	2,401	1,542	1,640	230	13,933	3,698	18,518	66,658	4,552	71,210
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

* Other reserves include statutory reserve and other reserves.

Condensed Consolidated Cash Flow Statement

	6 months ended 30/6/2014 HK$ Mn	6 months ended 30/6/2013 HK$ Mn
Cash used in operations	(38,182)	(51,288)
Tax paid	(645)	(356)
Net cash used in operating activities	(38,827)	(51,644)
Net cash used in investing activities	(951)	(441)
Net cash generated from financing activities	23,754	8,101
Net decrease in cash and cash equivalents	(16,024)	(43,984)
CASH AND CASH EQUIVALENTS AT 1st JANUARY	90,007	99,738
CASH AND CASH EQUIVALENTS AT 30th JUNE	73,983	55,754
Cash flows from operating activities included:		
Interest received	13,470	11,907
Interest paid	6,941	6,135
Dividend received	44	39

Notes:

1. (a) This interim results announcement has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out in Note 2 below. The financial information relating to the financial year ended 31st December, 2013 that is included in the interim financial report as being previously reported information does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. The statutory accounts for the year ended 31st December, 2013 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 18th February, 2014.

(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, 2014. 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$3,415 million (six months ended 30th June, 2013 : HK$3,213 million) after the distribution of HK$165 million (six months ended 30th June, 2013: HK$163 million) to Hybrid Tier 1 issue holders and on the weighted average of 2,309 million (six months ended 30th June, 2013: 2,243 million) ordinary shares outstanding during the six months ended 30th June, 2014.

(ii) The calculation of diluted earnings per share is based on earnings of HK$3,415 million (six months ended 30th June, 2013: HK$3,213 million) after the distribution of HK$165 million (six months ended 30th June, 2013: HK$163 million) to Hybrid Tier 1 issue holders and on 2,309 million (six months ended 30th June, 2013: 2,245 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2014, adjusted for the effects of all dilutive potential shares.

(d) Dividends

(i) Dividends payable to equity owners of the parent attributable to the interim period

	6 months ended 30/6/2014	6 months ended 30/6/2013
	HK$ Mn	HK$ Mn
Interim dividend declared after the interim period of HK$0.43 per share (six months ended 30th June, 2013: HK$0.43 per share)	1,001	973

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

(ii) Dividends payable to equity owners of the parent attributable to the previous financial year, approved and paid during the interim period

	6 months ended 30/6/2014	6 months ended 30/6/2013
	HK$ Mn	HK$ Mn
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$0.68 per share (2013: HK$0.63 per share)	-	1
Second interim dividend in lieu of the final dividend of HK$0.68 per share on 2,290 million shares (2013: HK$0.63 per share on 2,227 million shares)	1,557	1,403
	1,557	1,404

(e) Share Capital

As at 31st December, 2013, 4,000 million ordinary shares, with par value of HK$2.5 each, were authorised for issue. Under the new Hong Kong Companies Ordinance (Cap. 622) ("New CO"), which has been effective since 3rd March, 2014, the concept of 'authorised capital' and 'par value' no longer exists. As part of the transition to no-par value regime, the amount standing to the credit of the share premium account on 3rd March, 2014 has become part of the Bank's share capital, under the transitional provisions set out in section 37 of Schedule 11 to the New CO. These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

Movement of the Bank's ordinary shares is set out below:

	At 30th June, 2014		At 31st December, 2013	
	No. of shares (Mn)	HK$ Mn	No. of shares (Mn)	HK$ Mn
Ordinary shares, issued and fully paid:				
At 1st January	2,290	5,724	2,227	5,568
Shares issued under Staff Share Option Schemes	1	26	5	12
Transition to no-par value regime on 3rd March 2014	-	17,770	-	-
Transfer of the fair value of options from capital reserve – share options issued	-	6	-	-
Shares issued in lieu of dividend	37	1,096	58	144
At 30th June / 31st December	2,328	24,622	2,290	5,724

(f) Share premium

Prior to 3rd March, 2014, the application of the share premium account was governed by section 48B of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the New CO, on 3rd March, 2014 any amount standing to the credit of the share premium account has become part of the Bank's share capital (Note 1(e)). The use of share capital as from 3rd March, 2014 is governed by the New CO.

2. Changes in Accounting Policies

The HKICPA has issued the following amendments to HKFRSs and one new interpretation that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK(IFRIC) 21, *Levies*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. Interest Income

	6 months ended 30/6/2014	6 months ended 30/6/2013
	HK$ Mn	HK$ Mn
Securities classified as held-to-maturity or available-for-sale		
- listed	423	323
- unlisted	729	489
Trading assets		
- listed	5	8
- unlisted	88	128
Interest rate swaps	948	823
Financial assets designated at fair value through profit or loss		
- listed	152	215
- unlisted	97	96
Loans, deposits with banks and financial institutions, and trade bills	11,242	9,833
	13,684	11,915

Included above is interest income accrued on impaired financial assets of HK$53 million (six months ended 30th June, 2013: HK$41 million).

4. Interest Expense

	6 months ended 30/6/2014	6 months ended 30/6/2013
	HK$ Mn	HK$ Mn
Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost	5,855	4,808
Debt securities issued	137	151
Subordinated notes carried at amortised cost	375	373
Interest rate swaps	967	854
Financial instruments designated at fair value through profit or loss	108	64
Other borrowings	1	1
	7,443	6,251

5. Fee and Commission Income

Fee and commission income arises from the following services:

	6 months ended 30/6/2014 HK$ Mn	6 months ended 30/6/2013 HK$ Mn
Corporate services	559	531
Loans, overdrafts and guarantees	500	468
Credit cards	437	471
Trade finance	364	216
Other retail banking services	233	235
Securities and brokerage	158	168
Trust and other fiduciary activities	84	98
Others	244	220
Total fee and commission income	2,579	2,407
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	2,152	1,990
Fee income	2,579	2,407
Fee expenses	(427)	(417)

6. Net Trading Profits

	6 months ended 30/6/2014 HK$ Mn	6 months ended 30/6/2013 Restated HK$ Mn
(Loss)/Profit on dealing in foreign currencies	(68)	322
Profit/(Loss) on trading securities	80	(97)
Net gain on derivatives	500	381
Dividend income from listed trading securities	26	20
	538	626

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

	6 months ended 30/6/2014	6 months ended 30/6/2013 Restated
	HK$ Mn	HK$ Mn
Revaluation gain on debts issued	19	17
Net profit/(loss) on sale of other financial instruments designated at fair value through profit or loss	1	(84)
Revaluation loss on other financial instruments designated at fair value through profit or loss	(73)	(214)
	(53)	(281)

8. Net Hedging Loss

	6 months ended 30/6/2014	6 months ended 30/6/2013
	HK$ Mn	HK$ Mn
Fair value hedges		
- Net (loss)/gain on hedged items attributable to the hedged risk	(2)	275
- Net gain/(loss) on hedging instruments	1	(289)
	(1)	(14)

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the six months ended 30th June, 2014 and 30th June, 2013.

9. Other Operating Income

	6 months ended 30/6/2014	6 months ended 30/6/2013
	HK$ Mn	HK$ Mn
Dividend income from available-for-sale financial assets		
- listed	7	4
- unlisted	11	15
Rental from safe deposit boxes	39	38
Net revenue from insurance activities	174	153
Rental income on properties	65	66
Others	40	68
	336	344

10. Operating Expenses

	6 months ended 30/6/2014	6 months ended 30/6/2013
	HK$ Mn	HK$ Mn
Contributions to defined contribution plan		
- Hong Kong	77	73
- Outside Hong Kong	172	149
Equity-settled share-based payment expenses	11	11
Salaries and other staff costs	2,475	2,327
Total staff costs	2,735	2,560
Premises and equipment expenses excluding depreciation		
- Rental of premises	331	314
- Maintenance, repairs and others	297	288
Total premises and equipment expenses excluding depreciation	628	602
Depreciation on fixed assets	328	330
Amortisation of intangible assets	16	16
Other operating expenses		
- Stamp duty, overseas and PRC business taxes, and value added taxes	399	337
- Legal and professional fees	180	89
- Communications, stationery and printing	158	150
- Advertising expenses	143	88
- Business promotions and business travel	84	76
- Card related expenses	29	46
- Insurance expenses	24	23
- Administration expenses of corporate services	8	6
- Membership fees	8	7
- Bank charges	5	5
- Donations	3	17
- Bank licence	2	2
- Others	143	153
Total other operating expenses	1,186	999
Total operating expenses	4,893	4,507

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

	6 months ended 30/6/2014	6 months ended 30/6/2013
	HK$ Mn	HK$ Mn
Net revaluation gain transferred from reserves	43	100
Profit/(Loss) arising in the period	25	(41)
	68	59

12. Net Loss on Disposal of Fixed Assets

	6 months ended 30/6/2014	6 months ended 30/6/2013
	HK$ Mn	HK$ Mn
Net loss on disposal of bank premises, furniture, fixtures and equipment	(3)	-
	(3)	-

13. Placements with Banks and Other Financial Institutions

	30/6/2014	31/12/2013
	HK$ Mn	HK$ Mn
Placements with banks and authorised institutions	63,886	57,372
Placements with central banks	-	-
	63,886	57,372
Maturing		
- within one month	39,204	38,290
- between one month and one year	24,682	19,082
	63,886	57,372

14. Trading Assets

	30/6/2014	31/12/2013
	HK$ Mn	HK$ Mn
Treasury bills (including Exchange Fund Bills)	23	26
Debt securities	3,293	3,876
Equity securities	1,304	1,407
Investment funds	21	22
	4,641	5,331
Issued by:		
Central governments and central banks	118	236
Public sector entities	382	58
Banks and other financial institutions	1,926	2,864
Corporate entities	2,159	2,117
Other entities	56	56
	4,641	5,331
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	19	19
Listed outside Hong Kong	95	281
	114	300
Unlisted	3,202	3,602
	3,316	3,902
Equity securities		
Listed in Hong Kong	995	1,119
Listed outside Hong Kong	309	288
	1,304	1,407
Investment funds		
Listed in Hong Kong	6	7
Listed outside Hong Kong	15	15
	21	22
	4,641	5,331

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

	30/6/2014	31/12/2013
	HK$ Mn	HK$ Mn
Certificates of deposit held	1,495	128
Debt securities	8,817	11,071
Equity securities	363	354
Investment funds	63	53
	10,738	11,606
Issued by:		
Central governments and central banks	251	355
Banks and other financial institutions	6,706	5,894
Corporate entities	3,719	5,303
Other entities	62	54
	10,738	11,606
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	972	1,520
Listed outside Hong Kong	4,692	5,887
	5,664	7,407
Unlisted	4,648	3,792
	10,312	11,199
Equity securities		
Listed in Hong Kong	119	115
Listed outside Hong Kong	244	239
	363	354
Investment funds		
Listed outside Hong Kong	9	-
Unlisted	54	53
	63	53
	10,738	11,606

16. Advances to Customers and Other Accounts

(a) Advances to customers and other accounts

	30/6/2014	31/12/2013
	HK$ Mn	HK$ Mn
(i) Advances to customers	438,802	405,357
Less: Impairment allowances		
- Individual	(403)	(323)
- Collective	(748)	(699)
	437,651	404,335
(ii) Other accounts		
Advances to banks and other financial institutions	5	5
Less: Impairment allowances - Individual	(2)	(2)
	3	3
Notes and bonds	1	1
Certificates of deposit held	116	116
Accrued interest	2,855	2,641
Customer liability under acceptance	30,592	31,393
Other accounts	8,031	9,796
	41,595	43,947
Less: Impairment allowances		
- Individual	(38)	(13)
- Collective	(19)	(17)
	41,538	43,917
	479,192	448,255

(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.

	30/6/2014		31/12/2013	
	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	15,214	71.89	13,743	71.01
- Property investment	37,757	89.21	37,574	87.51
- Financial concerns	16,337	83.34	13,780	81.80
- Stockbrokers	1,554	79.18	1,222	88.85
- Wholesale and retail trade	20,510	43.82	14,296	34.11
- Manufacturing	7,186	37.76	6,963	37.04
- Transport and transport equipment	6,822	64.65	5,954	66.01
- Recreational activities	131	52.78	96	33.02
- Information technology	1,774	7.04	1,063	8.88
- Others	19,522	70.73	10,189	50.34
- Sub-total	126,807	70.64	104,880	68.31
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,073	100.00	1,096	100.00
- Loans for the purchase of other residential properties	30,395	100.00	28,537	99.99
- Credit card advances	3,927	0.00	4,137	0.00
- Others	18,381	76.97	19,453	68.64
- Sub-total	53,776	84.83	53,223	80.76
Total loans for use in Hong Kong	180,583	74.86	158,103	72.50
Trade finance	5,543	52.89	5,895	39.60
Loans for use outside Hong Kong *	252,676	71.33	241,359	71.02
Total advances to customers	438,802	72.55	405,357	71.14

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

	30/6/2014		31/12/2013	
	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK$ Mn	%	HK$ Mn	%
Property development	35,032	55.47	33,980	52.70
Property investment	29,989	98.47	29,801	98.45
Wholesale and retail trade	36,485	79.71	35,088	79.84
Manufacturing	12,351	59.48	12,081	47.34
Others	75,343	64.92	68,844	66.67
	189,200	70.99	179,794	70.57

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:

	30/6/2014	31/12/2013
	HK$ Mn	HK$ Mn
(i) Property development		
a. Individually impaired loans	48	131
b. Individual impairment allowance	10	16
c. Collective impairment allowance	74	62
d. Provision charged to income statement		
- individual impairment loss	1	-
- collective impairment loss	20	22
e. Written off	-	-
(ii) Property investment		
a. Individually impaired loans	256	242
b. Individual impairment allowance	5	5
c. Collective impairment allowance	132	140
d. Provision charged to income statement		
- individual impairment loss	-	-
- collective impairment loss	23	35
e. Written off	-	-
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	240	169
b. Individual impairment allowance	8	2
c. Collective impairment allowance	56	55
d. Provision charged to income statement		
- individual impairment loss	8	3
- collective impairment loss	6	12
e. Written off	1	2
(iv) Wholesale and retail trade		
a. Individually impaired loans	530	314
b. Individual impairment allowance	162	106
c. Collective impairment allowance	111	109
d. Provision charged to income statement		
- individual impairment loss	131	120
- collective impairment loss	19	38
e. Written off	41	72

(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.

	30/6/2014				
	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	186,198	204	389	68	227
People's Republic of China	207,305	849	1,226	225	368
Other Asian Countries	23,201	37	156	105	99
Others	22,098	59	149	5	54
Total	438,802	1,149	1,920	403	748
% of total advances to customers			0.44%		
Market value of security held against impaired advances to customers			3,018		

	31/12/2013				
	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	172,436	188	384	81	210
People's Republic of China	189,924	653	840	159	316
Other Asian Countries	22,124	18	120	72	106
Others	20,873	65	237	11	67
Total	405,357	924	1,581	323	699
% of total advances to customers			0.39%		
Market value of security held against impaired advances to customers			3,779		

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.

17. Available-for-Sale Financial Assets

	30/6/2014 HK$ Mn	31/12/2013 HK$ Mn
Treasury bills (including Exchange Fund Bills)	28,154	18,797
Certificates of deposit held	1,929	2,386
Debt securities	53,094	47,499
Equity securities	2,762	2,722
Investment funds	215	185
	86,154	71,589
Issued by:		
Central governments and central banks	27,139	19,694
Public sector entities	1,789	2,273
Banks and other financial institutions	29,465	25,350
Corporate entities	27,508	24,048
Other entities	253	224
	86,154	71,589
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	11,538	8,165
Listed outside Hong Kong	11,791	12,292
	23,329	20,457
Unlisted	59,848	48,225
	83,177	68,682
Equity securities		
Listed in Hong Kong	632	580
Listed outside Hong Kong	1,323	1,318
	1,955	1,898
Unlisted	807	824
	2,762	2,722
Investment funds		
Listed outside Hong Kong	39	1
Unlisted	176	184
	215	185
	86,154	71,589

18. Held-to-Maturity Investments

	30/6/2014 HK$ Mn	31/12/2013 HK$ Mn
Treasury bills (including Exchange Fund Bills)	640	649
Certificates of deposit held	1,111	1,186
Debt securities	3,753	3,213
	5,504	5,048
Issued by:		
Central governments and central banks	1,682	1,745
Public sector entities	40	153
Banks and other financial institutions	736	803
Corporate entities	3,046	2,347
	5,504	5,048
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	1,978	1,119
Listed outside Hong Kong	1,815	1,777
	3,793	2,896
Unlisted	1,711	2,152
	5,504	5,048
Fair value:		
Listed securities	3,835	2,983
Unlisted securities	1,704	2,152
	5,539	5,135

19. Fixed Assets

	30/6/2014				
	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, 2014	4,400	8,875	5,057	13,932	18,332
Additions	-	5	147	152	152
Revaluation surplus	115	-	-	-	115
Transfer from investment properties to bank premises	(84)	84	-	84	-
Transfer from furniture, fixtures and equipment to bank premises	-	46	(46)	-	-
Reclassify to other accounts	(33)	(79)	(1)	(80)	(113)
Redevelopment cost	43	-	-	-	43
Disposals	-	-	(158)	(158)	(158)
Exchange adjustments	(8)	(110)	(40)	(150)	(158)
At 30th June, 2014	4,433	8,821	4,959	13,780	18,213
Accumulated depreciation and amortisation					
At 1st January, 2014	-	1,314	3,488	4,802	4,802
Charge for the period	-	88	240	328	328
Transfer from furniture, fixtures and equipment to bank premises	-	33	(33)	-	-
Written off on disposal	-	-	(152)	(152)	(152)
Exchange adjustments	-	(18)	(25)	(43)	(43)
At 30th June, 2014	-	1,417	3,518	4,935	4,935
Net book value at 30th June, 2014	4,433	7,404	1,441	8,845	13,278
Net book value at 31st December, 2013	4,400	7,561	1,569	9,130	13,530
The gross amounts of the above assets are stated:					
At cost	-	8,009	4,959	12,968	12,968
At Directors' valuation					
- 1989	-	812	-	812	812
At professional valuation					
- 2014	4,433	-	-	-	4,433
	4,433	8,821	4,959	13,780	18,213

20. Trading Liabilities

	30/6/2014 HK$ Mn	31/12/2013 HK$ Mn
Exchange fund bills sold	17	-
Shares sold	22	11
	39	11

21. Other Accounts and Provisions

	30/6/2014 HK$ Mn	31/12/2013 HK$ Mn
Accrued interest payable	4,633	4,131
Acceptance draft payable	30,592	31,393
Other accounts	19,530	18,457
	54,755	53,981

22. Loan Capital

	30/6/2014 HK$ Mn	31/12/2013 HK$ Mn
USD600 million subordinated notes, measured at amortised cost	4,890	4,815
USD500 million subordinated notes (under the Euro Medium Term Note Programme), measured at amortised cost	3,921	3,923
SGD800 million subordinated notes (under the Euro Medium Term Note Programme), measured at amortised cost	4,980	4,894
	13,791	13,632

Two tranches of loan capital of face value totalling HK$4,650 million (USD600 million) and carrying amount totalling HK$4,890 million (31/12/2013: HK$4,815 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 Tier 2 capital are listed on the Singapore Stock Exchange and will mature on 16th July, 2020. Hedge ineffectiveness of HK$2 million loss in the first half of 2014 (first half 2013: HK$5 million loss) was recorded under fair value hedge accounting.

Loan capital of face value of HK$3,875 million (USD500 million) and carrying amount of HK$3,921 million (31/12/2013: HK$3,923 million) represents 6.375% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 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$0.1 million loss in the first half of 2014 (first half 2013: HK$0.025 million loss) was recorded under the fair value hedge accounting for the USD400 million subordinated notes. The fair value as of 30th June, 2014 for the USD100 million subordinated notes was HK$848 million (USD109.4 million) (31/12/2013: HK$849 million (USD109.5 million)).

Loan capital of face value of HK$4,964 million (SGD800 million) and carrying amount of HK$4,980 million (31/12/2013: HK$4,894 million) represents two tranches of 4.25% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 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$2 million profit in the first half of 2014 (first half 2013: HK$1 million loss) was recorded under the fair value hedge accounting.

23. 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 30/6/2014												
	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)	1,230	1,112	(56)	136	89	118	2,995	530	2	6,156	85	-	6,241
Non-interest income	372	339	133	180	12	309	798	95	565	2,803	327	(169)	2,961
Operating income	1,602	1,451	77	316	101	427	3,793	625	567	8,959	412	(169)	9,202
Operating expenses	(765)	(95)	(67)	(90)	(7)	(283)	(2,180)	(259)	(387)	(4,133)	(929)	169	(4,893)
Operating profit/(loss) before impairment losses	837	1,356	10	226	94	144	1,613	366	180	4,826	(517)	-	4,309
(Charge for)/write back of impairment losses on loans and advances and other accounts	(53)	(19)	1	(2)	-	(11)	(168)	(65)	(2)	(319)	-	-	(319)
Write back of impairment losses on held-to-maturity investments	-	-	3	-	-	-	-	-	-	3	-	-	3
Operating profit/(loss) after impairment losses	784	1,337	14	224	94	133	1,445	301	178	4,510	(517)	-	3,993
Profit/(Loss) on sale of fixed assets and available-for-sale financial assets	-	24	41	-	-	2	(2)	-	-	65	-	-	65
Valuation gains on investment properties	-	-	-	-	-	-	-	1	-	1	114	-	115
Share of profits less losses of associates	-	-	-	-	-	(2)	97	213	1	309	-	-	309
Profit/(Loss) before taxation	784	1,361	55	224	94	133	1,540	515	179	4,885	(403)	-	4,482
Depreciation for the period	(37)	(1)	(2)	(2)	-	(13)	(161)	(10)	(13)	(239)	(89)	-	(328)
Segment assets	54,265	174,467	145,648	30,378	12,454	17,772	363,976	87,768	3,035	889,763	33,290	(123,518)	799,535
Investments in associates	-	-	-	-	-	56	620	5,117	21	5,814	-	-	5,814
Total assets	54,265	174,467	145,648	30,378	12,454	17,828	364,596	92,885	3,056	895,577	33,290	(123,518)	805,349
Total liabilities	280,974	1,051	99,934	20,718	2	13,427	334,215	75,029	748	826,098	2,973	(94,932)	734,139

	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

24. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2014							
	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	24,142	33	70	124	1	-	37,081	61,451
Placements with banks and other financial institutions	285	38,919	16,853	7,829	-	-	-	63,886
Trade bills	150	8,003	20,721	37,894	-	-	-	66,768
Trading assets	-	16	161	1,851	1,288	-	1,325	4,641
Financial assets designated at fair value through profit or loss	-	451	502	3,667	3,922	1,770	426	10,738
Positive fair value of derivatives	-	-	-	-	-	-	3,834	3,834
Advances to customers and other accounts	8,411	66,716	50,334	101,427	157,498	89,906	4,900	479,192
Available-for-sale financial assets	-	6,955	20,266	6,219	40,803	8,934	2,977	86,154
Held-to-maturity investments	104	1,010	329	708	3,162	191	-	5,504
Undated assets	-	-	-	-	-	-	23,181	23,181
Total assets	33,092	122,103	109,236	159,719	206,674	100,801	73,724	805,349
Liabilities								
Deposits and balances of banks and other financial institutions	4,590	8,960	8,200	4,872	1,116	15	-	27,753
Deposits from customers	158,495	133,520	145,159	102,874	19,464	-	-	559,512
- Demand deposits and current accounts	64,264	-	-	-	-	-	-	64,264
- Savings deposit	92,480	-	-	-	-	-	-	92,480
- Time, call and notice deposits	1,751	133,520	145,159	102,874	19,464	-	-	402,768
Trading liabilities	-	17	-	-	-	-	22	39
Negative fair value of derivatives	-	-	-	-	-	-	3,315	3,315
Certificates of deposit issued	-	7,266	11,565	23,283	6,577	-	-	48,691
Current taxation	-	-	-	1,516	-	-	-	1,516
Debt securities issued	-	256	3,369	12,841	7,500	-	-	23,966
Loan capital	-	-	-	-	8,901	4,890	-	13,791
Other liabilities	1,616	7,106	12,328	17,043	7,277	2,166	8,020	55,556
Total liabilities	164,701	157,125	180,621	162,429	50,835	7,071	11,357	734,139
Net gap	(131,609)	(35,022)	(71,385)	(2,710)	155,839	93,730		

	31/12/2013							
	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	28,794	70	-	29	-	-	39,884	68,777
Placements with banks and other financial institutions	-	38,290	16,153	2,929	-	-	-	57,372
Trade bills	13	9,069	11,579	39,271	-	-	-	59,932
Trading assets	-	64	230	890	2,667	51	1,429	5,331
Financial assets designated at fair value through profit or loss	-	194	39	3,980	5,087	1,899	407	11,606
Positive fair value of derivatives	-	-	-	-	-	-	3,625	3,625
Advances to customers and other accounts	7,434	57,018	36,227	96,870	162,913	82,925	4,868	448,255
Available-for-sale financial assets	-	5,236	12,303	11,621	33,450	6,072	2,907	71,589
Held-to-maturity investments	104	1,256	334	597	2,711	46	-	5,048
Undated assets	-	-	-	-	-	-	22,419	22,419
Total assets	36,345	111,197	76,865	156,187	206,828	90,993	75,539	753,954
Liabilities								
Deposits and balances of banks and other financial institutions	3,691	10,319	9,231	4,609	1,073	-	-	28,923
Deposits from customers	163,343	136,534	104,544	108,409	22,141	-	-	534,971
- Demand deposits and current accounts	69,259	-	-	-	-	-	-	69,259
- Savings deposit	92,936	-	-	-	-	-	-	92,936
- Time, call and notice deposits	1,148	136,534	104,544	108,409	22,141	-	-	372,776
Trading liabilities	-	-	-	-	-	-	11	11
Negative fair value of derivatives	-	-	-	-	-	-	4,545	4,545
Certificates of deposit issued	-	8,765	7,820	18,991	7,353	-	-	42,929
Current taxation	-	-	-	1,353	-	-	-	1,353
Debt securities issued	-	-	792	2,656	1,280	-	-	4,728
Loan capital	-	-	-	-	8,817	4,815	-	13,632
Other liabilities	1,226	8,533	11,285	17,545	6,466	2,221	7,352	54,628
Total liabilities	168,260	164,151	133,672	153,563	47,130	7,036	11,908	685,720
Net gap	(131,915)	(52,954)	(56,807)	2,624	159,698	83,957		

25. 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, 2014	388	199	117	(9)	(11)	(157)	527
(Credited)/Charged to income statement	(51)	1	14	-	1	72	37
Charged to reserves	-	-	-	131	-	-	131
Exchange and other adjustments	-	(2)	(5)	2	-	5	-
At 30th June, 2014	337	198	126	124	(10)	(80)	695
Balance as at 31st December, 2013	388	199	117	(9)	(11)	(157)	527

26. Reserves

	30/6/2014	31/12/2013
	HK$ Mn	HK$ Mn
Statutory capital reserve (Note 1(e))		
Share premium	-	17,770
Other reserves		
General reserve	13,933	13,877
Revaluation reserve on bank premises	1,640	1,642
Investment revaluation reserve	1,542	978
Exchange revaluation reserve	2,401	2,874
Other reserves	4,002	4,039
Retained profits*	18,518	16,778
	42,036	40,188
Total	42,036	57,958
Proposed dividends, not provided for	1,001	1,557

*A regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments 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, 2014, HK$5,835 million (31st December, 2013: HK$5,381 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.

27. Consolidated Cash Flow Statement

(a) Purchase of subsidiaries

	30/6/2014	30/6/2013
	HK$ Mn	HK$ Mn
Net assets acquired		
Other accounts and provisions	(1)	-
	(1)	-
Goodwill arising on consolidation	3	-
Total purchase price	2	-
Cash flow on acquisition net of cash acquired	2	-

(b) Cash and cash equivalents

	30/6/2014	30/6/2013
	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	25,456	19,853
Placements with banks and other financial institutions with original maturity within three months	32,932	26,467
Treasury bills with original maturity within three months	14,557	7,518
Certificates of deposit held with original maturity within three months	1,038	1,035
Debt securities with original maturity within three months	-	881
	73,983	55,754
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks and other financial institutions	61,451	53,055
Placements with banks and other financial institutions	63,886	52,976
Treasury bills, certificates of deposit held and debt securities		
- trading assets	3,316	4,766
- designated at fair value through profit or loss	10,312	11,866
- advances and other accounts	117	79
- available-for-sale	83,177	61,882
- held-to-maturity	5,504	4,977
	102,426	83,570
Amount shown in the consolidated statement of financial position	227,763	189,601
Less : Amounts with an original maturity of beyond three months	(117,785)	(100,645)
Cash balance with central bank subject to regulatory restriction	(35,995)	(33,202)
Cash and cash equivalents in the consolidated cash flow statement	73,983	55,754

28. Offsetting Financial Instruments

The following tables present details of financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

	At 30th June, 2014				
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments that are not set off	Net amount
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Assets					
Positive fair value of derivatives	59	-	59	(52)	7
Other accounts	507	(397)	110	-	110
Total	566	(397)	169	(52)	117

	At 30th June, 2014				
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related financial instruments that are not set off	Net amount
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Liabilities					
Negative fair value of derivatives	88	-	88	(52)	36
Other accounts	397	(397)	-	-	-
Total	485	(397)	88	(52)	36

	At 31st December, 2013				
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related financial instruments that are not set off	Net amount
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Assets					
Positive fair value of derivatives	66	-	66	(54)	12
Other accounts	745	(681)	64	-	64
Total	811	(681)	130	(54)	76

	At 31st December, 2013				
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related financial instruments that are not set off	Net amount
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Liabilities					
Negative fair value of derivatives	254	-	254	(54)	200
Other accounts	779	(681)	98	-	98
Total	1,033	(681)	352	(54)	298

29. 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 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. 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:

	30/6/2014				31/12/2013			
	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	4,506	135	-	4,641	5,161	170	-	5,331
Financial assets designated at fair value through profit or loss	6,036	4,702	-	10,738	7,761	3,845	-	11,606
Positive fair value of derivatives	-	2,826	1,008	3,834	-	3,040	585	3,625
Available-for-sale financial assets	70,673	14,495	986	86,154	55,638	14,941	1,010	71,589
	81,215	22,158	1,994	105,367	68,560	21,996	1,595	92,151
Liabilities								
Trading liabilities	39	-	-	39	11	-	-	11
Negative fair value of derivatives	-	2,395	920	3,315	-	3,980	565	4,545
Financial liabilities designated at fair value through profit or loss	-	18,716	-	18,716	-	8,659	-	8,659
	39	21,111	920	22,070	11	12,639	565	13,215

During the six months ended 30th June, 2014, there were no transfers of financial instruments between Level 1 and Level 2, or transfer into or out of Level 3 of the fair value hierarchy (2013: 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.

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 above 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:

	30/6/2014		
	Positive fair value of derivatives	Available-for-sale financial assets	Total
	HK$ Mn	HK$ Mn	HK$ Mn
Assets			
At 1st January, 2014	585	1,010	1,595
Purchases	-	4	4
Settlements	(123)	(23)	(146)
Changes in fair value recognised in the income statement	546	-	546
Changes in fair value recognised in the other comprehensive income	-	(5)	(5)
At 30th June, 2014	1,008	986	1,994
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	-	(5)	(5)
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	546	-	546

	31/12/2013		
	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	-	193	193
Settlements	(196)	(54)	(250)
Changes in fair value recognised in the income statement	227	(68)	159
Changes in fair value recognised in the other comprehensive income	-	174	174
At 31st December, 2013	585	1,010	1,595
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	-	174	174
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	227	(68)	159

	30/6/2014
	Negative fair value of derivatives
	HK$ Mn
Liabilities	
At 1st January, 2014	565
Settlements	(100)
Changes in fair value recognised in the income statement	455
At 30th June, 2014	920
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	455

	31/12/2013
	Negative fair value of derivatives
	HK$ Mn
Liabilities	
At 1st January, 2013	562
Settlements	(219)
Changes in fair value recognised in the income statement	222
At 31st December, 2013	565
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	222

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

	30/6/2014			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Positive fair value of derivatives	84	(84)	-	-
Available-for-sale financial assets	-	-	82	(82)
	84	(84)	82	(82)
Negative fair value of derivatives	77	(77)	-	-

	31/12/2013			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Positive fair value of derivatives	49	(49)	-	-
Available-for-sale financial assets	-	-	84	(84)
	49	(49)	84	(84)
Negative fair value of derivatives	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.

(b) 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 charged 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, 2014 and 31st December, 2013 except as follows:

	30/6/2014		31/12/2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Financial assets				
Held-to-maturity investments	5,504	5,539	5,048	5,135
Financial liabilities				
Certificates of deposits issued	36,342	36,327	34,420	34,443
Debt securities issued	17,599	17,678	4,578	5,095
Subordinated liabilities	13,791	14,582	13,632	14,380

30. Off-balance Sheet Exposures

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

	30/6/2014	31/12/2013
	HK$ Mn	HK$ Mn
Contractual amounts of contingent liabilities and commitments		
Direct credit substitutes	29,273	18,670
Transaction-related contingencies	2,580	2,655
Trade-related contingencies	1,204	1,319
Commitments that are unconditionally cancellable without prior notice	155,791	126,463
Other commitments with an original maturity		
- up to 1 year	40,828	56,690
- over 1 year	22,070	29,319
Total	251,746	235,116
Credit risk weighted amounts	32,989	44,605

	30/6/2014	31/12/2013
	HK$ Mn	HK$ Mn
Fair value of derivatives		
Assets		
Exchange rate contracts	2,308	1,675
Interest rate contracts	1,185	1,538
Equity contracts	267	303
Others	74	109
	3,834	3,625
Liabilities		
Exchange rate contracts	1,810	2,335
Interest rate contracts	1,151	1,813
Equity contracts	280	288
Others	74	109
	3,315	4,545
Notional amounts of derivatives		
Exchange rate contracts	659,272	566,787
Interest rate contracts	238,392	196,583
Equity contracts	12,949	16,569
Others	4,006	3,905
	914,619	783,844
Credit risk weighted amounts *		
Exchange rate contracts	8,009	6,203
Interest rate contracts	1,767	2,210
Equity contracts	656	841
Others	763	703
	11,195	9,957

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.

**The Bank adopted the Foundation Internal Ratings Based ("IRB") approach according to Banking (Capital) Rules for calculating the credit risk weighted amount as at 30th June, 2014 and 31st December, 2013.*

(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:

	30/6/2014	31/12/2013
	HK$ Mn	HK$ Mn
Expenditure authorised and contracted for	216	682
Expenditure authorised but not contracted for	32	2,635
	248	3,317

31. 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:

	30/6/2014	30/6/2013
	HK$ Mn	HK$ Mn
Short-term employee benefits	63	64
Post-employment benefits	3	2
Equity compensation benefits	11	11
	77	77

(b) The Group maintains certain retirement benefit schemes for its staff. In the six months ended 30th June, 2014, the total amount of contributions the Group made to the schemes was HK$79 million (six months ended 30th June, 2013: HK$74 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, 2014, outstanding balances of amounts due from and due to them at 30th June, 2014 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2014 are aggregated as follows:

	Key management personnel		Associates	
	30/6/2014	30/6/2013	30/6/2014	30/6/2013
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
Interest income	34	59	6	5
Interest expense	36	24	-	-
Amounts due from	4,110	7,782	759	965
Amounts due to	5,090	4,745	279	7
Maximum amounts due from	6,644	9,394	1,544	1,061
Maximum amounts due to	7,492	6,511	556	719
Committed facilities to	3,401	3,353	265	-

32. 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.

33. Comparative Figures

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

SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy

	30/6/2014	31/12/2013
	HK$ Mn	HK$ Mn
Capital base		
- Common Equity Tier 1 capital	51,128	49,245
- Additional Tier 1 capital	2,835	3,190
- Total Tier 1 capital	53,963	52,435
- Tier 2 capital	15,237	16,489
- Total capital	69,200	68,924
Risk weighted assets by risk type		
- Credit risk	398,178	393,020
- Market risk	17,889	16,524
- Operational risk	27,991	26,654
	444,058	436,198
Less: Deductions	(2,273)	(2,322)
	441,785	433,876

	30/6/2014	31/12/2013
	%	%
Common Equity Tier 1 capital ratio	11.6	11.4
Tier 1 capital ratio	12.2	12.1
Total capital ratio	15.7	15.9

Capital adequacy ratios were compiled in accordance with the Capital Rules issued by the HKMA. The ratios as of 30th June, 2014 and 31st December, 2013 were compiled in accordance with the amended Capital Rules effective from 1st January, 2013 for the implementation of the "Basel III" capital accord. 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.

For the purpose of compliance with the Banking (Disclosure) Rules, the Group has established a section on the Bank's website. Additional information relating to the Group's regulatory capital and other disclosures can be found in this section of the Bank's website, accessible through the "Regulatory Disclosure" link on the home page of the Bank's website at www.hkbea.com or at the following direct link: www.hkbea.com/regulatory_disclosures.

B. Liquidity Ratio

	6 months ended 30/6/2014	The year ended 31/12/2013
	%	%
Average liquidity ratio for the period	50.2	47.0

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.

	30/6/2014			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
People's Republic of China	48,020	2,928	90,143	141,091
Asian countries, excluding People's Republic of China	13,977	325	13,385	27,687
North America	5,199	-	3,154	8,353
Western Europe	8,959	-	1,924	10,883

	31/12/2013 (Restated)			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK$ Mn	HK$ Mn	HK$ Mn	HK$ Mn
People's Republic of China	30,341	3,702	98,630	132,673
Asian countries, excluding People's Republic of China	13,125	515	12,167	25,807
North America	6,182	40	3,059	9,281
Western Europe	7,238	-	2,323	9,561

D. Non-bank Mainland Exposures

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

	30/6/2014			
	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	218,342	51,784	270,126	120
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	54,846	4,654	59,500	89
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	31,508	162	31,670	32
Total	304,696	56,600	361,296	241

	31/12/2013			
	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	210,116	62,056	272,172	107
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	47,304	4,512	51,816	7
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	30,049	442	30,491	11
Total	287,469	67,010	354,479	125

E. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	30/6/2014		31/12/2013	
	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	274	0.1	216	0.1
- 1 year or less but over 6 months	375	0.1	201	0.1
- Over 1 year	500	0.1	507	0.1
	1,149	0.3	924	0.3
Rescheduled advances to customers	78	0.0	86	0.0
Total overdue and rescheduled advances	1,227	0.3	1,010	0.3
Secured overdue advances	963	0.2	777	0.2
Unsecured overdue advances	186	0.0	147	0.0
Market value of security held against secured overdue advances	1,955		2,736	
Individual impairment allowance made on loans overdue for more than 3 months	207		183	

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 banks

	30/6/2014	31/12/2013
	HK$ Mn	HK$ Mn
Advances to banks overdue for		
- 6 months or less but over 3 months	-	-
- 1 year or less but over 6 months	-	-
- Over 1 year	-	-
	-	-
Rescheduled advances to banks	-	-
Total overdue and rescheduled advances	-	-

(c) Other overdue and rescheduled assets

	30/6/2014		
	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

	31/12/2013		
	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

* Other assets refer to trade bills and receivables.

(d) Repossessed assets

	30/6/2014	31/12/2013
	HK$ Mn	HK$ Mn
Repossessed land and buildings	162	51
Repossessed vehicles and equipment	-	-
Total repossessed assets	162	51

The amount represents the estimated market value of the repossessed assets as at 30th June, 2014 and 31st December, 2013.

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.

	30/6/2014 HK$ Mn			
	USD	RMB	Other foreign currencies	Total
Spot assets	182,434	414,901	81,022	678,357
Spot liabilities	(163,904)	(387,091)	(91,041)	(642,036)
Forward purchases	151,868	110,576	22,369	284,813
Forward sales	(167,301)	(138,598)	(11,971)	(317,870)
Net options position	(33)	71	(17)	21
Net long/(short) non-structural position	3,064	(141)	362	3,285

	31/12/2013 HK$ Mn			
	USD	RMB	Other foreign currencies	Total
Spot assets	185,817	751,286	77,208	1,014,311
Spot liabilities	(188,352)	(708,796)	(83,423)	(980,571)
Forward purchases	166,647	111,459	17,799	295,905
Forward sales	(161,663)	(153,524)	(12,039)	(327,226)
Net options position	(31)	6	(8)	(33)
Net long/(short) non-structural position	2,418	431	(463)	2,386

	30/6/2014 HK$ Mn			
	USD	RMB	Other foreign currencies	Total
Net structural position	2,862	11,611	3,083	17,556

	31/12/2013 HK$ Mn			
	USD	RMB	Other foreign currencies	Total
Net structural position	2,475	8,960	754	12,189

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 per share ("2014 Interim Dividend") (2013 Interim Dividend: HK$0.43 per share) for the six months ended 30th June, 2014. The 2014 Interim Dividend will be paid in cash with an option to receive new, fully paid shares in lieu of cash ("Scrip Dividend Scheme"), to shareholders whose names appear on the Register of Members of the Bank at the close of business on Thursday, 21st August, 2014. The ex-dividend date for 2014 Interim Dividend will be on Monday, 18th August, 2014. Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Thursday, 21st August, 2014. The Scrip Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange 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, 12th September, 2014.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed on Wednesday, 20th August, 2014 and Thursday, 21st August, 2014. In order to qualify for the 2014 Interim Dividend, all transfer documents should be lodged for registration with Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by 4:00 p.m. on Tuesday, 19th August, 2014.

FINANCIAL REVIEW

Financial Performance

For the first six months of 2014, the Group achieved a profit attributable to owners of the parent of HK$3,580 million, representing an increase of HK$204 million, or 6.0%, compared with the HK$3,376 million earned in the same period last year. Basic earnings per share were HK$1.48. Return on average equity and return on average assets were 11.2% and 0.9%, respectively.

During the first six months of 2014, the Group's net interest income increased by HK$577 million, or 10.2%, to HK$6,241 million, primarily due to growth in advances to customers and trade bills. Net fee and commission income rose by HK$160 million, or 8.1%, to HK$2,141 million, while overall non-interest income increased by HK$305 million, or 11.5%. Operating income increased by 10.6% to HK$9,202 million.

Total operating expenses rose by 8.6% to HK$4,893 million. Operating efficiency continued to improve as the cost-to-income ratio fell from 54.2% in the first half of 2013 to 53.2% in the first half of 2014. If the business tax and surcharges applied to the Bank's China operations are excluded from operating expenses and grouped under taxation, the cost-to-income ratio would instead stand at 49.4%.

Operating profit before impairment losses rose to HK$4,309 million, an increase of HK$496 million, or 13.0%, when compared with the corresponding period in 2013.

Impairment losses grew by 73.5% to HK$316 million, yet remained at a low and controllable level.

Operating profit after impairment losses was HK$3,993 million, an increase of 10.0%, or HK$363 million.

Valuation gains on investment properties decreased to HK$115 million. In addition, the Group shared after-tax profits from associates of HK$309 million.

After accounting for income taxes, profit after taxation rose to HK$3,632 million, an increase of 5.9% compared to the HK$3,430 million recorded in the corresponding period in 2013.

Financial Position

Total consolidated assets of the Group stood at HK$805,349 million at the end of June 2014, an increase of 6.8% over the HK$753,954 million at the end of 2013. Gross advances to customers rose by 8.3% to HK$438,802 million. Total equity increased to HK$71,210 million, up 4.4%.

Total deposits from customers grew by 4.6% to HK$559,512 million. Demand deposits and current account balances decreased by HK$4,995 million, or 7.2%, compared with the balance at year-end 2013. Savings deposits decreased to HK$92,480 million, a drop of 0.5%, while time deposits increased by HK$29,992 million, an increase of 8.0%, when compared with the year-end positions. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, grew by 5.2% to HK$608,203 million.

The loan-to-deposit ratio was 72.1% at the end of June 2014, 2.0 percentage points higher than the 70.1% reported at the end of 2013.

RECOGNITION

During the first six months of 2014, the Bank received a number of awards in recognition of its outstanding performance. These included:

- “2014 Best SME's Partner Award” (for the seventh consecutive year) from The Hong Kong General Chamber of Small and Medium Business;
- “Quamnet Outstanding Enterprise Award 2013 - Outstanding SME Service Provider (Bank)” from Quam (H.K.) Limited;
- “Outstanding Corporate Banking Renminbi Services Award” from Wen Wei Po;
- “2014 RMB Business Outstanding Awards – Outstanding Corporate/Commercial Banking – Connecting China and Hong Kong Award” (for the second consecutive year) from Metro Finance, Metro Finance Digital, and Wen Wei Po;
- “Best Private Bank in Hong Kong” from Private Banker International;
- “The Highest Average Spend Per Card in 2013 Premium Cards in Hong Kong – 2nd Runner Up” and “The Highest Growth Rate in 2013 Cardholder Spending in Hong Kong – 1st Runner Up” and “The Highest Average Spend Per Card in 2013 in Hong Kong – 2nd Runner Up” from MasterCard Worldwide;
- “2013 Exclusive Year-Round Credit Card Promotion Platform” from UnionPay International; and
- “Risk Management Best Fraud Control, Issuing” and "Merchant Sales Volume Growth – Bronze Prize in 2013” from Visa Inc.

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

- “2013 Best Foreign Retail Bank in China” from Beijing Youth Daily;
- “Best Trade Finance Products Innovation Bank” in the “2013 Most Trusted Financial Service Providers By Foreign Trade Enterprises in China” from Trade Finance Magazine and www.sinotf.com;
- “2013 Innovative China Internet Finance Award” from China Electronic Finance Annual Meeting Committee; and
- “Best Performers 50 China” from Global Entrepreneur.

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

- Blue Cross (Asia-Pacific) Insurance Limited received the “Medical and General Insurance Award” in the 14th Capital Outstanding Enterprise Awards Programme organised by *Capital Magazine* (for the third consecutive year); and
- Credit Gain Finance Company Limited won the “Finance Service Award” in *Capital Weekly*’s 2014 Service Awards Programme.

BEA Union Investment Management Limited received a number of awards in recognition of the performance of its funds.

For the BEA Union Investment Asian Bond and Currency Fund:

- "Best Bond Fund, Asia Pacific” from Lipper Fund Awards Programme 2014 Hong Kong (for its 3-year and 5-year performance);
- "Best of the Best Performance Awards 2013 – Asian Bonds” from Asia Asset Management (for its 3-year performance);
- "AsianInvestor Investment Performance Awards 2014 – Best Asian Fixed Income, US Dollar” from AsianInvestor; and
- "FSM Fund Picks 2014/15 – Asian Fixed Income” from Fundsupermart.com.

For the BEA Union Investment Global Resources Fund:

- "FSM Fund Picks 2014/15 – Global Resource Equity” from Fundsupermart.com.

For the BEA (MPF) Japan Equity Fund:

- "The 2014 MPF Awards – Best Asian Equity Fund" from Asia Asset Management (for its 1-year performance); and
- "Best Equity Fund, Japan" from Lipper Fund Awards Programme 2014 Hong Kong Pension Funds (for its 3-year performance).

ECONOMIC OVERVIEW

The global economy slowed at the start of 2014. The economy of the United States declined in the first quarter of 2014, while the Eurozone's recovery faced headwinds. Meanwhile, China's economic growth moderated due to persistent efforts by the government to restructure the country's economy. Weak external demand weighed on Hong Kong's exports, which grew by a modest 2.8% year-on-year in the first six months of 2014.

Hong Kong unemployment rate remained low, standing at 3.2% at the end of June. Nevertheless, growth in domestic retail sales slipped to 0.2% year-on-year during the first five months of the year. The decline in growth was mainly due to a deceleration in Mainland tourist spending and China's softening growth. Overall, Hong Kong's economy expanded at a moderate pace of 2.5% year-on-year in the first quarter.

Activity in Hong Kong's property market was subdued, as the cooling measures introduced previously by the Hong Kong government continued to dampen market sentiment. During the first six months of 2014, the number of residential property transactions fell by 3.3% year-on-year.

Looking ahead, an anticipated rebound in the US will support Hong Kong's export sector for the remainder of the year. Hong Kong's Gross Domestic Product is forecast to grow at 3% for the year, while the inflation rate will average 3.9%.

On the Mainland, the value of exports grew by 0.9% year-on-year in the first half of 2014. Meanwhile, the property market has entered a correction period. Prices for new homes declined by 0.8% from April to June 2014. As the government continues to tighten credit expansion, investment growth remains in low gear.

Despite the evident weakness in the economy, the Central Government has refrained from introducing a sizeable economic stimulus package to boost growth. This reflects the government's resolve to tolerate slower growth in exchange for results from its economic restructuring programme. On a positive note, weaker domestic demand has eased pressure on prices, and the inflation rate softened to 2.3% during the first half of this year.

In the second half of 2014, a gradual improvement in the Western economies will likely counter the effect of slower investment growth on the Mainland. China's GDP is forecast to grow by 7.5% in 2014, while the inflation rate is expected to average 2.5%.

OPERATIONS REVIEW

Business – Hong Kong

As at 30th June, 2014, the aggregate value of all loans to customers and trade bills of BEA in Hong Kong was 8.8% higher while total deposits grew by 7.3% and debt investments increased by 20.2%, all compared to the figures reported at the end of 2013.

Retail Banking

During the first half of 2014, total operating income generated by personal banking operations improved by 11.0% compared to the same period last year. All retail lending products reported year-on-year increases, with consumer loans and mortgage loans expanding most significantly, by 17.3% and 17.8% respectively. The sale of investment and insurance products remained an important contributor to net fee and commission income, which maintained growth in the face of challenging market conditions.

During the period, BEA continued its drive to attract affluent clients and position itself as the key banking partner of its customers. BEA's footprint in prime areas was strengthened with the opening of a new branch and SupremeGold Centre in Times Square. The branch incorporates cutting-edge digital innovations, while the SupremeGold Centre features a new brand identity and design that will be rolled out across all SupremeGold Centres. The Bank also kicked off a network-wide review of its branch operations, aiming to enhance efficiency and service delivery through the optimisation of human resources, streamlining of processes, and the targeted introduction of digital solutions.

The Bank is prioritising key banking products in order to build and strengthen customer relationships and improve its current and savings account balances. Mortgage loans are effective entry products for new-to-bank customers and, despite a sluggish property market, BEA expanded its share of new mortgage loan registrations to 5.6% in the first half of 2014, up from 4.9% for the full year 2013. Account privileges for Supreme, SupremeGold, and CorporatePlus accounts have been enhanced in order to attract new customers, foster greater customer loyalty, and expand product holdings of existing clients. The total number of CorporatePlus accounts increased by 26.7% over the first six months of 2014, while the number of Supreme and SupremeGold accounts rose by 9.6% and 6.6% respectively.

Corporate and Commercial Banking

Cross-border business remained a key driver for Corporate and Commercial Banking. Loan demand in Hong Kong from Mainland corporations remained robust, as the offshore arms of Chinese enterprises raised funds for working capital and trade purposes, as well as for acquisitions on the Mainland and abroad. BEA leveraged its strong cross-border capabilities and extensive Mainland network to capture this demand, focusing on well-established clients with sound prospects.

As a result, the Bank achieved decent growth in cross-border facilities, contributing to a 6.6% rise in the portfolio of corporate loans and trade bills over the period. Asset quality remained sound and the impaired loan ratio was maintained at a very low level. Net interest income came under some pressure during the period due to rising funding costs and the time lag required for loan re-pricing. Net fee and commission income, however, increased by 8.2% year-on-year.

Going forward, BEA remains optimistic on the outlook for cross-border business. The development of the new economic and free trade zones on the Mainland will continue to create opportunities for BEA, which is in a unique position to capitalise on ongoing policy liberalisation and the deepening of the offshore loan market.

Wealth Management

Private Banking's assets under management grew by 7.4% over the first half of 2014. Net fee and commission income exhibited good growth, rising by 20.8% versus the same period in 2013. However, net interest income came under pressure from higher funding costs, recording a small decline despite a 17.8% increase in loan balance over the first half of the year.

Product offerings were designed to match investor demand, and healthy growth was achieved in sales of fixed income products and unit trusts. Fee income from Private Banking's investment products is now well balanced across major asset classes, providing greater stability and insulation from allocation shifts by clients.

BEA aims to be at the forefront of Hong Kong's emergence as the leading wealth management hub of Greater China. To this end, the Bank continues to strengthen its sales force, and in the first half of the year expanded its Mainland China customer base by 7.7% in terms of accounts and 15.5% in terms of AUM compared to the end of 2013.

BEA is proud to have been named Best Private Bank in Hong Kong in the Private Banker International Greater China Awards 2014, with particular commendation for the competitive advantage conferred by the Bank's extensive cross-border platform. This industry recognition reflects how far BEA's private banking business has come in its relatively short operating history, as well as the foundations it is laying for future growth.

Insurance and MPF Services

The Bank's insurance businesses continued to serve as major contributors to fee and commission income. New premium income generated by BEA Life Limited, BEA's wholly-owned life insurance arm, remained stable. Sales of short-term RMB-denominated products came under pressure from competing RMB time deposits, but long-term life insurance products showed healthy growth, with new premium income rising by 22.5% year-on-year.

BEA's wholly-owned general insurance arm, Blue Cross, improved its total premium income by 6.6% year-on-year, with income from medical insurance up by 6.7%. Blue Cross continued to leverage the Group's technological capabilities to further develop its electronic channels, and successfully increased premium income earned from online transactions by 28.9% year-on-year. During the period a new travel insurance mobile web platform was launched, offering highly-convenient online enrolment and a simpler, faster transaction process.

Total membership in BEA's MPF schemes reached 587,000. AUM grew to HK$18 billion, 5.0% higher than at the end of 2013. Meanwhile, BEA's Industry Scheme continued to dominate the market, with a market share of 67.1%. The Bank has strengthened the competitive position of its MPF schemes through fee reductions, and its average Fund Expense Ratio, calculated at the end of March 2014, sat below the latest industry average.

Broking Operations

The upbeat sentiment at the start of the year quickly dissipated as markets were hit by weaker-than-expected economic data from the US and China. Geopolitical tension in the Ukraine, involving the major Western powers, further reduced investors' appetite for risk. The Hong Kong market also partly tracked the unexciting performance of the A share markets during the first half of 2014.

The performance of BEA's broking operations was affected by this adverse market sentiment. Turnover dipped by 7% while pre-tax profit fell by 42% on higher fixed costs. The outlook for the second half of 2014 remains challenging, as the Mainland addresses structural imbalances and relegates growth to second place. To increase its market share, the Bank will continue to launch promotional campaigns in the second half of the year. The Bank will also actively explore opportunities arising from the newly announced Shanghai-Hong Kong Connect Scheme allowing cross-border stock trading.

Business – Greater China ex-Hong Kong

Mainland China Operations

BEA China, BEA's locally-incorporated subsidiary bank on the Mainland, managed its business growth carefully during the first half of the year.

The macro policy initiatives adopted by the Chinese government aimed at restructuring the economy continued to have an impact on the business environment, and BEA China adopted a cautious approach to new business development in response. Total loans and total deposits increased modestly compared to the position at the end of 2013, with loans up by 2.2% and deposits up by 2.0% as at 30th June, 2014. BEA China's loan-to-deposit ratio remained steady at 68.3%.

Competition for deposits intensified during the first half of this year, driving up the cost of funding. This, in turn, exerted pressure on BEA China's net interest margin. Compared to the second half of 2013, NIM fell by 24 basis points in the first half of 2014, to 2.22%. Nevertheless, NIM was up by 11 basis points year-on-year.

Going forward, with adequate liquidity in the market and a relaxation in the rules governing the calculation of the loan-to-deposit ratio, BEA China's NIM is likely to remain stable in the second half of 2014.

To optimise business potential, BEA China shifted its focus from expanding its onshore loan portfolio to arranging offshore loans for clients requiring funding for overseas business expansion. As a result, the outstanding amount of standby letters of credit issued by BEA China to secure offshore borrowings for its customers grew significantly, generating fee income for BEA China.

As at 30th June, 2014, the outstanding amount of standby letters of credit issued by BEA China in favour of BEA's business units in Hong Kong and abroad was up by 77.9%, when compared with the end of 2013. This boosted the net fee and commission income of the corporate banking business by 37.5% year-on-year.

BEA China also took the opportunity to review its customer mix, and focused on large-scale and state-owned companies during the first half of 2014. Property-related lending was largely restricted to property projects located in first and second-tier cities.

Following the successful launch of the pilot supply chain finance scheme in early 2013, BEA China rolled-out the scheme to all branches on the Mainland during the first half of 2014. Through this scheme, BEA China offers comprehensive financial services to core customers as well as their upstream and downstream counterparties.

BEA China also continued to enhance the profitability of its retail banking business. Initiatives included broadening the product range, expanding the retail customer base, and increasing the productivity of frontline staff. In addition, BEA China introduced a series of attractive loan packages, covering such areas as micro-financing, auto loans, and credit card instalment loans.

Retail loans, which accounted for 23% of BEA China's total loan portfolio at the end of June this year, grew by 4.2% when compared with the end of 2013.

BEA China's cost-to-income ratio improved from 57.8% in the first half of 2013 to 55.3% for the corresponding period of 2014, largely due to the slower pace of expansion of the sub-branch network and the implementation of various cost control measures. In this regard, the Outlet Repositioning Programme is progressing well, driving higher performance at all sub-branches, both in terms of total income and in terms of net profit per employee.

BEA China also further broadened its range of treasury products. New services included provision of real-time quotes on foreign exchange spot and forward rates. In March 2014, BEA China became a member of the Pledge-Style Repo Call Auction Group, following approval from the China Foreign Exchange Trade System & National Interbank Funding Centre.

The Chinese government stepped up regulation of shadow banking activities in the first half of 2014, causing a series of ripples throughout the business sector. This, in turn, exerted pressure on asset quality, pressure that fed through to the banking sector. This domino effect was a major cause of the rise in BEA China's impaired loan ratio in the first half of this year, from 0.49% at the end of 2013 to 0.74% at the end of June 2014.

BEA China's asset quality is likely to remain under pressure in the second half of this year. Management will take proactive measures to mitigate credit risk.

In February 2014, the Bank injected CNY2 billion into BEA China, raising the Mainland subsidiary's registered capital to CNY10 billion and strengthening its capital adequacy ratio from 11.5% as at the end of 2013 to 13.2% as at the end of June 2014. BEA China will continue to optimise its asset and liability structure, focusing on return on risk-weighted assets.

BEA China further expanded its branch network during the first half of the year, although at a slower pace in light of the uncertain economic climate.

BEA China opened a sub-branch in the China (Shanghai) Pilot Free Trade Zone ("Free Trade Zone") on 7th January, 2014, becoming one of the first foreign banks in the country to provide banking services in the Free Trade Zone. The sub-branch has also begun preparations to conduct Free Trade Unit business, following a regulatory announcement in May 2014 disclosing details of free trade accounts. BEA China aims to capitalise on the business opportunities arising from the Free Trade Zone and will launch more innovative financial products and services as the legal and regulatory framework evolves.

BEA China also opened a full branch in Fuzhou in June of this year.

As at the end of June 2014, BEA China operated 28 branches and 98 sub-branches in 41 cities across the country – one of the most extensive networks of any foreign bank on the Mainland. In addition, BEA operates a rural bank in Fuping County, Shaanxi Province.

Macau and Taiwan Operations

BEA's operations in Macau and Taiwan stepped up co-operation with BEA China during the first half of the year, resulting in a significant increase in cross-border business, both in terms of loan growth and income growth. BEA Macau diversified its loan portfolio by focusing on local enterprises. Meanwhile, the total value of RMB loans of BEA's Taiwan operations grew significantly compared to the year-end 2013 figure.

Business – International

BEA's international operations remained on a growth trend in the first half of 2014.

Notwithstanding rising funding costs and a slowing domestic property market, BEA Singapore Branch posted satisfactory growth in loan assets. Momentum was driven by two factors: continued demand from Chinese companies for cross-border trade and working capital finance to invest overseas; and RMB internationalisation. To support its loan growth, Singapore Branch launched a successful fixed deposit promotion campaign to strengthen its deposit base and acquire new-to-bank customers. In an effort to broaden its funding sources, the Branch also established a US$2 billion Medium Term Note Programme. The first issuance was completed in June.

Looking ahead, Singapore Branch will continue to capitalise on its longstanding presence in Southeast Asia and leverage BEA's extensive network in China to provide cross-border financing solutions to local as well as BEA China customers.

BEA Labuan Branch registered robust loan growth in the first half of 2014, mainly from bilateral and syndication loans. It will remain focused on expanding its loan business in Malaysia.

The Bank's operations in the UK recorded notable year-on-year growth in net profit, mainly driven by the insatiable appetite for prime UK properties by foreign investors.

During the period under review, the UK economy gathered steam and competition for quality assets became more intense. In response to these new challenges, BEA's UK branches will further enhance their services and products and step up their efforts to leverage the Bank's global network in order to provide an attractive business solution for valued customers investing in the UK.

BEA's New York Branch celebrated its 30th Anniversary in the first half of 2014. BEA's operations in the US delivered solid performance during the period. Loan assets registered further growth of 11%, compared to the position at the end of 2013. The satisfactory result was driven by recovery in the commercial real estate market in gateway cities and growth in the loan syndication sector. In addition, the Bank's US asset quality further improved compared to the end of 2013.

Going forward, the Bank will continue its strategy to pursue wholesale and corporate banking business and further develop closer ties with BEA China in order to better serve the needs of large Chinese corporations investing in the US.

Other Subsidiaries

Credit Gain Finance Company Limited

In the face of a highly competitive business environment in the first half of 2014, Credit Gain recorded double-digit growth in its loan portfolio. The Company's success can largely be attributed to its flexible business strategies and diversified sales channels. In February 2014, Credit Gain became the first sub-prime loan company in Hong Kong to open an official WeChat account, enabling customers to apply for loans and obtain updated information via the platform. Beyond Hong Kong, the Company continued to capitalise on the potential of the China market by opening two new Mainland offices, in Chongqing (May 2014) and Shenzhen (June 2014), bringing the total of number of Credit Gain offices on the Mainland to four.

Tricor Holdings Limited

Tricor enjoyed a successful first half of 2014. The strong demand for Tricor's company secretarial and compliance services and investor services, particularly in Hong Kong, resulted in good overall growth in fee revenue. As a result, Tricor delivered record-high fee revenue of HK$567 million for the first six months of 2014. Profit before taxation, at HK$179 million, was also a record high, thus making an important contribution to the BEA Group's fee and commission income for the period. Due to keen competition for talented company secretaries and accountants in the market, the retention and recruitment of quality professionals was a challenge for Tricor during the period and is likely to remain so in the remaining half year.

In March 2014, the Investor Services Public Office (securities registration counter) of Tricor's share registrars in Hong Kong relocated to Level 22 of Hopewell Centre, 183 Queen's Road East, Hong Kong, where Tricor's main operations team is stationed. In the same month, the Company set up a joint-venture entity in Ho Chi Minh City, Vietnam as part of its efforts to expand its service network in Asia.

BEA Union Investment Management Limited

BEA Union Investment registered growth of approximately 5% in AUM in the first half of 2014. This growth was mainly due to the Company's success in penetrating both retail and institutional sectors.

In response to the demand for RMB investment solutions from retail investors, BEA Union Investment launched the RMB Core Bond Fund in February.

Looking ahead, China remains an important market to BEA Union Investment for business development and investment opportunities. BEA Union Investment will cooperate with BEA to explore distribution opportunities and investment via the Qualified Foreign Institutional Investor and RMB QFII programmes.

Our People

As at 30th June, 2014, the BEA Group employed 12,801 people:

Hong Kong	5,719
Greater China ex-Hong Kong	5,873
Overseas	1,209
Total	12,801

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

Corporate Social Responsibility

In May 2014, BEA issued its second standalone corporate social responsibility report, covering the year ended 31st December, 2013. The reporting scope was expanded to encompass the entire Group, to bring the coverage in line with BEA's financial reporting. BEA also became one of the first companies in Hong Kong to adopt the fourth generation of guidelines (G4) of the Global Reporting Initiative, which will become the standard for all companies worldwide that report in accordance with the GRI guidelines from 2015 onwards.

As a signatory of the Treat Customers Fairly Charter endorsed by the HKMA, BEA continued to provide service charge concessions to vulnerable customers as well as non-governmental organisations during the past year. In March 2014, the Bank expanded the concession on monthly maintenance fees for low-income customers to HKD savings accounts and multi-currency statement savings accounts.

BEA also continued to support a wide range of charitable programmes during the first six months of 2014. The Bank's volunteer team celebrated the Lunar New Year with elderly residents of homes managed by The Salvation Army Hong Kong and Macau Command in January 2014. In May 2014, the team organised a food drive to collect dry and canned food from staff members, which was donated to the People's Food Bank of St. James' Settlement.

To encourage staff members to support worthy causes, the Bank now provides up to two additional days of leave for employees who contribute over 100 hours to charity work in a year.

In June 2014, BEA also introduced a university scholarship programme for the children of staff members of the Bank and wholly-owned subsidiaries, to recognise academic talent and to help alleviate the burden of educational expenses.

BEA China continued to support a wide range of educational, environmental, health, and social welfare programmes in the first half of 2014.

BEA China established an additional Firefly Centre during the period, bringing the total number of centres nationwide to 32 by the end of June 2014. More than 340 “Firefly 60” backpacks were distributed to children on the Mainland through the Shanghai Soong Ching Ling Foundation – BEA Charity Fund in the first half of 2014. As at 30th June, 2014, the Charity Fund had raised a total of CNY36 million since its inception.

From March to April 2014, more than 500 BEA China staff volunteers, their family members, and customers commemorated Arbour Day by planting over 600 saplings in 20 cities around the country in the “Tree-planting to Protect the Environment” campaign. In support of ongoing efforts to help in the recovery of Ya’an City, Sichuan Province, which was devastated by an earthquake last year, BEA China officially launched the “Relay Project to Help Farmers Start up New Businesses” in April 2014 together with the Shanghai Soong Ching Ling Foundation and Hongyu Specialised Pig Farmers Cooperation in Lushan County. The programme helps farmers get back on their feet by providing them with financial assistance to start up pig farming businesses.

In April 2014, Macau Branch jointly organised “Skip a Meal” with World Vision of Macau Association to raise funds for malnourished children around the world. In May 2014, staff members of Taipei and Kaohsiung branches raised funds for the Sunshine Social Welfare Foundation, which assists in the physical and psychological rehabilitation of people with facial disfigurements.

Overseas, BEA’s Manchester Branch displayed posters promoting a health talk by the Chinese Health and Information Centre on Hepatitis B and the importance of leading a healthy lifestyle, which was held in the Bank’s office in March 2014. In the US, the Bank’s New York Branch hosted a career development forum for inner-city high school students in January 2014. Meanwhile, staff members of the Los Angeles Branch joined the “LA Big 5K” run to help raise funds for Parkinson’s disease research in March 2014.

For the sixth consecutive year, members of the BEA Group participated in “Earth Hour” organised by the World Wide Fund for Nature, on 29th March, 2014. In recognition of its participation in the PHAB Walk for Integration 2013/14 in January 2014, Blue Cross was named Gold Sponsor by the Hong Kong PHAB Association. In May 2014, volunteers from Credit Gain organised a party for underprivileged children in Kwai Tsing District together with the Grace Integrative Family Service Centre of the Evangelical Lutheran Church Social Service – Hong Kong.

In March 2014, staff members of Tricor Hong Kong donated more than 600 books in the charity book drive, “Books for Love 2014”, organised by Swire Properties and The Boys’ & Girls’ Clubs Association of Hong Kong. Proceeds from the sale of the books were donated to BGCA in support of educational opportunities for children from low-income families.

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 15th consecutive year);
- “Caring Company” by the Hong Kong Council of Social Service (for the 11th consecutive year). Blue Cross and Credit Gain were named “Caring Company” for the sixth year and fourth year, respectively;
- “Distinguished Corporate Social Responsibility Award” in the Green China Award Programme 2014 organised by Wen Wei Po, the United Nations Environment Programme Foundation, and various environmental protection associations;
- “Silver Award” in the Web Accessibility Recognition Scheme organised by The Office of the Government Chief Information Officer and the Equal Opportunities Commission;
- “Distinguished Family-Friendly Employer 2013/14” and “Innovation Award 2013/14” from the Family Council, an advisory body to the Hong Kong government; and
- “Class of Excellence” in the Energywi$e Label Scheme of the Hong Kong Awards for Environmental Excellence for BEA’s Head Office Building and BEA Tower offices.

For the third consecutive year, BEA China received the “Best Practice of Social Responsibility Award” from the China Banking Association for its CSR performance in 2013. In March 2014, Credit Gain received the “Caring Agency Award 2013 – One Star Certificate” from the Social Welfare Department’s Tsuen Wan / Kwai Tsing District Co-ordinating Committee on Elderly Services. In May 2014, the Company received the “Caring Enterprise Award” from Lok Sin Tong Benevolent Society Kowloon for third consecutive year.

Future Prospects

The business and operating environment is expected to remain uncertain in the second half of 2014. In view of the keen competition for funding among banks in Hong Kong and Mainland China, increased funding costs will be a major challenge for banks.

BEA’s cross-border banking business remains a core focus of the Bank Group’s business development, and BEA will leverage the strength of its network in Hong Kong, Mainland China, and overseas to capture greater cross-border opportunities. The Bank will also focus on cross-border business development in the free trade and development zones on the Mainland, including those in Shanghai, Qianhai, Hengqin, and Nansha.

In Hong Kong, BEA will continue to develop fee-based income opportunities in private banking, wealth management, insurance, credit cards, and mutual funds. On the lending side, the Bank will focus on establishing its mortgage business as an “anchor” business for additional banking products and services.

Overseas, BEA will strengthen its strategic alliances with financial institutions in major markets around the world. To capture opportunities arising from increasing business flows to and from the Mainland, the Bank will step up collaboration of branches in Hong Kong and overseas with BEA China and its extensive network of branches on the Mainland.

To support cross-border business development, BEA China will reinforce its commitment to cross-border trade financing solutions, including trade settlement and import and export trade financing arrangements. These transactions are expected to further strengthen BEA China’s non-interest income and expand BEA’s business portfolio in Hong Kong and participating overseas operations, particularly those in Singapore and the UK. BEA China will also continue to develop its supply-chain financing business.

BEA will strive to further improve its cost-to-income ratio through branch rationalisation and efforts to reduce operating costs, including the introduction of e-channels and other cost-saving solutions. The Bank will also contain distribution costs by creating online opportunities for e-payment and e-business. Furthermore, BEA will streamline operations by making greater use of straight-through processing.

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.

The risk management mechanisms are built around a centralised framework and include the Risk Committee, Crisis Management 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. 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.

The Risk Committee, comprising the Group’s Chairman and Chief Executive, two Independent Non-executive Directors, and three Non-executive Directors, assists the Board in handling risk management issues, particularly strategic issues. The Risk Committee regularly reviews the Group’s risk appetite statement covering the major risks and submits it to the Board for approval. The related risk levels, where appropriate, are laid down in the risk management policies.

The Group's major risk management policies and control limits are approved by the Board and they are monitored and regularly reviewed. The Board 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 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 approval 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 (comprising the department heads of support units and business units) and endorsed by the New Product Development Steering Group (chaired by the Bank's Group Chief Risk Officer and comprising the 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 managing 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 by 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 situations 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 on 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, the internal rating structure, credit recovery, and the provisioning policy. They are reviewed and enhanced on an ongoing basis to cater to market changes, statutory requirements, and best practices 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 derivatives instruments used by the Group are interest rate, foreign exchange and equity related contracts, in the form of both over-the-counter derivatives and exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to manage the risk of these and other trading positions.

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 mainly denominated in USD and CNY. For other currencies, currency concentrations are maintained below 10% of the total net position in all structural and non-structural foreign currencies of the Group. All foreign currency positions are managed within limits approved by the Board 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 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 re-pricing 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 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, 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 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 the 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 frequently 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 employing a parametric approach, where the 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.

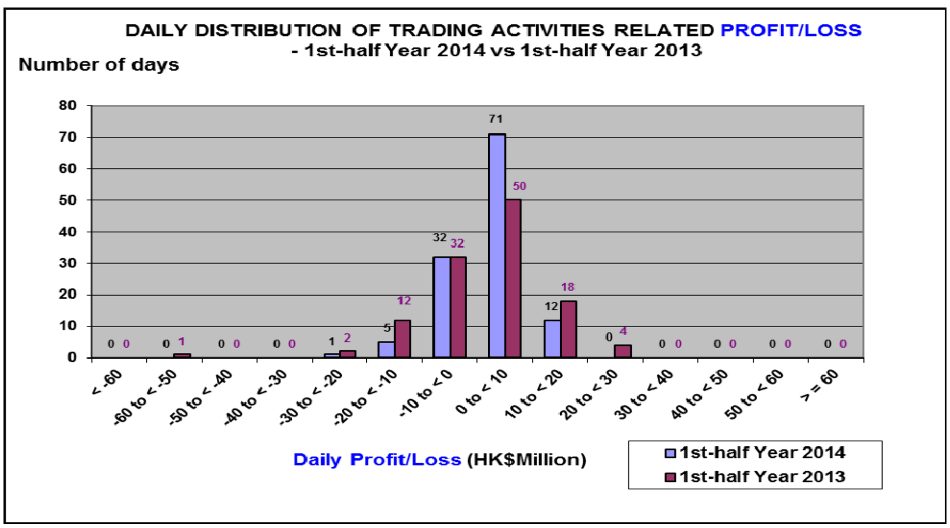
Value-at-risk statistics

	Year 2014 1st-half			
	At 30th June HK$ Mn	Maximum HK$ Mn	Minimum HK$ Mn	Mean HK$ Mn
VaR for total trading activities	25	33	25	29
VaR for foreign exchange trading positions*	5	11	4	7
VaR for interest rate trading positions	5	9	3	6
VaR for equity trading positions	18	23	18	21

	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

** 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 2014 was HK$2.10 million (average daily profit of HK$1.42 million in the first six months of 2013). The standard deviation of the daily profit/loss for the period was HK$7.45 million (standard deviation of HK$11.03 million for the same period in 2013). 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 on 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 of the Group 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, 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 flow 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 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 set 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 ensure that 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 through the issuance of certificates of deposit, medium term notes, and subordinated debt. 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 ratio, 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 an institution-specific crisis, a general market crisis, and a crisis in combination of the two, are adopted with minimum survival period defined according to the 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 the Contingency Funding Policy and Contingency Funding Plan that describe 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 Policy and Contingency Funding Plan are designed to be pro-active and pre-emptive, and stipulate the following three stages:

1. 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.

2. A Crisis Management Committee, which is chaired by the Group's 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.

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

An annual drill test is conducted and the Contingency Funding Policy and Contingency Funding Plan are subject to regular review in order to cope with any changes in the business environment. Any significant changes to the Contingency Funding Policy and Contingency Funding Plan are approved by the Board of Directors and the Asset and Liability Management Committee, respectively.

Certificates of Deposit, Debt Securities Issued, and Loan Capital

In the first half of 2014, BEA issued floating rate certificates of deposit and debt securities with a face value of HK$520 million, US$100 million and EUR86 million; fixed rate certificates of deposit and debt securities with a face value of HK$1,520 million, US$1,237 million, CNY10,556 million, GBP655 million, SGD50 million, EUR215 million, CHF100 million and JPY28,900 million; and zero coupon certificates of deposit and debt securities with a face value of HK$4,269 million, US$1,855 million, CNY883 million, GBP100 million, EUR43 million and CHF140 million. The Group redeemed a quantity of certificates of deposit and debt securities amounting to HK$38,152 million equivalent upon maturity.

At the end of June 2014, the face value of the outstanding certificates of deposit and debt securities issued was equivalent to HK$72,803 million, with a carrying amount equivalent to HK$72,657 million.

Maturity Profile of Certificates of Deposit and Debt Securities Issued
As at 30th June, 2014
(All expressed in millions of dollars)

	Total	Year of Maturity				
	Face Value	2014	2015	2016	2017	2019
Floating Rate						
HKD	2,010	185	905	920		
USD	590	369	141	30	50	
EUR	86		86			
Fixed Rate *(Note)*						
HKD	4,463		1,719	1,790	654	300
USD	1,486	266	400	20	800	
CNY	14,687	6,062	8,525	100		
GBP	385	385				
SGD	50		50			
EUR	70		70			
CHF	100			100		
JPY	28,900	2,000	26,900			

Zero Coupon						
HKD	3,636	2,201	1,435			
USD	1,787	1,147	640			
CNY	1,138	883			255	
GBP	50	50				
SGD	27	27				
EUR	57	57				
CHF	165	55	110			
Total Certificates of Deposit and Debt Securities issued in HKD equivalent	72,803	32,021	28,829	4,092	7,561	300

Note:

Associated interest rate swaps have been entered for managing interest rate risk along with long-term Certificates of Deposit and debt securities if deemed necessary.

At the end of June 2014, the face value of the outstanding loan capital issued was equivalent to HK$13,490 million, with a carrying amount equivalent to HK$13,791 million.

Maturity Profile of Loan Capital
As at 30th June, 2014
(All expressed in millions of dollars)

	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	13,490	4,650	8,840

Notes:

1. *The US$500 million loan capital that matures in 2022 will 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, establish the strategy and policy for managing interest rate risk, and determine the means for ensuring that such strategies and policies are implemented. Interest rate risk is managed on a daily basis 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 re-pricing mismatches. Gap analysis provides a static view of the maturity and re-pricing characteristics of the Group's balance sheet positions. Re-pricing 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 of the Group. The Risk Management Division of the Group 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 on these risks, and to comply with the relevant regulatory requirements.

The Operational Risk Management Committee is responsible for overseeing the management of the Group's legal risk and reputation risk.

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, 2014.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Group is committed to maintaining the highest corporate governance standards and considers 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, 2014, with the exception of Code Provision A.2.1 as explained below.

Throughout the accounting period for the six months ended 30th June, 2014, 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, 2014 and the Bank's Interim Report 2014.

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 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, 2014.

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

Hong Kong, 1st August, 2014

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*

GLOSSARY
詞彙

AUM 「管理資產」	Assets under management 管理資產
Bank Group or BEA Group or Group 「集團」或「本集團」	The Bank and its subsidiaries 東亞銀行及其附屬公司
Bank or BEA 「本行」	The Bank of East Asia, Limited, a limited liability company incorporated in Hong Kong 東亞銀行有限公司，於香港註冊成立的有限公司
BEA China 「東亞中國」	The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank 東亞銀行（中國）有限公司，本行的全資附屬公司
BEA Macau 「澳門分行」	the Bank's branch operations in Macau 本行的澳門分行
BEA Taiwan 「台灣分行」	the Bank's branch operations in Taiwan 本行的台灣分行
BEA Union Investment 「東亞聯豐投資」	BEA Union Investment Management Limited, a non-wholly-owned subsidiary of the Bank 東亞聯豐投資管理有限公司，本行的非全資附屬公司
BGCA 「小童群益會」	The Boys' & Girls' Clubs Association of Hong Kong 香港小童群益會
Blue Cross 「藍十字」	Blue Cross (Asia-Pacific) Insurance Limited, a wholly-owned subsidiary of the Bank 藍十字（亞太）保險有限公司，本行的全資附屬公司
Board 「董事會」	Board of Directors of the Bank 本行的董事會
Capital Rules 「《資本規則》」	Banking (Capital) Rules issued by the HKMA 金管局頒布的《銀行業(資本規則)》
Charity Fund 「公益基金」	Shanghai Soong Ching Ling Foundation – BEA Charity Fund 上海宋慶齡基金會 – 東亞銀行公益基金
CHF 「瑞士法郎」	Swiss franc 瑞士法郎
China, Mainland, Mainland China or PRC 「中國」或 「內地」	People's Republic of China 中華人民共和國
CNY or RMB 「人民幣」	Chinese yuan or Renminbi, the lawful currency of the PRC 中國法定貨幣
Credit Gain 「領達財務」	Credit Gain Finance Company Limited, a wholly-owned subsidiary of the Bank 領達財務有限公司，本行的全資附屬公司
CSR 「企業社會責任」	Corporate social responsibility 企業社會責任

Director(s) 「董事」	includes any person who occupies the position of a director, by whatever name called, of the Bank or otherwise as the context may require 包括任何任職本行董事職位的人士（不論其職銜如何），或文義另有所指的人士
EUR 「歐羅」	Euro 歐羅
GBP 「英鎊」	Pound sterling, the lawful currency of the UK 英國法定貨幣
GDP 「本地生產總值」	Gross domestic product 本地生產總值
GRI 「全球報告倡議組織」	Global Reporting Initiative 全球報告倡議組織
HK$ or HKD 「港幣」	Hong Kong dollar, the lawful currency of Hong Kong 香港法定貨幣
HKAS 「香港會計準則」	Hong Kong Accounting Standards 香港會計準則
HKMA 「金管局」	Hong Kong Monetary Authority 香港金融管理局
HKFRS 「香港財務報告準則」	Hong Kong Financial Reporting Standards 香港財務報告準則
HKICPA 「香港會計師公會」	Hong Kong Institute of Certified Public Accountants 香港會計師公會
Listing Rules 「《上市規則》」	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, modified or otherwise supplemented from time to time) 聯交所《證券上市規則》，經不時修訂、修改或以其他方式補充
JPY 「日圓」	Japanese yen 日圓
Mn 「百萬」	Million 百萬
NIM 「淨息差」	Net interest margin 淨息差
QFII 「合格境外機構投資者」	Qualified Foreign Institutional Investor 合格境外機構投資者
SGD 「新加坡元」	Singapore dollar, the lawful currency of Singapore 新加坡法定貨幣
Stock Exchange 「聯交所」	The Stock Exchange of Hong Kong Limited 香港聯合交易所有限公司
Tricor 「卓佳」	Tricor Holdings Limited, a non-wholly-owned subsidiary of the Bank 卓佳集團有限公司，本行的非全資附屬公司
UK 「英國」	United Kingdom 英國

US 「美國」	United States of America 美利堅合眾國
US$ or USD 「美元」	United States dollar, the lawful currency of the US 美國法定貨幣
VaR 「風險值」	value-at-risk 風險值