



The Bank of East Asia, Limited

(incorporated with limited liability in Hong Kong)

U.S.\$3,000,000,000

Medium Term Note Programme

Under the Medium Term Note Programme described in this Offering Circular (the “**Programme**”), The Bank of East Asia, Limited (“**BEA**” or the “**Issuer**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Medium Term Notes (the “**Notes**”). The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.\$3,000,000,000 (or the equivalent in other currencies).

The Notes may be issued on a continuing basis to one or more of the Dealers appointed under the Programme from time to time by the Issuer (each a “**Dealer**” and together the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the “**relevant Dealer**” shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see “Risk Factors”.

Application has been made to the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) for permission to deal in, and for the listing of, any Notes which are agreed at the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. There can be no assurance that an application to the SGX-ST will be approved. Unlisted Notes may also be issued pursuant to the Programme. The relevant Pricing Supplement (as defined in “*Summary of the Programme*”) in respect of the issue of any Notes will specify whether or not such Notes will be listed on the SGX-ST (or any other stock exchange). Admission to the Official List of the SGX-ST and quotation of any Notes on the SGX-ST is not to be taken as an indication of the merits of the Issuer, its subsidiary companies (if any), its associated companies (if any) or such Notes. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein.

The Notes of each Series (as defined in “*Summary of the Programme*”) to be issued in bearer form will be sold in an “offshore transaction” within the meaning of Regulation S (“**Regulation S**”) under the United States Securities Act of 1933 (the “**Securities Act**”) and will initially be represented by a temporary global note in bearer form (each a “**temporary Global Note**”). Interests in temporary Global Notes generally will be exchangeable for interests in permanent global notes (each a “**permanent Global Note**”) and, together with the temporary Global Notes, the “**Global Notes**”), or if so stated in the relevant Pricing Supplement, definitive Notes (“**Definitive Notes**”), after the date falling 40 days after the later of the commencement of the offering and the relevant issue date of such Tranche (as defined in “*Summary of the Programme*”), upon certification as to non-US beneficial ownership. Interests in permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part as described under “*Summary of Provisions Relating to the Notes while in Global Form*”.

The Notes of each Series to be issued in registered form (“**Registered Notes**”) and which are sold in an “offshore transaction” within the meaning of Regulation S (“**Unrestricted Notes**”) will initially be represented by a permanent registered global certificate (each a “**Global Certificate**”) without interest coupons, which may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”), with a common depository on behalf of Euroclear and Clearstream, Luxembourg or in the case of a Series intended to be cleared through the Central Money Markets Unit Service, operated by the Hong Kong Monetary Authority (the “**HKMA**”) (the “**CMU**”), with a sub-custodian for the HKMA and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg or the CMU, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer. The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in “*Summary of Provisions Relating to the Notes while in Global Form*”.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States. Registered Notes are subject to certain restrictions on transfer, see “*Subscription and Sale*”.

The Issuer may agree with any Dealer and the Trustee (as defined herein) that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein (the “**Conditions**”), in which event a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Moody’s Investors Service, Inc. (“**Moody’s**”) is expected to rate Senior Notes issued under the Programme “A2” and Subordinated Notes issued under the Programme “A3”. Standard & Poor’s Rating Services, a division of the McGraw-Hill companies (“**S&P**”) is expected to rate Senior Notes issued under the Programme “A-” and, Subordinated Notes issued under the Programme “BBB+”. Tranches of Notes (as defined in “*Summary of the Programme*”) to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Sole Arranger

HSBC

Dealers

Citigroup

Deutsche Bank

HSBC

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issuance and offering of Notes, that the information contained or incorporated by reference in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading in any material respect and which, in each case, is material in the context of the issuance and offering of the Notes. The Issuer accepts responsibility accordingly.

This Offering Circular is to be read in conjunction with all documents which are incorporated herein by reference (see “Documents Incorporated by Reference”).

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of Sole Arranger or the Dealers (as defined in “*Summary of the Programme*”) or the Trustee or the Agents (each as defined in “*Terms and Conditions of the Notes*”). Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Issuer and its subsidiaries (the “**Group**”) since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Sole Arranger and the Dealers to inform themselves about and to observe any such restriction.

The Notes have not been and will not be registered under the Securities Act and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States. For a description of certain restrictions on offers and sales of Notes and on distribution of this Offering Circular, see “*Subscription and Sale*”.

The Notes are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Offering Circular, see “*Subscription and Sale*”.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Sole Arranger, the Dealers, the Trustee or the Agents to subscribe for, or purchase, any Notes.

To the fullest extent permitted by law, none of the Sole Arranger, the Dealers, the Trustee or the Agents accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Sole Arranger or a Dealer or the Trustee or any Agent or on its behalf in connection with the Issuer or the issue and offering of the Notes. The Sole Arranger, each Dealer, the Trustee and each Agent accordingly disclaim all and any liability whether arising in tort or contract

or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Neither this Offering Circular nor any financial statements of the Issuer or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Sole Arranger, the Dealers, the Trustee or the Agents that any recipient of this Offering Circular or any financial statements of the Issuer or the Group should purchase the Notes. Each potential investor of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Sole Arranger, the Dealers, the Trustee or the Agents undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Sole Arranger, the Dealers, the Trustee or the Agents.

From time to time, in the ordinary course of business, certain of the Dealers and their affiliates have provided advisory and investment banking services, and entered into other commercial transactions with the Issuer and its affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Dealers and their affiliates will continue to provide such services to, and enter into such transactions, with the Issuer and its affiliates in the future.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

In making an investment decision, each potential investor must rely on its own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Issuer does not and the Sole Arranger, the Dealers, the Trustee and the Agents do not make any representation regarding the legality of investment under any applicable laws.

Potential investors should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

STABILISATION

In connection with any Tranche of Notes, one or more of the Dealers (or persons acting on their behalf) may act as the stabilising manager(s) (the “Stabilising Manager(s)”). The identity of the Stabilising Manager(s) (if any) will be disclosed in the relevant Pricing Supplement.

In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilising Manager (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may, subject to applicable laws and regulations, over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

PRESENTATION OF INFORMATION

In this Offering Circular, unless the context otherwise requires, (i) references to “**BEA**” or the “**Issuer**” mean The Bank of East Asia, Limited and, as the context may require, its subsidiaries; (ii) references to “**BEA (China)**” mean The Bank of East Asia (China) Limited; and (iii) references to the “**Group**” mean The Bank of East Asia, Limited and its subsidiaries.

Unless otherwise specified or the context otherwise requires, references to “U.S.\$” and to “US dollars” are to lawful currency of the United States of America, references to “HK\$”, “Hong Kong dollars” and “HK dollars” are to the lawful currency of Hong Kong Special Administrative Region of the PRC (“Hong Kong”), references to “RMB” and “Renminbi” are to the lawful currency of the People’s Republic of China (“PRC”), references to “sterling” and “£” are to the lawful currency of the United Kingdom, references to “€”, “EUR” and “Euro” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended from time to time, references to “Australian dollars” are to lawful currency of Commonwealth of Australia, and references to the “PRC” and “Mainland China” are to the People’s Republic of China and, for the purpose of this Offering Circular, except where the context requires, do not include Hong Kong, Macau Special Administrative Region of the PRC (“Macau”), or Taiwan.

The Hong Kong dollar has been linked to the U.S. dollar at the rate of HK\$7.80 to U.S.\$1.00 since 17 October 1983 (the “**Linked Exchange Rate System**”). In May 2005, the HKMA broadened the 22-year old trading band from the original rate of HK\$7.80 per U.S. dollar to a rate range of HK\$7.75 to HK\$7.85 per U.S. dollar.

For convenience only, all Hong Kong dollar amounts in this Offering Circular have been translated into US dollar amounts at the rate of U.S.\$1.00 = HK\$7.80. Such translations should not be construed as representations that the Hong Kong dollar amounts referred to could have been, or could be, converted into US dollars at that or any other rate or at all.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes statements that are, or may be deemed to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the United States Securities and Exchange Act of 1934, as amended (the “**Exchange Act**”). These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Offering Circular and include statements regarding the intentions, beliefs or current expectations of the Issuer concerning, among other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which the Issuer operates.

By their nature, forward-looking statements are subject to numerous assumptions, risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and that the Issuer’s actual results of operations, financial condition and liquidity, and the development of the industries in which the Issuer operates, may differ materially from those made in or suggested by the forward-looking statements contained in this Offering Circular. In addition, even if the results of operations, financial condition and liquidity and the development of the industries in which the Issuer operates are consistent with the forward-looking statements contained in this Offering Circular, those results or developments may not be indicative of results or developments in subsequent periods.

The cautionary statements set forth above should be considered in connection with any subsequent written or oral forward-looking statements that the Issuer or persons acting on its behalf may issue. The Issuer does not undertake any obligation to review or confirm analysts’ expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Offering Circular.

The following list includes some, but not necessarily all, of the factors that may cause actual results to differ from those anticipated or predicted:

- changes in the general operating environment of the Hong Kong banking industry;

- changes in general economic, market, business and regulatory conditions in Hong Kong, Mainland China, the United States and other countries;
- changes in the monetary and credit policies of the United States, Hong Kong and Mainland China;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- changes in Hong Kong governmental policies, laws or regulations, in particular those affecting the banking industry in Hong Kong;
- the effects of intensifying competition in the banking industry in Hong Kong; and
- the performance of the real property and financial markets in Hong Kong.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Investment Considerations*”.

Any forward-looking statements that the Issuer makes in this Offering Circular speak only as at the date of such statements, and the Issuer undertakes no obligation to update such statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, and should only be viewed as historical data.

DOCUMENTS INCORPORATED BY REFERENCE

The Issuer hereby incorporates by reference (i) each Pricing Supplement, (ii) the most recently published audited consolidated annual financial statements, and any interim consolidated financial information (whether audited or unaudited) of the Issuer published from time to time after the date of this Offering Circular, and (iii) all amendments and supplements from time to time to this Offering Circular, each of which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with the contents of this Offering Circular.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays and public holidays excepted) from the specified offices of the Issuer and of the Paying Agents set out at the end of this Offering Circular.

SUPPLEMENTAL OFFERING CIRCULAR

The Issuer has given an undertaking to the Sole Arranger and the Dealers that, unless it has notified the Permanent Dealers in writing that it does not intend to issue Notes under the Programme for the time being, if at any time during the duration of the Programme a significant new factor, material mistake or inaccuracy arises or is noted relating to the information included in the Offering Circular which is capable of affecting an assessment by investors of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and/or of the rights attaching to the Notes, it shall (i) prepare and publish an amendment or supplement to the Offering Circular, (ii) advise the Sole Arranger and the Dealers promptly of any proposal to amend or replace the Offering Circular, (iii) advise the Dealers promptly of any proposal to supplement the Offering Circular and (iv) provide the Sole Arranger and the Permanent Dealers with a copy of any such proposed amendment, supplement or replacement immediately prior to its publication.

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SUMMARY

The following summary is qualified in its entirety by, and is subject to, the detailed information contained or referred to elsewhere in this Offering Circular. For a discussion of certain considerations that should be made in connection with an investment in the Notes, see “Investment Considerations”.

OVERVIEW

Incorporated in 1918, BEA is the largest independent local bank in Hong Kong in terms of assets. As at 30 June 2011, BEA’s consolidated assets, advances to customers and customer deposits were HK\$598,942 million (U.S.\$76,787 million), HK\$312,491 million (U.S.\$40,063 million) and HK\$459,326 million (U.S.\$58,888 million), respectively. The comparative figures (i) as at 30 June 2010 were HK\$478,102 million (U.S.\$61,295 million), HK\$278,210 million (U.S.\$35,668 million) and HK\$360,995 million (U.S.\$46,281 million), respectively, and (ii) as at 31 December 2010 were HK\$534,193 million (U.S.\$68,486 million), HK\$297,044 million (U.S.\$38,083 million) and HK\$419,833 million (U.S.\$53,825 million), respectively, and (iii) as at 31 December 2009 were HK\$434,082 million (U.S.\$55,652 million), HK\$247,654 million (U.S.\$31,751 million) and HK\$342,528 million (U.S.\$43,914 million), respectively, and (iv) as at 31 December 2008 were HK\$415,254 million (U.S. \$53,238 million), HK\$230,339 million (U.S.\$29,531 million) and HK\$323,802 million (U.S.\$ 41,513 million), respectively.

The shares of BEA have been listed on the HKSE since the 1930s. As at 31 August 2011, the authorised share capital of BEA was 4,000 million ordinary shares of HK\$2.50 each and 500,000 substitute preference shares of U.S.\$1,000 each, of which approximately 2,058.6 million ordinary shares have been issued, are outstanding and have been fully paid. Based on the closing price of its shares on the HKSE on 31 August 2011, BEA’s market capitalisation was approximately HK\$63,200.2 million (U.S.\$8,102.6 million). BEA’s shares have been a constituent stock of the Hang Seng Index since 1984.

BEA provides retail and wholesale banking services through its Personal Banking, Corporate Banking, Wealth Management, Treasury Markets, China and International divisions. BEA’s core business is deposit taking and home mortgage lending in Hong Kong. Its other activities include retail investment and wealth management services, commercial and industrial lending, consumer finance, credit cards, insurance, services related to the MPF Scheme (as described below), internet banking services, trust services, foreign exchange, trade finance, project finance, loan syndication, remittances, foreign exchange margin trading, stock broking, asset management services and other fee-based services.

In addition, through the Group’s wholly-owned subsidiaries, BEA is able to extend other services to its customers. BEA Life Limited (“**BEA Life**”) and Blue Cross (Asia-Pacific) Insurance Limited (“**Blue Cross**”) serve as the Group’s life insurance and general insurance arms respectively and provide a comprehensive range of insurance solutions for individual and corporate customers and offer a range of life and non-life insurance products and services. Tricor, together with its subsidiaries, offers outsourced expertise in business support functions and provides its customers with a range of integrated business, corporate and investor services.

As at 31 August 2011, the Group offered a broad range of banking and related financial services in Hong Kong through a network of 88 branches, seven major subsidiaries, 61 wealth management centres called “SupremeGold Centres”, and five i-Financial Centres.

In order to access the Mainland China market and overseas Chinese markets, BEA expanded its operations to Mainland China, Taiwan, Macau, the United States, the United Kingdom, Canada and South East Asia. As at 31 August 2011, BEA’s overseas operations had in total 48 branches, 75 sub-branches and three representative offices as well as several affiliates and joint ventures in Mainland China, Taiwan, Macau, the United States, the United Kingdom, Canada and South East Asia.

BEA is one of the first foreign banks to have received approval to establish a locally-incorporated bank in Mainland China. The locally-incorporated bank and BEA's wholly-owned subsidiary, The Bank of East Asia (China) Limited (“**BEA (China)**”), obtained a business licence from the State Administration for Industry and Commerce on 29 March 2007 and officially commenced business on 2 April 2007. On 20 April 2007, BEA (China) received approval from the China Banking Regulatory Commission (“**CBRC**”) to carry out Renminbi business with local residents in Mainland China. The products and services provided by BEA (China) for personal and corporate customers in Mainland China include, but are not limited to, loans, deposits, trade finance, guarantees, remittance, Renminbi forward transactions, SupremeGold accounts, Renminbi debit and credit cards, private banking, Cyberbanking, Qualified Domestic Institutional Investors (“**QDII**”) services, derivative and investment products, agency services for general and life insurance products, and cross-border Renminbi trade settlement services.

As at 31 August 2011, BEA (China), with its headquarters in Shanghai, operated 22 branches and 71 sub-branches in Mainland China and plans to expand its network in strategic locations in Mainland China. In addition to the BEA (China) network, BEA also operates a branch in Shanghai, through which it provides its foreign exchange wholesale services to corporate customers in Mainland China. It also operates Shaanxi Fuping BEA Rural Bank Corporation and two representative offices.

In Taiwan, BEA maintains one branch in each of Taipei and Kaohsiung. In June 2009, it acquired AIG group's wealth management business in Taiwan, which was re-launched under the new name of BEA Wealth Management Services (Taiwan) Limited (formerly AIG Wealth Management Services (Taiwan) Limited). BEA also maintains one branch, four sub-branches and 10 ATMs in Macau.

As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, approximately 29.8%, 31.3%, 41.3% and 45.7%, respectively, of the assets of the Group were accounted for in Mainland China, Taiwan and Macau. For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, approximately 18,550%⁽¹⁾, 45.7%, 29.2% and 36.8%, respectively, of BEA's consolidated profit before taxation were accounted for in Mainland China, Taiwan and Macau.

The majority of BEA's lending is on a secured, floating-rate basis and adheres to pre-established loan-to-value limitations depending on the underlying collateral and the credit risk of customers. Security typically consists of a first legal charge over real property, listed securities and cash deposits. Some of BEA's lending is on a guaranteed basis.

As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, the Group's capital adequacy ratio was approximately 13.8%, 13.3%, 13.2% and 12.6%, respectively, compared with the statutory minimum requirement of 8.0%, and its loan to deposit ratio was approximately 69.9%, 71.7%, 69.8% and 66.3%, respectively. For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, BEA's average liquidity ratio was approximately 38.4%, 43.3%, 44.9% and 41.0%, respectively. See “Selected Statistical and Other Information” for further details.

The Group relies on its deposit base for the majority of its funding requirements. As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, customer deposits accounted for approximately 88.1%, 91.6%, 92.7% and 89.9%, respectively, of borrowed funds. The remainder of the Group's funding

⁽¹⁾ For the year ended 31 December 2008, the Group's financial performance was adversely affected by the one-off write down of HK\$3,549 million for its investments in CDOs and SIVs conducted in Hong Kong (see “Selected Statistical and Other Information — Asset Quality — Held-to-maturity Debt Securities”). The loss before taxation for Hong Kong operations for the period was HK\$1,876 million, and the Group's consolidated profit before taxation for the period was HK\$8 million. As a result, when the profit before taxation for the period for China operations (including Taiwan and Macau) (HK\$1,484 million) is compared against the Group's consolidated result, it accounts for 18,550% of the consolidated profit before taxation.

requirements as at 31 December 2008, 2009 and 2010 and as at 30 June 2011 were satisfied through the issuance of certificates of deposit and, particularly for its Renminbi funding requirements, through interbank borrowings. In July 2009, BEA (China) issued RMB4 billion in aggregate principal amount of Renminbi-denominated bonds in Hong Kong in order to diversify the Group's Renminbi funding sources.

For the six months ended 30 June 2011, the Group's profit after taxation was HK\$2,757 million (U.S.\$353 million), an increase of approximately 28.9% from the six months ended 30 June 2010. The turnaround in operations and financial performance was the result of gradually improving conditions in the financial markets and global economy, as well as the absence of further substantial write-downs recorded by the Issuer. For the year ended 31 December 2010, the Group's profit after taxation was HK\$4,303 million (U.S.\$552 million), an increase of approximately 60.8% from the year ended 31 December 2009. The Group's profits in 2008 were severely affected by the HK\$3,549 million one-off write down of the fair value of the Group's portfolio of all of its investments in collateralised debt obligations ("CDOs") and almost all of its structured investment vehicles ("SIVs") conducted in Hong Kong.

For the year ended 31 December 2010, the Group achieved a return on average assets of approximately 0.9% and a return on average equity of approximately 10.1%, as compared with approximately 0.6% and 7.7%, respectively, for the year ended 31 December 2009 and approximately 0.01% and 0.12%, respectively, for the year ended 31 December 2008.

STRATEGY

BEA's core objectives are to strengthen its position as the largest independent local bank in Hong Kong, to further develop its domestic franchise as one of Hong Kong's leading banks and to expand its operations in Mainland China and other overseas countries. As part of the strategy for growth in the future, BEA will focus significantly on its operations in Mainland China. The key components of BEA's strategy are as follows:

- Expansion in Mainland China and other overseas countries;
- Diversification of non-interest income;
- Enhancement of profitability via active asset and liability management;
- Transformation of its branch network;
- Acquisitions and organic growth; and
- Focus on enhancing operational efficiency.

SUMMARY OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in “Terms and Conditions of the Notes” below shall have the same meaning in this summary.

The Issuer	The Bank of East Asia, Limited.
Description	Medium Term Note Programme.
Size	Up to U.S.\$3,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Sole Arranger	The Hongkong and Shanghai Banking Corporation Limited.
Dealers	The Hongkong and Shanghai Banking Corporation Limited Citigroup Global Markets Limited Citicorp International Limited Deutsche Bank AG, Hong Kong Branch Deutsche Bank AG, Singapore Branch

The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to “**Permanent Dealers**” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to “**Dealers**” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.

Trustee	DB Trustees (Hong Kong) Limited.
Issuing and Paying Agent	Deutsche Bank AG, Hong Kong Branch.
Transfer Agents	Deutsche Bank AG, Hong Kong Branch Deutsche Bank Luxembourg S.A..
Registrars	Deutsche Bank AG, Hong Kong Branch Deutsche Bank Luxembourg S.A..
CMU Lodging and Paying Agent .	Deutsche Bank AG, Hong Kong Branch.
Method of Issue	The Notes may be issued on a syndicated or non-syndicated basis. The Notes may be issued in series (each a “ Series ”) having one or more issue dates (each tranche within such Series a “ Tranche ”) and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a pricing supplement (a “ Pricing Supplement ”).

Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes	<p>The Notes may be issued in bearer form only (“Bearer Notes”), in bearer form exchangeable for Registered Notes (“Exchangeable Bearer Notes”) or in registered form only (“Registered Notes”). Each Tranche of Bearer Notes and Exchangeable Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “<i>Summary of the Programme — Selling Restrictions</i>” below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as “Global Certificates”.</p> <p>Registered Notes sold in an “offshore transaction” within the meaning of Regulation S will initially be represented by a Global Certificate.</p>
Clearing Systems	The CMU, Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or Exchangeable Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or deposited with a sub-custodian for the HKMA as operator of the CMU or deposited with a depositary or sub-custodian for any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Trustee, the Issuing and Paying Agent and the relevant Dealers. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers.

Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity, including for the avoidance of doubt, undated perpetual Notes with no fixed maturity.
Specified Denomination	Definitive Notes will be in such denominations as may be specified in the relevant Pricing Supplement, save that unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series as follows: <p>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., as amended, supplemented or replaced; or</p> <p>(ii) by reference to LIBOR or EURIBOR or HIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin.</p> <p>Interest periods will be specified in the relevant Pricing Supplement.</p>
Zero Coupon Notes	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Pricing Supplement.
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.

Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.
Redemption and Redemption Amounts	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which must be redeemed before the first anniversary of their date of issue and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Redemption by Instalments	The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Other Notes	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.
Optional Redemption	The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
Notes that can be issued under the Programme	The Issuer may issue Senior Notes and Subordinated Notes.
Status of the Senior Notes	The Senior Notes issued by the Issuer will constitute direct unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and will rank <i>pari passu</i> without any preference among themselves and <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of the Issuer other than any such obligations as are preferred by law, all as further described in Condition 3(a).

Status of the Subordinated Notes .	The Subordinated Notes issued by the Issuer will constitute subordinated obligations of the Issuer and will rank <i>pari passu</i> without any preference among themselves. The rights of the holders of the Subordinated Notes will, in the event of the Winding-Up of the Issuer, be subordinated in right of payment in the manner provided in Condition 3 and the Trust Deed, all as further described in Condition 3(b).
Negative Pledge	Applicable to Senior Notes only. See “ <i>Terms and Conditions of the Notes — Negative Pledge</i> ”.
Events of Default	Applicable to Senior Notes and Subordinated Notes. See “ <i>Terms and Conditions of the Notes — Events of Default</i> ”.
Cross Default.	Applicable to Senior Notes only. See the relevant sub-condition under “ <i>Terms and Conditions of the Notes — Events of Default</i> ”.
Ratings	Moody’s is expected to rate Senior Notes issued under the Programme “A2” and Subordinated Notes issued under the Programme “A3”. S&P is expected to rate Senior Notes issued under the Programme “A-” and Subordinated Notes issued under the Programme “BBB+”. Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Early Redemption	Except as provided in “Optional Redemption” above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See “ <i>Terms and Conditions of the Notes — Redemption, Purchase and Options</i> ”. Subordinated Notes may only be redeemed prior to their stated maturity date with the consent of the HKMA, if such consent is required.
Withholding Tax	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of Hong Kong, subject to customary exceptions, all as described in “ <i>Terms and Conditions of the Notes — Taxation</i> ”.
Governing Law	English law, except that the provisions of the Notes relating to subordination shall be governed by Hong Kong law.
Listing	Application has been made to the Singapore Exchange Securities Trading Limited (the “ SGX-ST ”) for permission to deal in, and for listing of, any Notes which are agreed at the time of issue to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. There is no guarantee that an application to the SGX-ST will be approved. As specified in the relevant Pricing Supplement, a Series of Notes may be unlisted. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in other currencies).

Selling Restrictions The United States, the Public Offer Selling Restriction under the Prospectus Directive in the European Economic Area (in respect of Notes having a specified denomination of less than €50,000 (or €100,000, to the extent that Directive 2010/73/EU has been implemented in the relevant Member State) or its equivalent in any other currency as at the date of issue of the Notes), the United Kingdom, Hong Kong, Singapore and Japan. See “*Subscription and Sale*”.

For the purposes of Regulation S, the relevant Pricing Supplement shall indicate whether Category 1 or Category 2 restrictions apply.

Notes in bearer form will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “**D Rules**”) unless (i) the relevant Pricing Supplement states that such Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “**C Rules**”) or (ii) such Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which such Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which TEFRA is not applicable.

Transfer Restrictions In relation to Notes in respect of which the relevant Pricing Supplement specifies Regulation S Category 2 as being applicable, there are restrictions on the transfer of such Notes prior to the expiration of the relevant distribution compliance period. See “*Subscription and Sale*”.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information and other selected financial data of the Issuer and the Group as at and for the periods indicated. The summary consolidated historical financial data as at and for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2010 and 2011 set forth below are derived from the Group's consolidated financial statements. The consolidated financial statements of the Group for the years ended 31 December 2008, 31 December 2009 and 31 December 2010 have been audited by KPMG. The Group's audited consolidated income statement for the year ended 31 December 2009 and 2010 and unaudited consolidated income statement for the six months ended 30 June 2011 and the Group's audited consolidated statement of financial position as at 31 December 2009 and 2010 and unaudited consolidated statement of financial position as at 30 June 2011 are included elsewhere in this Offering Circular. The Group's consolidated financial statements are prepared and presented in accordance with HKFRS.

Certain comparative amounts with respect to the year ended 31 December 2009 included in the audited consolidated financial statements for the year ended 31 December 2010 have been restated to reflect the early adoption of Hong Kong Accounting Standard ("HKAS") 12 (Amendment) "Income Taxes". The change in policy arising from the amendments to HKAS 12 is the only change which has had a material impact on the current or comparative periods. This change in policy has been applied retrospectively by restating the opening balances at 1 January 2009 and 2010, with consequential adjustments to comparatives for the year ended 31 December 2009 and the six months ended 30 June 2010. Therefore the audited consolidated financial statements for the year ended 31 December 2009 which are contained herein are not directly comparable with the comparative financial information for the year ended 31 December 2009 contained in the audited consolidated financial statements for the year ended 31 December 2010 contained herein; and the comparative financial information for the six months ended 30 June 2010 contained in the interim financial statements for the six months ended 30 June 2011 contained herein has been restated and is not directly comparable with the interim financial report for the six months ended 30 June 2010. Further, the financial information contained in the audited consolidated financial statements for the year ended 31 December 2008 which is set out in this section "*Summary Financial Information*" has not been adjusted to reflect the early adoption of HKAS 12, the audited consolidated financial statements as at and for the year ended 31 December 2008 and the comparative financial information for the year ended 31 December 2008 contained in the audited consolidated financial statements for the year ended 31 December 2009 contained herein are not directly comparable with the comparative financial information for the years ended 31 December 2009 and 2010 contained in the audited consolidated financial statements for the year ended 31 December 2010 contained herein.

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December			Six months ended 30 June	
	2009		2010	2010	
	2008	Restated		Restated	2011
	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)
Interest income	17,465	12,121	13,626	6,163	9,310
Interest expense	(10,672)	(5,374)	(6,083)	(2,494)	(4,910)
Net interest income	<u>6,793</u>	<u>6,747</u>	<u>7,543</u>	<u>3,669</u>	<u>4,400</u>
Fee and commission income	2,618	2,799	3,649	1,710	2,077
Fee and commission expense	(473)	(537)	(707)	(353)	(371)
Net fee and commission income	2,145	2,262	2,942	1,357	1,706
Net trading (losses)/profits	(1,292)	941	(146)	(329)	411

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	(in HK\$ millions)	Restated (in HK\$ millions)	(in HK\$ millions)	Restated (in HK\$ millions)	(in HK\$ millions)
Net result from financial instruments designated at fair value through profit or loss	(1,612)	(267)	263	442	(179)
Net hedging loss	—	—	(5)	—	(3)
Other operating income	423	505	529	273	303
Non-interest (expense)/income	(336)	3,441	3,583	1,743	2,238
Operating income	6,457	10,188	11,126	5,412	6,638
Operating expenses	(5,779)	(6,129)	(6,904)	(3,275)	(3,802)
Operating profit before impairment losses	678	4,059	4,222	2,137	2,836
(Charge for)/Write back of impairment losses on loans and advances	(558)	(1,105)	(285)	(150)	40
Impairment losses on held-to-maturity investments	(44)	(9)	—	—	(12)
Impairment losses on available-for-sale financial assets	(352)	(14)	(24)	(19)	(9)
Write back of impairment losses on associates	—	—	1	1	—
Write back of/(charge for) impairment losses on bank premises	6	(13)	2	—	—
(Charge for)/Write back of impairment losses	(948)	(1,141)	(306)	(168)	19
Operating (loss)/profit after impairment losses	(270)	2,918	3,916	1,969	2,855
Net profit/(loss) on sale of held-to-maturity investments	25	(12)	—	—	—
Net profit on sale of available-for-sale financial assets	197	102	234	37	83
Net profit on sale of loans and receivables	1	2	1	—	3
Net (loss)/profit on sale of subsidiaries/associates	(8)	—	238	230	15
Net profit/(loss) on sale of fixed assets .	178	16	(6)	14	132
Valuation (losses)/gains on investment properties	(168)	206	426	127	285
Share of profits less losses of associates	53	264	341	179	202
Profit before taxation	8	3,496	5,150	2,556	3,575

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	(in HK\$ millions)	Restated (in HK\$ millions)	(in HK\$ millions)	Restated (in HK\$ millions)	(in HK\$ millions)
Income tax					
Current tax					
- Hong Kong	(64)	(73)	(416)	(191)	(91)
- Overseas	(566)	(454)	(557)	(277)	(524)
Deferred tax	726	(292)	126	51	(203)
Profit after taxation	<u>104</u>	<u>2,677</u>	<u>4,303</u>	<u>2,139</u>	<u>2,757</u>
Attributable to:					
Owners of the parent	39	2,604	4,224	2,100	2,711
Non-controlling interests	65	73	79	39	46
Profit after taxation	<u>104</u>	<u>2,677</u>	<u>4,303</u>	<u>2,139</u>	<u>2,757</u>
Per share					
- Basic earnings	HK\$0.02	HK\$1.39	HK\$1.92	HK\$0.96	HK\$1.24
- Diluted earnings	HK\$0.02	HK\$1.38	HK\$1.92	HK\$0.96	HK\$1.24
- Dividends	HK\$0.25	HK\$0.76	HK\$0.94	HK\$0.38	HK\$0.43

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December			As at 30 June	
	2008	2009	2010	2010	2011
	(in HK\$ Millions)	Restated (in HK\$ Millions)	(in HK\$ Millions)	Restated (in HK\$ Millions)	(in HK\$ Millions)
ASSETS					
Cash and balances with banks and other financial institutions	28,105	29,712	48,293	27,479	55,910
Placements with banks and other financial institutions	96,574	67,945	58,197	58,149	74,703
Trade bills	1,164	1,847	18,548	3,075	38,023
Trading assets	3,437	5,722	5,845	6,587	7,963
Financial assets designated at fair value through profit or loss	4,130	10,392	16,192	15,357	17,168
Advances to customers and other accounts	243,725	261,803	320,040	302,526	340,767
Available-for-sale financial assets	18,560	30,883	40,779	38,802	38,229
Held-to-maturity investments	5,006	7,239	5,714	6,787	5,183
Investments in associates	2,486	2,615	3,573	3,255	3,771
Fixed assets	9,146	11,467	12,414	11,574	12,519
- Investment properties	1,839	2,095	2,574	2,157	2,890
- Other property and equipment	7,307	9,372	9,840	9,417	9,629
Goodwill and intangible assets	2,734	4,135	4,188	4,161	4,249
Deferred tax assets	187	322	410	350	460
Total Assets	<u>415,254</u>	<u>434,082</u>	<u>534,193</u>	<u>478,102</u>	<u>598,942</u>

	As at 31 December			As at 30 June	
	2008	2009	2010	2010	2011
	(in HK\$ Millions)	Restated (in HK\$ Millions)	(in HK\$ Millions)	Restated (in HK\$ Millions)	(in HK\$ Millions)
EQUITY AND LIABILITIES					
Deposits and balances of banks and other financial institutions	27,045	11,886	9,994	13,225	19,014
Deposits from customers	323,802	342,528	419,833	360,995	459,326
Trading liabilities	2,846	1,455	3,101	2,515	3,327
Certificates of deposit issued	5,491	2,812	5,586	1,560	11,912
- At fair value through profit or loss .	3,777	2,442	2,754	1,410	5,390
- At amortised cost	1,714	370	2,832	150	6,522
Current taxation	333	147	618	355	877
Debt securities issued	—	4,346	4,950	4,780	7,466
Deferred tax liabilities	77	308	214	283	458
Other accounts and provisions	12,139	18,506	28,561	35,818	32,645
Loan capital	11,036	12,359	12,693	12,177	12,969
- At fair value through profit or loss .	6,395	7,712	3,548	7,512	3,733
- At amortised cost	4,641	4,647	9,145	4,665	9,236
Total Liabilities	382,769	394,347	485,550	431,708	547,994
Share capital	4,183	4,623	5,105	5,079	5,147
Reserves	<u>27,963</u>	<u>30,754</u>	<u>39,138</u>	<u>36,928</u>	<u>41,366</u>
Total equity attributable to owners of the parent	32,146	35,377	44,243	42,007	46,513
Non-controlling interests	<u>339</u>	<u>4,358</u>	<u>4,400</u>	<u>4,387</u>	<u>4,435</u>
Total Equity	<u>32,485</u>	<u>39,735</u>	<u>48,643</u>	<u>46,394</u>	<u>50,948</u>
Total Equity and Liabilities	<u>415,254</u>	<u>434,082</u>	<u>534,193</u>	<u>478,102</u>	<u>598,942</u>
OTHER SELECTED FINANCIAL					
DATA	(%)	(%)	(%)	(%)	(%)
Loan to Deposit Ratio	69.9	71.7	69.8	76.7	66.3
Capital Adequacy Ratio	13.8	13.3	13.2	13.8	12.6
Average Liquidity Ratio	38.4	43.3	44.9	43.1	41.0
Return on Average Assets	0.0	0.6	0.9	0.9	1.0
Return on Average Shareholders' Funds	0.1	7.7	10.1	10.4	11.9

INVESTMENT CONSIDERATIONS

Prospective investors should carefully take into account the considerations described below, in addition to the other information contained herein, before investing in the Notes. The occurrence of one or more events described below could have an adverse effect on BEA's business, financial condition, or results of operations, and could affect its ability to make payments of principal and interest under the Notes. Additional considerations and uncertainties not currently known to BEA, or which BEA currently deems immaterial, may also have an adverse effect on an investment in the Notes.

CONSIDERATIONS RELATING TO BEA

Hong Kong Economy

BEA conducts most of its operations⁽¹⁾ and generates most of its revenue in Hong Kong. BEA's performance and the quality and growth of its assets are necessarily dependent on the overall economy in Hong Kong. As a result, any downturn in the Hong Kong economy may adversely affect BEA's business, financial condition and the results of its operations.

In 2003, the Hong Kong economy was severely affected by the Severe Acute Respiratory Syndrome ("SARS"), which resulted in, among other things, increased provisions which negatively affected BEA's profitability. Although the Hong Kong economy had, to a great extent, recovered from the impact of SARS in the subsequent years after 2003, it has been adversely affected by the worsening of the global economy resulting from the United States subprime mortgage crisis and the global credit crunch in 2007, the collapse of Lehman Brothers Inc. ("**Lehman Brothers**") in September 2008, which adversely affected global financial markets and the liquidity in global credit markets and the subsequent re-emergence of a credit crisis in Europe with concerns over potential credit default by certain member countries of the European Union. These developments resulted in a general slowing of economic growth in the United States and most economies around the world, substantial volatility in equity securities markets globally, fluctuations in foreign currency exchange rates and volatility and tightening of liquidity in global credit markets. While it is difficult to predict how long these conditions will continue to affect markets, these developments have adversely affected, and could continue to adversely affect, BEA for an extended period of time as a result of a potential slowdown in the extension of mortgages and the sale of financial products to customers, increase in capital funding costs and reduction in the interest rate margins from loans and mortgages. If the global economic downturn continues, there can be no assurance that the Hong Kong economy or BEA's business and financial condition will not continue to be adversely affected.

In response to the adverse conditions in the financial markets and the global economy, many countries, including the PRC, have implemented fiscal measures and other stimulus packages targeted at reducing the adverse impact of the global economic crisis and reviving their economies. Since the second half of 2009, there has been evidence suggesting that the global economy is recovering, and some of the fiscal measures and other stimulus packages have been scaled back or withdrawn by various countries. However, in early 2010, fear of a sovereign debt crisis which has developed in some European countries including Greece, Spain and Portugal has again caused uncertainty to the global financial markets. The uncertain global economic outlook, together with the withdrawal of the fiscal aid measures put in place by various governments, may have an adverse impact on the Hong Kong economy which may affect BEA's business, financial condition and results of operations.

Although Hong Kong's gross domestic product in real terms (after adjustment for inflation) rose by 2.5% in 2008, 8.7% in 2009 and 6.8% in 2010 (year-on-year), BEA believes that the recovery of, and

⁽¹⁾ Operations based on size of total assets

the continued growth in, the Hong Kong economy depend in part upon the economic performance of the United States, Mainland China, as well as certain other developed countries. There can be no assurance that BEA's operations will not be adversely affected by any future deterioration in the economies of the United States, countries within Europe, the PRC and Hong Kong.

Competition

The banking industry in Hong Kong is a mature market and BEA is subject to increasing competition from many other Hong Kong incorporated banks and Hong Kong branches of international banks, including competitors which may have significantly greater financial and other resources. In particular, competition in the credit card and residential mortgage lending businesses is intense. There can be no assurance that BEA will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for BEA to increase the size of its loan portfolio and deposit base and may cause increased pricing competition, which could have an adverse effect on its growth plans, margins, ability to pass on increased costs of funding, results of operations and financial condition.

In particular, since 2000, certain banks in Hong Kong, including BEA, have lowered interest rates charged on non-Hong Kong government guaranteed new home mortgage advances ("**Mortgage Interest Rates**"). As at 31 December 2010 and 30 June 2011, BEA charged an average of 1.72% (P-3.53%) and 1.60% (P-3.65%), respectively, on its home mortgage advances portfolio in Hong Kong, excluding the Government Home Ownership Scheme ("**GHOS**"), Private Sector Participation Scheme ("**PSPS**") and Tenants Purchase Scheme ("**TPS**") mortgages and staff advances, before accounting for the effect of cash incentive payments. There can be no assurance that competition among banks in Hong Kong for home mortgage advances will not result in further reductions in Mortgage Interest Rates. Further reductions in Mortgage Interest Rates could have an adverse effect on BEA's business, financial condition or results of operations.

The banking industry in Mainland China is highly competitive. The market has been dominated by the large state-owned commercial banks, which have long operating histories, well-established branch networks, comprehensive customer bases and better brand recognition.

Moreover, the banking industry in Mainland China has been facing more challenges in recent years as the PRC government implemented a series of measures to liberalise the banking industry. BEA expects competition from foreign commercial banks to increase significantly as a number of foreign banks have established locally-incorporated banks in Mainland China and previous restrictions on their geographical presence, customer base and operating licenses in Mainland China were removed in April 2007 pursuant to the PRC's World Trade Organisation ("**WTO**") commitments.

In addition, the PRC's Closer Economic Partnership Arrangement ("**CEPA**") with Hong Kong and Macau allows smaller banks from these jurisdictions to operate in Mainland China, which has also increased competition in the banking industry in Mainland China. Many of these banks compete with BEA for the same customer base and some of them may have greater financial, management and technical resources than BEA.

Furthermore, under Supplement VI to the CEPA, with effect from 1 October 2009, banks in Hong Kong that have established branch outlets in the province of Guangdong are able to set up sub-branches within the province in any municipality without the need to first establish a branch in the same municipality. With this new provision, the capital requirement for setting up a sub-branch in Guangdong has been lowered. BEA expects increasing competition from foreign banks for the banking business in Guangdong.

The increased competition in the markets where BEA operates may adversely affect BEA's business and prospects, the effectiveness of its strategies, its results of operations and financial condition by potentially:

- reducing BEA's market share in its principal products and services;
- reducing the growth of BEA's loan and deposit portfolios and other products and services;
- reducing BEA's interest income and net interest margin;
- reducing BEA's fee and commission income;
- increasing BEA's non-interest expenses; and
- increasing competition for qualified managers and employees.

Maturity of the Hong Kong Banking Sector

BEA focuses principally on the Hong Kong market for retail and corporate customers. The banking sector in Hong Kong is extremely competitive. According to statistics published by the HKMA, as at 30 June 2011, there were 148 licensed banks, both international and local, competing for a population of approximately seven million people. There is a limited market, especially for retail banking products such as home mortgage advances, credit cards and personal advances. BEA's main markets for retail and corporate advances are Hong Kong and Mainland China. Due to the maturity of the Hong Kong banking sector, BEA intends to continue to expand its retail and corporate lending portfolio by growing its Mainland China-related business. However, BEA is likely to face increased competition in the Mainland China market from existing local Mainland China banks and other foreign banks entering the market. See "*Considerations Relating to BEA — Competition*". There can be no assurance that BEA can further expand or maintain its market share in Hong Kong or that it can successfully increase its retail or corporate lending portfolios in Mainland China, and its failure to do so could have an adverse effect on the business, financial condition and results of operations of BEA.

Maintaining the Growth Rate in Customer Deposits

Although BEA has issued debt securities to diversify its funding sources, customer deposits remain its primary funding source in Hong Kong. In mainland China, BEA's strategy is to increase the growth of customer Renminbi deposits in order to maintain stability in its source of funds and to minimise costs associated with interbank lending. From 31 December 2005 to 30 June 2011, total deposits increased from HK\$182,326 million to HK\$471,238 million, and retail deposits grew from HK\$175,895 million to HK\$459,326 million. However, there are many factors affecting the growth of deposits, some of which are beyond BEA's control, such as economic and political conditions, the availability of alternative investment choices and retail customers' changing perceptions toward savings. There can be no assurance that BEA will be able to grow its customer deposits at a pace sufficient to support its expanding business.

In September 2008, rumours questioning the liquidity and stability of BEA, which BEA believes to be unfounded, were disseminated in Hong Kong and triggered a bank run on BEA on 23 September 2008, prompting BEA to report the matter to the HKMA and the Hong Kong police. Although the bank run was subsequently contained without significantly affecting BEA's liquidity, there can be no assurance that similar incidents will not occur in the future, or, that if a bank run does occur, BEA's operations and liquidity will not be adversely affected by it. As part of its measures to maintain the liquidity of, and confidence in, the Hong Kong financial markets, the Hong Kong government introduced in 2006 a Deposit Protection Scheme to provide a level of protection to depositors with deposits held with authorised institutions in Hong Kong. An enhanced Deposit Protection Scheme with an increased

protection limited of HK\$500,000 and expanded coverage including deposits pledged as security for banking services, came into effect on 1 January 2011. However, there can be no assurance that the level of customer deposits, and therefore of BEA's liquidity, will not be adversely affected by the withdrawal of, or any changes to, the Deposit Protection Scheme in the future.

If BEA fails to maintain the growth rate in deposits or if a substantial portion of BEA's depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, the liquidity position, financial condition and results of operations of BEA may be materially and adversely affected and BEA may need to seek more expensive sources of funding to meet its funding requirements.

Expansion in Hong Kong and Mainland China Markets

BEA's strategy involves expansion of its business in the Hong Kong and Mainland China markets through organic growth and through mergers, acquisitions and alliances, if suitable opportunities arise. BEA (China) obtained a business license from the State Administration for Industry and Commerce as a locally-incorporated bank on 29 March 2007 and officially commenced business on 2 April 2007. On 20 April 2007, it received approval from the CBRC to carry out RMB business with local residents in Mainland China. The establishment of a locally-incorporated bank is one of the prerequisites for RMB retail banking service in Mainland China.

Further expansion into Mainland China may present BEA with new risks and challenges, such as new regulatory environments, different market practices and competition in these markets. For a discussion of recent or proposed acquisitions and disposals of BEA's businesses, see "*Business of the Issuer — Mainland China, Taiwan and Macau*". Expansion and integration of new mergers, acquisitions and alliances may also require significant operational, administrative and management resources. The success of any mergers, acquisitions and alliances will depend in part on the ability of BEA's management to integrate the operations of newly acquired businesses with its existing operations and, where applicable, to integrate various departments, systems and processes. Consequently, BEA's ability to implement its business strategy may be constrained and the timing of such implementation may be affected due to the demand placed on existing resources by the process. There can be no assurance that the acquired entities will achieve the level of performance that BEA anticipates or that the projected demand for, and margins of, BEA's products and services will be realised. The failure to manage expansion effectively could have an adverse effect on BEA's business, financial condition and results of operations.

Changes in Regulations in the Mainland China Market

The regulations which apply to BEA's business in the PRC are extensive, complex and frequently changing. The PRC banking regulatory regime has been evolving continuously. Some of the changes in rules and regulations may result in additional costs or restrictions on BEA (China)'s operations and business expansion in China.

In November and December 2009, the CBRC issued guidelines regarding the information disclosure and administrative inspections on the capital adequacy ratio of commercial banks. On 27 April 2011, the CBRC issued the Guidelines on the Implementation of New Regulatory Standards in the PRC's Banking Industry for the implementation of Basel III requirements, in which the CBRC set out specific requirements on capital adequacy ratios. The implementation of Basel III requirements in the PRC will commence in 2012. Systemically important banks will be required to satisfy the new requirements by the end of 2013 while non-systemically important banks must do so by the end of 2016. The CBRC is expected to issue the revised Administration Rules on Capital Adequacy Ratios in late 2011.

As some of the banking laws, rules, regulations or policies are relatively new, there is uncertainty regarding their interpretation and application. If BEA (China) fails to comply with any of these laws, rules, regulations or policies, it may result in enforcement actions, which may include fines to be imposed on BEA (China), restrictions on its business activities, or in extreme cases, suspension or revocation of its business licenses, which would materially affect BEA (China)'s business.

Dependence on Key Personnel and Recruitment

BEA's ability to sustain its growth and meet future business demands depends on its ability to attract, recruit and retain suitably skilled and qualified staff. Given BEA's rapid expansion in the Mainland China market, there can be no assurance that BEA will be able to recruit staff in sufficient numbers or with sufficient experience, or that pressure on recruitment will not lead to significant increases in BEA's employment costs. Competition for suitably skilled and qualified staff is particularly acute in Mainland China. Any of these factors could adversely affect BEA's business, financial condition and results of operations.

In addition, BEA also faces strong competition to retain skilled and qualified staff, and the loss of key personnel or any inability to manage attrition levels in different employee categories may have an adverse effect on BEA's business, its ability to grow, increased employment and training and development costs and its control over various business functions.

In 2009, there were departures from BEA's senior management, including Mr. Joseph Pang Yuk-wing (the former Executive Director and Deputy Chief Executive), who retired from his directorship and managerial role with BEA, and Mr. Daniel Wan Yim-keung (the former Group Chief Financial Officer, General Manager and Head of the Strategic Planning and Control Division), who resigned from his office. There can be no assurance that there will be no further departures of personnel from the senior management of BEA and that, if future departures do occur, BEA's business and operations will not be adversely affected.

Expanding Range of Products and Services Offered in Mainland China

In order to meet the needs of its customers and to expand its business, BEA has been expanding its range of products and services offered by BEA (China). Expansion of the business of BEA in Mainland China is subject to certain risks and challenges, including:

- new products and services may not be accepted by customers or meet BEA's expectation for profitability;
- requirement to recruit additional qualified personnel who may not be available, as a result of competition in the labour market;
- failure to obtain regulatory approval for new products or services; and
- inability to enhance risk management capabilities and information technology systems to support a broader range of products and services.

If BEA is not able to achieve the intended results with respect to its new products and services to be offered in Mainland China, this could have an adverse effect on the business, financial condition and results of operations of BEA.

Exposure to Mainland China Market

As at 31 August 2011, BEA's wholly-owned subsidiary, BEA (China), headquartered in Shanghai, operated 22 branches in Shanghai, Beijing, Tianjin, Harbin, Dalian, Shenyang, Qingdao, Shijiazhuang, Zhengzhou, Urumqi, Hangzhou, Nanjing, Suzhou, Chengdu, Chongqing, Wuhan, Hefei, Xi'an, Shenzhen, Guangzhou, Zhuhai and Xiamen as well as 71 sub-branches (11 in Shanghai, eight in both

Shenzhen and Guangzhou, five in each of Dalian, Beijing, Xi'an and Xiamen, four in Chongqing, three in each of Zhuhai, Chengdu and Shenyang, two in both Hangzhou and Qingdao and one in each of Wuhan, Nanjing, Foshan, Zhongshan, Huizhou, Zhaoqing and Jiangmen). The five cross-location sub-branches in Foshan, Zhongshan, Huizhou, Zhaoqing and Jiangmen were established under the liberalisation measures of Supplement VI to the CEPA. BEA (China) also operated 12 24-hour self-service banking centres and more than 410 automatic teller machines (“ATMs”) in major urban areas in Mainland China. In addition to the BEA (China) network, BEA also operates a branch in Shanghai to provide foreign exchange wholesale services to corporate customers in Mainland China, two representative offices in Fuzhou and Dongguan, and a rural bank in Fuping County, Weinan City in Shaanxi Province. BEA (China) has also obtained preliminary approval to establish one new branch and six new sub-branches in Mainland China. In addition, BEA maintains two branches in Taiwan, which are located in Taipei and Kaohsiung, and one branch and four sub-branches in Macau.

As at 31 December 2008, 31 December 2009, 30 June 2010, 31 December 2010 and 30 June 2011, advances to customers made by BEA's branches in China, Taiwan and Macau branches amounted to HK\$96,885 million, HK\$101,313 million, HK\$107,730 million, HK\$113,159 million and HK\$120,435 million, respectively representing approximately 42.1%, 40.9%, 38.7%, 38.1%, and 38.5%, respectively, of its total advances to customers. The value of BEA's advances in Mainland China, as well as its advances to companies that have business interests in Mainland China, may be influenced by the general state of the PRC economy and may be affected by significant political, social or legal uncertainties or changes in Mainland China (including changes in political leadership, inflation rate, exchange controls and exchange rate, and the impact on the changes in regulations governing banking and other businesses). There can be no assurance that BEA's continued exposure to Mainland China or its strategy to grow its business in Mainland China will not have a negative impact on BEA's earnings or an adverse effect on BEA's business, financial condition or results of operations or that the economic and political environment in Mainland China will remain favourable to BEA's business in Mainland China in the future.

United States Operations

For the years ended 31 December 2009 and 2010, The Bank of East Asia (U.S.A.) N.A. (“**BEAUSA**”) made provisions of U.S.\$8.0 million and U.S.\$9.2 million, respectively for potential losses in its loan portfolio. For the six months ended 30 June 2011, BEAUSA recorded a write-back from excess provisions totaling U.S.\$1.4 million. There can also be no assurance that BEAUSA will not make further provisions for potential losses in its loan portfolio in the United States, which may adversely affect BEA's financial performance.

In response to the financial crisis in the United States, BEAUSA undertook measures in 2009 to control its operating expenses and improve its net interest margin. As a result, BEAUSA reversed the net losses that it incurred (for reporting purposes in the United States) from 2007 through the first half of 2009 and, as of 31 July 2011, BEAUSA has recorded net profits (for reporting purposes in the United States) since the second half of 2009.

Pursuant to an agreement between BEAUSA and the Office of the Comptroller of the Currency (“**OCC**”), the primary U.S. national bank and savings association federal regulator, BEAUSA adopted a capital programme (“**Capital Programme**”) from 31 December 2008 under which it is required to maintain its regulatory capital at levels higher than those stipulated by published regulations in order to qualify as being “well capitalised”. In particular, BEAUSA is required to maintain a minimum capital adequacy ratio (“**CAR**”) of 12.5%. The Capital Program had been terminated because the OCC was satisfied that BEAUSA's results of operations no longer warrant its capital ratios to remain higher than regulatory levels such that its “well-capitalised” status is preserved.

Concentration Risk

Exposure to the Property Market

BEA has significant direct and indirect exposure to the property market through its portfolio of property-related advances and property used as collateral.

As at 31 December 2010, property related loans amounted to HK\$ 49,470 million which accounted for approximately 43.7% of BEA's total outstanding customer advances in mainland China, Taiwan and Macau.

As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, home mortgage advances (including advances under GHOS, PSPS and TPS) in Hong Kong represented one of the most significant segments of the Group's total advances to customers, which amounted to HK\$25,615 million, HK\$26,731 million, HK\$31,741 million and HK\$29,981 million, respectively, which accounted for approximately 11.1%, 10.8%, 10.7% and 9.6%, respectively, of the Group's total advances to customers. In particular, advances under GHOS, PSPS and TPS accounted for HK\$1,318 million, HK\$1,532 million, HK\$1,611 million and HK\$1,497 million, respectively, or approximately 0.6%, 0.6%, 0.5% and 0.5%, respectively, of the Group's total advances to customers. Advances for property development and investment in Hong Kong amounted to HK\$36,286 million, HK\$42,322 million, HK\$50,942 million and HK\$52,320 million, which accounted for approximately 15.8%, 17.1%, 17.2% and 16.7%, respectively, of BEA's total advances to customers.

Property prices can be affected by a number of factors, including, among other things, the supply of, and demand for, comparable properties, the rate of economic growth, the interest rate environment and prevailing political and economic circumstances. Historically, the Hong Kong and Mainland China property markets have been cyclical and property prices have been volatile. For example, Hong Kong residential property prices, after reaching record highs in 1997, fell significantly as a result of the Asian economic downturn. In addition, while the Hong Kong property market showed improvement during the period from 2004 to the first half of 2008, property prices in Hong Kong declined in the second half of 2008 and early 2009, before showing signs of recovery since the second quarter of 2009. There can be no assurance that property values will not experience decreases in the future. If the property market slows down and property values decrease, BEA's business, financial condition and results of operations may be adversely affected.

Liquidity and Short-Term Funding

Most of BEA's funding requirements are met through short-term funding sources, primarily in the form of customer and interbank deposits. As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, approximately 85.9%, 83.9%, 81.4% and 78.1%, respectively, of BEA's customer deposits had a remaining maturity of three months or less. Historically, a substantial portion of such customer deposits has been rolled over upon maturity and these deposits have been, in essence, a stable source of long-term funding. However, no assurance can be given that this pattern will continue. If a substantial number of depositors fail to roll over deposited funds upon maturity, BEA's liquidity position would be adversely affected and BEA may need to seek alternative sources of short-term or long-term funding to finance its operations, which may be more expensive than existing deposits.

As mentioned in "*— Maintaining the Growth Rate in Customer Deposits*" above, the dissemination of rumours in Hong Kong questioning the liquidity and stability of BEA triggered a bank run in September 2008. Although the bank run was subsequently contained without significantly affecting BEA's liquidity, there can be no assurance that similar incidents will not occur in the future, or if they do, BEA's liquidity and funding will not be adversely affected by such incidents.

As part of its measures to maintain the liquidity of, and confidence in, the Hong Kong financial markets, the Hong Kong government introduced in 2006 a Deposit Protection Scheme to provide a level of protection to depositors with deposits held with authorised institutions in Hong Kong. An

enhanced Deposit Protection Scheme with an increased protection limited of HK\$500,000 and expanded coverage including deposits pledged as security for banking services, came into effect on 1 January 2011. However, there can be no assurance that the level of customer deposits, and therefore of BEA's liquidity, will not be adversely affected by the withdrawal of, or any changes to, the Deposit Protection Scheme in the future.

The HKMA acts as the lender of last resort to all authorised institutions in Hong Kong to provide support for liquidity needs in the banking system generally as well as to specific institutions. In this regard, 17% of BEA's interest-earning assets are acceptable to the HKMA for such an emergency funding support, and such asset figures are subject to review by HKMA twice a month. Although the Hong Kong government has in the past taken measures on a case-by-case basis to maintain or restore public confidence in individual banks with an isolated liquidity crisis, there can be no assurance that the HKMA will provide such assistance in the future or that it would elect to provide such assistance in the future to BEA in the event of a liquidity crisis.

Interest Rate Risk

As with most banks, BEA's net interest income is a significant factor in determining its overall financial performance. For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, BEA's net interest income represented approximately 105.2%, 66.2%, 67.8% and 66.3%, respectively, of its operating income. Interest rates in Hong Kong have remained relatively low and have been falling steadily in recent years, however there can be no assurance that interest rates will not be raised or that increases in interest rates will not be frequent. BEA realises income from the margin between income earned on its assets and interest paid on its liabilities. BEA's net interest rate margins, as the weighted average of the difference between interest rates on the loan advances made by, and the cost of, debt funding for BEA, for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011 were 1.85%, 1.80%, 1.78% and 1.73%, respectively. As some of its assets and liabilities are repriced at different times, BEA is vulnerable to fluctuations in market interest rates. As a result, volatility in interest rates could have an adverse effect on BEA's business, financial condition, liquidity and results of operations.

An increase in interest rates could lead to a decline in the value of securities in BEA's portfolio. A sustained increase in interest rates could also raise BEA's funding costs without a proportionate increase, or any increase at all, in loan demand. Rising interest rates would therefore require BEA to re-balance its assets and liabilities in order to minimise the risk of potential mismatches and maintain its profitability. In addition, high interest rate levels may adversely affect the economy in Hong Kong and the financial condition and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration in BEA's credit portfolio.

Classification of Advances and Adequacy of Allowance for Advance Losses

In 2007, Hong Kong implemented the Revised Framework of International Convergence of Capital Measurement and Capital Standards ("**Basel II**"). In accordance with guidelines set by the HKMA, BEA obtained approval to adopt the Foundation Internal Ratings-based Approach, and classifies its advances into twenty grades under which impaired loans are classified into one of the following three categories corresponding to levels of risk: "Sub-standard", "Doubtful" and "Loss". See "*Selected Statistical and Other Information*". The classification of impaired advances depends on various quantitative and qualitative factors, including the number of months by which payments have fallen into arrears, the type of advance, the tenor of the advance and the expected recovery status of the advance.

In December 2010, the Basel Committee on Banking Supervision (the "**Basel Committee**") issued the final Basel III regulatory framework presenting the Committee's reforms to strengthen capital and liquidity standards in order to promote a more resilient banking sector. While the Basel Committee

recommended member countries to implement the Basel III rules starting 1 January 2013, the HKMA has expressed its intention to adopt the Basel III rules in full following the Basel schedule as closely as practicable and the legislative procedures to implement the Basel III rules are expected to begin in late 2011.

To better prepare for compliance with the Basel III rules, based on the latest rules available, BEA has actively participated in the global quantitative impact studies initiated by the Basel Committee to assess the impact of the Basel III rules on the Bank's consolidated capital and liquidity positions and incorporated the potential impact brought forth by the Basel III rules in the Bank's capital planning process. BEA has also started identifying any gaps in data collection and reporting systems.

The laws, regulations and guidelines governing the banking industry in Hong Kong differ from those applicable in certain other countries in certain respects and may result in particular advances being classified as impaired loan advances at a different time or being classified in a category reflecting a different degree of risk than would be required in certain other countries. While BEA believes that its lending policies are more prudent than those that are required under Hong Kong laws and regulations, BEA is not required to maintain such policies at levels above those generally applicable to banks in Hong Kong. For a description of the banking regulations that apply to banks in Hong Kong, see "*Regulation and Supervision — Regulation and Supervision in Hong Kong*".

Currency Risks

The majority of BEA's revenue is generated spot in Hong Kong dollars. Nonetheless, as at 31 December 2008, 2009 and 2010 and as at 30 June 2011, BEA held a substantial part of its spot assets in U.S. dollars amounting to HK\$83,532 million, HK\$82,024 million, HK\$94,806 million and HK\$97,347 million, respectively. Although the Hong Kong dollar has been linked to the U.S. dollar since 1983, there can be no assurance that such linkage will be maintained in the future. In order to ensure continued liquidity of the Hong Kong dollar, the HKMA has entered into bilateral repurchase agreements with the central banks of Australia, Mainland China, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand. In addition, the Hong Kong government has in the past expressed its commitment to maintaining exchange rate stability under the Linked Exchange Rate System, an automatic interest rate adjustment mechanism. However, there can be no assurance that the Hong Kong dollar will continue to be linked to the U.S. dollar or that, in the event of a liquidity problem affecting the Hong Kong dollar, such bilateral repurchase agreements or automatic interest rate adjustment mechanism will help to maintain adequate liquidity of the Hong Kong dollar. BEA's business, financial condition and results of operations could be adversely affected by the impact on the Hong Kong economy of the discontinuation of the link of the Hong Kong dollar to the U.S. dollar or any revaluation of the Hong Kong dollar.

BEA's Unsecured Lending Portfolio

A part of BEA's corporate loan portfolio comprises unsecured loans, the repayment of which is largely dependent on the cashflow of the borrower and adherence to the financial covenants contained in the loans. The majority of BEA's personal banking loan portfolio comprises loans secured by properties while the remaining portion comprises mainly unsecured personal loans and credit card receivables, which generally carry higher rates of interest. As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, at least 70% of the Group's advances were secured by collateral. Although BEA carefully assesses the repayment ability of such borrowers, these loan products are not secured by any collateral and entail a higher degree of credit risk than secured loan products. If there is a downturn in the economy, the credit quality and charge-off rates experienced by BEA may deteriorate.

Investments in Debt Securities

BEA holds a portfolio of debt securities with different investment grades. BEA has analysed its investments in debt securities according to the designation of external credit institutions such as

Moody's Investor Services. As at 30 June 2011, BEA had a total investment in debt securities of HK\$62,039 million, of which approximately 20% were local currency government/central bank, 15% were rated Aaa, 30% were rated between Aa1 to Aa3, 19% were rated between A1 to A3, 10% were rated lower than A3 and 6% were unrated.

Given the uncertainties in the current credit and capital markets, there can be no assurance that BEA will not suffer any future marked-to-market losses on its original investment amount in its portfolio of debt securities.

Unauthorised Acts of Employees

BEA has implemented tighter internal control measures in relation to its equity derivatives operations after an incident occurred in September 2008. During the course of a regular independent control review performed by BEA, BEA discovered that one of the employees on its equity derivatives desk had manipulated the valuation of certain equity derivatives held by BEA without authorisation and in violation of the prescribed operational procedures of BEA. BEA immediately reported its findings to the HKMA and the Hong Kong police, and issued an announcement on 19 September 2008 to the HKSE together with restated consolidated financial statements for the six months ended 30 June 2008.

The impact of the unauthorised manipulation was to reduce the profit before tax previously disclosed for the six months ended 30 June 2008 by a total amount of HK\$131 million. BEA regards this event to be an isolated incident and anticipates there will be no further adverse financial impact in connection with it.

However, there can be no assurance that similar incidents or any unauthorised act of its employees will not occur in the future, or that, if such incidents do occur, BEA's business, reputation, results of operations and financial conditions will not be adversely affected.

Information Technology Systems

BEA is highly dependent on the ability of its information technology systems to process accurately a large number of transactions across numerous and diverse markets and its broad range of products in a timely manner. The proper functioning of its financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks between its various branches and sub-branches and its main data processing centres, are critical to its business and its ability to compete effectively. Although there is backup data for key data processing systems and BEA has established a backup system to carry on principal functions in the event of a catastrophe or a failure of its primary systems, there can be no assurance that BEA's operations will not be materially disrupted if there is a partial or complete failure of any of these primary information technology systems or communications networks. Such failures could be caused by, among other things, software bugs, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorised access to information or systems, loss or corruption of data and malfunction of software, hardware or other computer equipment could have a material adverse effect on BEA's business, reputation, results of operations and financial condition.

In addition, BEA's ability to remain competitive will depend in part on its ability to upgrade its information technology systems on a timely and cost-effective basis. Additionally, the information available to and received by BEA through its existing information technology systems may not be timely or sufficient for BEA to manage risks and plan for, and respond to, market changes and other developments in its current operating environment. BEA is making, and intends to continue to make, investments to improve or upgrade its information technology systems. Any substantial failure to improve or upgrade its information technology systems effectively or on a timely basis could have a material adverse effect on BEA's competitiveness, financial condition and results of operations.

Internet Banking Services

To the extent that BEA's internet banking activities involve the storage and transmission of confidential information, security breaches could expose BEA to possible liability and damage BEA's reputation. BEA's networks may be vulnerable to unauthorised access, computer viruses and other disruptive problems. Costs incurred in rectifying any of such disruptive problems may be high and may adversely affect BEA's business, financial condition and results of operations. Concerns regarding security risks may deter BEA's existing and potential customers from using its internet banking products and services. Eliminating computer viruses and alleviating other security problems may result in interruptions, delays or termination of service to users accessing BEA's Cyberbanking services. Undetected defects in software products that BEA uses when providing its Cyberbanking services, and BEA's inability to sustain a high volume of traffic, may have a material adverse effect on BEA's internet banking business.

Different Corporate Disclosure and Regulatory Requirements

BEA's issued shares are listed on HKSE and, as such, BEA is required to publish annual audited and semi-annual unaudited financial information. The amount of information publicly available for issuers in Hong Kong is less than that publicly available for comparable banks in certain other countries.

Under the Banking Ordinance (Cap. 155) of Hong Kong (the "**Banking Ordinance**"), the HKMA regulates the business activities and operations of commercial banks and has the ability to influence banking and financial markets generally. Potential investors should be aware that regulatory requirements in Hong Kong may differ from those that prevail in other countries. See "*Regulation and Supervision — Regulation and Supervision in Hong Kong.*" Since BEA operates in the highly regulated banking and securities industries in Hong Kong, potential investors should also be aware that the regulatory authorities have been consistently imposing higher standards and developing new guidelines and regulatory requirements. For example, the Basel II Accord capital adequacy standards have been adopted by the HKMA in Hong Kong since the beginning of 2007. These new standards require banks to disclose key pieces of information on capital, risk exposures, risk assessment processes and hence capital adequacy. The aim of these new standards is to encourage banks to demonstrate to the market participants that their risk management systems are robust and that all relevant risks have been identified and controlled. These changes may result in the incurrence of substantial compliance and monitoring costs and there can be no assurance that any breach of applicable laws and regulations will not adversely affect BEA's reputation or its business, financial condition and results of operations.

In December 2010, the Basel Committee on Banking Supervision issued the final Basel III regulatory framework presenting the Committee's reforms to strengthen capital and liquidity standards in order to promote a more resilient banking sector. While the Basel Committee recommended member countries to implement the Basel III rules starting 1 January 2013, the HKMA has expressed its intention to adopt the Basel III rules in full following the Basel schedule as closely as practicable and the legislative procedures to implement the Basel III rules are expected to begin in late 2011.

To better prepare for compliance with the Basel III rules, based on the latest rules available, BEA has actively participated in the global quantitative impact studies initiated by the Basel Committee to assess the impact of the Basel III rules on the Bank's consolidated capital and liquidity positions and incorporated the potential impact brought forth by the Basel III rules in the Bank's capital planning process. BEA has also started identifying any gaps in data collection and reporting systems.

There is no certainty as to the final framework for capital and adequacy standards which will be developed and implemented, which may require increased capital requirements and impact existing business models, or the timing of the implementation. If such final recommended measures are adopted by the HKMA, BEA may incur substantial costs in monitoring and complying with the new requirements.

Certain products and services provided by BEA are regulated by other regulators including the SFC in Hong Kong. BEA carefully manages legal and compliance risks, including in relation to the sale of financial products and anti-money laundering regulations.

Since 2007, the regulators in Hong Kong have introduced recommendations which are intended to provide tighter control and more transparency in the Hong Kong banking sector, in particular, in relation to the marketing and sale of investment products.

In May 2010, the HKMA and Securities and Futures Commission (the “SFC”) each launched new investor protection measures. The HKMA measures apply to the sale of non-listed derivative products to retail customers. Authorized institutions (the “AIs”) are required to offer a pre-investment cooling-off period to certain groups of customers, such as elderly customers and first-time buyers with a high concentration (over 20 percent of the customer’s assets). The SFC measures apply to the sale of unlisted structured investment products with a tenor of more than a year. Issuers of unlisted structured investment products are required to provide a five-day ‘cooling-off’ period to investors. On 28 December 2010, BEA implemented the pre-investment cooling-off period. BEA continues to review its internal procedures and controls on risk exposures and implement new measures governing the sale process for financial products. Other recent measures that BEA implemented include, for example, the implementation on 4 September 2011 of investor characterization measures, which were required to be implemented as part of the “Know Your Client” process, which seek from clients information in relation to each client’s knowledge of derivative products.

BEA has taken steps to implement the recommendations by relevant regulators and to comply with any new or modified regulations, including the introduction of secured voice recording solutions at all local Hong Kong branches. The increasing amount of regulation and investor protection measures have increased the Issuer’s operational and compliance expenses. There can be no assurance that the relevant regulatory authorities will not implement further regulations and that such change will not materially increase the operational and compliance cost of BEA or adversely affect BEA’s business or operations. There can also be no assurance that breaches of legislation or regulations by BEA will not occur and, to the extent that such a breach does occur, that significant liability or penalties will not be incurred.

Recurrence of SARS, Human Swine Influenza A (H1N1), Avian Influenza or Other Highly Contagious Diseases in Asia and Elsewhere

During the first half of 2003, Hong Kong, along with many other countries in Asia, encountered an outbreak of SARS, a highly contagious and potentially deadly disease. In the last few years, there have also been outbreaks of avian influenza in parts of Asia, including Hong Kong, as well as a significant number of confirmed cases of Human Swine Influenza A (H1N1) globally which resulted in a number of deaths worldwide.

No assurance can be given that there will not be a recurrence of the outbreak of SARS or other epidemics, or that incidents of avian influenza or Human Swine Influenza A (H1N1) will not increase. The SARS outbreak caused an adverse effect on the economies of the affected regions, including Hong Kong and Mainland China. Like other financial institutions, BEA’s operations in those affected regions were influenced by a number of SARS-related factors including, but not limited to, a decline in demand for residential mortgage advances, a reduction in the number of customers visiting BEA’s branches and an adverse impact on asset quality due to a weakened economy and higher unemployment rate. There can be no assurance that BEA’s business, financial condition and result of operations would not be adversely affected if another outbreak of SARS or another highly contagious disease occurs.

Further Issuance of Securities

BEA’s financial condition, results of operations and capital position are affected by a range of factors such as economic conditions, interest rates, the credit environment, asset quality, operating income

and level of provisioning. A slowdown in the economy could lead to a deterioration in BEA's asset quality and an increase in provisions for bad and doubtful debts, which may result in a deterioration of BEA's capital adequacy position or breach capital requirements under Hong Kong law, rules and regulations (including guidelines issued by the HKMA).

In order to strengthen its capital adequacy position or to ensure that it remains in compliance with applicable capital requirements under Hong Kong law, rules and regulations (including guidelines issued by the HKMA), BEA may from time to time raise additional capital through such means and in such manner as it may consider appropriate including, without limitation, the issue of further subordinated notes (whether on terms similar to the Notes or otherwise) or other hybrid capital instruments, subject to any regulatory approval that may be required. There can be no assurance that such future capital raising activities will not adversely affect the market price of the Notes in the secondary market.

CONSIDERATIONS RELATING TO HONG KONG

On 1 July 1997, Hong Kong ceased to be a Crown Colony of the United Kingdom and became a Special Administrative Region of the PRC. Although Hong Kong has thus far enjoyed a high degree of legislative, judicial and economic autonomy since the handover, there can be no assurance that there will not be a change in regulatory oversight as a consequence of the exercise of PRC sovereignty over Hong Kong or a change in government policy as a consequence of the election of a new Chief Executive or that, should any such change occur, BEA's business, financial condition and results of operations will not be adversely affected.

Despite an increasing contribution to BEA's revenues from its Mainland China operations, most of BEA's revenues are derived from its operations conducted in Hong Kong. As a result, BEA's financial condition and results of operations are influenced by the general state of the Hong Kong economy (including the level of unemployment) and the political environment in Hong Kong. The economic and political environment in Hong Kong is, in turn, significantly affected by a variety of external factors, including the economic and political environment in the PRC and throughout Asia. There can be no assurance that the economy in Hong Kong will grow. If economic growth slows down in Hong Kong (whether as a result of a global economic slow down or otherwise), BEA's business, financial condition or results of operations may be adversely affected.

CONSIDERATIONS RELATING TO THE NOTES

The Notes may not be a suitable investment for potential investors

Each potential investor must determine the suitability of any Notes in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from its currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to a potential investor's overall portfolios. No potential investor should invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on its overall investment portfolio.

Modification, Waivers and Substitution

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of the Noteholders, (i) agree to any modification of the Conditions or the Trust Deed if such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes, the Trust Deed or the Agency Agreement which is of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provision of law or (ii) authorise or waive any proposed breach or breach of the Notes or the Trust Deed if the interests of the Noteholders will not be materially prejudiced or (iii) agree to the substitution of another entity as principal debtor under the Notes in place of BEA, in the circumstances described in the Trust Deed and Condition 11(c). Such power, however, does not extend to any such modification as is mentioned in the provision to paragraph 2 of Schedule 3 to the Trust Deed.

Change of Law

The Conditions, and any non-contractual obligations arising out of or in connection with them, are governed by English law (except for the provisions relating to subordination which are governed by Hong Kong law). No assurance can be given as to the impact of any possible judicial decision or change to English or Hong Kong law or administrative practice after the date of issue of the relevant Notes.

Secondary Market

The Notes may have no established trading market when issued and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market value of Notes.

The Trustee may request Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances (including without limitation the giving of notice to the Issuer pursuant to Condition 11 and the taking of enforcement steps under Condition 13), the Trustee may (at its sole discretion) request Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Noteholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms

of the Trust Deed (as defined in the Conditions) and in circumstances where there is uncertainty or dispute as to applicable laws or regulations and/or its rights to do so under the trust Deed and/or the Conditions and, to the extent permitted by the Trust Deed and the Conditions and applicable law and regulations, it will be for the Noteholders to take such actions directly.

CONSIDERATIONS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for any potential investor. Set out below is a description of certain of those features:

Notes subject to optional redemption by the Issuer may have a lower market value than Notes that cannot be redeemed

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, a potential investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Each potential investor should consider reinvestment risk in light of other investments available at that time.

Dual Currency Notes have features which are different from single currency issues

The Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Each potential investor should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected; and
- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero.

Failure by a potential investor to pay a subsequent instalment of partly-paid Notes may result in it losing all of its investment

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in a potential investor losing all of its investment.

The market price of floating rate Notes with a multiplier or other leverage factor may be volatile

Notes with floating interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Notes, the interest rate of which may be converted from fixed to floating interest rates, and vice-versa, may have lower market values than other Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since it may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing.

If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

The market prices of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks associated with Index Linked Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **"Relevant Factor"**). Each potential investor should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Bearer Notes where denominations involve integral multiples: Definitive Notes

In relation to any issue of Bearer Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If Definitive Notes are issued, each potential investor should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

CONSIDERATIONS RELATING TO SUBORDINATED NOTES

Subordinated Notes may become subject to loss absorption provisions as a consequence of regulatory requirements

The Basel Committee's press release dated 13 January 2011 entitled "Minimum requirements to ensure loss absorbency at the point of non-viability" (the "**Press Release**") included the following statements:

"The terms and conditions of all non-common Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:

- (a) the governing jurisdiction of the bank has in place laws that (i) require such Tier 1 and Tier 2 instruments to be written off upon such event, or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;
- (b) a peer group review confirms that the jurisdiction conforms with clause (a); and
- (c) it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (a) in this paragraph."

The Press Release also states as follows:

"The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority" (for the purposes of this Offering Circular, each a "**Non-Viability Event**").

There can be no assurance that the Banking Ordinance, Banking (Capital) Rules and Banking (Disclosure) Rules will be amended to reflect the statements made in the Press Release or that any

amendment or supplementary legislation or any new legislation will be confirmed in due course by a peer group review (as referred to in clause (b) above) to conform with clause (a) above, such that Subordinated Notes would be subject to being written down or to be fully loss absorbing as set out in clause (a) above. In such circumstances, however, the terms and conditions of the Subordinated Notes would need to provide for such non-viability loss absorption provisions in order to qualify as regulatory capital under Basel III.

If the HKMA or other authorities having oversight of the Issuer at the relevant time (the “**Relevant Authority**”) (i) discloses that a peer group review has confirmed that the capital rules, howsoever described, applicable to the Issuer conforms with clause (a) above and (ii) discloses that they do not require a change to the terms and conditions of any non-common outstanding Tier 1 and Tier 2 instruments to include a provision that requires either that they be written off or converted into equity upon the occurrence of a trigger event (to the extent not already envisaged within the terms of any outstanding series of Subordinated Notes (which they may require even if Hong Kong legislation is deemed by a peer group review to conform with clause (a) above)), then the Issuer will notify holders of any affected Subordinated Notes in accordance with applicable disclosure rules that, going forward, such instruments are confirmed as subject to write-off or loss in accordance with such provision. This may have an adverse effect on the position of holders of Subordinated Notes.

Furthermore, there can be no assurance that, prior to its implementation in 2013, the Basel Committee will not amend the package of reforms described above. Further, the authorities in Hong Kong may implement the package of reforms, including the terms which capital securities are required to contain, in a manner that is different from that which is currently envisaged, or may impose more onerous requirements on Hong Kong authorised institutions.

The HKMA is expected to conduct the required statutory consultation on the draft amendments to the Banking Ordinance, Banking (Capital) Rules and Banking (Disclosure) Rules in the fourth quarter of 2011 for implementation in domestic legislation at the beginning of 2013. There is a risk that the Hong Kong authorities may deviate from the Basel III proposals by implementing reforms which differ from those envisaged by the Basel Committee.

The terms of Subordinated Notes may contain non-viability loss absorption provisions

To the extent that a series of Subordinated Notes contains provisions relating to loss absorption upon the occurrence of a Non-Viability Event of the Issuer as determined by the Relevant Authority, the Issuer may be required, subject to the terms of the relevant series of Subordinated Notes, irrevocably (without the need for the consent of the holders of such Subordinated Notes) to effect either a full write-off of the outstanding principal and accrued and unpaid interest in respect of such Subordinated Notes, or a conversion of such Subordinated Notes into the ordinary shares of the Issuer. To the extent relevant in the event that Subordinated Notes are written off, any written-off amount shall be irrevocably lost and holders of such Subordinated Notes will cease to have any claims for any principal amount and accrued but unpaid interest which has been subject to write-off. In the event that Subordinated Notes feature a conversion to the ordinary shares of the Issuer upon the occurrence of a Non-Viability Event, holders would not be entitled to any reconversion of ordinary shares to Subordinated Notes.

The occurrence of a Non-Viability Event may be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer’s control

The occurrence of a Non-Viability Event is dependent on a determination by the Relevant Authority (a) that a write-off, without which the Issuer would become non-viable, is necessary; or (b) a decision has been made to make a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable. As a result, the Relevant Authority may require or may cause a write-off in circumstances that are beyond the control of the Issuer and the Group and with which neither the Issuer nor the Group agree. Because of the inherent uncertainty regarding the determination of whether a Non-Viability Event exists, it will be difficult to predict when, if at all,

a write-off will occur. Accordingly, the trading behaviour in respect of Subordinated Notes which have the non-viability loss absorption feature is not necessarily expected to follow trading behaviour associated with other types of securities. Any indication that the Issuer is trending towards a Non-Viability Event could have a material adverse effect on the market price of the relevant Subordinated Notes.

Potential investors should consider the risk that a holder of Subordinated Notes which have the non-viability loss absorption feature may lose all of their investment in such Subordinated Notes, including the principal amount plus any accrued but unpaid interest, in the event that a Non-Viability Event occurs.

There is no assurance that any contractual provisions with non-viability loss absorption features, to the extent applicable, will be sufficient to satisfy the Basel III-compliant requirements that the Relevant Authorities may implement in the future. There is a risk that any Relevant Authority may deviate from the Basel III proposals by implementing reforms which differ from those envisaged by the Basel Committee.

CONSIDERATIONS RELATING TO RENMINBI-DENOMINATED NOTES

Notes denominated in Renminbi (“**Renminbi Notes**”) may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outward from the PRC

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current account. Participating banks in Hong Kong have been permitted to engage in the settlement of RMB trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in August 2011 to cover all provinces and cities in the PRC and to make RMB trade and other current account settlement available in all countries worldwide. Subject to limited exceptions, there is currently no specific PRC regulation on the remittance of Renminbi into the PRC for settlement of capital account. Foreign investors may only remit offshore RMB into the PRC for capital account purposes such as shareholders’ loan or capital contribution upon obtaining specific approvals from the relevant authorities on a case by case basis.

There is no assurance that the PRC government will continue to gradually liberalise the control over cross-border RMB remittances in the future, that the pilot scheme introduced in July 2009 will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outward from the PRC.

Holders of beneficial interests in the Notes denominated in Renminbi may be required to provide certifications and other information (including Renminbi account information) in order to allow such holder to receive payments in Renminbi in accordance with the Renminbi clearing and settlement mechanism for participating banks in Hong Kong.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of Renminbi Notes and the Issuer’s ability to source Renminbi outside the PRC to service such Renminbi Notes

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. Since February 2004, in accordance with arrangements between the PRC Central Government and the Hong Kong Government, licensed banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and designated business customers. The PBOC has also established a Renminbi clearing and settlement

mechanism for participating banks in Hong Kong. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of RMB Business (the “**Settlement Agreement**”) between the PBOC and the Issuer as the RMB clearing bank (the “**RMB Clearing Bank**”) to further expand the scope of RMB business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open RMB accounts in Hong Kong; there is no longer any limit on the ability of corporations to convert RMB; and there is no longer any restriction on the transfer of RMB funds between different accounts in Hong Kong.

However, the current size of Renminbi-denominated financial assets outside the PRC is limited. As of 30 June 2011, the total amount of Renminbi deposits held by institutions authorised to engage in Renminbi banking business in Hong Kong amounted to approximately RMB553.6 billion. In addition, participating banks are also required by the HKMA to maintain a total amount of Renminbi (in the form of cash, its settlement account balance and/or fiduciary account balance with the RMB Clearing Bank) of no less than 25 per cent. of their Renminbi deposits, which further limits the availability of Renminbi that participating banks can utilise for conversion services for their customers. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. They are only allowed to square their open positions with the RMB Clearing Bank after consolidating the RMB trade position of banks outside Hong Kong that are in the same bank group of the participating banks concerned with their own trade position, and the RMB Clearing Bank only has access to onshore liquidity support from the PBOC only for the purpose of squaring open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement, for individual customers of up to RMB20,000 per person per day and for the designated business customers relating to the RMB received in providing their services. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that no new PRC regulations will be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of its Renminbi Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service its Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in Renminbi Notes is subject to exchange rate risks

The value of Renminbi against the US dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. All payments of interest and principal with respect to Renminbi Notes will be made in Renminbi. As a result, the value of these Renminbi payments in US dollar terms may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the US dollar or other foreign currencies, the value of investment in US dollar or other applicable foreign currency terms will decline.

Payments in respect of Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes

All payments to investors in respect of Renminbi Notes will be made solely by (i) when Renminbi Notes are represented by global certificates, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures, or (ii) when Renminbi Notes are in

definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including, but not limited to, in any other currency, by bank notes, by cheques or drafts or by transferring to a bank account in the PRC).

Exchange rate risks and exchange controls may result in a potential investor receiving less interest or principal than expected

The Issuer will pay principal and interest on the Notes in the currency specified. This presents certain risks relating to currency conversions if a potential investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Currency in which the Notes are denominated. These include the risk that exchange rates may significantly change (including changes due to devaluation of the currency in which the Notes are denominated or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Currency in which the Notes are denominated would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, a potential investor may receive less interest or principal than expected, or no interest or principal.

Lack of Public Market for the Notes

There can be no assurance as to the liquidity of the Notes or that an active trading market will develop. If such a market were to develop, the Notes may trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Group's operations and the market for similar securities. The Dealers are not obliged to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at the sole discretion of the relevant Dealers. No assurance can be given as to the liquidity of, or trading market for, the Notes.

Inability to comply with the restrictions and covenants contained in the Group's debt agreements

If the Group is unable to comply with the restrictions and covenants in its current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Group, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, whichever the case may be.

Majority interests in Noteholder meetings

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Rating agencies may also revise or replace entirely the methodology applied to derive credit ratings.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Note. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

USE OF PROCEEDS

The Issuer intends to use the net proceeds from each issue of Notes for its general corporate purposes.

CAPITALISATION AND INDEBTEDNESS

As at 30 June 2011, the Issuer had an authorised share capital of HK\$10,000 million consisting of 4,000 million ordinary shares of HK\$2.50 each, and an authorised share capital of U.S.\$500 million consisting of 0.5 million substitute preference shares of U.S.\$1,000 each, and issued and fully paid up share capital of approximately HK\$5,147 million consisting of approximately 2,058.6 million ordinary shares of HK\$2.50 each.

The following table sets out the Group's consolidated capitalisation and indebtedness as at 30 June 2011.

	As at 30 June 2011	
	Actual	Actual
	HK\$ (in millions)	U.S.\$ (in millions)
Short-term borrowings (Note 1)		
Customer deposit accounts	442,636	56,748
Certificates of deposits in issue	8,268	1,060
Debt securities issue	5,059	648
Deposits from banks	18,179	2,331
Loan capital	8,400	1,077
Total short-term borrowings	482,542	61,864
Medium-term borrowings (Note 2)		
Customer deposit accounts	16,690	2,140
Certificates of deposits in issue	3,644	467
Debt securities issue	2,407	309
Deposits from banks	743	95
Loan capital	—	—
Total medium-term borrowings	23,484	3,011
Long-term borrowings (Note 3)		
Loan capital	4,569	586
Customer deposit accounts	—	—
Certificates of deposits in issue	—	—
Deposits from banks	—	—
Total Notes to be issued	—	—
Total long-term borrowings	4,569	586
Capital resources		
Share capital	5,147	660
Reserves	41,366	5,303
Proposed dividends	—	—
Shareholders' fund	46,513	5,963
Non-controlling interests	4,435	569
Total capital resources	50,948	6,532
Total capitalisation (Note 4)	79,001	10,129
Short-term borrowings and total capitalisation	561,543	71,993

Notes:

- (1) Short-term borrowings refer to borrowings of remaining maturity of not more than one year.
- (2) Medium-term borrowings refer to borrowings of remaining maturity of over one year to five years.
- (3) Long-term borrowings refer to borrowings of remaining maturity of more than five years.
- (4) Total capitalisation comprises total medium-term borrowings, total long-term borrowings and total capital resources.

There has been no material change in the Group's total capitalisation since 30 June 2011.

BUSINESS OF THE ISSUER

INTRODUCTION

Overview

Incorporated in 1918, BEA is the largest independent local bank in Hong Kong in terms of assets. As at 30 June 2011, BEA's consolidated assets, advances to customers and customer deposits were HK\$598,942 million (U.S.\$76,787 million), HK\$312,491 million (U.S.\$40,063 million) and HK\$459,326 million (U.S.\$58,888 million), respectively.

The shares of BEA have been listed on the HKSE since the 1930s. As at 31 August 2011, the authorised share capital of BEA was 4,000 million ordinary shares of HK\$2.50 each and 500,000 substitute preference shares of U.S.\$1,000 each, of which approximately 2,058.6 million ordinary shares have been issued and are outstanding and have been fully paid. Based on the closing price of its shares on the HKSE on 31 August 2011, BEA's market capitalisation was approximately HK\$63,200.2 million (U.S.\$8,102.6 million). BEA's shares have been a constituent stock of the Hang Seng Index since 1984.

BEA provides commercial and retail banking, financial and insurance services through its Corporate Banking, Personal Banking, Wealth Management, Insurance & Retirement Benefits, Treasury Markets, China and International divisions. BEA's core business products and services include syndication loans, trade finance, deposit taking, foreign currency savings, remittances, mortgage loans, consumer loans, credit cards, Cyberbanking retail investment, retail investment and wealth management services, foreign exchange margin trading, services related to the MPF Scheme, internet banking services and general and life insurance.

In addition, through the Group's wholly-owned subsidiaries, BEA is able to extend other services to its customers. BEA Life and Blue Cross serve as the Group's life insurance and general insurance arms respectively and provide a comprehensive range of insurance solutions for individual and corporate customers and offer a range of life and non-life insurance products and services. Tricor, together with its subsidiaries, offers outsourced expertise in business support functions and provides its customers with a range of integrated business, corporate and investor services.

As at 31 August 2011, the Group offered a broad range of banking and related financial services in Hong Kong through a network of 88 branches, seven major subsidiaries, 61 wealth management centres called "SupremeGold Centres", and five i-Financial Centres.

As at 31 August 2011, BEA's overseas operations had in total 48 branches, 75 sub-branches and three representative offices as well as several affiliates and joint ventures in Mainland China, Taiwan, Macau, the United States, the United Kingdom, Canada and South East Asia.

BEA is one of the first foreign banks to receive approval to establish a locally-incorporated bank in Mainland China. The locally-incorporated bank and BEA's wholly-owned subsidiary, BEA (China), obtained a business license from the State Administration for Industry and Commerce on 29 March 2007 and officially commenced business on 2 April 2007. On 20 April 2007, BEA (China) received approval from the CBRC to carry out RMB business with local residents in Mainland China. The products and services provided by BEA (China) for personal and corporate customers in Mainland China include, but are not limited to, loans, deposits, trade finance, guarantees, remittance, RMB forward transactions, SupremeGold accounts, RMB debit and credit cards, private banking, Cyberbanking, Qualified Domestic Institutional Investors ("QDII") services, derivative and investment products, agency services for general and life insurance products, and cross-border RMB trade settlement services.

As at 31 August 2011, BEA (China), with its headquarters in Shanghai, operated 22 branches and 71 sub-branches in Mainland China. In addition to the BEA (China) network, BEA also operates a branch

in Shanghai, through which it provides its foreign exchange wholesale services to corporate customers in Mainland China, two representative offices in Fuzhou and Dongguan, and a rural bank in Fuping County, Weinan City in Shaanxi Province. Having effectively positioned themselves to capture opportunities in the region, BEA and BEA (China) recorded constant healthy growth. As of 30 June 2011, the Group's total loans to customers and trade bills grew by 11.1% while the customer deposits rose by 9.4% over the figures reported at the end of 2010.

In Taiwan, BEA maintains one branch each in Taipei and Kaohsiung, respectively, and provides a full range of wealth management services through BEA Wealth Management Services (Taiwan) Limited ("BEAWMS"). BEA also operates one branch, four sub-branches and 10 ATMs in Macau.

As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, approximately 29.8%, 31.3%, 41.3% and 45.7%, respectively, of the assets of the Group were accounted for in Mainland China, Taiwan and Macau. The corresponding figures for Hong Kong as at 31 December 2008, 2009 and 2010 and as at 30 June 2011 were 60.3%, 57.8%, 63.9% and 64.0%, respectively. For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, approximately 18,550%⁽¹⁾, 45.7%, 29.2% and 36.8%, respectively, of BEA's consolidated profit before taxation were accounted for in Mainland China, Taiwan and Macau. The corresponding figures for Hong Kong as at 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 were -23,450%, 55.2%, 56.1% and 44.5%, respectively.

The majority of BEA's lending is on a secured, floating-rate basis and adheres to pre-established loan-to-value limitations depending on the underlying collateral and the credit risk of customers. Security typically consists of a first legal charge over real property, listed securities and cash deposits. Some of BEA's lending is on a guaranteed basis.

As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, the Group's capital adequacy ratio was approximately 13.8%, 13.3%⁽²⁾, 13.2% and 12.6%, respectively, compared with the statutory minimum requirement of 8.0%, and its loan to deposit ratio was approximately 69.9%, 71.7%, 69.8% and 66.3%, respectively. For the years ended 31 December 2008, 2009 and 2010 and for the six months ended of June 2011, BEA's average liquidity ratio was approximately 38.4%, 43.3%, 44.9% and 41.0%, respectively. See "*Selected Statistical and Other Information*" for further details.

The Group relies on its deposit base for the majority of its funding requirements. As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, customer deposits accounted for approximately 88.1%, 91.6%, 92.7% and 89.9%, respectively, of borrowed funds. The remainder of the Group's funding requirements as at 31 December 2008, 2009 and 2010 and as at 30 June 2011 were satisfied through the issuance of certificates of deposit and, particularly for its Renminbi funding requirements, through interbank borrowings.

In July 2009, BEA (China) issued RMB4 billion in aggregate principal amount of RMB-denominated bonds in Hong Kong in order to diversify the Group's RMB funding sources. In March 2011, BEA (China) successfully completed the issue of its first batch of RMB financial bonds with an issue size of RMB2 billion in China's interbank bond market.

⁽¹⁾ For the year ended 31 December 2008, the Group's financial performance was adversely affected by the one-off write down of HK\$3,549 million for its investments in CDOs and SIVs conducted in Hong Kong (see "*Selected Statistical and Other Information — Asset Quality — Held-to-maturity Debt Securities*"). The loss before taxation for Hong Kong operations for the period was HK\$1,876 million, and the Group's consolidated profit before taxation for the period was HK\$8 million. As a result, when the profit before taxation for the period for China operations (including Taiwan and Macau) (HK\$1,484 million) is compared against the Group's consolidated result, it accounts for 18,550% of the consolidated profit before taxation.

⁽²⁾ Taking into account the issuance of 167.1 million new shares at a price of HK\$30.60 per share in January 2010, the pro forma capital adequacy ratio would be 15.1%.

For the six months ended 30 June 2011, the Group's profit after taxation was HK\$2,757 million (U.S.\$353 million), an increase of approximately 28.9% from the six months ended 30 June 2010. The turnaround in operations and financial performance was the result of gradually improving conditions in the financial markets and global economy, as well as the absence of further substantial write-downs recorded by the Issuer. For the year ended 31 December 2010, the Group's profit after taxation was HK\$4,303 million (U.S.\$552 million), an increase of approximately 60.8% from the year ended 31 December 2009.

For the year ended 31 December 2009, the Group's profit after taxation was HK\$2,677 million (U.S.\$338 million), an increase of approximately 2,445.1% from the year ended 31 December 2008. The turnaround in operations and financial performance was the result of gradually improving conditions in the financial markets and global economy, as well as the absence of further substantial write-downs recorded by the Issuer. The Group's profits in 2008 were severely affected by the HK\$3.5 billion one-off write down of the fair value of the Group's portfolio of all of its CDOs and almost all of its SIVs conducted in Hong Kong.

For the half year ended 30 June 2011, the Group achieved a return on average assets of approximately 1.0% and a return on average equity of approximately 11.9%, as compared with approximately 0.9% and 10.4%, respectively, for the half year ended 30 June 2010, approximately 0.9% and 10.1%, respectively, for the year ended 31 December 2010, approximately 0.6% and 7.7%, respectively, for the year ended 31 December 2009 and approximately 0.01% and 0.12% respectively, for the year ended 31 December 2008.

History

Incorporated in 1918, BEA is one of Hong Kong's first independent local banks. BEA set up its first branch in Shanghai in 1920 and has operated in Mainland China ever since. BEA believes that it is well positioned to provide banking services to customers in Mainland China and Chinese customers abroad.

In 1975, BEA launched the first Hong Kong dollar credit card in conjunction with Bank of America, called the East Asia BankAmericard/VISA. In 1979, the East Asia BankAmericard/VISA credit card became the first credit card that was accepted in Mainland China as a result of an agreement between BEA and the Bank of China on foreign currency credit card settlement services.

BEA is one of the founders of Joint Electronic Teller Services Ltd. ("**JETCO**"), which was formed to set up a network of ATMs in Hong Kong and Macau. BEA is also one of the founders of EPS Company (Hong Kong) Limited ("**EPSCO**") in Hong Kong, which was formed to facilitate the electronic transfer of funds at the point of sale. In 1999, BEA was the first bank in Hong Kong to launch online stock trading through its wholly-owned subsidiary, East Asia Securities Company Limited ("**East Asia Securities**"). BEA was also the first bank in Hong Kong to provide comprehensive internet banking services to its customers, through its Cyberbanking service.

In 2004, following the relaxation of the restrictions on Hong Kong banks in conducting personal Renminbi business, BEA introduced Renminbi deposit, exchange, remittance, card (both debit and credit) and retail Renminbi non-deliverable forward contract services. In the same year, BEA enhanced its Cyberbanking service and became the first bank in Hong Kong to provide an independent mobile phone and personal digital assistant ("**PDA**") banking service.

In March 2007, BEA (China), with the approval of CBRC, formally commenced business as a locally-incorporated bank. BEA (China) became the first foreign bank to launch Renminbi debit cards and Renminbi credit cards in Mainland China in May and December 2008, respectively.

In June 2009, BEA entered into a number of strategic co-operation agreements with Criteria CaixaCorp, S.A. (which changed its name to CaixaBank S.A. on 30 June 2011) ("**CaixaBank**"), a Spanish listed holding company controlled by "la Caixa", a major shareholder of BEA and a leading

financial institution in Spain. The agreements set out the framework and conditions on which any future changes in CaixaBank’s investment in BEA would be effected, whilst preserving the Bank’s independence. The alliance with “la Caixa” Group enhances the Bank’s access to the financial industry in Spain, Europe and Latin America, and creates opportunities for potential joint business development in the Asia-Pacific region.

In July 2009, BEA (China) issued Renminbi-denominated bonds in an aggregate principal amount of RMB 4 billion in Hong Kong, becoming the first locally-incorporated foreign bank in Mainland China to issue Renminbi bonds to retail investors in Hong Kong. In September 2009, BEA (China) was granted the status of Domestic Settlement Bank and Domestic Agent Bank for cross-border Renminbi trade settlement services, and completed its first cross-border Renminbi trade settlement transaction. BEA (China) will continue to offer Renminbi trade settlement services in the pilot cities including Shanghai, Guangzhou, Shenzhen and Zhuhai. In March 2011, BEA (China) completed the issue of its first batch of Renminbi financial bonds in an aggregate principal amount of RMB2 billion in the Mainland’s interbank bond market.

Over the years, BEA has continuously expanded its network in Mainland China. As at 31 August 2011, BEA has a total of 98 outlets in Mainland China, including the headquarters of BEA (China) in Shanghai, 22 branches, 71 sub-branches, two representative offices, Shaanxi Fuping BEA Rural Bank Corporation and one booking branch. BEA was one of the first foreign banks to be granted QDII status by the CBRC and the first to obtain a foreign exchange quota to conduct QDII business. BEA was one of the first foreign banks to establish a locally-incorporated bank in Mainland China (BEA (China)) and to conduct Renminbi business with local residents.

The following chart highlights some of the milestone developments of BEA’s business operations in China:

Year	Events
1920	BEA established its first branch in Shanghai, China.
1979	BEA launched foreign currency credit card settlement services in China through an agreement with the Bank of China. East Asia BankAmericard became the first credit card accepted in China.
1986	BEA co-founded China’s first Sino-foreign joint-venture finance company.
1988	BEA was the first foreign bank to pioneer the property mortgage business in China.
1995	BEA received the “Best Foreign Bank in China” award from Euromoney magazine.
1998	BEA Shanghai and Shenzhen branches were among the first foreign bank branches approved to provide Renminbi business services to foreigners and foreign-invested enterprises.
2002	BEA was one of the first foreign banks in China to receive government approval for providing comprehensive foreign currency banking services to local residents and enterprises. BEA was one of the first foreign banks in China to receive government approval for providing Internet banking services in China.

- 2004 BEA was one of the first foreign banks in China to receive government approval for providing RMB services to local enterprises.
- 2005 BEA was one of the first foreign banks in China to receive government approval for offering agency services for both general and life insurance products in China.
- 2006 BEA was one of the first foreign banks in China to receive CBRC approval as a QDII, and the first foreign bank to obtain foreign exchange quota to conduct all QDII business activities. BEA was one of the first foreign banks in China to receive government approval for providing fixed deposits services with a minimum amount of RMB 1 million to local residents. BEA was one of the first foreign banks in China to receive government approval for conversion into a locally-incorporated foreign-invested banking corporation in China.
- 2007 BEA (China), a wholly owned subsidiary of BEA Hong Kong, was incorporated in China as one of the first four locally-incorporated foreign banks.
- 2008 BEA (China) was the first locally-incorporated foreign bank in China to offer RMB credit cards and RMB debit cards in China. BEA (China) was one of the first locally-incorporated foreign banks in China to launch RMB trust products.
- 2009 BEA (China) was the first locally-incorporated foreign bank to issue RMB retail bonds in Hong Kong, raising RMB4 billion through its debut RMB bond issue. BEA (China) became both a domestic settlement bank and domestic agent bank in China for cross-border RMB trade settlement services.
- 2010 BEA (China) became the first foreign bank to open its own data centre in Mainland China (in Shanghai). BEA (China) celebrated the grand opening of its new flagship in Mainland China - BEA Finance Tower, in Lujiazui, Shanghai. BEA (China) received approval from The People's Bank of China ("PBOC") in December 2010 to issue RMB financial bonds worth up to RMB5 billion in Mainland China's interbank bond market, with a maximum tenor of 3 years.
- 2011 In March, BEA (China) successfully completed the issue of its first batch of RMB financial bonds with an issue size of RMB2 billion in China's interbank bond market.

During the first six months of 2011, BEA received a number of awards in recognition of its exceptional performance, including "2011 Best SME's Partner Award" organised by the Hong Kong General Chamber of Small and Medium Business Limited (for the fourth consecutive year); Metro Finance's "Hong Kong leaders' Choice — Excellent Brand of Mobile Banking Award 2011", "Citation for Excellence — Finance & Investment Category" as part of the "TVB Most Popular TV Commercial Awards 2011" Programme, MasterCard Worldwide's "The Highest Growth Rate in 2010 Number of Open Cards in Hong Kong — Champion", "The Highest Growth Rate in 2010 Premium Product

Cardholder Spending in Hong Kong — Champion”, “The Highest Growth Rate in 2010 Cardholder Spending in Hong Kong — Champion”, and “The Highest Growth Rate in 2010 Merchant Purchase Volume in Hong Kong — 2nd Runner Up”, and Visa’s “Lowest Chargeback-to-Sales Ratio Award” in the 2010 Service Quality Performance Awards Program (for the second consecutive year).

BEA (China)’s achievements were further recognised through a number of new awards received in 2011 in addition to the previous awards obtained, including “2010 Most Innovative Product Award” for the Bull Bear Series of Investment Financial Product by Money Weekly and Amoney.com.cn, “2010 Most Personalised Internet Banking Award” by China Times in its 2010 Golden Cicada Award Ceremony, and “2010 Market Development Contribution to UnionPay Classic card Award by China UnionPay. Previous awards included “Best Development Team for Information Technology”, the “Best Information Technology Strategy Award” and the “Best Technical Strategy Award” in 2008 from the National Information Evaluation Centre, the “Best Financial Services in 2008” at the Golden-Shell Award of Finance hosted by the 21st Century Business Herald, the “30 Years of Reform and Opening-up - Leadership Award for Best Industry Contribution” from China Internet Week, the “2009 Best Foreign Bank Website” from Hexun.com, the “2009 Best SME Services in Asia” in the 4th Asian Banks Competitive Rankings held during the 21st Century Annual Finance Summit of Asia, the “2009 Best Localised Foreign Bank” and the “2009 Best Secured Credit Card” from Moneyweek, and the “2009 Best Wealth Management Bank” in the 2009 Bank Rating hosted by money.sohu.com.

STRATEGY

BEA’s core objectives are to strengthen its position as the largest independent local bank in Hong Kong, to further develop its domestic franchise as one of Hong Kong’s leading banks and to expand its operations in Mainland China and other overseas countries. As part of the strategy for growth in the future, BEA will focus significantly on its operations in Mainland China. The key components of BEA’s strategy are set out below.

Expansion in Mainland China and Other Overseas Countries

BEA intends to continue to develop its business in Mainland China and other overseas markets including Europe and South East Asia. The Mainland China market remains an important focus for BEA. BEA intends to strengthen its position in Mainland China through capitalizing on opportunities arising from the liberalisation of the banking sector and the relaxation of RMB business. Through the establishment of a locally-incorporated bank, BEA (China), BEA is able to provide a comprehensive range of RMB and foreign currency banking products and services to customers in Mainland China. Leveraging from BEA’s international banking experience and long history of presence in Mainland China, BEA (China) aims to position itself as a “Chinese foreign bank” — a foreign bank run by ethnic Chinese which understands the local culture and needs of its customers.

Given the size of the Mainland China market and the already extensive physical presence of the domestic banks, BEA does not intend to compete with the domestic banks by opening an extensive branch network. BEA currently focuses on corporate lending, personal banking and treasury business and considers other major foreign banks to be its main competitors.

At the same time, BEA (China) intends to diversify its client base by extending its service coverage in Mainland China via its Cyberbanking and network of ATMs and 24-hour self service banking centres. Through these additional channels of services, BEA (China) is able to provide greater accessibility and convenience to its customers. BEA believes this strategy is the most effective and efficient way to extend our services coverage in Mainland China. Nevertheless, BEA will continue to expand its branch network strategically according to the business demand and the market environment in Mainland China.

In addition to expanding its businesses in strategic locations in Mainland China, BEA continues to evaluate opportunities to acquire or enter into cooperative agreements with other banks in order to expand its overseas presence, in particular with banks that focus on retail and small-to-medium-sized enterprise (“SME”) customer segments in overseas Chinese communities.

Diversification of non-interest income

BEA implements its strategy in Hong Kong by continuing to broaden its product range, upgrading product features and exploring new market opportunities. BEA’s wealth management and private banking business will remain the focus of BEA’s core business development in the near future. BEA plans to develop its corporate services and share registration businesses further through its subsidiary, Tricor. BEA will also continue to develop the insurance business of Blue Cross and intensify cross-selling opportunities to its existing customer base. With the setting up of BEA Life, a wholly-owned subsidiary, in January 2008, BEA has positioned itself to capture new market opportunities through offering a broad range of life insurance solutions. In addition, BEA believes that the development of its Cyberbanking services will enable it to attract new customers for its banking services that are less readily accessible through traditional delivery channels.

Enhancement of profitability via active asset and liability management

BEA intends to continue to optimise its asset mix through active asset and liability management and allocation in order to enhance its profitability and net worth.

Transformation of its branch network

Through repositioning and rationalizing its branch network and re-distributing resources, BEA seeks to transform its Hong Kong branches into sales centres to provide banking products and services to its customers and in particular, to target high net worth customers. As of 31 August 2011, BEA operated 61 SupremeGold Centres, offering a platform for BEA to provide priority services to high net worth customers. BEA also opened five i-Financial Centres, which offer a convenient combination of advanced automated banking services and manned service desks to customers with extended opening hours.

BEA has complied with the HKMA’s circular dated 9 January 2009, which requires all authorised institutions (including BEA) to implement various recommendations from the HKMA including, but not limited to, (i) physical segregation of their ordinary banking business from the retail securities business, (ii) information separation between ordinary banking accounts and investment accounts, and (iii) the separation of staff involved in the ordinary banking business and the sale of investment products.

Acquisitions and organic growth

BEA aims to grow organically, by providing one-stop financial services to customers, and through acquisitions, by seeking expansion opportunities in Hong Kong and internationally that have the potential to enhance BEA’s return on equity. For a discussion on recent or proposed acquisitions and disposals of businesses, see “*Business of the Issuer — Mainland China, Taiwan and Macau*”.

Focus on enhancing operational efficiency

BEA anticipates improvements in its operational efficiency following the centralisation of its back office functions at BEA Tower in Millennium City 5 in Hong Kong and the back office operating centre in Guangzhou. BEA aims to further enhance efficiency and market competitiveness. BEA’s back-office operating centre in Guangzhou, incorporated under the name of East Asia Electronic Data Processing (Guangzhou) Limited, has enhanced operational efficiencies and BEA will also look to expand its operations and to identify appropriate operating functions for relocation to Mainland China.

BUSINESS OVERVIEW

BEA's core businesses are the acceptance of deposits and home mortgage lending in Hong Kong. As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, approximately 11.1%, 10.8%, 10.7% and 9.6%, respectively, of BEA's total advances to customers constituted advances to individuals for the purchase of residential property (including advances under GHOS, PSPS and TPS), and approximately 15.8%, 17.1%, 17.2% and 16.7%, respectively, comprised advances for property development and property investment. As at 31 August 2011, BEA had over 1.4 million retail customers in Hong Kong, which include retail customers and SMEs. BEA's general banking services include the provision of chequing and deposit accounts, ATMs and telephone banking, internet banking, mobile banking, foreign exchange services and money remittance. Other operations offered by BEA include consumer finance, credit cards, insurance, investment services, MPF services, trade finance, project finance, loan syndication, stock broking and asset management services.

As at 31 August 2011, BEA had 88 branches and 61 SupremeGold Centres and five i-Financial Centres in Hong Kong. BEA is a founding member of JETCO, which currently provides over 2,671 ATMs throughout Hong Kong, Macau and major cities in Mainland China. BEA is also one of the founding members of EPSCO, which currently processes debit card transactions at more than 30,000 acceptance locations in Hong Kong, Macau and Shenzhen.

BEA introduced multi-function ATM terminals in February 2011 at strategic locations that allow customers to withdraw cash, deposit cash with instant credit to accounts, as well as deposit cheques. In August 2011, BEA introduced chip-based ATM technology to enhance customer protection against ATM fraud. BEA is one of the first banks to issue an ATM chip card and introduce chip-enabled ATM terminals.

As of 31 August 2011, BEA has 26 branches (including the BEA booking branch), 75 sub-branches and two representative offices in Mainland China, Taiwan and Macau. Headquartered in Shanghai, BEA (China) operates 22 branches and 71 sub-branches and plans to gradually expand its network in Mainland China.

Services offered by BEA (China) in Mainland China include but are not limited to loans, deposits, trade finance, guarantees, remittance, RMB forward, SupremeGold accounts, RMB debit and credit cards, private banking, Cyberbanking, QDII services, derivative and investment products, agency services for general and life insurance products, and cross-border RMB trade settlement services. As at 31 December 2008, 31 December 2009, 30 June 2010, 31 December 2010 and 30 June 2011, approximately 29.8%, 31.3%, 24.5%, 41.3%, and 45.7%, respectively, of the Group's assets and approximately 18,550%⁽¹⁾, 45.7%, and 29.2%, respectively, of BEA's consolidated profit before taxation for the years ended 31 December 2008, 2009 and 2010 were accounted for in Mainland China, Taiwan and Macau.

On 1 April 2010, an additional General Manager was appointed to oversee the business of Blue Cross, BEA Life, Bank of East Asia (Trustees) Limited, Insurance Services Department of BEA, and Blue Care Medical Centre under the newly established Insurance and Retirement Benefits Division.

⁽¹⁾ For the year ended 31 December 2008, the Group's financial performance was adversely affected by the one-off write down of HK\$3,549 million for its investments in CDOs and SIVs conducted in Hong Kong (see "Selected Statistical and Other Information — Asset Quality — Held-to-maturity Debt Securities"). The loss before taxation for Hong Kong operations for the period was HK\$1,876 million, and the Group's consolidated profit before taxation for the period was HK\$8 million. As a result, when the profit before taxation for the period for China operations (including Taiwan and Macau) (HK\$1,484 million) is compared against the Group's consolidated result, it accounts for 18,550% of the consolidated profit before taxation.

For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2010 and 2011, the Group's operating income and profit before taxation by business segment were as follows:

	Operating income/(loss)				
	Year ended 31 December			Six months ended 30 June	
		2009		2010	
	2008	Restated	2010	Restated	2011
	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)
Hong Kong Region					
Personal Banking ⁽¹⁾	1,943	2,435	2,540	1,301	1,244
Corporate Banking ⁽²⁾	84	1,410	1,399	518	1,212
Treasury Markets ⁽³⁾	(1,006)	220	295	288	(222)
Wealth Management ⁽⁴⁾	252	342	451	223	289
Others					
China Operations ⁽⁵⁾	3,377	3,426	3,997	1,925	2,703
Overseas Operations ⁽⁶⁾	673	1,094	984	431	601
Corporate Services ⁽⁷⁾	816	817	866	420	472
Others ⁽⁸⁾	977	676	844	428	487
Inter-segment elimination	(659)	(232)	(250)	(122)	(148)
Total	<u>6,457</u>	<u>10,188</u>	<u>11,126</u>	<u>5,412</u>	<u>6,638</u>

	Profit/(Loss) before taxation				
	Year ended 31 December			Six months ended 30 June	
		2009		2010	
	2008	Restated	2010	Restated	2011
	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)
Hong Kong Region					
Personal Banking ⁽¹⁾	563	1,021	1,167	661	574
Corporate Banking ⁽²⁾	(140)	1,250	1,207	430	1,160
Treasury Markets ⁽³⁾	(1,138)	95	332	251	(231)
Wealth Management ⁽⁴⁾	112	223	320	168	219
Others					
China Operations ⁽⁵⁾	1,453	1,501	1,429	780	1,280
Overseas Operations ⁽⁶⁾	95	(414)	287	49	423
Corporate Services ⁽⁷⁾	301	299	305	147	154
Others ⁽⁸⁾	(1,042)	(479)	103	70	(4)
Inter-segment elimination	(196)	—	—	—	—
Total	<u>8</u>	<u>3,496</u>	<u>5,150</u>	<u>2,556</u>	<u>3,575</u>

Notes:

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

- (2) Corporate banking includes corporate lending and loan syndication, asset based lending, commercial lending and securities lending in Hong Kong.
- (3) Treasury markets includes treasury operations and securities dealing in Hong Kong.
- (4) Wealth management includes private banking business and related assets in Hong Kong.
- (5) China operations include all branches and subsidiaries in China, except those subsidiaries carrying out corporate services and associates operating in China.
- (6) Overseas operations include overseas branches and subsidiaries, except those subsidiaries carrying out corporate services and associates operating in overseas.
- (7) Corporate services include company secretarial services, share registration and business services, and offshore corporate and trust services.
- (8) Other businesses include insurance business, property-related business, supporting units of Hong Kong operations, investment properties, bank premises, the net results of associates and other subsidiaries in Hong Kong.

The results for the year ended 31 December 2010 continued to improve compared with the year ended 31 December 2009. The charge for impairment losses on loans and advances decreased significantly in 2010, reflecting the improving credit quality and the Group's effort to manage credit risk. Treasury Markets division recorded a significant gain on the disposal of available-for-sale financial assets whereas the Wealth Management division continued to record considerable growth due to the strong performance of its Private Banking business. In 2010, BEA also completed the disposal of 70% interest in its banking subsidiary in Canada, recorded under Other business.

For the first six months in 2011, as a result of sustained growth in the Group's loan portfolio, net interest income increased significantly, as can be observed from significant increase in the operating income and profit before taxation of Corporate Banking Division and China operations. This was boosted by write-back of the charge for impairment losses on loans and advances.

For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, the Group's operating income and profit before taxation by geographical location were as follows:

	Operating income				
	Year ended 31 December			Six months ended 30 June	
	2008	2009 Restated	2010	2010 Restated	2011
	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)
Hong Kong	2,962	6,509	6,573	3,126	3,406
People's Republic of China (Note 1) . . .	3,447	3,479	4,054	1,954	2,734
Other Asian Countries	525	585	577	279	356
Other	492	883	906	352	463
Inter-segment elimination	<u>(969)</u>	<u>(1,268)</u>	<u>(984)</u>	<u>(299)</u>	<u>(321)</u>
Total	<u><u>6,457</u></u>	<u><u>10,188</u></u>	<u><u>11,126</u></u>	<u><u>5,412</u></u>	<u><u>6,638</u></u>

	Profit/(Loss) before taxation				
	Year ended 31 December			Six months ended 30 June	
		2009		2010	
	2008	Restated	2010	Restated	2011
	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)	(in HK\$ millions)
Hong Kong	(1,876)	1,932	2,891	1,428	1,590
People's Republic of China (Note 1) . . .	1,484	1,596	1,506	828	1,317
Other Asian Countries	381	163	581	221	383
Other	19	(195)	172	79	285
Inter-segment elimination	—	—	—	—	—
Total	<u>8</u>	<u>3,496</u>	<u>5,150</u>	<u>2,556</u>	<u>3,575</u>

Note:

(1) This includes Mainland China, Taiwan and Macau but excludes Hong Kong.

HONG KONG

Home Mortgages

As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, home mortgages (including advances under GHOS, PSPS and TPS) in Hong Kong represented one of the most significant segments of the Group's total advances to customers, accounting for HK\$25,615 million, HK\$26,731 million, HK\$31,741 million and HK\$29,981 million, respectively, or approximately 11.1%, 10.8%, 10.7% and 9.6%, respectively, of the Group's total advances to customers. As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, advances under GHOS, PSPS and TPS accounted for HK\$1,318 million, HK\$1,532 million, HK\$1,611 million and HK\$1,497 million, respectively, or approximately 0.6%, 0.6%, 0.5% and 0.5%, respectively, of the Group's total advances to customers.

The majority of home mortgages are extended to buyers of housing units in Hong Kong who intend to occupy the premises, which include advances guaranteed by the Hong Kong Government under GHOS, PSPS and TPS to assist lower income families in purchasing homes. Other home mortgages are extended to individuals purchasing residential units for investment purposes.

BEA intends to continue maintaining its market share in the mortgage business by diversifying and customising the mortgage loans offered to its customers and providing tailor-made services to its existing and potential customers.

All home mortgage advances are secured by a first legal charge on the property and, in certain circumstances, BEA may also require personal guarantees as additional security. BEA provides various different mortgage plans, including floating Prime-based rate and floating HIBOR-based rate mortgage plans which are repayable by instalments. As at 30 June 2011, the average original advance maturity is approximately 20 years for home mortgages (excluding advances under GHOS, PSPS and TPS). The average size of a home mortgage advance (excluding advances under GHOS, PSPS and TPS) at origination is approximately HK\$1.8 million. For a discussion of BEA's loan-to-value lending limits applicable to home mortgage advances, see "*Selected Statistical and Other Information — Risk Management and Credit Policies*". For a discussion of BEA's lending rates applicable to home mortgage advances, see "*Selected Statistical and Other Information — Advance Portfolio — Advance Analysis*". BEA maintains close relationships with most property developers in Hong Kong, which has enabled BEA to source a significant amount of home mortgage and commercial mortgage advance business.

Trade Finance and Commercial Mortgages

Commercial mortgages comprise advances to individuals and SMEs to purchase retail shops, office space, factories and residential properties, whereas trade finance comprises loans to companies to accommodate their working capital requirements through overdraft facilities, short-term advances, trust receipts, invoice financing loans, corporate tax loans, export credit, packing loans and factoring facilities. BEA also provides treasury products and other trade finance related services to its customers, including advice on export documentary credits to be received by the customer, shipping guarantees, issuance of all types of documentary credits, negotiation of bills under documentary credits and collection of bills.

All commercial mortgage advances are secured by a first legal charge over the property and, in some circumstances, by additional collateral such as time deposits, listed securities and other financial instruments that BEA deems acceptable. The average advance maturity is approximately 15 years for commercial mortgages. For a discussion of commercial mortgage advances, see “*Selected Statistical and Other Information — Advance Portfolio — Advance Analysis*”.

The customers of BEA’s trade finance services range from manufacturing companies to large trading companies and multinational corporations. BEA intends to continue to increase income contribution and market share from trade finance by providing its customers with more market-oriented products through its business managers. The trade finance sector in Hong Kong is well developed and, consequently, BEA is seeking to capitalise on its network in Mainland China to market its trade finance services to the increasing number of customers with operations in Mainland China.

Trade finance advances are made on either a fully or partially secured basis by way of a mortgage of property or cash collateral or on an unsecured basis. Factoring facilities are offered to exporters to provide financing through purchase of receivables as well as offering credit protection and receivables collection services. The receivables managed under factoring are assigned to BEA, and credit protection is supported by back-to-back credit insurance issued by accredited insurance agencies or covered by inter-factoring arrangements. BEA has guidelines in place for assessing mortgage credit, based on asset criteria (including, in the case of individual customers, price, appraised value of the property, location, current market conditions and liquidity of the property) and customer criteria (including, in the case of individual customers, occupation, age, income and debt servicing ability). Trade finance advances typically have a relatively short maturity. For example, advances used to finance imports often have a maturity of only 90 to 120 days.

As at 30 June 2011, trade finance and commercial mortgages amounted to HK\$23,079 million, representing an increase of approximately 4% as compared with the corresponding period ended 30 June 2010, and accounted for approximately 7.4% of the Group’s total advances to customers as at 30 June 2011. As at 31 December 2010, trade finance and commercial mortgages amounted to HK\$23,128 million, representing an increase of approximately 36.7% as compared with the corresponding period ended 31 December 2009, and accounted for approximately 7.8% of the Group’s total advances to customers as at 31 December 2010. As at 31 December 2009, trade finance and commercial mortgages amounted to HK\$17,011 million, representing a decline of approximately 4% as compared with the corresponding period ended 31 December 2008, and accounted for approximately 6.9% of the Group’s total advances to customers as at 31 December 2009.

Consumer Finance

Consumer advances include unsecured advances to individuals for purposes such as education, tax payments, travel and home improvement and decoration, and also include overdrafts. In addition, BEA also offers its consumers application facilities for personal advances through its Cyberbanking and ATM services.

BEA offers a series of lending programmes with varied product features including a personalised interest rate based on the relevant customer's credit standing, payment holidays and tax advance packages.

BEA runs an annual tax loan promotion campaign, the "Tax Loan Programme", during the tax season in Hong Kong. As with previous years, the Tax Loan Programme offered to customers during the 2010/2011 tax season achieved a loan book of HK\$1,873 million and recorded a growth of 26.7% in programme drawdowns as compared with Tax Loan Programme for 2009/2010 tax season.

In April 2010, BEA launched the new "Instalment Loan Programme", which offers tiered pricing based on a drawdown amount with a 12-month annualised percentage rate ranging from 3.5% to 7.85%. To further enhance BEA's services to its customers, a 30-minute express approval process was introduced to auto-payroll customers while a streamlined loan drawdown procedure was put in place for all BEA customers. Attractive product terms such as a repayment holiday were provided to suit customers' financial needs.

In the first half of 2011, BEA launched numerous consumer loan packages with competitive offers in order to broaden its customer base and expand its market share in the consumer lending business. These included instalment loan and revolving credit facility programmes that satisfied the diverse borrowing needs of customers. As at 30 June 2011, total outstanding consumer advances amounted to HK\$2,133 million, representing a significant increase of 27.4% as compared with 30 June 2010, which accounted for approximately 0.7% of the Group's total advances to customers as at 30 June 2011. As at 31 December 2010, total outstanding consumer advances amounted to HK\$2,688 million, representing a significant increase of 40.0% as compared with 31 December 2009, which accounted for approximately 0.9% of the Group's total advances to customers as at 31 December 2010. As at 31 December 2009, total outstanding consumer advances amounted to HK\$1,920 million, representing a significant increase of 90.1% as compared with 31 December 2008, which accounted for approximately 0.8% of the Group's total advances to customers as at 31 December 2009. The increase is mainly attributed to the increases in advances under the Tax Loan Programme for the relevant period.

Credit Gain Finance Company Limited ("CGFC") is a wholly-owned subsidiary of BEA which has engaged in the Hong Kong sub-prime loan business since late 2006. As at 31 August 2011, CGFC operated through 19 branches across Hong Kong. In addition to unsecured loans, CGFC also offers various secured loan products to diversify its asset portfolio. The total portfolio balance of CGFC as at 30 June 2011 and as at 31 December 2010 was HK\$356 million and HK\$301 million, respectively, which represented 0.11% and 0.10%, respectively, of the total advances to customers of the Group.

Credit Cards

As at 30 June 2011, credit card advances amounted to HK\$3,042 million, which accounted for approximately 1.0% of the Group's total advances to customers and represented a growth of 7.8% as compared with 30 June 2010. As at 31 December 2010, credit card advances amounted to HK\$3,087 million, which accounted for approximately 1.0% of the Group's total advances to customers and represented a growth of 15.4% as compared with 31 December 2009. As at 31 December 2009, credit card advances amounted to HK\$2,675 million, which accounted for approximately 1.1% of the Group's total advances to customers and represented a decline of 10.7% as compared with 31 December 2008. BEA believes that the decline was due mainly to the increased acceptance of the personal tax loans offered by BEA to its credit card customers which resulted in fewer customers making tax payments by credit cards for the relevant period.

The new SupremeGold World MasterCard was launched in February 2011 and a pre-approved SupremeGold World MasterCard was offered to all SupremeGold customers. The SupremeGold World MasterCard brings cardholders extraordinary offers and privileges including hotel fine dining, travel privileges, free access to prestigious clubs and superb shopping and entertainment discounts, which has been well received by our customers after launch.

BEA launched various promotional activities throughout 2011, with a focus on dining and entertainment in order to build habitual card usage, and has also participated in offering promotional deals with restaurants and retail shopping merchants. The best in market entertainment platform, including concert priority booking promotions and exclusive discounts for movie tickets at popular cinema chains, has proved to be appealing to our customers.

BEA intends to continue to develop the credit card business and expects profits to increase as more customers increase their spending using BEA's credit cards.

Insurance Products and Services

Blue Cross, acquired by BEA in December 1999, is a wholly-owned subsidiary of BEA and a part of BEA's bancassurance services. With over 40 years of operational experience in the insurance industry, Blue Cross provides a comprehensive range of non-life products and services, including medical, travel, and general insurance, to cater for the needs of both individual and corporate customers. BEA believes that Blue Cross is one of the market leaders in the medical and travel insurance industry and it has received major awards such as "Capital Weekly PRO Choice Award — Medical & General Insurance", "Quality Life Award — Quality Insurance Service Award", "The Best Editor's Pick Awards", "Capital Weekly Service Award — Medical Insurance", "Caring Company", "The Most Popular Travel Insurance Company Award", "Hong Kong Top Service Brand Awards — Emerging Service Brand", "Superbrands", "High Flyer Achievement Award — Health Insurer", "M.I.S. Asia IT Excellence Award: Best Business Enabler — Banking & Finance" and "Hong Kong Award for Services — Innovation Award", in recognition of its contributions in the spheres of insurance provision and customer service.

BEA Life commenced business in January 2008. BEA Life is a wholly-owned subsidiary of BEA and serves as BEA's life insurance arm. It underwrites and distributes a full range of life insurance products and services including whole life, endowment, annuity, term plans, and investment-linked products. In addition, BEA Life offers retirement and medical savings plans with varying features and scopes of coverage to meet the diverse needs of its customers.

Blue Cross and BEA Life distribute their products through BEA's 88 branches, 61 SupremeGold Centres and five i-Financial Centres, insurance agents, brokers, allied partners, and the BEA and Blue Cross websites. A number of new insurance plans, including "Prosperity Link Insurance", "High Income Generator Insurance", "3-Year Quick Savings Insurance Plus", "Cancer Comfort Hospital Cash Insurance (for Telemarketing)", "Prime Refundable Premium Critical Illness (for Telemarketing)", "2-Year Fast Savings Insurance (II)" and "SmartSaver RMB Insurance" were launched in 2010 while "2-Year Fast Savings Insurance (2011 — I)", "SmartSaver RMB Insurance (2011 — I)", "Accidental Hospital Cash Plan (for Telemarketing)", "Refundable Hospital Cash Plan (for Telemarketing)" and "100% Refundable Critical Illness Plan (for Telemarketing)" were launched in the first half of 2011. All new products have been well received by customers.

To drive the growth of BEA's e-channel insurance business, four general insurance products (relating to travel, household, domestic helpers, decoration and personal accident) are available for direct purchase through the BEA insurance web page. BEA has also launched an insurance loyalty club as an incentive to customers for repeat purchases.

The total premium income of the insurance business for the half year ended 30 June 2011 was HK\$1,245 million, which increased by 14% as compared with the half year ended 30 June 2010. The non-life insurance premium income for the half year ended 30 June 2011 was HK\$526 million, a 12% increase as compared with the half year ended 30 June 2010.

The total premium income of the insurance business for the year ended 31 December 2010 was HK\$1,883 million, which increased by 11% as compared with the year ended 31 December 2009. The non-life insurance premium income for the year ended 31 December 2010 was HK\$761 million, a 10% increase as compared with the year ended 31 December 2009.

The life insurance premium income for the half year ended 30 June 2011 was HK\$719 million, a 15% increase as compared with half year ended 30 June 2010. The corresponding figure as calculated by the New Business Index, an index defined as the total amount of all regular premium plus 10% of single premiums (life insurance policies which require one lump sum payment), was HK\$301 million, an 82% increase as compared with the half year ended 30 June 2010.

The life insurance premium income for the year ended 31 December 2010 was HK\$1,122 million, a 11% increase as compared with the year ended 31 December 2009. The corresponding figure as calculated by the New Business Index, an index defined as the total amount of all regular premium plus 10% of single premiums (life insurance policies which require one lump sum payment), was HK\$379 million, a 13% increase as compared with the year ended 31 December 2009. These positive results recorded by BEA Life are attributable to the aforementioned new insurance plans, which were well received by customers.

The life insurance premium income for the year ended 31 December 2009 was HK\$1,008 million, a 7% increase as compared with the year ended 31 December 2008. The corresponding figure as calculated by the New Business Index, an index defined as the total amount of all regular premium plus 10% of single premiums (life insurance policies which require one lump sum payment), was HK\$335 million, a 10% increase as compared with the year ended 31 December 2008. These positive results recorded by BEA Life are attributable to the aforementioned new insurance plans, which were well received by customers.

MPF Services and Other Trustee Services

In October 1999, Bank of East Asia (Trustees) Limited (“**BEAT**”), a wholly-owned subsidiary of BEA, was granted the status of an approved trustee under the Mandatory Provident Fund Schemes Ordinance (the “**MPF Schemes Ordinance**”). Through this subsidiary, BEA offers a full-range of Mandatory Provident Fund (“**MPF**”) services, including trustee, scheme administration, investment management and custody services, to employers, employees and the self-employed persons. BEAT is one of two approved trustees under the MPF Schemes Ordinance licensed to offer both the Master Trust Scheme and Industry Scheme in Hong Kong.

BEAT has committed to offer its scheme members a wide range of investment choices. BEA (MPF) Master Trust Scheme currently offers 12 constituent funds for investment including BEA (MPF) Growth Fund, BEA (MPF) Balanced Fund, BEA (MPF) Stable Fund, BEA (MPF) Global Equity Fund, BEA (MPF) European Equity Fund, BEA (MPF) Asian Growth Fund, BEA (MPF) Greater China Growth Fund, BEA (MPF) Hong Kong Growth Fund, BEA (MPF) Japan Growth Fund, BEA (MPF) Global Bond Fund, BEA (MPF) Long Term Guaranteed Fund and BEA (MPF) Conservative Fund. BEA (MPF) Industry Scheme consists of six constituent funds including BEA (Industry Scheme) Growth Fund, BEA (Industry Scheme) Balanced Fund, BEA (Industry Scheme) Stable Fund, BEA (Industry Scheme) Greater China Growth Fund, BEA (Industry Scheme) Hong Kong Growth Fund and BEA (Industry Scheme) MPF Conservative Fund. All constituent funds (except BEA (MPF) Long Term Guaranteed Fund, BEA (MPF) Conservative Fund and BEA (Industry Scheme) MPF Conservative Fund) invest in two or more approved pooled investment funds based on the “fund-of funds” approach. This investment strategy seeks to diversify risks and aims at enabling BEAT to obtain competitive investment returns for its MPF customers by taking advantage of the strengths of different fund houses.

Since their launch, BEA’s Master Trust Scheme and Industry Scheme have recorded stable growth in both membership and assets. Offering a wide range of products and providing some of the strongest investment returns in the market, BEA has built a reputation as one of Hong Kong’s premier MPF providers.

According to the Mercer MPF Index, for the 12 month period ended 31 March 2010, BEA was ranked one of the top three MPF providers regarding the investment performance of its conservative, capital stable and balanced funds. BEA also won CAPITAL Magazine’s “CAPITAL Merit of MPF

Achievement” award as part of the “CAPITAL Merits of Achievements in Banking and Finance 2010” award programme, and Asia Asset Management (“AAM”) magazine’s “Best MPF Trustee in Hong Kong” award as part of AAM’s “Best of the Best Awards 2009”. BEA received these industry awards in recognition of the performance of its MPF services.

In addition to MPF services, BEAT also offers a complete range of trustee services to both individual and corporate clients. BEAT acts as executor and trustee of wills, as the administrator of estates, as attorney administrator for overseas estates having assets in Hong Kong and as escrow agent for commercial transactions. BEAT also acts as trustee for family or other trusts and settlement, investment funds, unit trusts, charities, public funds and capital market issues. BEAT recorded growth in revenue of approximately 7.55% for the year ended 31 December 2010 (HK\$3.99 million), as compared with the revenue levels for the year ended 31 December 2009 (HK\$3.71 million), from its private trust business. The revenue for the period from 1 January 2011 to 30 June 2011 was HK\$3 million.

Internet Banking Services

Internet banking services provided by BEA include its Cyberbanking and Cybertrading services.

Cyberbanking

Launched in September 1999, BEA’s Cyberbanking allows customers to manage up to 12 separate bank accounts by accessing a single account on the internet, over fixed-line telephones, mobile phones and PDAs. BEA’s Cyberbanking offers a variety of banking functions, including balance enquiry, eStatement & eAdvice, rate enquiry, change of address, funds transfer, remittance, placement and renewal of time deposit, bill payment, credit card transactions and redemption of bonus points for gifts, an online application for mortgages and free property valuation services, stock and gold trading, foreign exchange margin and option margin trading, unit trust subscription and redemption, linked deposits and other investment products, purchase of TravelSafe insurance and MPF account enquiry and deposit. In order to provide more flexibility for scheme members to manage their MPF accounts effectively, BEA launched a new service, Cyberbanking (MPF), in February 2008. Cyberbanking (MPF) enables scheme members to access their BEA MPF accounts via the Internet to review their account balance, deposit and withdrawal history and current investments and obtain fund information.

Mobile Application

To extend its reach into mobile banking market, BEA rolled out a number of innovative products and services, including an application for the growing iPhone user base in August 2010. In addition to providing customers with convenient access to banking and financial services, the application offers useful features such as a BEA branch and ATM locator and information on the latest BEA Credit Card offers. In November 2010, the mobile application was further extended to the Android platform. BEA introduced additional features to its iPhone application in May 2011, including an enhanced stock trading function, new consumer and property loan functions, and “One Touch” service hotlines.

Corporate Cyberbanking

Launched in July 2001, Corporate Cyberbanking has been designed to help companies enhance their efficiency by centralising and streamlining their financial management. Through one highly secure, flexible, and easy to operate account, companies can effectively manage their cashflow, payroll, expenses, and much more via the Internet. Subsequently, Corporate Cyberbanking launched Mobile Phone channel in January 2010 including Account Balance enquiry, today activity enquiry, account history enquiry and funds transfer to associated & pre-designated accounts.

As at 31 August 2011, the number of registered Cyberbanking users and Corporate Cyberbanking users were up 10.5% and 9.1%, respectively, as compared with the respective number of users as at 31 August 2010.

Cybertrading

In June 1999, BEA's Cybertrading service was launched by BEA's wholly-owned subsidiary, East Asia Securities. It was the first internet-based brokerage service offered by a bank in Hong Kong. The service allows customers to trade securities via the internet, mobile phone and Automated Phone. In November 2000, East Asia Securities began to use its Broker Supplied System under AMS/3, which allowed its dealing operations to run under a fully automated straight-through processing environment. In 2010, East Asia Securities launched various promotional campaigns for its securities trading services, intended to gain new securities clients and increase its volume of transactions in anticipation of a potential recovery of the financial markets. East Asia Securities saw the number of Cybertrading accounts rise by 2% during the six months ended 30 June 2011 and, as at 30 June 2011, more than 60% of East Asia Securities clients had subscribed to Cybertrading. With a view to further enhancing the Cybertrading service, an e-Statement Service was launched in January 2010. With the implementation of the eStatement service, Cybertrading clients can view their daily consolidated statements and monthly account statements over the internet up to the last 90 days and 12 months respectively.

Futures Cybertrading Services was launched by BEA's wholly-owned subsidiary, East Asia Futures Limited ("**East Asia Futures**") in August 2004. BEA was the first bank in Hong Kong to offer online trading services for a wide range of futures and options that are traded on the Hong Kong Futures Exchange Limited. The Futures Cybertrading Services provides clients with access to the futures market, which in turn allows them to leverage their investment exposure, take advantage of price volatility in the market and hedge against existing positions, as well as exploit spread trading or arbitrage opportunities.

East Asia Futures recorded a 30.92% increase in net fees and commission income for the first six months of 2011 as compared with the corresponding period in 2010. As at 31 August 2011, approximately 78% of East Asia Futures' clients had subscribed to the Futures Cybertrading Services, and 81% of East Asia Futures' total number of transactions were traded via the Cybertrading platform; whereas for East Asia Securities, the volume of transactions executed via the Cybertrading platform, expressed as a percentage of total turnover, reached 67% of the number of trades and 47% of the gross transaction value ended 31 August 2011. BEA believes that the high volume of online trading recorded by East Asia Securities and East Asia Futures suggests that online trading is becoming increasingly popular with retail investors.

Bilateral Advances and Syndicated Advances

BEA's corporate lending activities include meeting general corporate funding requirements, financing and refinancing of property development, as well as property investment and infrastructure projects. The majority of borrowers are medium- to large-sized Hong Kong companies, which typically use the funds for projects and investments in Hong Kong and Mainland China.

BEA acts as arranger and participant in the Hong Kong syndicated lending market. The majority of BEA's syndicated advances are to local companies engaging in property development or investment in completed developments, large local conglomerates and large private or state-owned enterprises in Mainland China. BEA also acted as a co-arranger in club deal facilities which generally command better pricing than traditional syndicated loans.

In the first seven months of 2011, the Hong Kong corporate loan market remained robust. The continuous economic growth of Hong Kong and China, the active local property market, the kick-start of major infrastructure projects, the relatively lower cost of financing (as compared to that of the Mainland China) as well as the expectation of Renminbi appreciation had sustained a steady growth in corporate loan demand from local or Mainland China enterprises in Hong Kong to meet their funding requirements for business expansion, acquisitions or development projects. BEA registered satisfactory growth in corporate loan volume.

With its strong Mainland China network, BEA is particularly well positioned to serve local and Mainland Chinese customers, and meet both their onshore and offshore financing needs, including property development project financing, loans against RMB-related assets and cross-border trade finance. It is expected that with the support of Mainland China authorities for Hong Kong to develop as an offshore RMB centre, BEA is able to benefit from the growing demand of offshore RMB lending in the future.

The majority of the project financing in which BEA participates is extended on a recourse basis and is secured by the underlying project. Typically, the average maturity of BEA's corporate advances is between one to five years. Loan-to-value ratios for project financings are determined on a case-by-case basis. For construction projects, the maximum loan-to-value ratio is 60% of the total estimated completion value of the project. For most property financing, the advance is secured by a first legal charge over the underlying property and a charge over all receivables derived from the property. BEA has been targeting medium-sized borrowers as the margins on advances to these borrowers are generally more attractive than margins on unsecured syndicated advances to large property developers.

As at 30 June 2011, bilateral advances and syndicated advances outstanding totalled HK\$59,093 million, representing a growth of approximately 3.5% from 30 June 2010, and accounted for approximately 18.9% of the Group's total advances to customers as at 30 June 2011. As at 31 December 2010, bilateral advances and syndicated advances outstanding totalled HK\$55,557 million, representing a growth of approximately 28.7% from 31 December 2009, and accounted for approximately 18.7% of the Group's total advances to customers as at 31 December 2010. As at 31 December 2009, bilateral advances and syndicated advances outstanding totalled HK\$43,178 million, representing a growth of approximately 15.3% from 31 December 2008, and accounted for approximately 17.4% of the Group's total advances to customers as at 31 December 2009.

Wealth Management

In July 2004, BEA's Wealth Management Division commenced operations with the objective of assisting clients to manage and accumulate their wealth by providing wealth management and financial planning services. By offering a wide range of products and services, the Wealth Management Division caters to clients who are searching for asset allocation, wealth preservation, better investment returns than bank deposits, better risk diversification, and other tailor made investment solutions.

Services and products offered by the Wealth Management Division include, but are not limited to, investment services, structured and treasury products, mutual funds, insurance and premium financing, succession and estate planning services, services relating to the Capital Investment Entrance Scheme to Hong Kong, immigration service to other countries, asset custodian services, trusts, discretionary asset management services and general banking services such as time deposits and loans. The division provides private banking services to the very high net worth segment, and is also responsible for providing investment products support to Personal Banking Division and also BEA China's personal banking customers through the Investment Products and Advisory Department. As from 1 April 2010, the division is also responsible for the Bank's private trust business. Hence there are three departments in the Division, namely Private Banking Department, Investment Products and Advisory Department, Trusts and Fiduciary Services Department.

BEA private banking services ("**BEA Private Banking**") was re-launched in late 2005, providing tailor made financial services to high net worth clients. The business has now been in operation for approximately six years and has achieved a critical mass in terms of clients and business acquisition. The business grew from scratch to have over 2,800 accounts. Notwithstanding the crisis in 2008, the business has continued to record good revenues and increased assets under management. BEA continues to anticipate sizeable growth in its private banking business with particular emphasis in the Greater China region, capitalizing on its major network.

As at 30 June 2011, the assets under management of BEA Private Banking amounted to HK\$45.6 billion. The net profit of the department increased substantially from HK\$43 million in 2008 to HK\$175 million in 2009, and to HK\$253.6 million in 2010. The first half of 2011 also recorded good results, with a net profit figure of HK\$179.7 million.

BEA continues to focus on the diversification of investments. Prior to the financial crisis in 2008, customers had a tendency towards stocks and its related derivatives for a quick return. This had been risky and BEA has since placed a strong emphasis on educating customers the need for diversification to weather market downturns. This has proven to be successful and sensible for longer term business and beneficial for the customers as well as for BEA. Customers' interest in investment products has also shifted increasingly towards more transparent and simpler products such as vanilla bonds, outright stocks and simple structured products rather than complicated structures incorporating various derivatives.

Regulatory changes as a result of the collapse of Lehman Brothers were introduced since early 2009, and continued into the present with new requirements in the investment selling process and risk monitoring measures for customers for the wealth management industry. Since 2009, BEA has enhanced its process and procedures to follow regulations and requirements that have been introduced, but this may have caused certain discomfort, costs escalation and inconvenience to all related.

In respect of the trust business, the profit captured in Hong Kong is insignificant and has only recently started to be incorporated into the division.

For the year ended 31 December 2010, the Wealth Management Division's profit before taxation was HK\$319.92 million, a 43.4% increase from the previous year.

Stock Broking and other Fee-based Activities

In addition to the range of traditional banking products and services offered by BEA to its customers, BEA also provides equity and futures stock broking. Stock broking activities and dealings in Hang Seng Index futures, options and other derivative products are conducted through BEA and its wholly-owned subsidiaries, East Asia Securities and East Asia Futures, on an agency basis for the execution of customers' orders.

The Group, through Tricor, provides business, corporate and investor services in the Asia Pacific region. These services include accounting, company formation, corporate compliance and company secretarial, executive search and selection, initial public offerings and share registration, payroll outsourcing and fund and trust administration.

Tricor is one of the key revenue contributors to the Group's fees and commission income. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, fees and commission income attributable to Tricor was approximately 31.2%, 28.8%, 23.5% and 22.6%, respectively, of the Group's total fees and commission income. During the first half of 2011, Tricor continued to expand its global network and acquired a reputable corporate services firm in Japan in May 2011. Japan represents a significant professional service market in Asia and the new establishment enables Tricor to assist clients venturing into the Japanese market. Tricor, together with leading share registration services providers in the UK and Australia, established a strategic alliance called Global Share Alliance in June 2011 to facilitate the provision of share registration and investor services across markets. Tricor currently employs approximately 1,500 professional and support staff and provides services in 23 cities.

In June 2009, BEA entered into an agreement with the Industrial and Commercial Bank of China Limited ("ICBC") to acquire a 75% interest in ICEA Finance Holdings Limited ("ICEA Finance") from ICBC. The transaction completed on 28 January 2010 and ICEA Finance became a wholly-owned subsidiary of BEA, which has reinforced the Issuer's position in the securities broking business in Hong Kong.

Mainland China, Taiwan and Macau

BEA first established its presence in Mainland China when it set up its Shanghai branch in 1920. In 1979, BEA established the first Sino-foreign joint venture in Mainland China and pioneered the provision of direct credit card settlement services in Mainland China. In 1988, it became the first foreign bank to provide foreign currency mortgages for foreign individuals (including residents of Hong Kong, Taiwan and Macau). In 1995, BEA was awarded the “Best Foreign Bank in China” by Euromoney magazine. In 2002, BEA was the first foreign bank authorised to conduct internet banking business in Mainland China and became one of the first foreign banks to obtain a license to offer full foreign currency services at all its branches in Mainland China. In 2005, BEA was among the first batch of foreign banks that received approval to provide agency services for life insurance products in Mainland China. In 2006, BEA was one of the first foreign banks in China granted QDII status by the CBRC and was the first foreign bank in Mainland China to obtain a foreign exchange quota to conduct QDII business.

In 2007, BEA was one of the first foreign banks to establish a locally-incorporated bank in Mainland China and to conduct RMB business with local residents.

In 2008, BEA (China) was awarded the “2008 Best Internet Banking among Foreign Banks in China” by China Internet Weekly, the “Retail Financial Service Brand” in the 2008 China Business News Financial Brand Ranking and the “Best Foreign Retail Bank” in the 2008 Asian Banks Competitive Rankings held during the 21st Century Annual Finance Summit of Asia.

In July 2009, BEA (China) issued RMB-denominated bonds in an aggregate principal amount of RMB 4 billion in Hong Kong, and was the first locally-incorporated foreign bank in Mainland China to issue RMB bonds to retail investors in Hong Kong.

In September 2009, BEA (China) was granted the status of domestic settlement bank and domestic agent bank for cross-border RMB trade settlement services.

In March 2011, BEA (China) successfully completed the issue of its first batch of RMB financial bonds with an issue size of RMB2 billion in China’s interbank bond market.

Recently, BEA (China) has been honoured to receive a variety of awards including the following:

Year	Awards
2010	“Best Private Banking Brand among Foreign Banks in China” by the <i>21st Century Business Herald</i> in its 2009 Golden-Shell Award of Finance programme; “Most Promising Products/Service Brand” by the Internet Society of China at the 2010 China Internet Conference; “Most Honourable Foreign Bank in China” by <i>Money Weekly</i> ; and “Most Trustworthy Financial Management Services Brand Nominated by Internet Users in 2010” by SOHU.com during the SOHU 2010 Financial Management Network Festival
First Half of 2011	“2010 Most Innovative Product Award” for the Bull Bear Series of Investment Financial Products by <i>Money Weekly</i> and Amoney.com.cn; “2010 Most Personalised Internet Banking Award” by <i>China Times</i> in its 2010 Golden Cicada Award Ceremony; and “2010 Market Development Contribution to UnionPay Classic Award” by China UnionPay

As at 31 August 2011, BEA's wholly-owned subsidiary, BEA (China), headquartered in Shanghai, operated 22 branches in Shanghai, Beijing, Tianjin, Harbin, Dalian, Shenyang, Qingdao, Shijiazhuang, Zhengzhou, Urumqi, Hangzhou, Nanjing, Suzhou, Chengdu, Chongqing, Wuhan, Hefei, Xi'an, Shenzhen, Guangzhou, Zhuhai and Xiamen as well as 71 sub-branches (11 in Shanghai, eight in both Shenzhen and Guangzhou, five in each of Dalian, Beijing, Xi'an and Xiamen, four in Chongqing, three in each of Zhuhai, Chengdu and Shenyang, two in both Hangzhou and Qingdao, one in each of Wuhan, Nanjing, Foshan, Zhongshan, Huizhou, Zhaoqing and Jiangmen). The five cross-location sub-branches in Foshan, Zhongshan, Huizhou, Zhaoqing and Jiangmen were established under the liberalisation measures of Supplement VI to the CEPA. To capitalise on these new measures, BEA will continue to submit applications for the establishment of sub-branches in Guangdong Province. BEA (China) also operates 12 24-hour self-service banking centres and more than 410 ATMs in major urban areas in Mainland China. In addition to the BEA (China) network, BEA also operates a branch in Shanghai to provide foreign exchange wholesale services to corporate customers in Mainland China, and two representative offices in Fuzhou and Dongguan, and a rural bank in Fuping County Weinan City in Shaanxi Province. BEA (China) has also obtained preliminary approval to establish one new branch and six new sub-branches in Mainland China.

BEA provides a full range of RMB and foreign currency banking services in Mainland China, including but not limited to loans, deposits, trade finance, guarantees, remittance, RMB forward, SupremeGold accounts, RMB debit and credit cards, private banking, Cyberbanking, QDII services, derivative and investment products, agency services for general and life insurance products, and cross-border RMB trade settlement services.

In order to expand its presence in the Mainland China market, BEA has been expanding the range of products and services it provides in Mainland China and will seek to capitalise on the opportunities that it expects to arise following the liberalisation of the banking sector and from the CEPA between Hong Kong and Mainland China.

BEA (China) intends to diversify its client base by extending its service coverage in Mainland China via Cyberbanking and its network of ATMs and 24-hour self service banking centres. Through these additional channels of services, BEA (China) is able to provide greater accessibility and convenience to its customers. BEA will continue to expand its branch network strategically according to the business demand and the market environment in Mainland China.

BEA operates two branches in Taiwan, which are located in Taipei and Kaohsiung. BEA provides a wide range of wealth management services in Taiwan through BEAWMS, which include securities brokerage, wealth management, insurance brokerage, and securities investment consultancy services for high net worth clients.

In January 2011, BEA received approval from the Banking Bureau of the Financial Supervisory Commission ("FSC"), Executive Yuan, Republic of China to conduct trust business in Taiwan. BEA's Taipei Branch began providing trust services for real estate projects in the first half of 2011.

In January 2011, the Securities and Futures Bureau ("SFB") of the FSC granted approval to BEAWMS, BEA's wholly-owned subsidiary, to conduct wealth management business under trust. Service is expected to commence in the second half of 2011. Furthermore, SFB approved BEAWMS' application to set up a branch office in Taichung and a sales office in Taipei in May 2011. The two new offices are scheduled to open by the end of this year, and will bring the total number of BEAWMS offices to three.

For the years ended 31 December 2008, 2009 and 2010, BEA's operations in Mainland China, Taiwan and Macau accounted for approximately 18,550%⁽¹⁾, 45.7%, and 29.2%, respectively, of the Group's total profit before taxation and approximately 29.8%, 31.3%, 41.3%, 24.5%, and 45.7%, respectively, of the Group's total assets as at the end of December 2008, December 2009, June 2010, December 2010 and June 2011.

The main source of income for BEA's operations in Mainland China, Taiwan and Macau is interest income on loans and the performance in this business area is largely driven by market conditions. As part of BEA's expansion plan, BEA aims to continue diversifying into other business areas (including trade finance, personal banking, wealth management, treasury and cash management) to increase its fee income.

As at the end of December 2008, December 2009, June 2010, December 2010 and June 2011, the total outstanding customer advances of Mainland China, Taiwan and Macau branches were as follows:

	As at				
	31 December 2008	31 December 2009	30 June 2010	31 December 2010	30 June 2011
	(in HK\$ millions)				
Trade Finance	105	146	414	1,727	2,162
Property Related Loans	43,181	42,754	45,632	49,470	53,696
Non-Property Related Loans	53,144	58,018	61,232	61,493	64,300
Others	456	396	452	469	277
Total	<u>96,886</u>	<u>101,314</u>	<u>107,730</u>	<u>113,159</u>	<u>120,435</u>

The primary strategic focus of BEA (China) is currently RMB-denominated lending, which as at the end of December 2008, December 2009, June 2010, December 2010 and June 2011 amounted to HK\$70,337 million, HK\$74,733 million, HK\$81,065 million, HK\$88,375 million and HK\$93,558 million, respectively or approximately 77%, 78%, 80%, 83% and 83%, respectively of the total customer advances of BEA (China). Borrowers comprise companies registered to do business in Mainland China and individual customers including local residents. BEA expects to further expand its RMB-denominated lending business as its existing customers continue to grow and demand for RMB advances remains strong.

⁽¹⁾ For the year ended 31 December 2008, the Group's financial performance was adversely affected by the one-off write down of HK\$3,549 million for its investments in CDOs and SIVs conducted in Hong Kong (see "Selected Statistical and Other Information — Asset Quality — Held-to-maturity Debt Securities"). The loss before taxation for Hong Kong operations for the period was HK\$1,876 million, and the Group's consolidated profit before taxation for the period was HK\$8 million. As a result, when the profit before taxation for the period for China operations (including Taiwan and Macau) (HK\$1,484 million) is compared against the Group's consolidated result, it accounts for 18,550% of the consolidated profit before taxation.

INTERNATIONAL

BEA's international operations were commenced to meet the requirements of its core customers as their interests expanded overseas from Hong Kong. BEA seeks to establish a presence in cities with large concentrations of overseas Chinese. The following table sets out BEA's branches, banking subsidiaries and representative offices outside Hong Kong, the PRC, Macau and Taiwan as at 31 August 2011.

Country	Location	Year Opened
Malaysia	Branch in Labuan; Representative Office in Kuala Lumpur	1997 and 1997
Singapore	Branch in Singapore	1952
United States	Headquarters in New York; branch in New York Chinatown, Brooklyn and Flushing six other branches in Los Angeles, California, namely Los Angeles, Alhambra, Temple City, Torrance, San Gabriel, Hacienda Heights five branches in San Francisco, California, namely Clement, Noriega, South San Francisco, San Francisco Chinatown and Oakland Note: After the disposition of 80% of BEAUSA, only the branch in New York Chinatown and a branch in Los Angeles will remain operating.	1984, 2003, 2007 and 2007 1991, 2001, 2003, 2005, 2008 and 2008 2006, 2006, 2008, 2008 and 2009
United Kingdom	Branches in London and Birmingham	1990 and 1997

BEAUSA currently operates 13 branches in the United States (ten branches in California and three branches in New York). BEA entered into a Share Sale Agreement with the Industrial and Commercial Bank of China Limited (“ICBC”) on 21 January 2011, under which ICBC would acquire an 80% stake in BEAUSA. The transaction with ICBC is subject to the regulatory approvals of the Federal Reserve Board of the United States and the China Banking Regulatory Commission, while preliminary approval from the HKMA has been obtained. After the completion of the transaction, BEA will continue to operate and focus on its wholesale and corporate banking business through the New York and Los Angeles branches in the United States. In 2009, BEAUSA undertook measures to control its operating expenses and improve its net interest margin, principally through lowering its cost of funds by reducing its reliance on high-priced time deposits. Despite incurring a net loss for the full year ended 31 December 2009, as a result of such measures BEAUSA recorded a net profit (for reporting purposes in the United States) in the third and fourth quarters of 2009. BEAUSA also recorded a net profit in the first quarter of 2010 (for reporting purposes in the United States). BEA will retain its United States operations as a long-term investment.

For a discussion of the risks relating to BEA's operations in the United States, see "*Investment Considerations — Considerations relating to BEA — United States Operations*".

Following the sale of its 70% stake in Industrial and Commercial Bank of China (Canada) ("**ICBC (Canada)**") (formerly known as Bank of East Asia (Canada) ("**BEA (Canada)**")) in January 2010, the Bank completed the disposal of its additional 10% interest in ICBC (Canada) to ICBC under a call option in August 2011. Following the disposal of the additional shares, the Bank's interest in ICBC (Canada) is reduced from 30% to 20%. The 20% interest in ICBC (Canada) will remain as a long-term investment of BEA which looks forward to participating in the growth of the company as ICBC further develops its Canadian business.

The Singapore branch of BEA sustains strong growth in loan assets and revenue, underpinned by strong economic fundamentals in the country as well as robust trade activities between China and Singapore.

In Malaysia, BEA's representative office in Kuala Lumpur continues to take an active role in cross-referrals of business between Tricor Malaysia and AFFIN Bank Berhad, a subsidiary of AFFIN Holdings Berhad, in which BEA was holding a 23.518% interest as at 30 June 2011.

Group Structure

BEA is the holding company and the principal operating company of the Group. In addition, BEA has a number of significant subsidiaries and associated companies through which the Group conducts various operations such as stock-broking, asset management and certain fee-based activities.

For the half year ended and as at 30 June 2011, except for BEA (China), none of BEA's subsidiaries accounted for more than 10% of the consolidated net profit and loss of the Group or had a book value in excess of 10% of the Group's consolidated total assets.

As at 30 June 2011, the Group's principal subsidiaries were as follows:

Name of subsidiary of the Issuer	Place of incorporation and operation of the Group	Issued and paid-up capital	% held by		Nature of business
			The Issuer	The Group	
Ample Delight Limited	Hong Kong	HK\$450,000,000		100%	Investment holding
Bank of East Asia (Trustees) Limited	Hong Kong	HK\$150,000,000	100%		Trustee
BEA Life Limited.	Hong Kong	HK\$500,000,000	100%		Life insurance
BEA Union Investment Management Limited	Hong Kong	HK\$374,580,000	51%		Asset management
BEA Wealth Management Services (Taiwan) Limited	Taiwan, Republic of China	NTD273,200,000		100%	Wealth management services
Blue Cross (Asia-Pacific) Insurance Limited.	Hong Kong	HK\$750,000,000	100%		Insurance
Central Town Limited.	Hong Kong	HK\$2	100%		Property investment
Century Able Limited.	Hong Kong	HK\$929,752,849		100%	Investment holding
Corona Light Limited.	BVI	HK\$929,752,849		100%	Investment holding
Credit Gain Finance Company Limited.	Hong Kong	HK\$1	100%		Money lenders
Crystal Gleaming Limited	BVI	HK\$929,752,849	100%		Investment holding
EA China Finance Limited	BVI	U.S.\$6,970,000		100%	Inactive
East Asia Electronic Data Processing (Guangzhou) Limited	PRC	U.S.\$3,000,000		100%	Servicing
East Asia Financial Services (BVI) Ltd	BVI	U.S.\$24,096,000	100%		Investment holding
East Asia Holding Company, Inc.	U.S.A.	U.S.\$5	100%		Bank holding company
East Asia Indonesian Holdings Limited	Seychelles	U.S.\$100,000		100%	Investment holding
East Asia Investments Holdings (BVI) Ltd.	BVI	HK\$186,038,725	100%		Investment holding
East Asia Secretaries (BVI) Limited	BVI	HK\$300,000,000		75.61%	Investment holding
East Asia Securities Company Limited.	Hong Kong	HK\$25,000,000	100%		Securities broking
East Asia Strategic Holdings Limited	BVI	U.S.\$50,000,000	100%		Investment holding
Innovate Holdings Limited	BVI	U.S.\$1 (Ordinary U.S.\$500,000,000 (with a liquidation preference of U.S.\$1,000 per share)	100%		Special purpose vehicle company
Keen Sight Development Limited	BVI	U.S.\$26,200,000	100%		Investment holding
Powerhouse Worldwide Limited	BVI	U.S.\$26,200,000		100%	Investment holding
Skyray Holdings Limited	BVI	HK\$450,000,000	100%		Investment holding
Speedfull Limited.	BVI	HK\$450,000,000		100%	Investment holding
The Bank of East Asia (China) Limited 1	PRC	RMB8,000,000,000	100%		Banking and related financial services
The Bank of East Asia (U.S.A.) N.A.	U.S.A.	U.S.\$4,500		100%	Banking
Tricor Consultancy (Beijing) Limited 1	PRC	U.S.\$1,850,000		75.61%	Business consultancy in China
Tricor Holdings Limited	BVI	U.S.\$7,001		75.61%	Investment holding
Tricor Holdings Pte. Limited	Singapore	S\$5,000,002		75.61%	Investment holding
Tricor Outsourcing (Thailand) Ltd.	Thailand	THB10,000,000		57.46%	Business outsourcing
Tricor Investor Services Limited	Hong Kong	HK\$2		75.61%	Investor services
Tricor Services Limited.	Hong Kong	HK\$2		75.61%	Business, corporate and investor services
Tricor Services (BVI) Limited	BVI	U.S.\$250,000		75.61%	Registered agent and trustee services
Tricor Services (Malaysia) Sdn. Bhd.	Malaysia	RM5,672,484		60.49%	Investment holding
Tung Shing Holdings Company Limited	BVI	U.S.\$20,000,000	100%		Investment holding

Notes

1. Represents a wholly foreign-owned enterprise.
2. BVI denotes the British Virgin Islands.

ORGANISATION

The Board of Directors of BEA is responsible for the overall management of the Group. To assist the Board of Directors in managing the Group, a number of committees have been established, including the Executive Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee. The Executive Committee is responsible for reviewing all major functions and critical issues relating to the businesses and operations of the Group. The Audit Committee is responsible for reviewing the financial controls, internal control and risk management systems, adequacy of resources, qualifications and experience of the accounting and financial reporting function, annual report and accounts, and half-year interim report. The Remuneration Committee is responsible for making recommendations to the Board of Directors regarding BEA's remuneration policy, and for the formulation and review of the specific remuneration packages of the Chief Executive, members of Senior Management and Division Heads of BEA. The Nomination Committee is responsible for recommending to the Board of Directors all new appointments and re-appointments of Directors, Chief Executive Officer, Senior Management and Division Heads of BEA, and succession planning for Directors, Chief Executive Officer, Senior Management and Division Heads of BEA.

In addition to the Executive Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee, BEA has a number of other committees which assist management in the operation of BEA. These include the Risk Management Committee, which is responsible for dealing with risk management related issues of the Group; the Credit Committee, which is responsible for dealing with all credit risk related issues of the Group; the Asset and Liability Management Committee ("ALCO"), which is responsible for dealing with all issues related to the market, interest rate, liquidity, strategic risks and capital management of the Group; Operational Risk Management Committee, which is responsible for dealing with all issues relating to the operational, legal and reputation risks of the Group; the Investment Committee, which is responsible for reviewing and formulating investment strategies as well as making investment decisions in respect of fixed income, equity and equity related investments for BEA, East Asia Investment Holdings Limited, The Bank of East Asia, Limited Employees' Provident Fund and The Bank of East Asia, Limited Employees' Provident Fund (UCB); the Policy Committee, which is responsible for discussing and formulating various strategies and policies for managing businesses and operations of the Group; and the Crisis Management Committee, which is responsible for developing and reviewing the Group's strategy for managing crisis scenarios and taking charge of crisis situations which jeopardise or have the potential to jeopardise the Group and its reputation, liquidity/financial position and business continuity.

BEA has 12 divisions, each of which is responsible for a specific operational function. The divisions are the Personal Banking Division, the Corporate Banking Division, the Wealth Management Division, the Insurance & Retirement Benefits Division, the Treasury Markets Division, the China Division, the International Division, the Strategic Planning & Control Division, the Operations Support Division, the Human Resources & Corporate Communications Division, the Risk Management Division and the Legal, Secretarial & Tax Division.

PROPERTIES

As at 31 August 2011, BEA owns properties with aggregate floor areas of approximately 360,427 square feet, 469,918 square feet and 39,184 square feet on Hong Kong Island, in Kowloon and in the New Territories, respectively. Most of BEA's properties are used as banking offices, as branches or for storage. The remainder are currently leased to third parties. In addition, BEA also leases properties with aggregate floor areas of approximately 54,234 square feet, 132,799 square feet and 72,491 square feet, on Hong Kong Island, in Kowloon and in the New Territories, respectively. These leased properties are used as banking offices, as branches or for storage. As at 30 June 2011, the fair value for BEA's investment properties and bank premises amounted to HK\$2,161 million and HK\$7,618 million, respectively.

INTELLECTUAL PROPERTY

The Group relies on domain name registrations to establish and protect its internet domain names. The Group has registered a number of internet domain names. The Group has also registered “The Bank of East Asia Limited cyber banking” as a trademark with the Hong Kong government.

INSURANCE

BEA currently maintains insurance cover to mitigate its risk. Such insurance can broadly be categorised into property insurance to cover the loss of or damage to building structure and content, electronic equipment and motor vehicles; public liability insurance to cover legal liability as a result of physical bodily injury and/or property damage caused to third parties; bankers’ blanket bonds insurance to cover the loss resulting from fraudulent acts by employees, loss of money on premises and in transit and forgery of bank instruments; professional indemnity insurance to indemnify BEA for loss arising out of claims for wrongful or negligent professional acts; and directors’ and officers’ liability insurance to cover the personal liability of BEA’s directors and officers against any claims resulting from any wrongful act. There is a centralised independent function within BEA that handles the validity and adequacy of insurance cover. BEA also requires borrowers to obtain appropriate insurance cover for security provided by them.

COMPETITION

The banking industry in Mainland China is highly competitive. The market has been dominated by the large state-owned commercial banks, which have a long operating history, well-established branch networks, comprehensive customer bases and better brand recognition.

Although BEA is the largest independent local bank in Hong Kong in terms of assets, given increasing competition among the local banks in Hong Kong, the Group has placed greater focus on diversifying its revenue sources and increasing its fee-based income, particularly from its wealth management and retail investment businesses. In addition, the Group is also focused on expanding its presence in Mainland China through BEA (China) and additional branches, sub-branches and representative offices in major cities in Mainland China. However, in view of the fact that banking business in Mainland China was opened to foreign banks in early 2007 as part of the PRC’s WTO commitments, BEA expects competition in Mainland China to continue to increase.

For a further discussion of the risks of competition faced by the Group in Hong Kong and China, see “*Investment Considerations — Considerations Relating to BEA — Competition*”.

LITIGATION

Save as disclosed below, neither BEA nor any of its subsidiaries is currently involved in any material litigation, arbitration or similar proceedings, and BEA is not aware of any such proceedings pending or threatened against it or any of its subsidiaries, which are or might be material in the context of Notes to be issued under the Programme.

Repurchase of Lehman Brothers Mini-Bonds subscribed or purchased through BEA

On 22 July 2009, on a without-liability basis, BEA entered into an agreement with the HKMA, the SFC and 15 other distributing banks pursuant to which BEA has made an offer to eligible persons to repurchase their holdings in the Mini-Bonds subscribed or purchased through BEA. BEA made an announcement on the same date setting out the details of the offer.

In the event that all eligible persons accept the offer and there is no future recovery from the underlying collateral of the outstanding Mini-Bonds, the maximum commitment of BEA towards such purchase is HK\$109 million in accordance with the available information up to 13 October 2009. On this basis, BEA has already made full provision in its accounts for the expected cost in respect of the repurchase of the aforementioned structured investment products.

As at 27 September 2011, approximately 99.55% of the eligible persons have accepted the offer and the remaining 0.45% (i.e. four Mini-Bonds holders, with amounts due totalling HKD320,000) have rejected the offer. It is still uncertain at this stage whether the remaining four Mini-Bonds holders will make monetary or compensatory claims against BEA.

EMPLOYEES

As at 31 July 2011, the Group had a total of 11,828 employees as set forth in the following table:

	<u>No. of employees</u>
Commercial and retail banking	2,486
Head office and operational support	2,074
Overseas (Mainland China only)	4,781
(excluding Mainland China)	1,351
Subsidiaries	<u>1,136</u>
Total	<u>11,828</u>

As at 31 July 2011, approximately 26% of BEA's employees performed managerial and management functions.

Management believes that BEA maintains a good relationship with its employees and has not experienced any material employment disputes. Other than certain local employees at its Singapore branch, none of BEA's employees are members of a trade union. BEA provides various benefits to its employees including housing, life and medical insurance benefits. While Hong Kong employees enjoy retirement benefits under either the MPF Scheme or the MPF exempted ORSO Scheme, BEA also maintains a pension fund scheme for its overseas employees in accordance with the relevant local practice and regulations. BEA also operates share option schemes under which options to purchase ordinary shares in BEA have been granted to eligible employees and executive director(s). As at 31 August 2011, approximately 21,600,000 shares, representing approximately 1.04% of BEA's issued capital on a fully diluted basis, were issuable upon the exercise of options granted under BEA's share option schemes.

PROTECTION OF DEPOSITORS

BEA is a member of the Deposit Protection Scheme, which was launched in September 2006. Accordingly, all eligible depositors of BEA are automatically protected under the Deposit Protection Scheme. As part of its measures to maintain the liquidity of, and confidence in, the Hong Kong financial markets, the Hong Kong government introduced in 2006 a Deposit Protection Scheme to provide a level of protection to depositors with deposits held with authorised institutions in Hong Kong. An enhanced Deposit Protection Scheme with an increased protection limited of HK\$500,000 and expanded coverage including deposits pledged as security for banking services, came into effect on 1 January 2011.

SELECTED STATISTICAL AND OTHER INFORMATION

The selected statistical and other information set forth below relates only to the Group and has, except where otherwise indicated, been compiled as at and for each of the years ended 31 December 2008,

2009 and 2010, and should be read in conjunction with the information contained elsewhere in this Offering Circular, including “*Business of the Issuer*”.

ADVANCE PORTFOLIO

Overview

As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, the Group’s total outstanding advances to customers were HK\$230,339 million, HK\$247,654 million, HK\$297,044 million and HK\$312,491 million, respectively, which represented approximately 55.5%, 57.1%, 55.6% and 52.2%, respectively, of its total assets.

The majority of the Group’s advances are in respect of home mortgages and advances for property investment and development, which together, as at 31 December 2008, 2009 and 2010 and as at 30 June 2011, represented approximately 26.3%, 27.3%, 27.3% and 25.9%, respectively, (excluding advances under GHOS, PSPS and TPS) of the Group’s total advances to customers.

The table below sets forth a summary of the Group’s gross advances by sector as at the dates indicated.

The Group

	As at 31 December					
	2008	Percentage of total	2009	Percentage of total	2010	Percentage of total
	(in HK\$ millions, except percentages)					
Loans for use in Hong Kong						
Financial						
- Property development . . .	8,855	3.9%	9,411	3.8%	10,245	3.4%
- Property investment	27,431	11.9%	29,766	12.0%	40,697	13.7%
- Financial concerns	2,542	1.1%	2,699	1.1%	6,169	2.1%
- Stockbrokers	550	0.2%	1,190	0.5%	453	0.2%
- Wholesale and retail trade	2,405	1.0%	3,265	1.3%	4,710	1.6%
- Manufacturing	2,055	0.9%	2,177	0.9%	4,876	1.6%
- Transport and transport equipment	3,642	1.6%	3,794	1.5%	4,461	1.5%
- Recreational activities . .	285	0.1%	45	—	88	—
- Information technology .	4	—	8	—	566	0.2%
- Others ⁽¹⁾	9,954	4.3%	13,006	5.3%	4,885	1.7%
- Sub-total	<u>57,723</u>	<u>25.0%</u>	<u>65,361</u>	<u>26.4%</u>	<u>77,150</u>	<u>26.0%</u>

As at 31 December

	2008	Percentage of total	2009	Percentage of total	2010	Percentage of total
(in HK\$ millions, except percentages)						
Individuals						
- Loans for the purchase of flats in the GHOS, PSPS and TPS	1,318	0.6%	1,529	0.6%	1,611	0.5%
- Loans for the purchase of other residential properties	24,297	10.5%	25,220	10.2%	30,130	10.2%
- Credit card advances	2,997	1.4%	2,675	1.1%	3,087	1.0%
- Others ⁽²⁾	6,553	2.8%	8,839	3.5%	13,570	4.6%
- Sub-total	<u>35,165</u>	<u>15.3%</u>	<u>38,263</u>	<u>15.4%</u>	<u>48,398</u>	<u>16.3%</u>
Total loans for use in Hong Kong	92,888	40.3%	103,624	41.8%	125,548	42.3%
Trade finance	2,905	1.3%	2,652	1.1%	9,554	3.2%
Loans for use outside Hong Kong ⁽³⁾	134,546	58.4%	141,378	57.1%	161,942	54.5%
Total advances to customers	<u>230,339</u>	<u>100%</u>	<u>247,654</u>	<u>100%</u>	<u>297,044</u>	<u>100.0%</u>

As at 30 June

	2010	Percentage of total	2011	Percentage of total
(in HK\$ millions, except percentages)				
Loans for use in Hong Kong				
Financial				
- Property development	9,604	3.4%	9,936	3.2%
- Property investment	36,099	13.0%	42,384	13.5%
- Financial concerns	2,781	1.0%	9,585	3.1%
- Stockbrokers	8,519	3.1%	912	0.3%
- Wholesale and retail trade	3,782	1.4%	6,869	2.2%
- Manufacturing	3,467	1.2%	4,831	1.5%
- Transport and transport equipment	4,452	1.6%	4,542	1.4%
- Recreational activities	74	0.0%	204	0.1%
- Information technology	275	0.1%	583	0.2%
- Others ⁽¹⁾	5,202	1.9%	5,860	1.9%
- Sub-total	<u>74,255</u>	<u>26.7%</u>	<u>85,706</u>	<u>27.4%</u>
Individuals				
- Loans for the purchase of flats in the GHOS, PSPS and TPS	1,515	0.5%	1,497	0.5%
- Loans for the purchase of other residential properties	27,658	10.0%	28,484	9.1%
- Credit card advances	2,822	1.0%	3,042	1.0%
- Others ⁽²⁾	15,510	5.6%	13,286	4.3%
- Sub-total	<u>47,505</u>	<u>17.1%</u>	<u>46,309</u>	<u>14.9%</u>

	As at 30 June			
	2010	Percentage of total	2011	Percentage of total
	(in HK\$ millions, except percentages)			
Total loans for use in Hong Kong	121,760	43.8%	132,015	42.3%
Trade finance	6,409	2.3%	7,928	2.5%
Loans for use outside Hong Kong ⁽³⁾	<u>150,041</u>	<u>53.9%</u>	<u>172,548</u>	<u>55.2%</u>
Total advances to customers	<u>278,210</u>	<u>100.0%</u>	<u>312,491</u>	<u>100.0%</u>

Notes:

- (1) "Others" includes the industry sectors of civil engineering works, electricity and gas, hotels, boarding houses and catering, non-stockbroking companies and individuals for the purchase of shares, professional and private individuals for other business purposes and all others not specified.
- (2) "Others" includes professional and private individuals for other private purposes.
- (3) This refers to loans to customers the proceeds of which are not used in Hong Kong.

Geographical Concentration

The table below sets forth a summary of the Group's gross advances to customers by geographical location as at the dates indicated.⁽¹⁾

	As at 31 December					
	2008	Percentage of total	2009	Percentage of total	2010	Percentage of total
	(in HK\$ millions, except percentages)					
Hong Kong	112,038	48.7%	121,538	49.1%	145,109	48.8%
People's Republic of China ⁽²⁾	85,741	37.2%	93,084	37.6%	118,898	40.0%
Other Asian Countries ⁽³⁾	10,798	4.7%	10,103	4.1%	12,061	4.1%
Others ⁽⁴⁾	<u>21,762</u>	<u>9.4%</u>	<u>22,929</u>	<u>9.2%</u>	<u>20,976</u>	<u>7.1%</u>
Total	<u>230,339</u>	<u>100.0%</u>	<u>247,654</u>	<u>100.0%</u>	<u>297,044</u>	<u>100.0%</u>

	As at 30 June			
	2010	Percentage of total	2011	Percentage of total
	(in HK\$ millions, except percentages)			
Hong Kong	140,597	50.5%	151,371	48.5%
People's Republic of China ⁽²⁾	107,582	38.7%	126,002	40.3%
Other Asian Countries ⁽³⁾	10,434	3.8%	13,858	4.4%
Others ⁽⁴⁾	<u>19,597</u>	<u>7.0%</u>	<u>21,260</u>	<u>6.8%</u>
Total	<u>278,210</u>	<u>100.0%</u>	<u>312,491</u>	<u>100.0%</u>

Notes:

- (1) The above geographical analysis has been classified by the location of the counterparties, after taking into account any transfer of risk.

- (2) This includes Mainland China, Taiwan and Macau but excludes Hong Kong.
- (3) This includes all Asian countries other than Mainland China, Taiwan, Macau and Hong Kong.
- (4) This includes North America, Western Europe and other countries outside Asia.

Customer Advance Concentration

The Banking Ordinance generally prohibits any bank incorporated in Hong Kong from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its capital base. For a discussion of “financial exposure”, see “*Regulation and Supervision — Regulation and Supervision in Hong Kong — Principal Obligations of Licensed Banks — Financial Exposure to Any One Customer*”. As at 30 June 2011, the Group’s exposure to its 20 largest borrowers (including groups of individuals and companies) amounted to approximately HK\$40,463 million, or approximately 12.9% of the Group’s gross advances, with the largest representing HK\$4,616 million, or approximately 1.5% of the Group’s gross advances. As at 31 December 2010, the Group’s exposure to its 20 largest borrowers (including groups of individuals and companies) amounted to approximately HK\$38,305 million, or approximately 12.9% of the Group’s gross advances, with the largest representing HK\$4,172 million, or approximately 1.4% of the Group’s gross advances. As at 31 December 2009, the Group’s exposure to its 20 largest borrowers (including groups of individuals and companies) represented approximately HK\$32,796 million, or approximately 13.2% of the Group’s gross advances, with the largest accounting for HK\$4,152 million, or approximately 1.7% of the Group’s gross advances. As at 31 December 2008, the Group’s exposure to its 20 largest borrowers (including groups of individuals and companies) amounted to approximately HK\$35,710 million, or approximately 15.5% of the Group’s gross advances, with the largest accounting for HK\$4,034 million, or approximately 1.8% of the Group’s gross advances.

Advance Analysis

As a significant proportion of the Group’s gross advances are made for the purchase of residential property, as at 31 December 2008, 2009 and 2010, approximately 24.1%, 24.8% and 24.6% of advances had a remaining maturity of more than five years, respectively.

The table below sets forth a summary of the Group’s gross advances by remaining maturity as at the dates indicated.

	As at 31 December					
	2008	Percentage of total	2009	Percentage of total	2010	Percentage of total
	(in HK\$ millions, except percentages)					
Payable on demand ⁽¹⁾	4,437	1.9%	4,354	1.8%	4,661	1.6%
3 months or less	42,013	18.2%	35,254	14.2%	45,410	15.3%
1 year or less but over 3 months	40,712	17.7%	45,088	18.2%	55,986	18.9%
5 years or less but over 1 year	85,835	37.3%	100,683	40.7%	117,365	39.5%
After 5 years	55,411	24.1%	61,516	24.8%	73,210	24.6%
Undated	1,931	0.8%	759	0.3%	412	0.1%
Gross advances to customers	<u>230,339</u>	<u>100.0%</u>	<u>247,654</u>	<u>100.0%</u>	<u>297,044</u>	<u>100.0%</u>

As at 30 June

	2010		2011	
	Amount	Percentage of total	Amount	Percentage of total
(in HK\$ millions, except percentages)				
Payable on demand ⁽¹⁾	4,842	1.7%	5,370	1.7%
3 months or less	51,411	18.5%	50,104	16.1%
1 year or less but over 3 months	47,689	17.1%	61,010	19.5%
5 years or less but over 1 year	104,121	37.4%	118,403	37.9%
After 5 years	69,132	24.9%	77,260	24.7%
Undated	1,015	0.4%	344	0.1%
Gross advances to customers	<u>278,210</u>	<u>100.0%</u>	<u>312,491</u>	<u>100.0%</u>

Note:

(1) Includes overdrafts.

As at 31 December 2008, 2009 and 2010, approximately 93.4%, 86.6% and 84.8% of advances made by the Group were at floating rates of interest, respectively. See “— *Asset and Liability Management*”. The current rate for home mortgage advances in Hong Kong generally ranges from 1.75% to 2.5% above the 1-month HIBOR. The interest rate for Hong Kong dollar consumer finance advances is typically calculated on the initial principal amounts of such advances and typically ranges from 0.2% to 1.2% per month flat for fixed rate products and from 3.5% (P-1.75%) to 8.25% (P+3%) per annum for prime based products. The interest rate for Hong Kong dollar trade finance advances made by the Group is typically a margin over the prime rate. The interest rate for project finance lending and syndicated lending is typically a margin over the Hong Kong interbank offer rate (“HIBOR”). As at 31 December 2008, 2009 and 2010, approximately 44.8%, 46.9% and 47.8%, respectively, of advances made by the Group were denominated in Hong Kong dollars, approximately 17.6%, 15.6% and 16.3%, respectively, were denominated in U.S. dollars and approximately 30.5%, 30.2% and 29.8%, respectively, were denominated in Renminbi. Rates which are lower than the above rates may be offered by the Group under appropriate circumstances subject to internal approvals.

An important component of the Group’s asset and liability policy is its management of interest rate risk, which is the relationship between market interest rates and the Group’s interest rates on its interest-earning assets and interest-bearing liabilities. See “— *Asset and Liability Management*”.

As at 31 December 2008, the amounts, in Hong Kong dollars, and percentages represented by fixed and floating-rate advances denominated in Hong Kong dollars and foreign currencies, respectively, were as follows:

Advances outstanding as at 31 December 2008						
	HK dollar advances		Foreign currency advances		Total	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
(in HK\$ millions, except percentages)						
Fixed rate	6,644	6.8%	8,453	6.4%	15,097	6.6%
Floating rate	91,005	93.2%	124,237	93.6%	215,242	93.4%
Total	<u>97,649</u>	<u>100.0%</u>	<u>132,690</u>	<u>100.0%</u>	<u>230,339</u>	<u>100.0%</u>

As at 31 December 2009, the amounts, in Hong Kong dollars, and percentages represented by fixed and floating-rate advances denominated in Hong Kong dollars and foreign currencies, respectively, were as follows:

Advances outstanding as at 31 December 2009						
	HK dollar advances		Foreign currency advances		Total	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
(in HK\$ millions, except percentages)						
Fixed rate	21,054	18.4%	12,153	9.1%	33,207	13.4%
Floating rate	93,498	81.6%	120,949	90.9%	214,447	86.6%
Total	<u>114,552</u>	<u>100.0%</u>	<u>133,102</u>	<u>100.0%</u>	<u>247,654</u>	<u>100.0%</u>

As at 31 December 2010, the amounts, in Hong Kong dollars, and percentages represented by fixed and floating-rate advances denominated in Hong Kong dollars and foreign currencies, respectively, were as follows:

Advances outstanding as at 31 December 2010						
	HK dollar advances		Foreign currency advances		Total	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
(in HK\$ millions, except percentages)						
Fixed rate	28,704	20.5%	16,485	10.5%	45,189	15.2%
Floating rate	111,540	79.5%	140,315	89.5%	251,855	84.8%
Total	<u>140,244</u>	<u>100.0%</u>	<u>156,800</u>	<u>100.0%</u>	<u>297,044</u>	<u>100.0%</u>

As at 31 December 2008, 2009 and 2010, at least 70% of the Group's advances were secured by collateral. Home mortgages are secured by a first legal charge over the underlying property. Working capital advances for businesses are typically secured by fixed and floating charges over land, buildings, machinery, inventory and receivables. Term advances for specific projects or developments are typically secured against the underlying project's assets and its receivables, while additional guarantees are typically provided by the sponsors or shareholders. The Group also receives guarantees in relation to certain of its other advances to cover, in the case of trade finance, any shortfall in security or, in the case of consumer advances to younger or less financially secure customers, to provide security on what are normally unsecured advances.

All forms of security taken as collateral against credit facilities are monitored by the respective departments which extended the advances. In general, the collateral is periodically valued by an independent valuer to determine whether any additional collateral is required.

RISK MANAGEMENT AND CREDIT POLICIES

The Group's lending policies have been formulated on the basis of its own experience, the Banking Ordinance, HKMA guidelines and policies issued by the Hong Kong Association of Banks and other statutory requirements (and, in the case of overseas branches and subsidiaries, the relevant local laws and regulations). BEA believes it has a history of, and reputation for, prudent lending practices. The majority of the Group's lending is on a secured basis, and the Group has established loan-to-value lending limits based on the appraised market value of the relevant collateral.

Risk Management

In April 2009, BEA established an enterprise-wide risk structure with a centralised risk management unit (the “**Risk Management Division**”).

The Risk Management Division is headed by the Group Chief Risk Officer & General Manager, who reports directly to the Chairman & Chief Executive and is responsible for initiating, implementing and monitoring risk management policies throughout the Group with regard to different types of risk. The Risk Management Division assesses regulatory requirements, in particular the requirements under the Supervisory Policy Manuals issued by the HKMA, and is responsible for:

- (i) formulating risk management policies and guidelines and performing regular reviews in order to ensure that such policies and guidelines are kept up to date;
- (ii) monitoring risk exposure and compliance with the risk management framework using a risk-based approach that incorporates independent risk assessment and review of regular reports and new products/specific issues;
- (iii) co-ordinating risk-related projects;
- (iv) reporting monitoring results and significant risk related issues to the specialised risk management committees, namely, Credit Committee, ALCO and Operational Risk Management Committee, and/or Risk Management Committee and/or the Board, where appropriate, so as to assist them to discharge their duty of oversight of risk management activities. Departments within the Risk Management Division have been assigned responsibility for different types of risk, including credit risk, interest rate risk, legal risk, liquidity risk, market risk, operational risk, reputational risk and strategic risk.

For interest rate risk, ALCO sets the strategy and policy for managing interest rate risk and the means for ensuring that such strategy and policy are implemented. The Risk Management Division is responsible for monitoring interest rate related activities to ensure compliance with the related bank policies, rules and regulations. The Internal Audit Department performs periodic review, to make sure the interest rate risk management functions are effectively carried out.

For the banking book, additional monitoring focuses on the repricing mismatches. Gap analysis provides a static view of the maturity and repricing characteristics of BEA’s balance sheet positions. Repricing gap limits are set to control BEA’s interest rate risk.

Sensitivity analysis on earnings and economic value to interest rate changes is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on both sides of the balance sheet and performed on a monthly basis. Sensitivity limits are set to control the Issuer’s interest rate risk exposure under both earnings and economic value perspectives. The ALCO monitors the results thereof and decides remedial action if required.

In addition to the above, the ALCO sets the strategy and policy for managing liquidity risk and the means for ensuring that such strategy and policy are implemented.

BEA monitors its liquidity position on a daily basis to ensure the Group’s funding needs can be met and the statutory liquidity ratio is complied with. The average consolidated liquidity ratio was approximately 38.4%, 43.3%, 44.9% and 41.0% for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively, which is above the statutory minimum ratio of 25%.

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

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Stress testing is regularly conducted to analyse liquidity risk. A contingency plan is in place which sets out a strategy for dealing with a liquidity problem and the procedures for making up cash flow deficits in emergency situations.

Credit Policies

The Group's primary credit approval body is the Credit Committee, which comprises two Senior Advisors, four Deputy Chief Executives, two General Managers (one of whom is the Group Chief Risk Officer). The Credit Committee has overall responsibility for the Group's credit policies and oversees the credit quality of the Group's advance portfolio. Under the oversight of the Credit Committee, officers of the Group are authorised to approve credit based on the size of the advance, the collateral provided, the credit standing of the applicant and other prescribed credit guidelines. The following table sets out the credit approval limits for various types of advances in Hong Kong.

	Hong Kong		
	Trade finance	Advances secured by collateral	Unsecured consumer advances
	(in HK\$ millions)		
Credit Committee	Any amount	Any amount	Any amount
Division Head	80 (20) ⁽¹⁾	80	20
Department Head	30 (5) ⁽¹⁾	30	2 - 4
Manager (Levels M4 to SM2)	1.5 (0.5) to 10 (3.5) ⁽¹⁾	0.6 to 20	0.05 to 1.8

Note:

(1) The numbers in parentheses represent credit limits for unsecured portions of advances.

The Credit Risk Management Department under the Risk Management Division is responsible for reviewing credit applications for significant loan amounts. When a customer fills out an advance application or requests a credit line, the branch or lending department account officer collects information through customer interviews, documentation requests and feasibility studies as well as other sources. After a thorough evaluation, the account officer may approve the application if the amount is within his lending authority. If the amount exceeds his lending authority, then the application is submitted to the appropriate person having a higher level of lending authority.

BEA has adopted lending policies with loan-to-value limits which apply to advances secured by a legal charge over an asset or property. Loan-to-value ratios on owner-occupied residential mortgages in Hong Kong (excluding advances under GHOS, PSPS and TPS) are limited to 50% (for property value at or above HK\$10 million); 60% (for property value at HK\$7 million or above but below HK\$10 million, and maximum loan amount being capped at HK\$5 million); 70% (for property value below HK\$7 million, and maximum loan amount being capped at HK\$4.2 million). For non-owner occupied

residential mortgages and commercial / industrial mortgages, BEA's policy is to limit the advance to 50% of the lower of the purchase price and the independently appraised value of the property. Underlying property values are based on the lower of the purchase price and the independently appraised value of the property.

Besides, BEA's lending policies limit the maximum customer debt servicing ratio to 50%, while stress test on the borrower's repayment ability by assuming a rise in interest rate of 2% is imposed for residential mortgages.

Meanwhile, for property mortgages (irrespective of the property value and property type) under the approach of assessment by net worth of the borrower (with the asset-to-total debt obligation ratio of the borrower of at least 100%), the loan-to-value ratio is limited to 40%.

Hong Kong has adopted the Basel II Accord capital adequacy standards from the beginning of 2007. In December 2007, BEA received the approval from the HKMA to adopt the advanced approaches under the Basel II Accord, namely the Foundation Internal Ratings-based ("IRB") Approach for credit risk, the Internal Models Approach for market risk and the Standardised Approach for operational risk. Since 31 December 2007, BEA has used the IRB Approach to determine its credit risk weighted assets for calculating the Capital Adequacy Ratio. The business benefits of adopting these advanced approaches are significant, including enhanced risk management, more efficient use of capital and higher transparency in the disclosure of risk-related information.

In December 2010, the Basel Committee on Banking Supervision issued the final Basel III regulatory framework presenting the Committee's reforms to strengthen capital and liquidity standards in order to promote a more resilient banking sector. While the Basel Committee recommended member countries to implement the Basel III rules starting 1 January 2013, the HKMA has expressed its intention to adopt the Basel III rules in full following the Basel schedule as closely as practicable and the legislative procedures to implement the Basel III rules are expected to begin in late 2011.

To better prepare for compliance with the Basel III rules, based on the latest rules available, BEA has actively participated in the global quantitative impact studies initiated by the Basel Committee to assess the impact of the Basel III rules on the Bank's consolidated capital and liquidity positions and incorporated the potential impact brought forth by the Basel III rules in the Bank's capital planning process. BEA has also started identifying any gaps in data collection and reporting systems.

ASSET QUALITY

Overview

The performance of the Hong Kong economy is heavily dependent on the property sector, and, as at 31 December 2008, 2009 and 2010 and 30 June 2011, property lending (excluding advances under GHOS, PSTS and TPS) accounted for approximately 26.3%, 27.3%, 27.3% and 25.9%, respectively, of the Group's total advances to customers. As a result, the Group's asset quality is vulnerable to deflation in property prices. The ability of borrowers, including homeowners, to make timely repayment of their advances may be adversely affected by rising interest rates or a slowdown in economic growth. See "*Investment Considerations — Considerations Relating to BEA — Hong Kong Economy*" and "*Investment Considerations — Considerations Relating to BEA — Interest Rate Risk*". As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, home mortgage advances (including advances under GHOS, PSPS and TPS) in Hong Kong amounted to HK\$25,615 million, HK\$26,731 million, HK\$31,741 million and HK\$29,981 million, respectively, or approximately 11.1%, 10.8%, 10.7% and 9.6%, respectively, of the Group's total advances to customers and was one of the most significant segments of the Group's total advances to customers. See "*Investment Considerations — Considerations Relating to BEA — Concentration Risk — Exposure to the Property Market*".

The Group is committed to expanding its business and operations in the PRC and remains susceptible to risks associated with lending in the PRC, which could lead to an increase in the Group's classified

advances. As at 31 December 2008, 2009 and 2010, BEA's PRC exposure is approximately 42.1%, 40.9% and 38.1%, respectively, of the Group's total advances and its PRC classified advances account for approximately 0.3%, 0.2% and 0.1%, respectively, of its total PRC exposure. See "*Investment Considerations — Considerations Relating to BEA — Exposure to Mainland China Market*".

Advance classification

The Group classifies the advances in a "two dimensional" structure: one dimension reflects exclusively the borrower's repayment ability and another dimension reflects the transaction specific characteristics.

The dimension that reflects the borrower's repayment ability is classified into the following grading:

- Grades 1 through 15 — pass;
- Grade 16-17 — special mention;
- Grade 18 — sub-standard;
- Grade 19 — doubtful; and
- Grade 20 — loss.

In classifying the individual borrowers into one of the 20 gradings, the Group considers relevant factors including: (i) estimation of probability of default from the internal rating systems comprising statistical measurement and expert judgment with consideration of quantitative and qualitative elements such as the borrower's financial condition, the management and operation of the borrower's business, market conditions affecting the borrower's industry and demographic characteristics; (ii) the payment history of the borrower; and (iii) the history of the Group's dealings with the borrower concerned.

Another dimension that reflects the transaction specific characteristics considers relevant factors including: (i) type of advance; (ii) seniority of the advance; and (iii) credit mitigation such as collateral and guarantee.

BEA believes that its advance classification policy is in compliance with the Banking Ordinance and the applicable guidelines of the HKMA.

Recognition of impaired loans

The Group's impaired loans are sub-divided into three categories: "sub-standard" (Grade 18), "doubtful" (Grade 19) and "loss" (Grade 20). When the repayment of an advance is uncertain (for example, there is a past-due record of 90 days or more), the Group downgrades the advance to sub-standard. If full recovery of the advance is in doubt and the Group expects to sustain a loss of principal or interest, the Group classifies the advance as doubtful. Loss advances are those which are considered non-collectible after exhausting all collection efforts, such as the realization of collateral and the institution of legal proceedings, and the liquidator or official receiver has ascertained the relevant recovery ratio.

Impairment of Loans and Receivables

At each balance sheet date, the carrying amount of the Group's assets are reviewed to determine whether there is objective evidence of impairment. If internal and external sources of information indicate such evidence exists, the carrying amount is reduced to the estimated recoverable amount and an impairment loss is recognised in the profit and loss account.

The total allowance for impairment losses consists of two components: individual impairment allowances, and collective impairment allowances.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgment, the Group believes that the impairment allowances on loans and advances to customers are reasonable and supportable and that its provisioning policies are in compliance with the Banking Ordinance and the applicable guidelines of the HKMA.

Where there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

The table below sets forth a summary of the Group's impairment allowance for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	(in HK\$ millions, except percentages)			(in HK\$ millions, except percentages)	
Beginning balance	728	1,076	1,385	1,385	1,142
Provision during the period	779	1,246	542	445	54
Bad debts charges recovered	(221)	(141)	(257)	(295)	(96)
Loans written off	(351)	(885)	(597)	(329)	(68)
Other movements	141	89	69	21	53
Closing balance	<u>1,076</u>	<u>1,385</u>	<u>1,142</u>	<u>1,227</u>	<u>1,085</u>
Impairment allowance as a percentage of:					
Total loans at period/year end	0.5%	0.6%	0.4%	0.4%	0.4%
Total impaired loans at period/year end	67.8%	56.6%	71.7%	51.2%	77.6%
Write-offs as a percentage of:					
Average total loans during					
the period/year end	0.2%	0.4%	0.2%	0.1%	0.0%
Total loans at period/					
year end	0.2%	0.4%	0.2%	0.1%	0.0%
Total impaired loans at period/year end	22.1%	36.2%	37.5%	13.7%	4.9%

As at 30 June 2011, the provision for impairment allowance was HK\$1,085 million which had decreased by HK\$57 million and HK\$142 million as compared with the provision as at 31 December 2010 (HK\$1,142 million) and as at 30 June 2010 (HK\$1,227 million). A larger provision was recorded as at 31 December 2009 as there was an increase in both the collective impairment allowance and the individual impairment allowance which reflected an overall increase in the credit risk in the market. BEA believes its provisions for impaired loans are appropriate and adequate in the current uncertain economic environment.

For the six months ended 30 June 2011, HK\$96 million of bad debts had been recovered, which represents a decrease of HK\$199 million as compared against the bad debts recovered for the six months ended 30 June 2010. The decrease in recovery reflects the increasing difficulty in recovering bad debts since the onset of the financial crisis.

As at 31 December 2010, the provision for impairment allowance was HK\$1,142 million which had decreased by HK\$243 million as compared with the provision as at 31 December 2009 (HK\$1,385 million). A smaller provision was recorded as at 31 December 2010 as there was an decrease in both the impaired loans and the individual impairment allowance. BEA believes its provisions for impaired loans are appropriate and adequate in the current uncertain economic environment.

For the year ended 31 December 2010, HK\$257 million of bad debts had been recovered, which represents an increase of HK\$116 million as compared against the bad debts recovered for the year ended 31 December 2009.

Top Ten Impaired Loans

As of 30 June 2011, the Group's ten largest impaired loans accounted for approximately 0.2% of its total advances and approximately 49.0% of its gross impaired loan portfolio. The majority of the borrowers of such ten largest impaired loans were engaged in property development and recreational activities and accounted for approximately 46.4% of the aggregate exposure relating to such ten largest impaired loans as at 30 June 2011. As at 30 June 2011, the Group's exposure under its ten largest impaired loans ranged from HK\$29 million to HK\$124 million per impaired loan, and amounted to approximately HK\$685 million in the aggregate. As at 31 December 2010, the Group's exposure under its ten largest impaired loans ranged from HK\$40 million to HK\$137 million per impaired loan, and amounted to approximately HK\$725 million in the aggregate. As at 31 December 2009, the Group's exposure under its ten largest impaired loans ranged from HK\$59 million to HK\$225 million per impaired loan, and amounted to approximately HK\$1,026 million in the aggregate.

Impaired Loans That Have Been Restructured

The Group's classified advances/impaired loans are restructured on a case-by-case basis, subject to the approval of the appropriate lending parties for both the restructured limits and recovery measures. The Group believes that it maintains a prudent reclassification policy. For example, if payments under an advance are rescheduled, that advance will not be reclassified and will remain under adverse classification (either as a "sub-standard" or "doubtful" advance) and may only be upgraded to a pass advance if the revised payment terms are honoured for a period of six months, in the case of monthly payments, and 12 months, in the case of quarterly or semi-annual repayments.

As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, the Group's impaired loans including those that have been restructured through the rescheduling of principal repayments and deferral or waiver of interest were as follows:

	As at 31 December			As at 30 June	
	2008	2009	2010	2010	2011
	(in HK\$ millions, except percentages)			(in HK\$ millions, except percentages)	
Gross impaired loans	1,586	2,448	1,592	2,398	1,398
Aggregate individual impairment loss allowance	523	534	282	480	244
Net impaired loans	<u>1,063</u>	<u>1,914</u>	<u>1,310</u>	<u>1,918</u>	<u>1,154</u>
Gross impaired loans as a percentage of total loan portfolio	0.7%	1.0%	0.5%	0.9%	0.5%
Net impaired loans as a percentage of total loan portfolio	0.5%	0.8%	0.4%	0.7%	0.4%

Held-to-maturity Debt Securities

The Group's held-to-maturity debt securities included listed and unlisted debt securities. As at 31 December 2008, 2009 and 2010 and as at 30 June 2011, the book value of these securities were HK\$5,006 million, HK\$7,239 million, HK\$5,714 million and HK\$5,183 million, respectively, which represented approximately 16.9%, 13.6%, 8.6% and 7.8% of the Group's total investments in securities, respectively. These debt securities included both Hong Kong dollar and U.S. dollar denominated bonds and notes. See “— *Asset and Liability Management*”.

In September 2008, rumours that BEA believes to be unfounded were disseminated in Hong Kong questioning the liquidity and stability of BEA. Those rumours triggered a bank run on BEA and, in response, BEA sold its holding of U.S.\$470 million principal amount of United States Treasury Notes as a precautionary measure to maintain the liquidity position of the Issuer (see “*Investment Considerations — Considerations relating to BEA — Maintaining the Growth Rate in Customer Deposits*”). The proceeds of the sale, however, was not required as the bank run was contained after two days. The decrease in the amount of held-to-maturity debt securities as at 30 December 2008 was largely accounted for by this sale of United States Treasury Notes.

All, except two, of the CDOs held by BEA were disposed of during the year ended 31 December 2008. The two residual CDOs relate to a subsidiary of Lehman Brothers. The fair value of such CDOs was written down to zero as at 31 December 2008. Losses arising from the one-off write down of the CDOs portfolio for the year ended 31 December 2008 amounted to HK\$3,549 million. The fair value of the CDOs held by BEA as at 31 December 2009, amounted to zero. As it is now infeasible to dispose of the two residual CDOs pending the conclusion of the proceedings relating to Lehman Brothers, BEA intends to hold them until their respective disposal become possible. It is expected that part of the write down losses may be recovered at the ultimate disposal of the two CDOs.

The fair value of all, except one, of the SIVs held by BEA as at 31 December 2008 were written down to zero as at 31 December 2008, which led to one-off write-down losses of HK\$243 million. The fair value of the remaining SIV held by BEA as at 31 December 2009, amounted to HK\$429,000 (U.S.\$55,000).

The CDOs and SIVs were purchased according to BEA's investment guidelines. BEA has not made any additional investments in CDOs and SIVs since July 2007 and April 2007, respectively.

The table below sets forth a summary of the carrying values of the Group's held-to-maturity debt securities, categorised by the types of issuers as at the dates indicated:

As at 31 December						
	2008	Percentage	2009	Percentage	2010	Percentage
(in HK\$ millions, except percentages)						
Held-to-maturity securities issued by:						
Central governments and						
central banks	243	4.8%	1,510	20.9%	1,506	26.3%
Public sector entities	318	6.4%	621	8.6%	455	8.0%
Banks and other financial						
institutions	3,344	66.8%	4,328	59.8%	2,897	50.7%
Corporate entities	1,101	22.0%	780	10.7%	856	15.0%
Total	<u>5,006</u>	<u>100.0%</u>	<u>7,239</u>	<u>100%</u>	<u>5,714</u>	<u>100.0%</u>

As at 30 June				
	2010	Percentage	2011	Percentage
(in HK\$ millions, except percentages)				
Held-to-maturity securities issued by:				
Central governments and central banks				
	1,482	21.8%	1,751	33.8%
Public sector entities	443	6.5%	425	8.2%
Banks and other financial institutions	3,865	57.0%	2,420	46.7%
Corporate entities	997	14.7%	587	11.3%
Total	<u>6,787</u>	<u>100.0%</u>	<u>5,183</u>	<u>100.0%</u>

ASSET AND LIABILITY MANAGEMENT

The Group's objective on asset and liability management is to maximise its net interest income and return on assets and equity while providing for liquidity and effective risk management. Recommendations to management on liquidity, interest rate policy and other significant asset and liability management matters are made by ALCO, which consists of three Senior Advisors; four Deputy Chief Executives; Head of Risk Management Division; Head of Strategic Planning & Control Division and Head of Treasury Markets Division. The Head of Asset and Liability Management Department acts as the secretary of ALCO.

One of the key components of the Group's asset and liability management is the management of market risk, interest rate risk, liquidity risk and strategic risk. The Group's policies regarding the management of these risks are formulated, and their implementation are co-ordinated, by ALCO. ALCO meets on a weekly basis to formulate the asset and liability strategy, such as the deposit rates and advance pricing strategies. The Treasury Markets Division is responsible for the daily operating management of the discretionary portion of BEA's assets and liabilities within the approved internal limits, including re-pricing gap limits. The derivative transactions entered into by the Group are substantially in response to customer demands, in addition to BEA book hedging, and no significant proprietary trading positions are maintained by the Group.

BEA measures the exposure of its assets and liabilities to fluctuations in interest rates primarily by way of gap analysis which provides BEA with a static view of the maturity and re-pricing characteristics of balance sheet positions. An interest rate gap report is prepared by classifying all

assets and liabilities into various time period categories according to contracted maturities or anticipated re-pricing dates whichever is earlier. The difference in the amount of assets and liabilities maturing or being re-priced in any time period category would then give BEA an indication of the extent to which BEA is exposed to the risk of potential changes in the net interest income.

As at 31 December 2008, the combined currency asset-liability gap position for the Group were as follows:

	3 months or less	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing	Total
HK\$ Mn						
ASSETS						
Cash and balances with banks and other financial institutions	25,610	—	—	—	2,495	28,105
Placements with banks and other financial institutions	82,624	13,950	—	—	—	96,574
Trade bills	977	137	—	—	50	1,164
Trading assets	406	2	81	37	2,911	3,437
Financial assets designated at fair value through profit or loss	1,110	595	1,987	438	—	4,130
Advances to customers	181,640	36,159	6,237	2,680	2,579	229,295
Other accounts	551	661	—	—	13,218	14,430
Available-for-sale financial assets	8,125	5,508	2,965	953	1,009	18,560
Held-to-maturity investments	2,029	1,513	1,197	267	—	5,006
Non-interest bearing assets . .	—	—	—	—	14,553	14,553
Total assets	<u>303,072</u>	<u>58,525</u>	<u>12,467</u>	<u>4,375</u>	<u>36,815</u>	<u>415,254</u>
LIABILITIES						
Deposits and balances of banks and other financial institutions	18,091	8,671	260	10	13	27,045
Deposits from customers . . .	270,892	38,309	4,354	33	10,214	323,802
Trading liabilities	130	200	—	—	2,516	2,846
Certificates of deposit issued	2,503	654	1,014	1,320	—	5,491
Debt securities issued	—	—	—	—	—	—
Loan capital	4,641	—	6,395	—	—	11,036
Non-interest bearing liabilities	—	—	—	—	12,549	12,549
Total liabilities	<u>296,257</u>	<u>47,834</u>	<u>12,023</u>	<u>1,363</u>	<u>25,292</u>	<u>382,769</u>
Interest rate sensitivity gap . .	<u>6,815</u>	<u>10,691</u>	<u>444</u>	<u>3,012</u>		

As at 31 December 2009, the combined currency asset-liability gap position for the Group were as follows:

	3 months or less	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing	Total
HK\$ Mn						
ASSETS						
Cash and balances with banks and other financial institutions	27,130	22	—	—	2,560	29,712
Placements with banks and other financial institutions	50,477	17,468	—	—	—	67,945
Trade bills	1,359	443	—	—	45	1,847
Trading assets	126	949	1,949	100	2,598	5,722
Financial assets designated at fair value through profit or loss	653	192	7,113	2,085	349	10,392
Advances to customers	191,994	39,853	8,875	3,033	2,554	246,309
Other accounts	786	146	—	—	14,562	15,494
Available-for-sale financial assets	11,350	8,257	8,156	1,233	1,887	30,883
Held-to-maturity investments	2,383	1,050	3,215	591	—	7,239
Non-interest bearing assets .	—	—	—	—	18,539	18,539
Total assets	<u>286,258</u>	<u>68,380</u>	<u>29,308</u>	<u>7,042</u>	<u>43,094</u>	<u>434,082</u>
LIABILITIES						
Deposits and balances of banks and other financial institutions	11,217	589	33	10	37	11,886
Deposits from customers . . .	277,844	47,220	4,227	—	13,237	342,528
Trading liabilities	6	—	—	—	1,449	1,455
Certificates of deposit issued	798	999	711	304	—	2,812
Debt securities issued	—	—	4,346	—	—	4,346
Loan capital	4,647	4,281	3,431	—	—	12,359
Non-interest bearing liabilities	—	—	—	—	19,173	19,173
Total liabilities	<u>294,512</u>	<u>53,089</u>	<u>12,748</u>	<u>314</u>	<u>33,896</u>	<u>394,559</u>
Interest rate sensitivity gap .	<u>(8,254)</u>	<u>15,291</u>	<u>16,560</u>	<u>6,728</u>		

As at 31 December 2010, the combined currency asset-liability gap position the Group were as follows:

	Over 3 months or less	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing	Total
HK\$ Mn						
ASSETS						
Cash and balances with banks and other financial institutions	44,547	40	—	—	3,706	48,293
Placements with banks and other financial institutions	51,709	6,488	—	—	—	58,197
Trade bills	16,411	1,530	—	—	607	18,548
Trading assets	12	947	1,204	248	3,434	5,845
Financial assets designated at fair value through profit or loss	1,144	620	11,096	3,129	203	16,192
Advances to customers	243,887	41,301	6,677	1,400	2,678	295,943
Other accounts	1,719	120	—	2	22,256	24,097
Available-for-sale financial assets	13,642	6,971	14,583	2,971	2,612	40,779
Held-to-maturity investments	1,729	1,381	1,832	772	—	5,714
Non-interest bearing assets .	—	—	—	—	20,585	20,585
Total assets	<u>374,800</u>	<u>59,398</u>	<u>35,392</u>	<u>8,522</u>	<u>56,081</u>	<u>534,193</u>
LIABILITIES						
Deposits and balances of banks and other financial institutions	8,734	1,222	10	—	28	9,994
Deposits from customers . . .	330,410	69,189	6,143	—	14,091	419,833
Trading liabilities	—	—	—	—	3,101	3,101
Certificates of deposit issued	2,230	1,420	1,936	—	—	5,586
Debt securities issued	241	4,709	—	—	—	4,950
Loan capital	4,660	—	3,548	4,485	—	12,693
Non-interest bearing liabilities	—	—	—	—	29,393	29,393
Total liabilities	<u>346,275</u>	<u>76,540</u>	<u>11,637</u>	<u>4,485</u>	<u>46,613</u>	<u>485,550</u>
Interest rate sensitivity gap .	<u>28,525</u>	<u>(17,182)</u>	<u>23,755</u>	<u>4,037</u>		

The following table sets out BEA sensitivity analysis on interest rate risk as at 31 December 2009, 30 June 2010, 31 December 2010 and 30 June 2011, which measures the potential effect of changes in interest rates on its net interest income and economic value change:

	As at 30 June 2011			As at 31 December 2010		
	HK\$	U.S.\$	RMB	HK\$	U.S.\$	RMB
	HK\$ millions					
Impact on earnings over the next 12 months if interest rates rise by 200 basis points	317	(243)	419	272	(172)	(331)
Impact on economic value if interest rates rise by 200 basis points	(83)	(142)	39	(66)	(637)	(230)
	As at 30 June 2010			As at 31 December 2009		
	HK\$	U.S.\$	RMB	HK\$	U.S.\$	RMB
	HK\$ millions					
Impact on earnings over the next 12 months if interest rates rise by 200 basis points	366	(130)	75	(112)	(72)	(25)
Impact on economic value if interest rates rise by 200 basis points	(131)	(429)	(26)	(231)	(312)	(152)

Given the re-pricing position of the assets and liabilities for BEA as at 30 June 2011, if interest rates increased by 200 basis points (a basis point being a unit that is equal to one hundredth of 1%), BEA would expect that the annualised net interest income in respect of its dealings in Hong Kong dollar, U.S. dollar and Renminbi (CNY) to increase by HK\$317 million and decrease by HK\$243 million and increase by HK\$419 million, respectively, and the economic value for BEA to decrease by HK\$83 million, HK\$142 million and increase by HK\$39 million, respectively. As at 31 December 2010, if interest rate increased by 200 basis points, BEA would expect the annualised net interest income in respect of its dealings in Hong Kong dollar, U.S. dollar and Renminbi to increase by HK\$272 million, decrease by HK\$172 million and increase by HK\$331 million, respectively, and the economic value for BEA to decrease by HK\$66 million and HK\$637 million, and HK\$230 million, respectively.

The analysis is based on the following assumptions:

- (i) there is a parallel shift in the yield curve and in interest rates;
- (ii) there are no other changes to the portfolio;
- (iii) no loan prepayment is assumed as the majority of loans is on a floating rate basis; and
- (iv) deposits without fixed maturity dates are assumed to be repriced on the next day.

Liquidity risk is the risk that the Group cannot meet its current obligations. To manage liquidity risk, the Group has established a liquidity risk management policy which is reviewed by ALCO and approved by BEA's Board of Directors. The Group measures its liquidity through statutory liquidity ratio, loan-to-deposit ratio and the maturity mismatch portfolio.

The Group monitors its liquidity position on a daily basis to ensure the Group's funding needs can be met and the statutory liquidity ratio is complied with. The average consolidated liquidity ratio was approximately 38.4%, 43.3% and 44.9% for the years ended 31 December 2008, 2009 and 2010, respectively, which is above the statutory minimum ratio of 25%. As such, during the bank run in September 2008 (see "*Investment Considerations — Considerations Relating to BEA — Liquidity and Short-Term Funding*"), the Issuer was able to monitor its liquidity and, when required, took necessary steps to raise funds in order to maintain an adequate liquidity level. For a discussion on the action taken by BEA during the bank run in September 2008, see "*— Asset Quality — Held-to-maturity Debt Securities*".

As at 31 December 2008, 2009 and 2010, approximately 93.4%, 86.6% and 84.8%, respectively, of the Group's advances were made at floating rates of interest. The Group's interest earning assets have floating interest rates fixed by reference to BEA's BLR, prime rate and interbank rates, and the Group's interest-bearing liabilities have floating interest rates by reference to interbank rates and savings deposit rates. ALCO continuously monitors the gap between HIBOR and the prime rate and, consequently, the Group's net interest margin. If the Group's net interest margin declines due to the squeeze of the spread between BEA's prime rate and HIBOR, ALCO may recommend the adjustment of BEA's prime rate charged on advances and/or the expansion of higher-yield lending business.

The following table sets out the Group's average balances of interest-earning assets and interest-bearing liabilities, interest and related average interest rates for the years ended 31 December 2008, 2009 and 2010. Average balances of interest-earning assets and interest-bearing liabilities for the years ended 31 December 2008, 2009 and 2010 are based on the arithmetic mean of the respective balances at the beginning and the end of such period.

	Years ended 31 December								
	2008			2009			2010		
	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
(in HK\$ millions, except percentages)									
ASSETS									
Interest-earning assets									
Customer loans and credit									
advances to customers	237,112			231,914			270,875		
Trade bills less provision	1,121			1,156			4,559		
Total	238,233	12,099	5.1%	233,070	8,781	3.8%	275,434	9,407	3.4%
Interbank placements and loans									
Cash and balances with banks .	20,451			20,915			28,698		
Money at call and short notice	45,309			38,707			38,177		
Placements	33,174			44,785			21,210		
Advances to banks	1,071			1,351			1,546		
Total	100,005	3,033	3.0%	105,758	1,417	1.3%	89,631	1,101	1.2%
Securities									
Treasury bills	4,781			11,597			6,945		
Certificates of deposit	2,347			3,109			3,575		
Debt securities	22,514			23,263			49,208		
Total	29,642	1,242	4.2%	37,969	1,015	2.7%	59,728	1,767	3.0%
Total interest-earning assets .	367,880	16,374	4.5%	376,797	11,213	3.0%	424,793	12,275	2.9%
Allowance for possible loan losses	(735)			(1,247)			(1,219)		
Non-interest earning assets . . .	29,755			34,474			49,065		
Total assets	396,900			410,024			472,639		

Six months ended 30 June

	2010			2011		
	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
ASSETS						
Interest-earning assets						
Customer loans and credit advances to customers . . .	258,205			311,879		
Trade bills less provision . . .	2,447			30,892		
Total	<u>260,652</u>	<u>8,911</u>	<u>3.4%</u>	<u>342,771</u>	<u>12,025</u>	<u>3.5%</u>
Interbank placements and loans						
Cash and balances with banks	25,630			51,074		
Money at call and short notice	33,181			41,478		
Placements	26,097			12,803		
Advances to banks	1,263			1,701		
Total	<u>86,171</u>	<u>950</u>	1.1%	<u>107,056</u>	<u>1,818</u>	1.7%
Securities						
Treasury bills	7,040			7,589		
Certificates of deposit	3,467			6,514		
Debt securities	46,816			49,324		
Total	<u>57,323</u>	<u>1,557</u>	2.7%	<u>63,427</u>	<u>2,008</u>	3.2%
Total interest-earning assets	404,146	11,418	2.8%	513,254	15,851	3.1%
Allowance for possible loan losses	(1,299)			(1,117)		
Non-interest earning assets . .	46,531			57,630		
Total assets	<u>449,378</u>			<u>569,767</u>		

Years ended 31 December

	2008			2009			2010		
	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
(in HK\$ millions, except percentages)									
LIABILITIES									
Interest-bearing liabilities									
Deposits									
Deposits from customers	291,922	7,678	2.6%	319,289	3,395	1.1%	359,844	2,829	0.8%
Deposits and balances of banks	<u>34,346</u>	<u>901</u>	2.6%	<u>19,959</u>	<u>247</u>	1.2%	<u>14,549</u>	<u>238</u>	1.6%
Total deposits	<u>326,268</u>	<u>8,579</u>	2.6%	<u>339,248</u>	<u>3,642</u>	1.1%	<u>374,393</u>	<u>3,067</u>	0.8%
Other liabilities									
Certificates of deposits	9,138			3,313			3,024		
Debt securities issued	—			4,323			4,692		
Loan capital	<u>12,932</u>			<u>11,825</u>			<u>14,029</u>		
Total	<u>22,070</u>	<u>301</u>	1.4%	<u>19,461</u>	<u>137</u>	0.7%	<u>21,745</u>	<u>321</u>	1.5%
Total interest-bearing liabilities	348,338	8,880	2.5%	358,709	3,779	1.1%	396,138	3,388	0.9%
Non-interest-bearing liabilities	<u>15,272</u>			<u>19,222</u>		0.7%	<u>30,496</u>		
Total liabilities	<u>363,610</u>			<u>377,931</u>		1.1%	<u>426,634</u>		
NET INTEREST INCOME		<u>7,494</u>			<u>7,434</u>			<u>8,887</u>	
NET INTEREST SPREAD			2.0%			1.9%			2.0%

Six months ended 30 June

	2010			2011		
	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
LIABILITIES						
Interest-bearing liabilities						
Deposits						
Deposits from customers . . .	343,606	2,902	0.8%	434,079	4,746	1.1%
Deposits and balances of banks	<u>14,625</u>	<u>170</u>	1.2%	<u>17,425</u>	<u>216</u>	1.2%
Total deposits	<u>358,231</u>	<u>3,072</u>	0.9%	<u>451,504</u>	<u>4,962</u>	1.1%
Other liabilities						
Certificates of deposits	2,252			8,019		
Debt securities issued	4,555			6,375		
Loan capital	<u>12,342</u>			<u>12,911</u>		
Total	<u>19,149</u>	<u>181</u>	0.9%	<u>27,305</u>	<u>600</u>	2.2%
Total interest-bearing liabilities	377,380	3,253	0.9%	478,809	5,562	1.2%
Non-interest-bearing liabilities	<u>27,241</u>			<u>41,101</u>		
Total liabilities	<u>404,621</u>			<u>519,910</u>		
NET INTEREST INCOME.		<u>8,165</u>			<u>10,289</u>	
NET INTEREST SPREAD .			1.9%			1.9%

INTERNAL AUDIT

The Internal Audit Department has responsibility for auditing the Group's operations, including BEA (China). Through regular audits of all of the departments, subsidiaries and branches of BEA, the Internal Audit Department reviews and evaluates the adequacy and effectiveness of internal controls, safeguards the Group's assets, reviews operations in terms of efficiency and effectiveness, secures the accuracy and reliability of information and reviews compliance with established policies, procedures and relevant statutory requirements. The results of an internal audit are reported to the head of the audited department, subsidiary or branch, and any internal audit recommendations are generally expected to be implemented shortly after the issuance of the internal audit report. Significant findings arising from an internal audit are summarised by the Group Chief Auditor in bi-monthly reports to the Chairman of the Audit Committee and top management, and in semi-annual reports submitted to the full Audit Committee and top management. The Internal Audit Department also shares its findings with the HKMA and KPMG, BEA's external auditors, on a two month basis.

Upon the incorporation of BEA (China) in April 2007, BEA (China) established a separate Internal Audit Department that reports to its own Audit Committee established under the board. The reporting process adopted is similar to BEA's reporting process described above.

COMPLIANCE

The Compliance Department was established in 2001 to administer regulatory compliance issues concerning the Group's business. It is responsible for reviewing new products and business proposals, conducts periodic review of the Group's activities and advises senior management of the Group in accordance with applicable laws, rules and regulations. Another key function of the Compliance Department is to raise compliance awareness amongst staff members. A Compliance Policy has been issued to relevant staff members of the Group. A Group Policy on the Prevention of Money Laundering, which adheres to those anti-money laundering requirements laid down by the HKMA, has also been issued to relevant staff members of the Group. In addition, the Group's internal controls are also reviewed by its internal auditors. Regular training sessions are conducted and newsletters are issued to update the Group's staff members on any significant regulatory changes relevant to the operations of the Group.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

BEA is managed by its Board of Directors, which is responsible for the direction and management of BEA. The Articles of Association of BEA require that there must be not less than five Directors, unless and until otherwise determined by an ordinary resolution of the shareholders of BEA. Directors are appointed at any time either at a general meeting of shareholders or by the Board of Directors.

As at 31 August 2011, the Board of Directors of BEA comprised the following individuals:

Name	Age	Title	Address
Dr. the Hon. Sir David LI Kwok-po . . .	72	Chairman & Chief Executive	10 Des Voeux Road Central, Hong Kong
Professor Arthur LI Kwok-cheung . . .	66	Non-executive Director (Deputy Chairman)	Room 2502, 25/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong
Dr. Allan WONG Chi-yun	60	Independent Non-executive Director (Deputy Chairman)	23rd Floor, Block 1, Tai Ping Industrial Centre, 57 Ting Kok Road, Tai Po, New Territories
Mr. WONG Chung-hin	78	Independent Non-executive Director	Prince's Building, 12th Floor, 10 Chater Road, Hong Kong
Dr. LEE Shau-kee	82	Independent Non-executive Director	76th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
Mr. Aubrey LI Kwok-sing	61	Non-executive Director	7th Floor, 9 Queen's Road Central, Hong Kong
Mr. Winston LO Yau-lai	70	Independent Non-executive Director	3/F, No. 1 Kin Wong Street, Tuen Mun, New Territories
Tan Sri Dr. KHOO Kay-peng	72	Non-executive Director	189 Jalan Ampang, 50450 Kuala Lumpur, Malaysia
Dr. Thomas KWOK Ping-kwong	59	Independent Non-executive Director	46/F., Sun Hung Kai Centre, 30 Harbour Road, Hong Kong
Mr. Richard LI Tzar-kai	44	Non-executive Director	42/F., PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
Mr. Kenneth LO Chin-ming	69	Independent Non-executive Director	99, Sec. 2, Tiding Blvd., Neihu District, Taipei, Taiwan
Mr. Eric LI Fook-chuen	82	Non-executive Director	5/F., Kowloon Dairy Building, 17-19 On Lan Street, Central, Hong Kong
Mr. Stephen Charles LI Kwok-sze . . .	51	Non-executive Director	Unit 26-F, Star Crest — Tower 1, 9 Star Street, Hong Kong
Mr. William DOO Wai-hoi	66	Independent Non-executive Director	Room 3401, New World Tower, 16-18 Queen's Road, Central, Hong Kong
Mr. KUOK Khoon-ean	56	Independent Non-executive Director	28th Floor, Kerry Centre, 683 King's Road, Quarry Bay, Hong Kong

Name	Age	Title	Address
Mr. Valiant CHEUNG Kin-piu	65	Independent Non-executive Director	14A Yukon Court, No. 2 Conduit Road, Hong Kong
Dr. Isidro FAINÉ CASAS	69	Non-executive Director	Avenida Diagonal 621-629, 08028 Barcelona, Spain

Dr. the Hon. Sir David LI Kwok-po, *GBM, GBS, OBE, MA Cantab. (Economics & Law), Hon. DSc. (Imperial), Hon. DBA (Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. DSocSc (Lingnan), Hon. LLD (Hong Kong), Hon. LLD (Warwick), Hon. LLD (Cantab), Hon. DLitt (Macquarie), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCI Arb, JP, Officier de L'Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Officier de la Légion d'Honneur*
Chairman & Chief Executive and Member of the Nomination Committee

Sir David, aged 72, joined BEA in 1969. He was appointed a Director in 1977, Chief Executive in 1981, Deputy Chairman in 1995 and Chairman in 1997. Sir David is the chairman or a director of various members of the Group, and he is also the chairman or a member of various committees appointed by the Board.

Sir David is a Member of the Legislative Council of Hong Kong. He is a Member of the Banking Advisory Committee and a Member of the Council of the Treasury Markets Association. Sir David is the Pro-Chancellor of the University of Hong Kong, an Honorary Adviser of the Business and Economics Association of HKUSU, an Advisory Committee Member of the Chinese University of Hong Kong S.H. Ho College, an Honorary Fellow of the School of Accountancy, Central University of Finance and Economics and a Companion of the Chartered Management Institute.

Sir David is the Chairman of The Chinese Banks' Association, Limited and The Hong Kong Management Association. He is the Honorary Advisor of the International Chamber of Commerce — Hong Kong, China, the First Honorary Chairman of the Hong Kong Chamber of Commerce in China and a Senior Professional Advisor of the Hong Kong China Chamber of Commerce. He is also the Honorary Chairman of The Chamber of Hong Kong Listed Companies and The Hong Kong Chi Tung Association Limited. Sir David is Vice President of the Council of the Hong Kong Institute of Bankers, Chairman of the Saint Joseph's College Foundation Limited, a member of the Advisory Board of the Judge Business School at the University of Cambridge and a member of the International Advisory Council of the Cambridge Commonwealth Trust and Cambridge Overseas Trust. He is also an Emeritus Trustee of the Cambridge Foundation and a Trustee Emeritus of the Institute for Advanced Study in Princeton. Sir David is Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command, Chairman of the Executive Committee of St. James' Settlement and he also serves on Hong Kong Red Cross Advisory Board. He is a Council Member of the Employers' Federation of Hong Kong, a Director of the David Li Kwok-po Charitable Foundation Limited, a Founder Member and an Executive Committee Member of the Heung Yee Kuk Foundation Limited and Chairman and President of The Légion d'Honneur Club Hong Kong Chapter Association Limited.

Sir David is a Director of AFFIN Holdings Berhad (listed in Malaysia), CaixaBank, S.A. (formerly known as Criteria CaixaCorp, S.A.) (listed in Spain), China Overseas Land & Investment Limited, COSCO Pacific Limited, Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited and Vitasoy International Holdings Limited. He is also a Director of Hong Kong Interbank Clearing Limited and The Hong Kong Mortgage Corporation Limited.

Sir David is a member of the Board of Trustees of the Asia Society International Council, a member of the Asia Business Council, a member of the Crédit Agricole S.A. International Advisory Board, a member of the Deutsche Bank Asia Pacific Advisory Board, a member of the Munich Re Greater China Advisory Board, and Chairman Emeritus of the Asian Youth Orchestra Board. He serves on the

advisory boards of Carlos P. Romulo Foundation for Peace and Development, Federal Reserve Bank of New York's International Advisory Committee, Hospital for Special Surgery and Scripps International Network. Sir David is the Chairman of INSEAD East Asia Council, the Non-executive Chairman for Edelman Asia-Pacific and a Senior Adviser of Metrobank.

Professor Arthur LI Kwok-cheung, *GBS, MA, MD, M.B.B.Chir (Cantab), DSc (Hon), DLitt (Hon), Hon DSc (Med), LLD (Hon), Hon Doc (Soka), FRCS (Eng & Edin), FRACS, Hon FACS, Hon FRCS (Glasg & I), Hon FRSM, Hon FPCS, Hon FCSHK, Hon FRCP (Lond), JP Deputy Chairman, Non-executive Director*

Professor Li, aged 66, was a Director of BEA (1995-2002) and was re-appointed a Director in January 2008. He is an independent non-executive director of Shangri-La Asia Limited and China Flooring Holding Company Limited, a director of AFFIN Holdings Berhad (listed in Malaysia) and a non-executive director of BioDiem Ltd. (listed in Australia). He is also a member of the National Committee of the Chinese People's Political Consultative Conference.

Professor Li was the Secretary for Education and Manpower of the Government of HKSAR and a Member of the Executive Council (2002-June 2007). Before these appointments, he was the Vice Chancellor of the Chinese University of Hong Kong (1996-2002) and was the Chairman of Department of Surgery and the Dean of Faculty of Medicine of the Chinese University of Hong Kong.

Professor Li had held many important positions in various social service organisations, medical associations, and educational bodies, including the Education Commission, Committee on Science and Technology, the Hospital Authority, the Hong Kong Medical Council, the University Grants Committee, the College of Surgeons of Hong Kong, and the United Christian Medical Services Board. He was a member of the Board of Directors of the Hong Kong Science and Technology Parks Corporation and the Hong Kong Applied Science and Technology Research Institute, and Vice President of the Association of University Presidents of China. He was a Hong Kong Affairs Adviser to China.

Dr. Allan WONG Chi-yun, *GBS, MBE, BSc, MSEE, Hon. DTech, JP Deputy Chairman, Independent Non-executive Director, Chairman of the Remuneration Committee, Member of the Audit Committee and the Nomination Committee*

Dr. Wong, aged 60, was appointed a Director in 1995. He is the Chairman and Group Chief Executive Officer of VTech Holdings Limited. Dr. Wong is an independent non-executive director of China-Hongkong Photo Products Holdings Ltd. and Li & Fung Ltd.

Dr. Wong is a member of the Commission on Strategic Development, a member of the Greater Pearl River Delta Business Council and a council member of the University of Hong Kong. He is also a member of the Board of the Airport Authority Hong Kong.

Dr. Wong holds a Bachelor of Science degree in electrical engineering from the University of Hong Kong, a Master of Science degree in electrical and computer engineering from the University of Wisconsin and an honorary degree of Doctor of Technology from the Hong Kong Polytechnic University.

Mr. WONG Chung-hin, CBE, JP

Independent Non-executive Director and Member of the Audit Committee

Mr. Wong, aged 78, is a solicitor. He was appointed a Director in 1977. Mr. Wong is the Consultant of P.C. Woo & Co. He is also a Director of Power Assets Holdings Limited and Hutchison Whampoa Limited.

Dr. LEE Shau-kee, GBM, Hon. DBA, Hon. DSSc, Hon. LLD

Independent Non-executive Director and Member of the Nomination Committee

Dr. Lee, aged 82, was appointed a Director in 1987. He is the Chairman and Managing Director of Henderson Land Development Company Limited and Henderson Investment Limited. Dr. Lee is also the Chairman of The Hong Kong and China Gas Company Limited and Miramar Hotel and Investment Company, Limited. He is the Vice Chairman of Sun Hung Kai Properties Limited and a Director of Hong Kong Ferry (Holdings) Company Limited.

Mr. Aubrey LI Kwok-sing, BSc, MBA

Non-executive Director, Member of the Nomination Committee and the Remuneration Committee

Mr. Li, aged 61, was appointed a Director in 1995. He is Chairman of MCL Partners Limited. Mr. Li possesses extensive experience in the fields of investment banking, merchant banking and capital markets. He is also a Director of Cafe de Coral Holdings Limited, China Everbright International Limited, Kunlun Energy Company Limited, Kowloon Development Co. Ltd, Pokfulam Development Company Limited, Tai Ping Carpets International Limited and AFFIN Bank Berhad. He was the chairman of Atlantis Asian Recovery Fund plc (listed in Ireland), and a director of ABC Communications (Holdings) Limited and Value Partners China Greenchip Fund Limited.

Mr. Winston LO Yau-lai, SBS, BSc, MSc

Independent Non-executive Director, Chairman of the Audit Committee and Member of the Remuneration Committee

Mr. Lo, aged 70, was appointed a Director in 2000. He is the Executive Chairman of Vitasoy International Holdings Limited.

Mr. Lo graduated from the University of Illinois with a Bachelor of Science degree in Food Science and gained his Master of Science degree in Food Science from Cornell University.

Mr. Lo is Member of the National Committee of the Chinese People's Political Consultative Conference. He is a Director of Ping Ping Investment Company Ltd.

Tan Sri Dr. KHOO Kay-peng, PSM, DPMJ, KMN, JP, Hon. DLitt, Hon. LLD, Hon. Ph.D

Non-executive Director

Tan Sri Dr. Khoo, aged 72, was appointed a Director in 2001. Dr. Khoo is the Chairman and Chief Executive of The MUI Group, a Malaysia-based corporation with diversified business operations in the Asia Pacific, the United States of America ("USA") and the United Kingdom ("UK"). He is the Chairman and Chief Executive of Malayan United Industries Berhad and MUI Properties Berhad (both listed in Malaysia). Dr. Khoo is also the Chairman of Laura Ashley Holdings plc (listed in London) and Corus Hotels Limited in UK and Pan Malaysian Industries Berhad (listed in Malaysia). He is also a director of SCMP Group Limited.

Dr. Khoo is a trustee of Regent University, Virginia, USA, and a board member of Northwest University, Seattle, USA. He also serves as a Council Member of the Malaysian-British Business

Council, the Malaysia-China Business Council and the Asia Business Council. Previously, Dr. Khoo had served as the Chairman of Morning Star Resources Limited, the Malaysia Tourist Development Corporation (a Government Agency), the Vice Chairman of Malayan Banking Berhad (Maybank) and a trustee of the National Welfare Foundation, Malaysia.

Dr. Thomas KWOK Ping-kwong, SBS, MSc (Bus Adm), BSc (Eng), Hon DBA, Hon DEng, FCPA (Aust.), JP

Independent Non-executive Director and Member of the Remuneration Committee

Dr. Kwok, aged 59, was appointed a Director in 2001. Dr. Kwok is the Vice Chairman and Managing Director of Sun Hung Kai Properties Limited, Chairman of Route 3 (CPS) Company Limited, Joint Chairman of IFC Development Limited. He is a Non-Executive Director of SUNeVision Holdings Ltd.. Dr. Kwok holds a Master's degree in Business Administration from The London Business School, University of London and a Bachelor's degree in Civil Engineering from Imperial College, University of London. He also holds an Honorary Doctorate in Engineering from The Hong Kong Polytechnic University and an Honorary Doctorate in Business Administration from The Open University of Hong Kong. He is a Fellow of The Hong Kong Management Association and also a Fellow of The Australia Certified Public Accountants.

Dr. Kwok is the Chairman of the Board of Directors of the Faculty of Business and Economics, The University of Hong Kong. He is also an Executive Vice President and a member of the Executive Committee of The Real Estate Developers Association of Hong Kong. He also serves as a government appointed Member of the Commission on Strategic Development. In July 2007, the Government of the Hong Kong Special Administrative Region awarded Dr. Kwok the Silver Bauhinia Star for his distinguished community service. He is an Honorary Citizen of Guangzhou and a Standing Committee Member of the Ninth Chinese People's Political Consultative Conference Shanghai Committee.

In the past, Dr. Kwok served as a member of the Exchange Fund Advisory Committee, the Construction Industry Council, the Council for Sustainable Development, Business Facilitation Advisory Committee and as a non-official member of the Provisional Minimum Wage Commission. He also previously served as a board member of the Community Chest of Hong Kong and as a council member of the Hong Kong Construction Association.

Mr. Richard LI Tzar-kai

Non-executive Director

Mr. Li, aged 44, was appointed a Director in 2001. Mr. Li is an executive director and the Chairman of PCCW Limited, one of Asia's leading companies in Information and Communications Technologies (ICT). He is also the Chairman and Chief Executive of the Pacific Century Group, an executive director and the Chairman of Pacific Century Premium Developments Limited and Singapore-based Pacific Century Regional Developments Limited (listed in Singapore). He is a representative of Hong Kong, China to the Asia Pacific Economic Co-operation (APEC) Business Advisory Council, a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C. and a member of the Global Information Infrastructure Commission.

Mr. Kenneth LO Chin-ming, MA, BA

Independent Non-Executive Director and Member of the Audit Committee

Mr. Lo, aged 69, was appointed a Director in 2005. Mr. Lo is the Chairman and Chief Executive Officer of the Industrial Bank of Taiwan and the Chairman of EverTrust Bank (USA) and the Honorary Chairman of the Chailease Group. He is also a Director of Boston Life Science Venture Corp., a Director of Taiwan Cement Corp. and a Director of Star International Pacific Ltd. He has been with the banking and finance industry for over 40 years and had abundant experience in securities, trust,

leasing, commercial banking, investment banking and venture capital. He was the President of Chinatrust Commercial Bank, the Chairman of IBT Venture Co., the Vice Chairman of China Trust Bank (USA), the Managing Director of International Bank of Taipei and a Director of Hua Nan Commercial Bank.

In addition to his highly recognised professional accomplishments, Mr. Lo is also active in public service. He is the Chairman of the Chinese National Association of Industry and Commerce, Taiwan, the Managing Director of the Bankers Association of the Republic of China, a member of Asian Executive Board of the Sloan School of Management at the Massachusetts Institute of Technology, and a member of the National Palace Museum Advisory Committee and Taipei Fine Arts Museum Advisory Board. He was the President of Asian Leasing Association, and the Supervisor of the Bankers Association of the Republic China.

Mr. Lo holds a B.A. in Economics from National Taiwan University and an M.A. in Finance from the University of Alabama.

Mr. Eric LI Fook-chuen, *BscEE, MscEE, MBA, FIM*

Non-Executive Director, Chairman of the Nomination Committee and Member of the Remuneration Committee

Mr. Li, aged 82, was appointed a Director in 2006. Mr. Li is a non-executive director of BEA Life Limited and Blue Cross (Asia-Pacific) Insurance Limited, both are wholly-owned subsidiaries of the Bank. Mr. Li is currently the Chairman and Chief Executive Officer of the Kowloon Dairy Limited. He is a director of Joye Boutique Holdings Limited.

Mr. Li holds a Bachelor of Science Degree in Electrical Engineering from the University of Arkansas, U.S.A., a Master of Science Degree in Electrical Engineering from the University of Michigan, U.S.A., and a Master Degree in Business Administration from the University of California, U.S.A. He is also a Fellow of the Chartered Management Institute.

Mr. Stephen Charles LI Kwok-sze, *BSc (Hons.), ACA*

Non-executive Director

Mr. Li, aged 51, was appointed a Director in 2006. He is a member of the Institute of Chartered Accountants in England and Wales. Mr. Li holds a Bachelor of Science (Hons.) Degree in Mathematics from King's College, University of London, U.K. He is a director of hedge funds based in the UK and the EU. He is also a director of AFFIN Investment Bank Berhad. He has extensive experience in investment banking, having held senior capital markets positions with international investment banks in London and Hong Kong.

Mr. William DOO Wai-hoi, *BSc, MSc, G.G., Chevalier de la Légion d'Honneur, JP*

Independent Non-executive Director and Member of the Audit Committee

Mr. Doo, aged 66, was appointed a Director in 2008. He is currently the vice-chairman of New World China Land Limited and the deputy chairman of NWS Holdings Limited. He is an executive director of Lifestyle International Holdings Limited, also an independent non-executive director of Shanghai Industrial Urban Development Group Limited (formerly known as Neo-China Land Group (Holdings) Limited), a director of New World Hotels (Holdings) Limited and Fung Seng Diamond Company Limited. Mr. Doo was a deputy chairman of Taifook Securities Group Limited (now known as Haitong International Securities Group Limited).

Mr. Doo is Member to the Standing Committee of the Eleventh Shanghai Municipal Committee of the Chinese People's Political Consultative Conference and Convenor of the Hong Kong and Macau Members. He is a Governor of the Canadian Chamber of Commerce in Hong Kong and the Honorary Consul General of the Kingdom of Morocco in Hong Kong.

Mr. Doo holds a Degree of Bachelor of Science from the University of Toronto, Canada and a Master Degree in Science from the University of California, U.S.A. He also holds a Diploma of Graduate Gemologist from the Gemologist Institute of America.

Mr. KUOK Khoon-ean

Independent Non-executive Director

Mr. Kuok, aged 56, was appointed a Director in 2008. He is currently the chairman and executive director of Shangri-La Asia Limited, a non-executive director of SCMP Group Limited, a director of Kerry Group Limited and Kerry Holdings Limited. Mr. Kuok is also a director of Wilmar International Limited (listed in Singapore) and a director of Shangri-La Hotel Public Company Limited and The Post Publishing Public Company Limited (both listed in Thailand).

Mr. Kuok is a trustee of Singapore Management University. Mr. Kuok is a graduate in Economics from Nottingham University, U.K.

Mr. Valiant CHEUNG Kin-piu, FCPA, FCA

Independent Non-executive Director and Member of the Audit Committee

Mr. Cheung, aged 65, was appointed a Director in 2008. He was a partner at KPMG, a leading international accounting firm in Hong Kong, until his retirement in 2001. He has extensive experience in assurance and corporate finance work, particularly in trading and manufacturing corporations in Hong Kong and the PRC. Mr. Cheung is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

Mr. Cheung is an independent non-executive director of Vitasoy International Holdings Limited, Pacific Century Premium Developments Limited and Dah Chong Hong Holdings Limited. He was an independent non-executive director of Dream International Limited and Wing Shan International Limited (now known as Winteam Pharmaceutical Group Limited).

Mr. Cheung is currently an independent non-executive director, the chairman of the audit committee and the chairman of the Connected Transactions Control Committee of The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank.

Dr. Isidro FAINÉ CASAS

Non-executive Director and Member of the Nomination Committee

Dr. Fainé, aged 69, was appointed a Director in June 2009. Dr. Fainé is the Chairman of the following companies:

- (i) CaixaBank, S.A. (formerly known as Criteria CaixaCorp, S.A.), the holding company of the largest industrial and financial investment group in Spain (listed on the Spanish Stock Exchange since 2007)
- (ii) Caja de Ahorros y Pensiones de Barcelona “la Caixa”, the first Spanish and European savings bank and controlling shareholder of CaixaBank, S.A.
- (iii) “la Caixa” Foundation

Dr. Fainé currently holds chairmanships and directorships in other listed companies as follows:

- (i) First Vice Chairman of Abertis Infraestructuras, S.A. (infrastructure manager, listed in Spain)
- (ii) Vice Chairman of Telefónica, S.A. (integrated operator in the telecommunication sector, listed in Spain)
- (iii) Second Vice Chairman of Repsol YPF, S.A. (oil company, listed in Spain)

- (iv) Director of Banco BPI, S.A. (financial and multi-specialist group focusing on the banking business, listed in Portugal)
- (v) Director of Grupo Financiero Inbursa, S.A.B. de C.V. (financial and banking group, listed in Mexico)

Dr. Fainé is Second Vice Chairman of Sociedad General de Aguas de Barcelona, S.A. He was a Director of Brisa Auto-Estradas de Portugal, S.A. from 2003 to 2008 (listed in Portugal).

Dr. Fainé is a member of the Royal Academy of Economics and Finance and of the Royal Academy of Doctors, Chairman of the Association of Spanish Savings Banks (CECA), Vice-Chairman of the European Savings Bank Group (ESBG) and Chairman of the Association of Catalan Savings Banks. He is also Chairman of the Spanish Confederation of Directors and Executives (CEDE) and the Spanish Chapter of the Club of Rome. He has been a member of the Executive Committee of the Deposit Guarantee Fund for Savings Bank since 2007. In July 2010, he has been appointed member of The Governing Committee of the Fund for Orderly Bank Restructuring (FROB) and in February 2011, he was appointed as a member of the Executive Committee of the Business Council for Competitiveness (CEC).

Dr. Fainé began his professional banking career as Investment Manager for Banco Atlántico in 1964, later becoming General Manager of Banco de Asunción in Paraguay in 1969. On his return to Barcelona, he held various managerial posts in financial entities: Human Resources Director at Banca Riva y García (1973), Director and CEO of Banca Jover (1974) and General Manager of Banco Unión (1978).

Dr. Fainé joined “la Caixa” and was appointed Deputy Executive General Manager in 1982. He was appointed CEO in 1999 and was further appointed Chairman of “la Caixa” in 2007.

Among other academic and professional qualifications, Dr. Fainé holds a PhD in Economic and Business Sciences, an International Senior Managers Program in Business Administration from Harvard University, and a Diploma in Senior Business Management from the IESE Business School.

SENIOR MANAGEMENT

Mr. Adrian David LI Man-kiu, MA (Cantab), MBA, LPC, JP
Deputy Chief Executive

Mr. Li, aged 37, joined BEA in 2000 as General Manager & Head of Corporate Banking Division. In April 2009, he was promoted to Deputy Chief Executive for Hong Kong Business, and in his current capacity, he is responsible for the overall management of BEA’s business activities in Hong Kong, including corporate banking, personal banking, wealth management, and insurance and retirement benefits. He is also a director of various members of the Group and a member of various committees appointed by the Board.

Mr. Li is currently an Independent Non-executive Director of Sino Land Company Limited, Tsim Sha Tsui Properties Limited, Sino Hotels (Holdings) Limited and China State Construction International Holdings Limited. He is an Alternate Independent Non-executive Director of San Miguel Brewery Hong Kong Limited. Further, he is an Alternate Director of AFFIN Holdings Berhad (listed in Malaysia).

Mr. Li is currently a member of the Guangdong Provincial Committee of the Chinese People’s Political Consultative Conference (“CPPCC”) and was formerly a member of the Ninth and Tenth Guangzhou Committees of the CPPCC. He is also a member of the All-China Youth Federation, the Deputy Chairman of the Beijing Youth Federation and a Counsellor of the Hong Kong United Youth Association. In addition, he is a Council Member of the Vocational Training Council and the Chairman of its Banking and Finance Industry Training Board, a Board Member of The Community Chest of

Hong Kong, and a member of the Mandatory Provident Fund Industry Schemes Committee of the Mandatory Provident Fund Schemes Authority. Mr. Li was formerly a Board Member of Ocean Park Corporation and an advisory board member of the Hong Kong Export Credit Insurance Corporation.

Mr. Li holds a Master's Degree in Management from Kellogg School of Management, Northwestern University, Evanston, Illinois, US, and a Bachelor of Arts Degree and a Master of Arts Degree in Law from the University of Cambridge, UK. He is a member of The Law Society of England and Wales, and The Law Society of Hong Kong.

Mr. Brian David LI Man-bun, MA (Cantab), MBA, FCA, JP
Deputy Chief Executive

Mr. Li, aged 36, joined BEA Group in 2002. He was General Manager & Head of Wealth Management Division of BEA from July 2004 to March 2009. He was promoted to Deputy Chief Executive for China and International Business in April 2009. Mr. Li is primarily responsible for BEA's China and international businesses, as well as the management of BEA Union Investment Management Limited. He is also a director of various members of the Group and a member of various committees appointed by the Board.

Mr. Li is currently an Independent Non-executive Director of Towngas China Company Limited and Hopewell Highway Infrastructure Limited.

Mr. Li holds a number of public and honorary positions, including being a Member of the National Committee of the Chinese People's Political Consultative Conference, a Member of the Beijing Municipal Committee of the Chinese People's Political Consultative Conference, a Member of the Hong Kong-Taiwan Business Cooperation Committee, a Member of the HKSAR Energy Advisory Committee, a Member of the HKSAR Standing Committee on Judicial Salaries and Conditions of Service, a Member of the HKSAR Financial Reporting Review Panel, a Member of the HKSAR Traffic Accident Victims Assistance Advisory Committee, a Member of the HKSAR Small and Medium Enterprises Committee and a Member of the Advisory Committee of the Securities and Futures Commission of Hong Kong, etc.

Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants and a TMA Full Member of the Treasury Markets Association. Mr. Li is also a Fellow of the Institute of Chartered Accountants in England and Wales and he holds an MBA from Stanford University as well as MA and BA from the University of Cambridge.

Mr. Samson LI Kai-cheong, FCCA, CPA, FCIS, FCS, HKSI
Deputy Chief Executive & Chief Investment Officer

Mr. Li, aged 51, joined BEA in 1987 as Chief Internal Auditor. He was promoted to Deputy Chief Executive & Chief Investment Officer in April 2009. Mr. Li is primarily responsible for BEA's investment activities and treasury & broking operations including treasury markets. He is also a director of various members of the Group and a member of various committees appointed by the Board.

Mr. Li is currently an Independent Non-executive Director and the Chairman of Audit Committee of China Merchants China Direct Investments Limited.

Mr. Li is a Fellow of The Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries & Administrators, and The Association of Chartered Certified Accountants. In addition, he is an Associate of the Hong Kong Institute of Certified Public Accountants, a Member of the Hong Kong Securities Institute and a Member of the Listing Committee of The Stock Exchange of Hong Kong Limited. Mr. Samson Li received his Professional Diploma in Accountancy from The Hong Kong Polytechnic University.

Mr. TONG Hon-shing, BSc, ACIB, AHKIB, FCIS, FCS
Deputy Chief Executive & Chief Operating Officer

Mr. Tong, aged 52, joined BEA in 1975. He was promoted to Assistant General Manager in 1995 and to General Manager in 2000. He was General Manager & Head of Personal Banking Division from 2001 to March 2009. He was further promoted to Deputy Chief Executive and Chief Operating Officer in April 2009. Mr. Tong is primarily responsible for strategic planning and control, operations support, compliance, human resources, and corporate communications of BEA. He is also a director of various members of the Group and a member of various committees appointed by the Board. Mr. Tong is a Fellow of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries & Administrators as well as an Associate of The Hong Kong Institute of Bankers and The Chartered Institute of Bankers. He holds a BSc from the University of Manchester.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplements. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by a Trust Deed (as amended or supplemented as at the date of issue of the Notes (the “**Issue Date**”), the “**Trust Deed**”) dated 3 October 2011 between the Issuer and DB Trustees (Hong Kong) Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An Agency Agreement (as amended or supplemented as at the Issue Date, the “**Agency Agreement**”) dated 3 October 2011 has been entered into in relation to the Notes between the Issuer, the Trustee, Deutsche Bank AG, Hong Kong Branch as initial issuing and paying agent and the other agents named in it. The issuing and paying agent, the CMU lodging and paying agent, the other paying agents, the registrars, the transfer agent(s) and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**CMU Lodging and Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent and the CMU Lodging and Paying Agent), the “**Registrars**”, the “**Transfer Agents**” (which expression shall include the Registrars) and the “**Calculation Agent(s)**” (such Issuing and Paying Agent, CMU Lodging and Paying Agent, Paying Agents, Registrars and Transfer Agent(s) being together referred to as the “**Agents**”). For the purposes of these Conditions, all references to the Issuing and Paying Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at Level 52, International Commercial Centre, 1 Austin Road West, Kowloon, Hong Kong) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders, the holders of the interest coupons (the “**Coupons**”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) and the holders of the receipts for the payment of instalments of principal (the “**Receipts**”) relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, “**Tranche**” means Notes which are identical in all respects.

1 **Form, Denomination and Title**

The Notes are issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”) in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Senior Note, a Subordinated Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes, and the expression “**Senior Noteholder**” shall be construed accordingly in relation to Senior Notes and the expression “**Subordinated Noteholder**” shall be construed accordingly in relation to Subordinated Notes.

2 **No Exchange of Notes and Transfers of Registered Notes**

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals that have executed the form of transfer. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to a Registrar or any other Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or 2(c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any other Transfer Agent (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant other Transfer Agent (as the case may be).
- (e) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant other Transfer Agent may require) in respect of taxes or charges.
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3 Status

- (a) **Status of Senior Notes:** The Senior Notes (being those Notes that specify their status as Senior) and the Receipts and the Coupons relating to them constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Senior Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

- (b) **Status of Subordinated Notes:** The Subordinated Notes (being those Notes that specify their status as Subordinated) and the Receipts and Coupons relating to them constitute subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The claims of Noteholders will, in the event of the Winding-Up (as defined in Condition 10) of the Issuer, be subordinated in right of payment in the manner provided in this Condition 3(b) and the Trust Deed to the claims of depositors and all other unsubordinated creditors of the Issuer and will rank, in the event of the Winding-Up of the Issuer, at least *pari passu* in right of payment with all other Subordinated Indebtedness (as defined below in this Condition 3(b)), present and future, of the Issuer. Claims in respect of Subordinated Notes will rank in priority to the rights and claims of holders (i) of subordinated liabilities which by their terms rank or are expressed to rank in right of payment junior to the Subordinated Notes and (ii) of all classes of equity securities of the Issuer, including holders of preference shares, if any.

For the purposes of this Condition 3 “**Subordinated Indebtedness**” means all indebtedness which is subordinated, in the event of the Winding-Up of the Issuer, in right of payment to the claims of depositors and other unsubordinated creditors of the Issuer, and for this purpose indebtedness shall include all liabilities, whether actual or contingent.

4 Negative Pledge

So long as any Senior Note or Coupon (in respect thereof) remains outstanding (as defined in the Trust Deed), the Issuer will not, and will ensure that none of its Subsidiaries will, create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Senior Notes and such Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Noteholders or (ii) shall be approved by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Senior Noteholders.

In these Conditions:

- (i) “**Relevant Indebtedness**” means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market; and
- (ii) “**Subsidiary**” means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer.

5 Interest and other Calculations

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its prevailing nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).
- (b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**
- (i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its prevailing nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined by the Calculation Agent in accordance with Condition 5(h). Such Interest

Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, “**Interest Payment Date**” shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

- (ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined by the Calculation Agent in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon
- (y) the Designated Maturity is a period specified hereon and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:
 - (1) the offered quotation; or
 - (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR, Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR, EURIBOR or HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

- (y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, or, if the Reference Rate is HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR, the Hong Kong inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum

Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

- (iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined by the Calculation Agent in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.
- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).
- (d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined by the Calculation Agent in the manner specified hereon.
- (e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.
- (f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**
 - (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
 - (ii) If any Maximum Rate of Interest or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
 - (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the countries of such currency.

- (h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.
- (i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 10 but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties and the Noteholders.
- (j) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee shall appoint an agent on its behalf to do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing provisions of this Condition 5, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(k) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Business Day**” means:

- (i) in the case of a currency other than euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or
- (iv) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual - ISDA**” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365
- (iii) if “**Actual/360**” is specified hereon, the actual number of days in the Calculation Period divided by 360
- (iv) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30

- (v) if “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30

- (vi) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30

(vii) if “**Actual/Actual-ICMA**” is specified hereon,

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date and

“**Determination Date**” means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s)

“**Euro-zone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“**Interest Amount**” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified hereon.

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or Renminbi

or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro nor Hong Kong dollars nor Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“**Interest Period**” means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified hereon.

“**ISDA Definitions**” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

“**Rate of Interest**” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

“**Reference Rate**” means the rate specified as such hereon.

“**Relevant Screen Page**” means such page, section, caption, column or other part of a particular information service as may be specified hereon.

“**Specified Currency**” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (1) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for it or them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or, if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) Redemption by Instalments and Final Redemption:

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The prevailing nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its prevailing nominal amount) or, in the case of a Note falling within Condition 6(a)(i), its final Instalment Amount.

(b) Early Redemption:

(i) *Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, (but subject, if required, to consent thereto having been obtained from the HKMA in the case of Subordinated Notes) on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation will apply on the occasion of the next payment due in respect of the Notes and cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it, and an opinion of independent legal or tax advisers of recognised international standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective) and the Trustee shall be entitled without further enquiry to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.
- (d) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as the Issuer deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

- (e) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any other Transfer Agent at its specified office, together with a duly completed option exercise notice

(an “**Exercise Notice**”) in the form obtainable from any Paying Agent, the Registrar or any other Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (f) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6 and the provisions specified hereon.
- (g) **Purchases:** The Issuer and its Subsidiaries (with, if required, the consent of the HKMA in the case of Subordinated Notes) may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (h) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 **Payments and Talons**

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be:
 - (i) in the case of a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank; and
 - (ii) in the case of Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

In this Condition 7(a), “**Bank**” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

- (b) **Registered Notes:**
 - (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
 - (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown

on the Register at the close of business on the fifth (in the case of Renminbi) and fifteenth (in the case of a currency other than Renminbi) day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made:

(x) in the case of a currency other than Renminbi, in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank; and

(y) in the case of Renminbi, by transfer to the registered account of the Noteholder.

In this Condition 7(b)(ii), “**registered account**” means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars¹, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments subject to Fiscal Laws:** All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrars and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrars and the Transfer Agents appointed under the Agency Agreement and any Calculation Agents appointed in respect of any Notes act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, the CMU Lodging and Paying Agent, any other Paying Agent, any Registrar, any Transfer Agent or any Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, in each case in accordance with the Agency Agreement, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (v) one or more Calculation Agent(s) where the Conditions so require, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and Receipts and unexchanged Talons:**

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), the Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).
- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unexpired Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexpired Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (v) Where any Bearer Note that provides that the relative unexpired Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unexpired Coupons, and where any Bearer Note is presented for redemption without any unexpired Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

- (h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation (if presentation and/or surrender of such Note, Receipt or Coupon is required) in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:
- (i) (in the case of a payment in a currency other than euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day; or
- (iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. If the Issuer is required to make a deduction or withholding by or within Hong Kong, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with Hong Kong other than the mere holding of the Note, Receipt or Coupon or
- (b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or
- (d) **Payment by another Paying Agent:** (except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used in these Conditions, “**Relevant Date**” in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

9 Prescription

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

- (a) **Subordinated Notes:** If default is made in the payment of principal or interest due in respect of any of the Subordinated Notes and the default continues for a period of five business days in Hong Kong (in the case of principal) or 10 business days in Hong Kong (in the case of interest) (in relation to Subordinated Notes, each such event, an “**Event of Default**”), then the Trustee at its discretion may, subject as provided in Condition 12(b), in order to enforce payment, without further notice, institute Winding-Up Proceedings in Hong Kong against the Issuer, but may take no further action in respect of such default (but without prejudice to Condition 10(b) below).
- (b) If an order is made or an effective resolution is passed for the Winding-Up of the Issuer in Hong Kong (except for the purposes of reconstruction, amalgamation or reorganisation the terms of which have previously been approved by an Extraordinary Resolution of the Subordinated Noteholders) (in relation to Subordinated Notes, such event also, an “**Event of Default**”), then the Trustee at its discretion may, subject as provided in Condition 12(b), give written notice to the Issuer that the Subordinated Notes are, and they shall forthwith thereupon become, immediately due and repayable at their nominal amount together with accrued interest without further action or formality.
- (c) In these Conditions:
 - (i) “**Winding-Up**” shall mean, with respect to the Issuer, final and effective order or resolution for the bankruptcy, winding-up, liquidation, administrative receivership or similar proceeding in respect of the Issuer (as applicable); and
 - (ii) “**Winding-Up Proceeding**” shall mean, with respect to the Issuer, proceedings in Hong Kong for the bankruptcy, liquidation, winding-up, administrative receivership, or other similar proceeding of the Issuer (as applicable).
- (d) **Senior Notes:** If any of the following events (in relation to Senior Notes, each such event an “**Event of Default**”) occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. in nominal amount of the Senior Notes then outstanding or if so

directed by an Extraordinary Resolution shall, subject in each case to first being indemnified and/or secured and/or pre-funded to its satisfaction, give notice to the Issuer that the Senior Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

- (i) **Non-Payment:** default is made for more than 14 days (in the case of interest) or five days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Senior Notes; or
- (ii) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Senior Notes or the Trust Deed which default is incapable of remedy or, if capable of remedy, is not remedied within 21 days after notice of such default shall have been given to the Issuer by the Trustee; or
- (iii) **Cross-Default:** (A) any other present or future indebtedness for monies borrowed or raised by the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (C) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(d)(iii) have occurred equals or exceeds U.S.\$15,000,000 or its equivalent in any other currency; or
- (iv) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 45 days; or
- (v) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator, manager or other similar person); or
- (vi) **Insolvency:** the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or
- (vii) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Subsidiaries, or the Issuer or any of its Subsidiaries shall apply or petition for a winding-up or administration order in respect of itself or ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or

- (viii) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (I) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Senior Notes and the Trust Deed, (II) to ensure that those obligations are legally binding and enforceable and (III) to make the Senior Notes and the Trust Deed admissible in evidence in the courts of England is not taken, fulfilled or done; or
- (ix) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Senior Notes or the Trust Deed; or
- (x) **Analogous Events:** any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

provided that in the case of Conditions 10(d)(ii) and 10(d)(viii) and, in relation to Subsidiaries only, Conditions 10(d)(iv), 10(d)(v), 10(d)(vi) and 10(d)(x), the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Noteholders.

11 Meetings of Noteholders, Modification, Waiver and Substitution

- (a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum Rate of Interest and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the Noteholders of not less than 90 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

- (b) **Modification of the Trust Deed:** The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed or these Conditions that is of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed and/or these Conditions that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, unless the Trustee otherwise requires, such modification, authorisation or waiver shall be notified to the Noteholders as soon as practicable.
- (c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or its successor in business or any holding company of the Bank or any other subsidiary of any such holding company or their respective successor in business in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.
- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions, powers, rights and discretions (including but not limited to those referred to in this Condition 11), the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee, acting for and on behalf of Noteholders, shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in each case in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

12 **Enforcement**

- (a) Without prejudice to Condition 10, the Trustee may, subject as provided below, at its discretion and without further notice, institute such proceedings as it may think fit against the Issuer if the Issuer fails to perform, observe or comply with any obligation, condition or provision binding on the Issuer under the Notes, the Receipts, the Coupons or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of Subordinated Notes), provided that the Issuer shall not as consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or interest in respect of the Notes sooner than the same would otherwise have been payable by it.
- (b) The Trustee shall not be bound to take action as referred to in these Conditions or any other action under the Trust Deed unless (i) it shall have been so requested in writing by Noteholders holding at least 25 per cent. of the nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.
- (c) No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within reasonable period and such failure is continuing. In respect of Subordinated Notes only, subject to applicable laws, no remedy (including the exercise of any right of set-off or analogous event)

other than those provided for in Condition 10 and Conditions 12(a) and 12(b) or submitting claims in the Winding-Up of the Issuer will be available to the Trustee or the Subordinated Noteholders. No Subordinated Noteholder shall be entitled to institute Winding-Up Proceedings in Hong Kong (or elsewhere) against the Issuer or to submit claim in such Winding-Up except that, if the Trustee, having become bound to institute such proceedings as aforesaid, fails to do so, or, being able and bound to submit a claim in such Winding-Up, fails to do so, in each case within reasonable period and such failure is continuing, then any such holder may, himself institute Winding-Up Proceedings against the Issuer in Hong Kong (but not elsewhere) and/or submit a claim in such Winding-Up to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

14 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates), in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

16 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing and, so long as the Notes are listed on the Singapore Stock Exchange and the rules of that Exchange so require, published in a leading newspaper having general circulation in Singapore (which is expected to be the Asian Wall Street Journal). Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Hong Kong and, so long as the Notes are listed on the Singapore Stock Exchange and the rules of that Exchange so require, published in a leading newspaper having general circulation in Singapore (which is expected to be the Asian Wall Street Journal). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 16.

So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear or Clearstream, Luxembourg or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law and Jurisdiction

- (a) **Governing Law:** The Trust Deed, the Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law save that the provisions of Condition 3 (and related provisions of the Trust Deed) relating to subordination of the Subordinated Notes are governed by, and shall be construed in accordance with, Hong Kong law.
- (b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons (“**Proceedings**”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.
- (c) **Service of Process:** The Issuer has in the Trust Deed irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1 INITIAL ISSUE OF NOTES

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”) or a sub-custodian for the HKMA as operator of the CMU.

Upon the initial deposit of a Global Note with the Common Depositary or with a sub-custodian for the HKMA as operator of the CMU or registration of Registered Notes in the name of (i) any nominee for Euroclear and Clearstream, Luxembourg or (ii) the HKMA and delivery of the relative Global Certificate to the Common Depositary or the sub-custodian for the HKMA as operator of the CMU (as the case may be), Euroclear or Clearstream, Luxembourg or the CMU (as the case may be) will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2 RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

Save as provided in the following paragraph, each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules as notified by the CMU to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU (which notification, in either case, shall be conclusive evidence of the records of the CMU save in the case of manifest error) shall be the only person(s) entitled (in the case of Registered Notes, directed or deemed by the CMU as entitled) to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the Issuing and Paying Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

3 EXCHANGE

3.1 Temporary Global Notes

- (i) Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:
- (ii) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see “*Summary of the Programme — Selling Restrictions*”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (iii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

The CMU may require that any such exchange for a permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified.

Each temporary Global Note that is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions in addition to any permanent Global Note or Definitive Notes for which it may be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only.

3.2 Permanent Global Notes

- (i) Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under “Partial Exchange of Permanent Global Notes” below, in part for Definitive Notes or, in the case of (i) below, Registered Notes:
- (ii) if the permanent Global Note is an Exchangeable Bearer Note, by the holder giving notice to the Issuing and Paying Agent of its election to exchange the whole or a part of such Global Note for Registered Notes represented by a corresponding interest in a Global Certificate; and
- (iii) (a) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or the CMU or any other clearing system (an “**Alternative Clearing System**”) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or (b) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.3 Global Certificates

If the relevant Pricing Supplement states that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or the CMU or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2 may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;
- (ii) if principal in respect of any Notes is not paid when due; or
- (iii) with the prior consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

3.4 Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions (1) for Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (2) for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to Partly Paid Notes.

3.5 Delivery of Notes

On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent). In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Installment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.6 Exchange Date

“**Exchange Date**” means (i) in relation to an exchange of a temporary Global Note to a permanent Global Note, the day falling after the expiry of 40 days after its issue date; (ii) in relation to an exchange of a permanent Global Note to a Definitive Note, a day falling not more than 45 days after the date of receipt of the first relevant notice by the Issuing and Paying Agent; (iii) in relation to an exchange of a permanent Global Note to a Registered Note, a day falling not more than five days after the date of receipt of the first relevant notice by the Issuing and Paying Agent; or (iv) in the case of failure to pay principal in respect of any Notes when due or an Event of Default has occurred and is continuing, a day falling 30 days after the date of receipt of the first relevant notice by the Issuing and Paying Agent, provided if such date is not a day on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located, the immediately following day.

4 AMENDMENT TO CONDITIONS

The temporary Global Notes, permanent Global Notes and Global Notes contain provisions that apply to the Notes that they represent, some of which modify the effect of the Conditions set out in this Offering Circular. The following is a summary of certain of those provisions:

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note (except with respect to Global Note held through the CMU) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) and Condition 8(d) will apply to the Definitive Notes only.

In respect of a Global Note or Global Certificate held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose.

4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

4.3 Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note or a Global Certificate shall be treated as

having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

4.4 Cancellation

Cancellation of any Note represented by a permanent Global Note or Global Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note or Global Certificate.

4.5 Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer or any of its respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Installment Amounts (if any) thereon.

4.6 The Option of the Issuer

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain, in the case of Bearer Notes, the certificate numbers of Notes drawn or, in the case of Registered Notes, the holder of the Notes in respect of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg, the CMU or any other clearing system (as the case may be).

4.7 Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent or (in respect of Notes represented by a Global Certificate) the Registrar or Transfer Agent or (in respect of Notes lodged with the CMU) the CMU Lodging and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the permanent Global Note or Global Certificate to the Issuing and Paying Agent, the relevant Registrar, a Transfer Agent or the CMU Lodging and Paying Agent (or, in each case, to a Paying Agent acting on their behalf), as the case may be, for notation.

4.8 Trustee's Powers

In considering the interests of Noteholders while any Global Note is held by or on behalf of, or Registered Notes are registered in the name of, or in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

4.9 Notices

So long as any Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream, Luxembourg or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the second business day preceding the date of dispatch of such notice as holding interests in the relevant Global Note or Global Certificate.

5 PARTLY PAID NOTES

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes or Global Certificates. While any installments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any installment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Pricing Supplement dated [●]

The Bank of East Asia, Limited

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.\$3,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 3 October 2011 [and the supplementary Offering Circular dated [●]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [●]] and this Pricing Supplement.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated 3 October 2011 [and the supplementary Offering Circular dated [●], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [●]] and this Pricing Supplement.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

- | | | |
|----------|---|--------------------------------|
| 1 | Issuer: | The Bank of East Asia, Limited |
| 2 | [(i)] Series Number: | [●] |
| | [(ii)] Tranche Number:
<i>(If fungible with an existing Series,
details of that Series, including the
date on which the Notes become
fungible).]</i> | [●] |
| 3 | Specified Currency or Currencies: | [●] |
| 4 | Aggregate Nominal Amount: | [●] |
| | [(i)] Series: | [●] |
| | [(ii)] Tranche: | [●] |

5	(i) Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from <i>[insert date]</i> (in the case of fungible issues only, if applicable)]
	(ii) Net proceeds:	[●]
6	(i) Specified Denominations:	[●] ^{1 2}
	(ii) Calculation Amount	[●]
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date	[Specify/Issue date/Not Applicable]
8	Maturity Date:	<i>[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]</i> ³
9	Interest Basis:	[[●] per cent. Fixed Rate] [[specify reference rate] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (specify)] (further particulars specified below)
10	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (specify)]
11	Change of Interest or Redemption/ Payment Basis:	<i>[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]</i>
12	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13	Status of the Notes:	[Senior/Subordinated]

¹ Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies). Add appropriate provisions to terms and conditions if included.

² If the specified denomination is expressed to be €50,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording set out in the Guidance Note published by ICMA in November 2006 (or its replacement from time to time) as follows: “€50,000 and integral multiples of €1,000 in excess thereof up to and including €99,000. No notes in definitive form will be issued with a denomination above €99,000”.

³ Note that Renminbi or HK dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

- 14 Listing and admission to trading: (specify)/None]
- 15 Method of distribution: Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 16 **Fixed Rate Note Provisions** Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate[(s)] of Interest: per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): in each year⁴ [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]*]/not adjusted]
- (iii) Fixed Coupon Amount[(s)]: per Calculation Amount⁵
- (iv) Broken Amount(s): per Calculation Amount, payable on the Interest Payment Date falling [in/on] *[insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount(s) and Interest Payment Date(s) to which they relate]*
- (v) Day Count Fraction: [30/360 / Actual/Actual (ICMA/ISDA) / other]
- (vi) [Determination Dates: in each year *[insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)]*]
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]

⁴ Note that for certain Renminbi and HK dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day.

⁵ For Renminbi or HK dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest RMB0.01, RMB0.005 for the case of Renminbi denominated Fixed Rate Notes to the nearest HK\$0.01, HK\$0.005 for the case of HK dollar denominated Fixed Rate Notes, being rounded upwards.

17 Floating Rate Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i) Interest Period(s):	[●]
(ii) Specified Interest Payment Dates:	[●]
(iii) Interest Period Date:	[●] <i>(Not applicable unless different from Interest Payment Date)</i>
(iv) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other <i>(give details)</i>]
(v) Business Centre(s) (Condition 5(k)):	[●]
(vi) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other <i>(give details)</i>]
(vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
(viii) Screen Rate Determination:	
— Reference Rate:	[●] <i>(Either LIBOR, EURIBOR, HIBOR or other, although additional information is required if other)</i>
— Interest Determination Date(s):	[●] <i>(the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is not Sterling, euro or Hong Kong Dollars or first day of each Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollar or the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro)</i>
— Relevant Screen Page:	[●] <i>[(In the case of EURIBOR, if not Reuters Page EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)]</i>

- (ix) ISDA Determination:
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
 - ISDA Definitions: 2006 (if different to those set out in the Conditions, please specify)
- (x) Margin(s): [+/-][●] per cent. per annum
- (xi) Minimum Rate of Interest: [●] per cent. per annum
- (xii) Maximum Rate of Interest: [●] per cent. per annum
- (xiii) Day Count Fraction: [●]
- (xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [●]
- 18 Zero Coupon Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Amortization Yield: [●] per cent. per annum
 - (ii) Any other formula/basis of determining amount payable: [●]
- 19 Index-Linked Interest Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Index/Formula: *[give or annex details]*
 - (ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent): [●]
 - (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted: [●]
 - (iv) Interest Period(s): [●]
 - (v) Specified Interest Payment Dates: [●]

- (vi) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
- (vii) Business Centre(s): [●]
- (viii) Minimum Rate of Interest: [●] per cent. per annum
- (ix) Maximum Rate of Interest: [●] per cent. per annum
- (x) Day Count Fraction: [●]
- 20** Dual Currency Note Provisions [Applicable/Not Applicable]
(*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [*give details*]
- (ii) Party, if any, responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): [●]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●]
- (iv) Person at whose option Specified Currency(ies) is/ are payable: [●]

PROVISIONS RELATING TO REDEMPTION

- 21** Call Option [Applicable/Not Applicable]
(*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each Note and specified denomination method, if any, of calculation of such amount(s): [●] per Calculation Amount
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [●] per Calculation Amount
- (b) Maximum Redemption Amount: [●] per Calculation Amount
- (iv) Notice period [●]

- 22 Put Option** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
- (iii) Notice period [●]
- 23 Final Redemption Amount of each Note** [●] per Calculation Amount
- 24 Early Redemption Amount**
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default and/ or the method of calculating the same (if required or if different from that set out in the Conditions): [●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 25 Form of Notes:** [Bearer Notes/Registered Notes]
 [Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note]
 [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]⁶
 [Permanent Global Note/ Global Certificate exchangeable for Definitive Notes/definitive Notes/definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the permanent Global Note/ Global Certificate/ Unrestricted Notes]
- 26 Financial Centre(s) or other special provisions relating to Payment Dates:** [Not Applicable/give details. Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraphs 16 (ii), 17(iv) and 19(vii) relate]
- 27 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):** [Yes/No. If yes, give details]

⁶ If the temporary Global Note is exchangeable for definitives at the option of the holder, the Notes shall be tradeable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided in paragraph 6 and multiples thereof.

- 28 Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/*give details*]
- 29 Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/*give details*]
- 30 Redenomination, renominialization and reconventioning provisions: [Not Applicable/The provisions [in Condition [●]] [annexed to this Pricing Supplement] apply]
- 31 Consolidation provisions: [Not Applicable/The provisions [in Condition [●]] [annexed to this Pricing Supplement] apply]
- 32 Other terms or special conditions: [Not Applicable/*give details*]

DISTRIBUTION

- 33 (i) If syndicated, names of Managers: [Not Applicable/*give names*]
(ii) Stabilizing Manager (if any): [Not Applicable/*give name*]
- 34 If non-syndicated, name of Dealer: [Not Applicable/*give name*]
- 35 U.S. selling restrictions: Reg. S Category [1] / [2]; [TEFRA D/TEFRA C/ TEFRA Not Applicable]
- 36 Additional selling restrictions: [Not Applicable/*give details*]

OPERATIONAL INFORMATION

- 37 ISIN Code: [●]
- 38 Common Code: [●]
- 39 CMU Instrument Number: [●]/[Not Applicable]
- 40 CUSIP Number: [●]/[Not Applicable]
- 41 Any clearing system(s) other than Euroclear Bank, Clearstream, Luxembourg and the CMU and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]
- 42 Delivery: Delivery [against/free of] payment
- 43 Additional Paying Agent(s) (if any): [●]

GENERAL

- 44 The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [●], producing a sum of (for Notes not denominated in U.S. dollars): [Not applicable/U.S.\$][●]
- 45 In the case of Registered Notes, specify the location of the office of the Registrar if other than Frankfurt, Germany: [●]
- 46 In the case of Bearer Notes, specify the location of the office of the Issuing and Paying Agent if other than Dublin, Ireland: [●]
- 47 Ratings: The Notes to be issued have been rated:
[Moody's Investor Service, Inc.: [●]]
[Standard & Poor's Rating Services, a division of the McGraw-Hill Companies: [●]]
[[Other: [●]]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the *[specify relevant stock exchange/market]* of the Notes described herein pursuant to the U.S.\$3,000,000,000 Medium Term Note Programme.

STABILISING

In connection with this issue, [●] (the “**Stabilising Manager**”) (or persons acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or persons acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

INVESTMENT CONSIDERATIONS

There are significant risks associated with the Notes including, but not limited to, counterparty risk, country risk, price risk and liquidity risk. Investors should contact their own financial, legal, accounting and tax advisers about the risks associated with an investment in these Notes, the appropriate tools to analyse that investment, and the suitability of the investment in each investor’s particular circumstances. No investor should purchase the Notes unless that investor understands and has sufficient financial resources to bear the price, market liquidity, structure and other risks associated with an investment in these Notes.

Before entering into any transaction, investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of The Bank of East Asia, Limited:

By:
Duly authorised

REGULATION AND SUPERVISION

REGULATION AND SUPERVISION IN HONG KONG

The banking sector in Hong Kong is regulated by and subject to the provisions of the Banking Ordinance and to the powers and functions ascribed by the Banking Ordinance to the HKMA. The Banking Ordinance provides that only banks (that is, a bank which has been granted a banking license (“license”) by the HKMA) may carry on banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such banks (“licensed banks”).

Supervision of Licensed Banks in Hong Kong

The provisions of the Banking Ordinance are implemented by the HKMA, the principal function of which is to promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance. The HKMA supervises licensed banks through, *inter alia*, a regular information gathering process, the main features of which are as follows:

- (1) each licensed bank must submit a monthly return to the HKMA setting out the assets and liabilities of its operations in Hong Kong and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches, although the HKMA has the right to allow returns to be made at less frequent intervals;
- (2) the HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary to be submitted in the interests of the depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as the HKMA may require. The HKMA may in certain circumstances also require such information or any return submitted to it to be accompanied by a certificate of the licensed bank’s auditors (approved by the HKMA for the purpose of preparing the report) confirming compliance with certain matters;
- (3) licensed banks may be required to provide information to the HKMA regarding companies in which they have an aggregate 20% or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller, a common name or a concert party arrangement to promote the licensed bank’s business;
- (4) in addition, licensed banks are obliged to report to the HKMA immediately of their likelihood of becoming unable to meet their obligations or of the commencement of material civil proceedings applicable only to licensed banks incorporated in Hong Kong;
- (5) the HKMA may direct a licensed bank to appoint an auditor to report to the HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the systems of control of the licensed bank or other matters as the HKMA may reasonably require;
- (6) the HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such institution. Such inspections are carried out by the HKMA on a regular basis;
- (7) licensed banks are required to give written notice to the HKMA immediately of any proposal to remove an auditor before the expiration of his term of office or replace an auditor at the expiration of his term of office; and

- (8) licensed banks are expected to begin complying with the finalised Basel III rules issued by the Basel Committee on Banking Supervision and adopted by HKMA in full in late 2011.

Exercise of Powers over Licensed Banks

The HKMA may, after consultation with the Financial Secretary, exercise certain powers over the conduct of licensed banks in any of the following circumstances:

- (1) when a licensed bank informs the HKMA that it is likely to become unable to meet its obligations, that it is insolvent, or that it is about to suspend payment;
- (2) when a licensed bank becomes unable to meet its obligations or suspends payment;
- (3) if, after an examination or investigation, the HKMA is of the opinion that a licensed bank:
 - (a) is carrying on its business in a manner detrimental to the interests of its depositors or potential depositors or of its creditors or of holders or potential holders of multi-purpose cards issued by it or the issue of which is facilitated by it;
 - (b) is insolvent or is likely to become unable to meet its obligations or is about to suspend payment;
 - (c) has contravened or failed to comply with any of the provisions of the Banking Ordinance;
or
 - (d) has contravened or failed to comply with any condition attached to its license or certain conditions in the Banking Ordinance;
- (4) where the HKMA's power under section 22(1) of the Banking Ordinance to revoke the authorisation of a licensed bank is exercisable (as discussed below); and
- (5) where the Financial Secretary advises the HKMA that he considers it in the public interest to do so.

In any of the circumstances described above, the HKMA, after consultation with the Financial Secretary, may exercise any of the following powers:

- (1) to require the licensed bank, by notice in writing served on it, forthwith to take any action or to do any act or thing whatsoever in relation to its business and property as the HKMA may consider necessary;
- (2) to direct the licensed bank to seek advice on the management of its affairs, business and property from an adviser approved by the HKMA;
- (3) to assume control of and carry on the business of the licensed bank, or direct some other person to assume control of and carry on the business of the licensed bank; or
- (4) to report to the Chief Executive in Council in certain circumstances (in which case the Chief Executive in Council may exercise a number of powers including directing the Financial Secretary to present a petition to the Court of First Instance for the winding-up of the licensed bank).

Revocation and Suspension of Banking License

The HKMA also has powers to recommend the revocation or suspension of a license. Both powers are exercisable after consultation with the Financial Secretary and with a right of appeal of the licensed bank concerned except in the event of temporary suspension in urgent cases. The grounds for suspension or revocation include the following:

- (1) the licensed bank no longer fulfils the criteria for authorisation and the requirements for registration;
- (2) the licensed bank is likely to be unable to meet its obligations or proposes to make, or has made, any arrangement with its creditors or is insolvent;
- (3) the licensed bank has failed to provide material information required under the Banking Ordinance or has provided false information;
- (4) the licensed bank has breached a condition attached to its license;
- (5) a person has become or continues to be a controller or chief executive or director of the licensed bank after the HKMA has made an objection;
- (6) the interests of the depositors require that the license be revoked; or
- (7) the licensed bank is engaging in practices likely to prejudice Hong Kong as an international financial centre or in practices (specified in the HKMA guidelines) that should not be engaged in.

Revocation or suspension of a license means that the licensed bank can no longer conduct banking business (for the specified period in the case of a suspension).

Principal Obligations of Licensed Banks

The obligations of a licensed bank under the Banking Ordinance, which are enforced by the HKMA through the system described above, include, but are not limited to, the following:

Capital Adequacy

A licensed bank incorporated in Hong Kong must at all times maintain a capital adequacy ratio of at least 8%, calculated as the ratio (expressed as a percentage) of its capital base to its risk-weighted exposure as more fully described below. In relation to a licensed bank with subsidiaries, the HKMA may require the ratio to be calculated on a consolidated basis, or on both a consolidated and an unconsolidated basis, or on a consolidated basis only in respect of such subsidiaries of the licensed bank as may be specified by the HKMA. The HKMA may, after consultation with the licensed bank concerned, increase the ratio for any particular licensed bank. A licensed bank is under a duty to inform the HKMA immediately of a failure to maintain the required capital adequacy ratio and to provide the HKMA with such particulars as it may require. It is an indictable offence not to do so, and the HKMA is entitled to prescribe remedial action.

The capital base of a licensed bank is, broadly speaking but not limited to, all its paid-up capital and reserves, its profit and loss account including its current year's profit or loss, together with perpetual and term subordinated debt meeting prescribed conditions, general provisions against doubtful debts subject to certain limitations and a portion of its latent reserves arising from the revaluation of long-term holdings of specified equity securities or its reserves on the revaluation of real property.

Investments in, advances to and guarantees of liabilities of certain connected companies, shareholdings in subsidiaries or holding companies and in other companies in which more than 20% of voting power is held and investments in other banks (except for those which are not subject to a cross-holding arrangement or not otherwise a strategic investment) must be deducted.

The risk-weighted exposure is determined by:

- (1) multiplying risk-weight factors to the book value of various categories of assets (including but not limited to notes and coins, Hong Kong government certificates of indebtedness and cash items in the course of collection);
- (2) multiplying the credit conversion factors to various off balance sheet items (including but not limited to direct credit substitutes, transaction-related contingencies, repurchase contracts, note issuance facilities and exchange rate contracts) to determine their credit equivalent amount;
- (3) aggregating the amounts determined pursuant to (1) and (2); and
- (4) subtracting from the amount determined pursuant to (3) the value of general provisions not included in the capital base of the licensed bank and the amount by which the book value of reserves on revaluation of real property exceeds the book value of such reserves as at the period-end.

Risk-weight factors are specified in the Banking Ordinance as being a percentage varying between 0%, and 100% to reflect the extent to which an asset might be regarded as being at risk or the extent to which a liability might arise. Credit conversion factors are also specified in the Banking Ordinance as being percentages varying between 0% to 100% as being the percentage of the relevant item to which the risk-weight factor should be applied.

The capital adequacy standards described above (commonly known as “Basel I”) were promulgated by the BCBS and have been applied in Hong Kong since 1989. The Banking (Amendment) Ordinance 2005, enacted on 6 July 2005, has put in place a legislative framework for the implementation in Hong Kong of Basel II. In line with the timetable set by BCBS for its members, implementation of Basel II commenced in Hong Kong in January 2007.

There are four approaches under Basel II to calculate credit risks, namely the basic approach, the standardised approach, foundation internal rating based approach and the advanced internal ratings based approach. Licensed banks in Hong Kong under Basel II are to adopt the standardised approach initially, under which expanded risk weights (0%, 20%, 35%, 75%, 100% and 150%) are used for assessing capital required.

A licensed bank, if approved by the HKMA, may adopt the basic approach in reporting its capital adequacy as a transitional measure before eventually adopting the internal ratings based approach. Under the internal ratings based approach, the capital required of a licensed bank relies on a bank’s internal ratings system (subject to supervisory validation and approval) and is based on three risk components — probability of default, loss given default and exposure at default.

Furthermore, in addition to credit risk and market risk, operation risk is also required to be included in the determination of the capital adequacy ratio. Even with the inclusion of operation risk in the calculation, the minimum capital adequacy ratio remains unchanged at 8%. For the calculation of operation risk, there are three approaches, namely, basic indicator approach, standardised approach and the alternative standardised approach.

Liquidity

Authorised institutions must maintain at all times a liquidity ratio of not less than 25% in each calendar month, calculated as the ratio (expressed as a percentage) of the sum of the net weighted

amount of its liquefiable assets to the sum of its qualifying liabilities for each working day of the calendar month concerned as calculated in accordance with the Fourth Schedule to the Banking Ordinance. In relation to a licensed bank with subsidiaries, the HKMA may require that ratio to be calculated on a consolidated basis, or both on a consolidated basis and an unconsolidated basis, or on a consolidated basis only in respect of such subsidiaries of the licensed bank as may be specified by the HKMA. The ratio may be varied by the HKMA. A licensed bank has a duty to inform the HKMA if the ratio requirement is not fulfilled and provide it with such particulars of that contravention as it may require, and it is an indictable offence not to do so; the HKMA is entitled to prescribe remedial action. For the purpose of the liquidity ratio, in the case of a licensed bank which has places of business in Hong Kong and elsewhere, its places of business in Hong Kong are collectively treated as a separate licensed bank to which the liquidity ratio provisions would apply.

Liquefiable assets are, broadly speaking, assets held in the form of currency notes and coins, gold, loans due within one month from other banks (after deducting amounts payable to other banks within one month), certain export bills payable within one month, certain kinds of marketable debt securities or prescribed instruments (in some cases subject to a discount) and certain types of loan repayments due on fixed dates within one month on performing loans (subject to a discount).

Qualifying liabilities are, broadly speaking, liabilities which will or could or, in the case of contingent liabilities, in the opinion of the HKMA, may, fall due within one month, except that liabilities to other banks are treated on a net basis.

Financial Exposure to Any One Customer

The financial exposure of a licensed bank incorporated in Hong Kong to any one person or group of connected persons must not (subject to certain exceptions) exceed 25% of the capital base of the licensed bank. Subject to certain exclusions, the licensed bank's financial exposure to any one person or group of connected persons is taken to be the aggregate of:

- (1) all advances, loans and credit facilities granted to that person or group;
- (2) the value of the licensed bank's holdings of shares, debentures and other debt securities issued by that person or group; and
- (3) the principal amount, multiplied by a factor to be specified by the HKMA, for off-balance sheet items resulting from transactions between the licensed bank and that person or group.

For these purposes, persons shall be treated as connected if one company is the subsidiary of another, they have a common holding company, they have a common controller (not being a company) or if one (not being a company) is a controller of another (being a company).

The calculation of financial exposure does not include financial exposure to the Hong Kong government or authorised institutions or financial exposure generally to the extent it is secured by a cash deposit, a guarantee, an undertaking, certain specified securities or a letter of comfort accepted by the HKMA.

If a person or a company to whom an authorised institution is financially exposed is a trustee of more than one trust, the HKMA may by notice in writing extend the limit of the institution's financial exposure to that person or company.

Other Restrictions on Lending

The Banking Ordinance also provides that:

- (1) licensed banks may not grant any loan, advance or credit facility (including letters of credit) or give any guarantee or incur any other liability against the security of their own shares (or, except with the approval of the HKMA, that of their respective holding companies, subsidiaries or fellow subsidiaries of such holding companies);
- (2) the amount of the facilities which a Hong Kong incorporated licensed bank may make available on an unsecured basis to its controllers, its directors, their relatives or certain of its employees and persons associated with any of them shall be subject to the restrictions set out therein; and
- (3) licensed banks may not, except with the written consent of the HKMA, provide to any one of their employees any unsecured facility of an amount in excess of that employee's salary for one year.

Restrictions on Investments in Land

A licensed bank incorporated in Hong Kong cannot purchase or hold any interest in land, whether situated in or outside Hong Kong, of a value or to an aggregate value in excess of 25% of its capital base. There are exceptions for land held that in the opinion of the HKMA is necessary for the operation of the business or for providing housing or amenities for staff.

Shareholding in Other Companies

A licensed bank incorporated in Hong Kong may not acquire or hold any part of the share capital of any other company or companies to an aggregate value which exceeds 25% of the licensed bank's capital base except for shares held by way of security for facilities and by virtue of acquisitions in satisfaction of debts due to it (which must, however, be disposed of at the earliest suitable opportunity and not later than 18 months after their acquisition unless the HKMA agrees to a longer period). Shares held by virtue of underwriting and sub-underwriting commitments are, nevertheless, permitted provided the relevant shares are disposed of within seven working days or such longer period as the HKMA may agree.

There are other exemptions for any holding of share capital approved by the HKMA in other banks and companies carrying on nominee, executor, trustee or other functions related to banking business, the business of deposit taking, insurance, investments or other financial services.

Other Restrictions on Investment

The aggregate of the outstanding amounts of all facilities granted to or on behalf of a licensed bank's controllers, directors, their relatives, certain of its employees and their associates; the value of all holdings of share capital in other companies; and the value of all holdings of interests in land (including land purchased or held which is necessary for the conduct of business or the provision of housing or amenities for the staff of the institution) must not exceed 80% of its capital base.

Charges

A licensed bank incorporated in Hong Kong is not permitted to create any charges over its assets if either the aggregate value of all charges existing over its total assets is 5% or more of the value of those total assets or creating that charge would cause the aggregate value of all charges over its total assets to be more than 5% of the value of those total assets.

Restrictions on Overseas Activities

A licensed bank which is incorporated in Hong Kong is subject to a condition that it shall not establish or maintain any overseas branch or overseas representative office without the approval of the HKMA. The HKMA is empowered by the Banking Ordinance to require financial and other information regarding any such overseas branch to be supplied to it.

Further, a licensed bank incorporated in Hong Kong or its Hong Kong incorporated holding company may not without the consent of the HKMA own a company incorporated outside Hong Kong which may (whether or not in or outside Hong Kong) lawfully take deposits from the public. The HKMA may at any time attach in respect of any such approved overseas companies any conditions as the HKMA may think proper.

Shareholders, Chief Executives and Directors

Limitations on Shareholders

The HKMA has the power to object, on certain specified grounds, to persons becoming or being “controllers” of licensed banks incorporated in Hong Kong. “**Controller**” in this context means:

- (1) a person who, either alone or with any associate(s), is entitled to exercise, or control the exercise of, 10% or more, but not more than 50%, of the voting power at any general meeting of the licensed bank or of another company of which it is a subsidiary; or
- (2) a person who, either alone or with any associate(s), is entitled to exercise, or control the exercise of, more than 50% of the voting power at any general meeting of the licensed bank or of another company of which it is a subsidiary; or
- (3) a person in accordance with whose directions or instructions the directors of the licensed bank or of another company of which it is a subsidiary are accustomed to act (but does not include any professional advisers or managers appointed by the HKMA to manage the licensed bank).

A person may not become a controller of a licensed bank incorporated in Hong Kong unless he has served a written notice on the HKMA of his proposal to that effect and the HKMA consents to his becoming such a controller or does not object within three months.

Within the three-month period, the HKMA may object to the applicant’s proposal, unless it is satisfied that the applicant is a fit and proper person to become a controller; that depositors’ or potential depositors’ interests will not be threatened by that person being such a controller; and having regard to the applicant’s likely influence on that institution as a controller, the licensed bank is likely to continue to conduct its business prudently or that the applicant is likely to undertake adequate remedial action to ensure that the licensed bank will conduct its business prudently.

The HKMA may also object to the continuation of a person as a controller on similar grounds as in respect of new controllers.

Where a person becomes a controller (by virtue of being able to exercise or control the exercise of certain voting power in a licensed bank) after a notice of objection has been served on him or otherwise in the contravention of the procedure prescribed by the Banking Ordinance, the HKMA may notify the controller that until further notice any specified shares are subject to one or more of the following restrictions:

- (1) any transfer of the shares or, in the case of unissued shares, any transfer of the right to be issued with them, and any issue of such shares, shall be void;
- (2) voting rights in respect of those shares shall not be exercisable;
- (3) no further shares in right or pursuant to any offer made to the shareholder shall be issued; or
- (4) except in a liquidation, no payments of any sums due from the licensed bank on the shares shall be paid.

In addition, the HKMA may apply to court for an order that the shares be sold. Once the shares are sold, the proceeds (less the costs of sale) shall be paid into court and held for the benefit of the persons beneficially interested in them.

In the case of an indirect controller who does not have the approval of the HKMA, the person concerned is prohibited from giving directions or instructions to the directors of the licensed bank or of another company of which it is a subsidiary.

Limitations on Persons Becoming Chief Executives or Directors

All licensed banks must have a chief executive ordinarily resident in Hong Kong. A person requires the consent of the HKMA before becoming a chief executive.

The consent of the HKMA is also required for a person to become a director of a Hong Kong incorporated licensed bank.

Supervision of Securities Business

The SFO, which came into operation in April 2003, introduced a substantial change to the conduct of securities business by banks. Banks are no longer exempted from the relevant regulations when they engage in securities business. Instead they are required to apply for registration with the SFC, which means they will have to meet the Fit and Proper Criteria set by the SFC. Likewise, staff engaged by banks in securities business will have to meet the Fit and Proper Criteria applicable to staff of brokerage firms. It is a statutory condition of registration for banks that each member of staff engaged by them in securities business is a fit and proper person. Banks will also have to comply with the various regulatory requirements set by the SFC in relation to their securities business, including the subsidiary legislation and the business conduct codes. Under the SFO, banks and their securities staff will be subject to the same range of disciplinary actions that are applicable to brokers and their staff in case they are guilty of misconduct or otherwise not fit and proper.

With the introduction of a new licensing regime under the SFO, corresponding changes have been made to the Banking Ordinance by way of the introduction of the Banking (Amendment) Ordinance 2002. Such ordinance came into operation simultaneously with the SFO and has enabled the HKMA to enhance their regulatory functions in relation to securities businesses of banks and other Authorised Institutions that are registered under the SFO.

REGULATION AND SUPERVISION IN THE PRC

The banking industry is heavily regulated in the PRC, with the CBRC and the PBOC acting as the principal regulatory authorities. The CBRC is responsible for supervising and regulating banking institutions, and the PBOC, as the central bank of the PRC, is responsible for formulating and implementing monetary policies. The applicable laws and regulations governing activities in the PRC's banking industry consist principally of the PRC PBOC Law, the PRC Commercial Banking Law, PRC Banking Regulation and Supervision Law, and the rules and regulations promulgated thereunder.

The PRC's CEPA with Hong Kong and Macau allows banks from these jurisdictions to operate in Mainland China. Further, under Supplement VI to the CEPA, with effect from 1 October 2009, banks in Hong Kong that have established branch outlets in the province of Guangdong may now set up sub-branches within the province in any municipality without the need to first establish a branch in the same municipality. With this new provision, the capital requirement for setting up a sub-branch in Guangdong has been lowered.

Principal Regulators

Prior to April 2003, the PBOC acted as both the PRC's central bank and the principal supervisor and regulator of the banking industry in the PRC. In April 2003, the CBRC was established to serve as the primary banking industry regulator and it assumed the majority of bank regulatory functions from the PBOC. The PBOC retained its role as the central bank but now has a smaller role in the regulation of banking institutions.

The CBRC

Functions and Powers

The CBRC is the primary supervisory authority responsible for the regulation of banking institutions operating in the PRC, including branches and representative offices established by foreign financial institutions in the PRC.

According to the PRC Banking Regulations and Supervision Law, the main responsibilities of the CBRC include:

- (1) setting and promulgating rules and regulations governing banking institutions and their business activities;
- (2) regulating the establishment, change, dissolution and business scope of banking institutions, as well as granting banking licenses for commercial banks and their branches;
- (3) regulating the establishment, change, dissolution and business scope of foreign bank branches;
- (4) regulating the business activities of banking institutions, including the products and services they offer;
- (5) setting qualification requirements for, and approving or overseeing the nomination of, directors and senior management personnel of banking institutions;
- (6) setting guidelines and standards for internal controls, risk exposure and corporate governance of, and disclosure requirements for, banking institutions;
- (7) conducting on-site inspection and off-site surveillance of the business activities of banking institutions;
- (8) monitoring the financial condition of banking institutions, including establishing standards or requirements for capital adequacy, asset quality and other financial metrics; and
- (9) imposing corrective and punitive measures for violations of applicable banking regulations.

Examination and Supervision

The CBRC, through its head office in Beijing and offices in each province, provincial-level municipality and autonomous region, monitors the operations of commercial banks and their branches through on-site inspections and off-site surveillance. On-site inspections generally include visiting the banks' premises, interviewing bank employees and, for significant issues relating to banks' operations or risk management, senior management and directors, as well as reviewing documents and materials maintained by the banks. The CBRC also conducts off-site surveillance by reviewing financial and other reports regularly submitted by the banks. Off-site surveillance generally includes the surveillance of banks' business activities and risk exposure status to evaluate and analyse the

operational risk of the banks. If a banking institution is not in compliance with a regulation, the CBRC has the power to issue corrective and punitive measures, including imposition of fines, suspension of certain business activities, restrictions on distributions of dividends and other income and asset transfers, closure of the institution and other penalties.

The PBOC

As the central bank of the PRC, the PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the financial markets. According to the PRC PBOC Law, the PBOC is empowered to:

- (1) formulate and implement monetary policies by establishing benchmark interest rates, setting the deposit reserve ratios for commercial banks, extending loans to commercial banks, accepting discounted bills and conducting open market operations;
- (2) issue PRC treasury bills and other government bonds to financial institutions, as the agent of the MOF;
- (3) issue the currency of Renminbi and regulate the flow of Renminbi;
- (4) regulate the inter-bank lending market, inter-bank bond market and inter-bank foreign exchange market;
- (5) set foreign exchange rate policies and manage the PRC's foreign exchange reserves and gold reserves;
- (6) manage the state treasury;
- (7) maintain the normal operation of payment and settlement systems;
- (8) regulate and examine foreign exchange activities;
- (9) establish anti-money laundering guidelines and monitor fund transfers to ensure that such transfers are in compliance with anti-money laundering regulations; and
- (10) act as the central bank of the PRC to conduct relevant international financial activities.

Other Regulatory Authorities

In addition to the CBRC and the PBOC, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities including, among others, the State Administration of Foreign Exchange (“SAFE”), the China Securities Regulatory Commission (“CSRC”) and China Insurance Regulatory Commission the (“CIRC”). For example, in conducting foreign exchange business, banks are subject to the regulation of the SAFE; in dealing with securities-related matters such as distributing securities investment funds or acting as the custodians of investment assets of securities institutional investors, banks are subject to the regulation of the CSRC; and in conducting bancassurance business, banks are subject to the regulation of the CIRC.

Licensing Requirements for a foreign bank to incorporate in PRC

Basic Requirements

Under the Regulations, for a foreign bank to offer a full range of banking services, including Renminbi retail business, it has to be incorporated in PRC. To incorporate a banking subsidiary in the PRC, foreign banks must at least satisfy the following main criteria:

- (1) provide proof of international track record;

- (2) provide evidence of continual profit-making ability;
- (3) show effective internal policies and procedures, including anti-money laundering measures;
- (4) have approvals from home country regulators;
- (5) the registered capital of the proposed subsidiary must meet the minimum requirement of Renminbi 1.0 billion;
- (6) the principal persons-in-charge of the proposed subsidiary must possess the requisite qualifications;
- (7) execution of the power of attorney to the proposed principal persons-in-charge of the bank;
- (8) guarantee letter issued by the foreign bank establishing a subsidiary, stating that it shall be responsible for all the taxes and other indebtedness that the subsidiary may incur; and
- (9) the foreign banks' (as the controlling or major shareholders of their PRC subsidiaries) total assets at the end of the most recent year prior to the application for establishment of their PRC subsidiaries must meet the minimum requirement of U.S.\$10 billion.

Branches

A wholly-owned foreign bank intending to set up branches in the PRC should allocate a working capital of no less than Renminbi 100 million per branch. The total capital used for setting up these branches should not exceed 60% of the wholly-owned foreign bank registered capital.

Regulations Regarding Capital Adequacy

Capital Adequacy Guidelines

In March 2004, the CBRC implemented capital adequacy guidelines applicable to all commercial banks in the PRC. The guidelines, the Capital Adequacy Measures, provided for a phase-in period whereby all domestic banks must have met minimum capital adequacy ratios by 1 January 2007. On 3 July 2007, the CBRC amended the Capital Adequacy Measures issued in March 2004 to set forth new and more stringent capital adequacy guidelines which must be complied with from 3 July 2007.

While the 2004 guidelines did not change the previous requirements of an 8% capital adequacy ratio and a 4% core capital adequacy ratio, they amended the risk weighting for a variety of assets and required deductions from core capital for certain kinds of assets. In addition, the 2004 guidelines required commercial banks to make adequate allowances for various impairment losses, including for loans, before calculating their capital adequacy ratios. For Wholly Foreign Funded Banks, the capital adequacy ratios are calculated at head office level, as opposed to at branch level. The capital adequacy ratios and core capital adequacy ratio are calculated in accordance with the PRC GAAP as follows:

$$\text{Capital Adequacy Ratio} = \frac{\text{capital} - \text{deductions from capital}}{\text{risk-weighted assets} + (12.5 \times \text{capital charge for market risk})} \times 100\%$$

$$\text{Core Capital Adequacy Ratio} = \frac{\text{core capital} - \text{deductions from core capita}}{\text{risk-weighted assets} + (12.5 \times \text{capital charge for market risk})} \times 100\%$$

The Capital Adequacy Measures and the 2007 amendment to Measures together further raise the requirement on the capital adequacy ratios banks must reach and require that banks in the PRC more efficiently monitor risk and improve their operational safety and stability.

Liquidity Ratios requirements

The Regulations provides that Wholly Foreign Funded Banks must have a liquidity ratio of its current assets to its current liabilities of no less than 25%.

TAXATION

The statements herein regarding taxation are based on the laws and practice in force as at the date of this Offering Circular and are subject to any changes in law or practice occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Investors should consult their own tax advisers regarding the tax consequences of an investment in the Notes.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person (including an individual, a corporation and other unincorporated bodies such as partnership and trust) carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances (which are not exhaustive):

- (i) interest on the Notes is received by or accrues to a company, other than a financial institution, carrying on a trade, profession or business in Hong Kong and such interest is of a Hong Kong source; or
- (ii) interest on the Notes is received by or accrues to a person, other than a company, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business and such interest is of a Hong Kong source; or
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong) and arises through or from the carrying on by the financial institution of its business in Hong Kong, notwithstanding that the moneys in respect of which the interest is received or accrues are made available outside Hong Kong.

Pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with, *inter alia*, a financial institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance) is exempt from the payment of Hong Kong profits tax. This exemption does not apply, however, to deposits that are used to secure or guarantee money borrowed in certain circumstances. Provided no prospectus in relation to the issue of the Notes is registered under the Companies Ordinance (Cap. 32) of Hong Kong, the issue of the Notes is expected to constitute a deposit to which the above exemption will apply.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. However, where the sum is considered to be a capital gain in the hands of the investor who is not a financial institution, such capital gain will not be subject to Hong Kong profits tax.

Stamp Duty

No Hong Kong stamp duty is payable on the issue of a note not in bearer form. If the transfer of a non-bearer note is required to be registered in Hong Kong, stamp duty will be payable unless:

- (i) the note is denominated in a currency other than the currency of Hong Kong and is not repayable in any circumstance in the currency of Hong Kong; or
- (ii) the note constitutes loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

No Hong Kong stamp duty will be chargeable upon the issue or subsequent transfer of the Notes.

Estate Duty

No estate duty will be payable in respect of the Notes.

EUROPEAN UNION

EU Savings Directive

The European Union has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest or other similar income paid by a person to an individual or to certain other persons resident in another Member State, except that Austria and Luxembourg may instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream, Luxembourg or the CMU (together, the “**Clearing Systems**”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor any Dealer or the Sole Arranger takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

THE CLEARING SYSTEMS

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system’s rules and procedures.

CMU

The CMU is a central depository service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service (“**CMU Members**”) of capital markets instruments (“**CMU Instruments**”) which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all members of the Hong Kong Capital Markets Association and “authorised institutions” under the Banking Ordinance.

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU is limited. In particular (and unlike the European Clearing Systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU

Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-US beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream, Luxembourg in any Notes held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU.

BOOK-ENTRY OWNERSHIP

Bearer Notes

The Issuer has made applications to Euroclear and Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream, Luxembourg.

Registered Notes

The Issuer may make applications to Euroclear and Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Global Certificate. The Issuer may also apply to have Notes to be represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an International Securities Identification Number (“**ISIN**”) and a Common Code. Investors in Notes of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream, Luxembourg or the CMU (if applicable).

Each Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under “*Subscription and Sale*”.

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will be available, in the case of Notes initially represented by a Global Certificate, in amounts specified in the applicable Pricing Supplement.

SUBSCRIPTION AND SALE

DEALER AGREEMENT

Subject to the terms and on the conditions contained in a Dealer Agreement dated 3 October 2011 (the “**Dealer Agreement**”) between the Issuer, the Permanent Dealers and the Sole Arranger, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Sole Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Pricing Supplement.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Sole Arranger, the Dealers or any of their respective affiliates may have performed certain banking and advisory services for the Issuer and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or its affiliates in the ordinary course of the Issuer’s or their business. The Dealers or certain of their respective affiliates may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution.

The Sole Arranger, the Dealers or any of their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or its associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

Application has been made for permission to deal in, and for listing of, any Notes which are agreed at the time of issue to be so listed on the SGX-ST. In connection with the offer and sale of each Series of Notes, the relevant Pricing Supplement will indicate whether or not and, if so, on which stock exchange(s) the Notes will be listed. No assurances can be given that the Programme will qualify for listing on a stock exchange. In addition, no assurances can be given that if the Programme qualifies for listing on a stock exchange and the relevant Pricing Supplement indicates that such Series of Notes will be listed on a stock exchange, that such Notes will trade from their date of issuance until maturity (or early redemption) and that such listing will be maintained.

SELLING RESTRICTIONS

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

United States

The following sub-paragraphs shall apply in respect of any Notes the Pricing Supplement for which specifies that “Regulation S Category 1” applies.

The Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to any other exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are being offered and sold outside of the United States in reliance on Regulation S. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

The following sub-paragraphs shall apply in respect of any Notes the Pricing Supplement for which specifies that “Regulation S Category 2” applies.

The Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to any other exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Dealer has agreed that it will offer, and sell the Notes (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S under the Securities Act, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of

Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (i) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (ii) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (iii) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (iv) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (ii) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (1) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the “**FSMA**”) by the Issuer;

- (2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA, received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (the “**Securities and Futures Ordinance**”) other than (a) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Dealer has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Note:

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law; or
- (iv) as specified in Section 276(7) of the SFA.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the “**Financial Instruments and Exchange Act**”). Accordingly, each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws and regulations of Japan.

GENERAL INFORMATION

1. **Clearing Systems:** The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. The relevant ISIN, the Common Code and (where applicable) the identification number for any other relevant clearing system for each series of Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the relevant Pricing Supplement.

2. **Listing:** Application has been made to the SGX-ST for permission to deal in, and for listing of, any Notes which are agreed at the time of issue to be so listed on the SGX-ST. There can be no assurance that the application will be approved.
3. **Litigation:** None of the Issuer nor any of its subsidiaries is involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes, nor is the Issuer or any of its subsidiaries aware that any such proceedings are pending or threatened.
4. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations as may be required in connection with the establishment of the Programme, including, but not limited to, approval by the HKMA. The establishment of the Programme and the issue of Notes thereunder have been duly authorised by resolutions of the Board of Directors of the Issuer, dated 21 September 2011. The Issuer has obtained and has agreed to obtain from time to time all necessary internal consents, approvals and authorisations for the issue of Notes under the Programme. The issue of this Offering Circular has been duly authorised by resolutions of the Board of Directors of the Issuer dated 21 September 2011.
5. **No Material Adverse Change:** Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2010 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2010.
6. **Available Documents:** For so long as Notes may be issued pursuant to this Offering Circular, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the offices of (i) the Trustee (in the case of the documents referred to in sub-paragraph (d) below; or (ii) the Issuer and/or the Paying Agents (in the case of the documents referred to in respect of all the sub-paragraphs below):
 - (a) the Memorandum and Articles of Association of the Issuer;
 - (b) a copy of the auditors' reports of KPMG, the Issuer's external auditors, and the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2008, 2009 and 2010;
 - (c) copies of the most recent annual and interim reports (including the financial statements) published by the Issuer;
 - (d) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons) and the Agency Agreement;

- (e) the Dealer Agreement;
 - (f) a copy of this Offering Circular together with any Supplement to this Offering Circular or further Offering Circular;
 - (g) a copy of the subscription agreement for Notes issued on a syndicated basis that are listed on any stock exchange, where the rules of such stock exchange so require;
 - (h) each Pricing Supplement (save that Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Issuing and Paying Agent as to its holding of Notes and identity).
7. **Auditors:** The consolidated financial statements of the Issuer as at and for the years ended 31 December 2009 and 2010 included in this Offering Circular have been audited by KPMG, Certified Public Accountants, as stated in the auditors' report appearing in this Offering Circular in relation to such consolidated financial statements.
 8. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Certificate is exchanged for definitive Certificates, the Issuer will appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Global Certificate is exchanged for definitive Certificates, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore.
 9. Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2010 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2010.
 10. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
 11. The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Pricing Supplement of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

The information set forth below has been extracted without material adjustment from BEA's interim financial statements for the six months ended 30 June 2011, audited consolidated financial statements for the years ended 31 December 2010 and 31 December 2009, respectively.

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INTERIM REPORT 2011

INTERIM RESULTS

The Directors of The Bank of East Asia, Limited (“BEA”) are pleased to announce the unaudited results^a of the Bank and its subsidiaries (the “Group”) for the six months ended 30th June, 2011. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2010 audited accounts. The interim financial report is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the Board of Directors is included on page F-42.

1. Consolidated Income Statement

	6 months ended 30/6/2011	6 months ended 30/6/2010 Restated ^c	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	9,310	6,163	7,463
Interest expense	(4,910)	(2,494)	(3,589)
Net interest income	4,400	3,669	3,874
Fee and commission income	2,077	1,710	1,939
Fee and commission expense	(371)	(353)	(354)
Net fee and commission income	1,706	1,357	1,585
Net trading profits/(losses)	411	(329)	183
Net result from financial instruments designated at fair value through profit or loss	(179)	442	(179)
Net hedging loss	(3)	-	(5)
Other operating income	303	273	256
Non-interest income	2,238	1,743	1,840
Operating income	6,638	5,412	5,714
Operating expenses	(3,802)	(3,275)	(3,629)
Operating profit before impairment losses	2,836	2,137	2,085
Write back of/(Charge for) impairment losses on loans and advances	40	(150)	(135)
Impairment losses on held-to-maturity investment	(12)	-	-
Impairment losses on available-for-sale financial assets	(9)	(19)	(5)
Write back of impairment losses on associates	-	1	-
Write back of impairment losses on bank premises	-	-	2
Impairment losses	19	(168)	(138)
Operating profit after impairment losses	2,855	1,969	1,947
Net profit on sale of available-for-sale financial assets	83	37	197
Net profit on sale of loans and receivables	3	-	1
Net profit on sale of subsidiaries/associates	15	230	8
Net profit/(loss) on sale of fixed assets	132	14	(20)
Valuation gains on investment properties	285	127	299
Share of profits less losses of associates	202	179	162
Profit for the period before taxation	3,575	2,556	2,594
Income tax			
Current tax ^b			
- Hong Kong	(91)	(191)	(225)
- Overseas	(524)	(277)	(280)
Deferred tax	(203)	51	75
Profit for the period after taxation	2,757	2,139	2,164
Attributable to:			
Owners of the parent	2,711	2,100	2,124
Non-controlling interests	46	39	40
Profit after taxation	2,757	2,139	2,164
Profit for the Bank	1,232	1,053	900
Per share			
- Basic earnings ^c	HK\$1.24	HK\$0.96	HK\$0.96
- Diluted earnings ^c	HK\$1.24	HK\$0.96	HK\$0.96

2. Consolidated Statement of Comprehensive Income

	6 months ended 30/6/2011	6 months ended 30/6/2010 Restated ^c	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net profit	2,757		2,164
- As previously reported		2,116	
- Adjustment arising from changes in accounting policies		23	
- As restated		2,139	
Other comprehensive income for the period (after taxation and reclassification adjustments):			
Premises:			
- unrealised surplus on revaluation of premises	4	-	40
- deferred taxes	2	(3)	1
- exchange differences	(4)	1	2
Available-for-sale investment revaluation reserve:			
- fair value changes taken to/(from) equity	2	(99)	190
- fair value changes transferred from/(to) income statement:			
- on impairment and amortisation	15	19	5
- on disposal	(36)	(22)	(178)
- deferred taxes	4	8	49
- exchange difference	(4)	-	-
Share of changes in equity of associates	(6)	27	9
Exchange differences on other reserves	37	12	38
Exchange differences on translation of:			
- accounts of overseas branches, subsidiaries and associates	313	184	585
Other comprehensive income	327	127	741
Total comprehensive income	3,084	2,266	2,905
Total comprehensive income attributable to:			
Owners of the parent	3,038	2,227	2,865
Non-controlling interests	46	39	40
	3,084	2,266	2,905

3. Consolidated Statement of Financial Position

	30/6/2011	30/6/2010 Restated ^c	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
ASSETS			
Cash and balances with banks and other financial institutions	55,910	27,479	48,293
Placements with banks and other financial institutions	74,703	58,149	58,197
Trade bills	38,023	3,075	18,548
Trading assets	7,963	6,587	5,845
Financial assets designated at fair value through profit or loss	17,168	15,357	16,192
Advances to customers and other accounts	340,764	302,526	320,040
Available-for-sale financial assets	38,229	38,802	40,779
Held-to-maturity investments	5,183	6,787	5,714
Investments in associates	3,771	3,255	3,573
Fixed assets	12,519	11,574	12,414
- Investment properties	2,890	2,157	2,574
- Other property and equipment	9,629	9,417	9,840
Goodwill and intangible assets	4,249	4,161	4,188
Deferred tax assets	460	350	410
Total Assets	598,942	478,102	534,193
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions	19,014	13,225	9,994
Deposits from customers	459,326	360,995	419,833
- Demand deposits and current accounts	52,734	49,726	59,699
- Savings deposit	80,155	77,280	82,366
- Time, call and notice deposits	326,437	233,989	277,768
Trading liabilities	3,327	2,515	3,101
Certificates of deposit issued	11,912	1,560	5,586
- At fair value through profit or loss	5,390	1,410	2,754
- At amortised cost	6,522	150	2,832
Current taxation	877	355	618
Debt securities issued	7,466	4,780	4,950
Deferred tax liabilities	458	283	214
Other accounts and provisions	32,645	35,818	28,561
Loan capital	12,969	12,177	12,693
- At fair value through profit or loss	3,733	7,512	3,548
- At amortised cost	9,236	4,665	9,145
Total Liabilities	547,994	431,708	485,550
Share capital	5,147	5,079	5,105
Reserves	41,366	36,928	39,138
Total equity attributable to owners of the parent	46,513	42,007	44,243
Non-controlling interests	4,435	4,387	4,400
Total Equity	50,948	46,394	48,643
Total Equity and Liabilities	598,942	478,102	534,193

4. Consolidated Statement of Changes in Equity

	Share capital	Share premium	Capital reserve – staff share options issued	Exchange revaluation reserve	Investment revaluation reserve	Revaluation reserve of bank premises	Capital reserve	General reserve	Other reserves	Retained profits	Total	Non-controlling interest	Total Equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 st January, 2011	5,105	9,331	165	1,938	258	1,023	86	15,453	2,043	8,841	44,243	4,400	48,643
Changes in equity													
Profit for the period	-	-	-	-	-	-	-	-	-	2,711	2,711	46	2,757
Other comprehensive income	-	-	-	313	(19)	2	-	-	31	-	327	-	327
Total comprehensive income	-	-	-	313	(19)	2	-	-	31	2,711	3,038	46	3,084
Shares issued in lieu of dividend	34	(34)	-	-	-	-	-	441	-	-	441	-	441
Shares issued under Staff Share Option Schemes	8	83	-	-	-	-	-	-	-	-	91	-	91
Equity settled share-based transaction	-	-	11	-	-	-	-	-	-	-	11	-	11
Transfer	-	23	(44)	-	-	-	-	(6)	18	9	-	-	-
Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	(1,311)	(1,311)	(25)	(1,336)
Purchase of interests in businesses from non-controlling interests investors	-	-	-	-	-	-	-	-	-	-	-	7	7
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	7	7
At 30 th June, 2011	5,147	9,403	132	2,251	239	1,025	86	15,888	2,092	10,250	46,513	4,435	50,948
At 1 st January, 2010													
- As restated	4,623	4,526	170	1,169	286	982	86	14,866	1,518	7,151	35,377	4,358	39,735
Changes in equity													
- Adjustment arising from changes in accounting policies	-	-	-	-	-	(3)	-	-	-	23	20	-	20
Profit for the period	-	-	-	-	-	-	-	-	-	2,077	2,077	39	2,116
Other comprehensive income	-	-	-	184	(94)	1	-	-	39	-	130	-	130
Total comprehensive income	-	-	-	184	(94)	(2)	-	-	39	2,100	2,227	39	2,266
- As restated	-	-	-	184	(94)	(2)	-	-	39	2,100	2,227	39	2,266
Shares issued in lieu of dividend	26	(26)	-	-	-	-	-	306	-	-	306	-	306
Subscription of new shares	418	4,695	-	-	-	-	-	-	-	-	5,113	-	5,113
Shares issued under Staff Share Option Schemes	12	87	-	-	-	-	-	-	-	-	99	-	99
Equity settled share-based transaction	-	-	21	-	-	-	-	-	-	-	21	-	21
Transfer	-	6	(14)	-	-	-	-	-	21	(13)	-	-	-
Dividends declared or approved during the period	-	-	-	-	-	-	-	-	-	(1,136)	(1,136)	(26)	(1,162)
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	16	16
At 30 th June, 2010													
- As restated	5,079	9,288	177	1,353	192	980	86	15,172	1,578	8,102	42,007	4,387	46,394

5. Condensed Consolidated Cash Flow Statement

	6 months ended 30/6/2011 <u>HK\$ Mn</u>	6 months ended 30/6/2010 <u>HK\$ Mn</u>
Cash used in operations	(3,414)	(6,618)
Tax paid	(370)	(302)
Net cash used in operating activities	(3,784)	(6,920)
Net cash generated from/(used in) investing activities	425	(425)
Net cash generated from financing activities	7,396	3,120
Net increase/(decrease) in cash and cash equivalents	4,037	(4,225)
 CASH AND CASH EQUIVALENTS AT 1 st JANUARY	 <u>85,366</u>	 <u>60,530</u>
 CASH AND CASH EQUIVALENTS AT 30 th JUNE	 <u><u>89,403</u></u>	 <u><u>56,305</u></u>
 Cash flows from operating activities included:		
Interest received	8,878	5,875
Interest paid	4,248	2,263
Dividend received	51	39

Notes:

- (a) The financial information set out in this interim report does not constitute the Group's statutory accounts for the year ended 31st December, 2010 but, save for the early adoption of the amendments to HKAS 12, Income taxes as described in Note (e) below, there is no material change in accounting policies as compared to those accounts, nor for the six months ended 30th June, 2011. The statutory accounts for the year ended 31st December, 2010 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 15th February, 2011.
- (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, 2011. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.
- (c) (i) The calculation of basic earnings per share is based on earnings of HK\$2,546 million (six months ended 30th June, 2010 (restated): HK\$1,935 million) after the distribution of HK\$165 million (six months ended 30th June, 2010: HK\$165 million) to Hybrid Tier 1 issue holders and on the weighted average of 2,049 million (six months ended 30th June, 2010: 2,011 million) ordinary shares outstanding during the six months ended 30th June, 2011.
- (ii) The calculation of diluted earnings per share is based on earnings of HK\$2,546 million (six months ended 30th June, 2010 (restated): HK\$1,935 million) after the distribution of HK\$165 million (six months ended 30th June, 2010: HK\$165 million) to Hybrid Tier 1 issue holders and on 2,051 million (six months ended 30th June, 2010: 2,013 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2011, adjusted for the effects of all dilutive potential shares.
- (d) Dividends

	6 months ended 30/6/2011	6 months ended 30/6/2010
	HK\$ Mn	HK\$ Mn
Dividends payable to equity owners of the parent attributable to the interim period:		
Interim dividend declared and paid after the interim period of HK\$0.43 per share (six months ended 30 th June, 2010: HK\$ 0.38 per share)	885	772
Final dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the balance sheet date and before the close of the Register of Members of the Bank, of HK\$0.56 per share (2010: HK\$0.48 per share)	2	2
	<u>887</u>	<u>774</u>

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

(e) Early adoption of the amendments to HKAS 12, Income taxes

The Group has early adopted the amendments to HKAS 12, Income taxes, in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, Investment property for the financial year ended 31st December, 2010 and this change in accounting policy has been consistently applied in these interim financial statements.

The change in policy arising from the amendments to HKAS 12 is the only change which has had a material impact on the current or comparative periods. As a result of this change in policy, the Group now measures any deferred tax liability in respect of its investment properties with reference to the tax liability that would arise if the properties were disposed of at their carrying amounts at the reporting date. In the prior interim period, where these properties were held under leasehold interests, deferred tax was generally measured using the tax rate that would apply as a result of recovery of the asset's value through use.

This change in policy has been applied retrospectively with consequential adjustments to comparatives for the 6 months ended 30th June, 2010 and 31st December, 2010. As the Group's properties are located in Hong Kong, this has resulted in a reduction in the amount of deferred tax provided on valuation gain as follows:

	As previously <u>reported</u> HK\$ Mn	Effect of adoption of amendments to <u>HKAS 12</u> HK\$ Mn	<u>As restated</u> HK\$ Mn
Consolidated income statement for the 6 months ended 30 th June, 2010:			
Income tax expense	440	(23)	417
Profit for the period	2,116	23	2,139
Basic earnings per share	HK\$0.95	HK\$0.01	HK\$0.96
Fully diluted earnings per share	HK\$0.95	HK\$0.01	HK\$0.96
Consolidated statement of financial position as at 30 th June, 2010:			
Deferred tax liabilities	515	(232)	283
Retained profits	7,921	181	8,102
Revaluation reserve of bank premises	929	51	980

6. Interest Income

	6 months ended 30/6/2011 <u>HK\$ Mn</u>	6 months ended 30/6/2010 <u>HK\$ Mn</u>	6 months ended 31/12/2010 <u>HK\$ Mn</u>
Listed securities classified as held-to-maturity or available-for-sale	197	169	212
Trading assets			
- listed	14	9	13
- unlisted	38	30	36
Interest rate swaps	1,405	495	887
Financial assets designated at fair value through profit or loss			
- listed	214	187	244
- unlisted	111	90	107
Loans, deposits with banks and financial institutions, trade bills, and other unlisted securities that are not at fair value through profit or loss	<u>7,331</u>	<u>5,183</u>	<u>5,964</u>
Total interest income	<u><u>9,310</u></u>	<u><u>6,163</u></u>	<u><u>7,463</u></u>

Included above is interest income accrued on impaired financial assets of HK\$29 million (six months ended 30th June, 2010: HK\$43 million, and six months ended 31st December, 2010: HK\$31 million).

7. Interest Expense

	6 months ended 30/6/2011 <u>HK\$ Mn</u>	6 months ended 30/6/2010 <u>HK\$ Mn</u>	6 months ended 31/12/2010 <u>HK\$ Mn</u>
Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost	2,474	1,524	1,550
Debt securities issued	119	69	71
Subordinated notes carried at amortised cost	166	20	154
Interest rate swaps	1,976	613	1,572
Financial instruments designated at fair value through profit or loss	171	260	240
Other borrowings	4	8	2
Total interest expense	<u><u>4,910</u></u>	<u><u>2,494</u></u>	<u><u>3,589</u></u>

8. Fee and Commission Income

Fee and commission income arises from the following services:

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Corporate services	470	418	438
Credit cards	369	310	364
Loans, overdrafts and guarantees	233	232	231
Trade finance	221	85	167
Securities and brokerage	208	196	260
Derivatives transactions	187	163	126
Other retail banking services	151	106	131
Trust and other fiduciary activities	60	46	54
Others	178	154	168
Total fee and commission income	<u>2,077</u>	<u>1,710</u>	<u>1,939</u>

of which:

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

	1,604	1,288	1,520
Fee income	1,896	1,557	1,813
Fee expenses	(292)	(269)	(293)

9. Net Trading Profits/(Losses)

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Profit on dealing in foreign currencies	174	296	15
Profit/(Loss) on trading securities	6	(67)	200
Net gain/(loss) on derivatives	208	(570)	(50)
Loss on other dealing activities	-	(1)	-
Dividend income from listed trading securities	23	13	18
Total net trading profits/(losses)	<u>411</u>	<u>(329)</u>	<u>183</u>

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

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Revaluation (loss)/gain on debts issued	(261)	174	(314)
Net (loss)/profit on sale of other financial assets designated at fair value through profit or loss	(86)	15	(50)
Profit on redemption of US\$550M subordinated notes issued	-	-	8
Revaluation gain on other financial assets designated at fair value through profit or loss	168	253	177
Total net result from financial instruments designated at fair value through profit or loss	<u>(179)</u>	<u>442</u>	<u>(179)</u>

11. Other Operating Income

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Dividend income from available-for-sale financial assets			
- listed	23	19	16
- unlisted	5	7	24
Rental from safe deposit boxes	40	39	39
Net revenue from insurance activities	108	131	90
Rental income on properties	59	46	46
Others	68	31	41
Total other operating income	<u>303</u>	<u>273</u>	<u>256</u>

12. Operating Expenses

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Contributions to defined contribution plan	150	115	133
Equity-settled share-based payment expenses	11	21	8
Salaries and other staff costs	1,914	1,576	1,762
Total staff costs	<u>2,075</u>	<u>1,712</u>	<u>1,903</u>
Premises and equipment expenses excluding depreciation			
- Rental of premises	264	241	251
- Maintenance, repairs and others	257	244	244
Total premises and equipment expenses excluding depreciation	<u>521</u>	<u>485</u>	<u>495</u>
Depreciation on fixed assets	310	281	300
Amortisation of intangible assets	17	17	17
Other operating expenses			
- Stamp duty, overseas and PRC* business taxes, and value added taxes	231	162	184
- Communications, stationery and printing	144	140	146
- Advertising expenses	118	124	187
- Legal and professional fees	115	89	130
- Business promotions and business travel	62	75	73
- Card related expenses	30	46	67
- Insurance expenses	26	35	8
- Membership fees	6	5	5
- Administration expenses of corporate services	5	4	5
- Bank charges	4	3	4
- Donations	3	5	3
- Bank licence	2	2	2
- Others	133	90	100
Total other operating expenses	<u>879</u>	<u>780</u>	<u>914</u>
Total operating expenses	<u>3,802</u>	<u>3,275</u>	<u>3,629</u>

* PRC denotes the People's Republic of China.

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

	6 months ended 30/6/2011	6 months ended 30/6/2010	6 months ended 31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net revaluation gain transferred from reserves	36	22	178
Profit arising in the period	47	15	19
	<u>83</u>	<u>37</u>	<u>197</u>

14. Placements with Banks and Other Financial Institutions

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Placements with central banks	524	78	-
Placements with banks and authorised institutions	74,179	58,071	57,955
Placements with other financial institutions	-	-	242
	<u>74,703</u>	<u>58,149</u>	<u>58,197</u>
Maturing			
- within one month	54,858	44,375	49,548
- between one month and one year	19,845	13,774	8,649
	<u>74,703</u>	<u>58,149</u>	<u>58,197</u>

15. Trading Assets

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	35	1,699	-
Debt securities	4,219	1,701	2,411
Equity securities	1,518	1,353	1,502
Investment funds	18	200	194
Trading securities	5,790	4,953	4,107
Positive fair value of derivatives	2,173	1,634	1,738
	<u>7,963</u>	<u>6,587</u>	<u>5,845</u>
Issued by:			
Central governments and central banks	806	2,102	596
Public sector entities	9	67	22
Banks and other financial institutions	1,017	1,119	1,066
Corporate entities	3,940	1,651	2,229
Other entities	18	14	194
	<u>5,790</u>	<u>4,953</u>	<u>4,107</u>
Analysed by place of listing:			
Listed in Hong Kong	1,527	1,413	1,484
Listed outside Hong Kong	925	807	1,071
	<u>2,452</u>	<u>2,220</u>	<u>2,555</u>
Unlisted	3,338	2,733	1,552
	<u>5,790</u>	<u>4,953</u>	<u>4,107</u>

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

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Debt securities	16,725	15,013	15,989
Equity securities	427	344	203
Investment funds	16	-	-
	<u>17,168</u>	<u>15,357</u>	<u>16,192</u>
Issued by:			
Central governments and central banks	534	526	531
Public sector entities	41	179	175
Banks and other financial institutions	8,514	7,722	8,032
Corporate entities	8,064	6,930	7,454
Other entities	15	-	-
	<u>17,168</u>	<u>15,357</u>	<u>16,192</u>
Analysed by place of listing:			
Listed in Hong Kong	4,035	3,277	3,695
Listed outside Hong Kong	7,779	6,922	7,171
	<u>11,814</u>	<u>10,199</u>	<u>10,866</u>
Unlisted	5,354	5,158	5,326
	<u>17,168</u>	<u>15,357</u>	<u>16,192</u>

17. Advances to Customers and Other Accounts

(a) Advances to customers and other accounts

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
(i) Advances to customers	312,491	278,210	297,044
Less: Impairment allowances			
- Individual	(244)	(480)	(282)
- Collective	(793)	(705)	(819)
	<u>311,454</u>	<u>277,025</u>	<u>295,943</u>
(ii) Other Accounts			
Advances to banks and other financial institutions	4,107	1,180	1,320
Less: Impairment allowances - Individual	(3)	-	-
Notes and bonds	1	61	-
Certificates of deposit held	39	39	39
Accrued interest	2,638	1,601	2,206
Bankers acceptances	17,116	11,556	14,583
Other accounts	5,457	11,106	5,990
	<u>29,355</u>	<u>25,543</u>	<u>24,138</u>
Less: Impairment allowances			
- Individual	(41)	(32)	(38)
- Collective	(4)	(10)	(3)
	<u>29,310</u>	<u>25,501</u>	<u>24,097</u>
	<u>340,764</u>	<u>302,526</u>	<u>320,040</u>

(b) Advances to customers - by industry sectors

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

	30/6/2011		30/6/2010		31/12/2010	
	Gross advances	% of secured advances	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%	HK\$ Mn	%
Loans for use in Hong Kong						
Industrial, commercial and financial						
- Property development	9,936	68.81	9,604	53.74	10,245	60.04
- Property investment	42,384	89.42	36,099	93.75	40,697	92.44
- Financial concerns	9,585	78.94	2,781	68.88	6,169	75.47
- Stockbrokers	912	38.47	8,519	95.66	453	84.53
- Wholesale and retail trade	6,869	35.36	3,782	59.29	4,710	40.62
- Manufacturing	4,831	39.07	3,467	56.41	4,876	50.28
- Transport and transport equipment	4,542	75.43	4,452	72.56	4,461	77.56
- Recreational activities	204	28.56	74	25.40	88	16.47
- Information technology	583	58.36	275	2.40	566	57.15
- Others	5,860	50.34	5,202	57.20	4,885	55.71
- Sub-total	<u>85,706</u>	<u>74.38</u>	<u>74,255</u>	<u>80.12</u>	<u>77,150</u>	<u>77.37</u>
Individuals						
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,497	100.00	1,515	100.00	1,611	100.00
- Loans for the purchase of other residential properties	28,484	99.99	27,658	99.94	30,130	99.99
- Credit card advances	3,042	0.00	2,822	0.00	3,087	0.00
- Others	13,286	77.56	15,510	83.73	13,570	73.38
- Sub-total	<u>46,309</u>	<u>86.99</u>	<u>47,505</u>	<u>88.71</u>	<u>48,398</u>	<u>86.15</u>
Total loans for use in Hong Kong	132,015	78.80	121,760	83.48	125,548	80.76
Trade finance	7,928	41.48	6,409	59.08	9,554	46.03
Loans for use outside Hong Kong *	<u>172,548</u>	<u>75.16</u>	<u>150,041</u>	<u>72.99</u>	<u>161,942</u>	<u>72.16</u>
Total advances to customers	<u>312,491</u>	<u>75.84</u>	<u>278,210</u>	<u>77.26</u>	<u>297,044</u>	<u>74.95</u>

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

	30/6/2011		30/6/2010		31/12/2010	
	Gross advances	% of secured advances	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%	HK\$ Mn	%
Property development	26,848	55.88	19,833	56.49	24,732	52.19
Property investment	23,930	92.36	22,146	84.10	22,722	89.55
Wholesale and retail trade	21,681	88.99	20,330	91.83	17,835	88.23
Manufacturing	10,119	59.58	9,387	42.08	9,731	51.77
Others	48,856	75.27	42,239	74.07	47,628	73.16
	<u>131,434</u>	<u>75.48</u>	<u>113,935</u>	<u>73.49</u>	<u>122,648</u>	<u>72.46</u>

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:

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
(i) Property development			
a. Individually impaired loans	361	858	528
b. Individual impairment allowance	44	102	58
c. Collective impairment allowance	65	58	64
d. Provision charged to income statement			
- individual impairment loss	4	89	169
- collective impairment loss	13	7	22
e. Written off	-	28	114
(ii) Property investment			
a. Individually impaired loans	469	576	441
b. Individual impairment allowance	73	74	67
c. Collective impairment allowance	248	185	266
d. Provision charged to income statement			
- individual impairment loss	19	61	87
- collective impairment loss	47	15	82
e. Written off	7	1	27
(iii) Loans for purchase of residential properties			
a. Individually impaired loans	104	129	102
b. Individual impairment allowance	-	-	-
c. Collective impairment allowance	60	27	46
d. Provision charged to income statement			
- individual impairment loss	1	1	3
- collective impairment loss	17	7	24
e. Written off	1	-	3
(iv) Wholesale and retail trade			
a. Individually impaired loans	119	206	117
b. Individual impairment allowance	57	111	43
c. Collective impairment allowance	83	70	76
d. Provision charged to income statement			
- individual impairment loss	13	23	35
- collective impairment loss	20	14	22
e. Written off	5	52	96

(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.

30/6/2011

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

30/6/2010

	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	140,597	189	362	75	284
People's Republic of China	107,582	173	359	25	90
Other Asian Countries	10,434	36	210	131	178
Others	19,597	185	1,467	249	153
Total	278,210	583	2,398	480	705
% of total advances to customers			0.86%		
Market value of security held against impaired advances to customers			5,190		

31/12/2010

	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	145,109	183	337	77	284
People's Republic of China	118,898	53	222	27	145
Other Asian Countries	12,061	55	101	62	149
Others	20,976	105	932	116	241
Total	297,044	396	1,592	282	819
% of total advances to customers			0.54%		
Market value of security held against impaired advances to customers			3,223		

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.

18. Available-for-Sale Financial Assets

	30/6/2011 HK\$ Mn	30/6/2010 HK\$ Mn	31/12/2010 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	6,421	5,691	6,744
Certificates of deposit held	3,592	1,834	2,152
Debt securities	25,824	29,212	29,271
Equity securities	2,090	1,837	2,290
Investment funds	302	228	322
	38,229	38,802	40,779
Issued by:			
Central governments and central banks	10,794	13,978	11,882
Public sector entities	6	427	3,726
Banks and other financial institutions	15,683	15,502	14,861
Corporate entities	11,401	8,719	10,016
Other entities	345	176	294
	38,229	38,802	40,779
Analysed by place of listing:			
Listed in Hong Kong	2,115	2,229	2,249
Listed outside Hong Kong	7,014	6,587	6,545
	9,129	8,816	8,794
Unlisted	29,100	29,986	31,985
	38,229	38,802	40,779

19. Held-to-Maturity Investments

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Treasury bills (including Exchange Fund Bills)	171	64	64
Certificates of deposit held	1,226	2,046	1,288
Debt securities	3,797	4,715	4,362
	<u>5,194</u>	<u>6,825</u>	<u>5,714</u>
Less: Impairment allowances	(11)	(38)	-
	<u>5,183</u>	<u>6,787</u>	<u>5,714</u>
Issued by:			
Central governments and central banks	1,751	1,482	1,506
Public sector entities	425	443	455
Banks and other financial institutions	2,420	3,865	2,897
Corporate entities	587	997	856
	<u>5,183</u>	<u>6,787</u>	<u>5,714</u>
Analysed by place of listing:			
Listed in Hong Kong	794	969	948
Listed outside Hong Kong	2,292	2,950	2,548
	<u>3,086</u>	<u>3,919</u>	<u>3,496</u>
Unlisted	2,097	2,868	2,218
	<u>5,183</u>	<u>6,787</u>	<u>5,714</u>
Fair value:			
Listed securities	3,190	4,026	3,614
Unlisted securities	2,110	2,894	2,237
	<u>5,300</u>	<u>6,920</u>	<u>5,851</u>

20. Fixed Assets

	30/6/2011				
	<u>Investment properties</u> HK\$ Mn	<u>Bank premises</u> HK\$ Mn	<u>Furniture, fixtures and equipment</u> HK\$ Mn	<u>Sub-total</u> HK\$ Mn	<u>Total</u> HK\$ Mn
Cost or valuation					
At 1 st January, 2011	2,574	9,031	4,160	13,191	15,765
Additions	-	39	177	216	216
Additions through acquisition	-	-	3	3	3
Revaluation surplus	285	-	-	-	285
Revaluation of bank premises transferred to investment properties	-	4	-	4	4
Transfer from bank premises to investment properties	12	(12)	-	(12)	-
Redevelopment cost	2	3	-	3	5
Disposals	-	(277)	(53)	(330)	(330)
Exchange adjustments	17	129	34	163	180
At 30 th June, 2011	<u>2,890</u>	<u>8,917</u>	<u>4,321</u>	<u>13,238</u>	<u>16,128</u>
Accumulated depreciation and amortisation					
At 1 st January, 2011	-	877	2,474	3,351	3,351
Charge for the period	-	80	230	310	310
Additions through acquisition	-	-	2	2	2
Written back on disposal	-	(39)	(45)	(84)	(84)
Exchange adjustments	-	9	21	30	30
At 30 th June, 2011	<u>-</u>	<u>927</u>	<u>2,682</u>	<u>3,609</u>	<u>3,609</u>
Net book value at 30 th June, 2011	<u>2,890</u>	<u>7,990</u>	<u>1,639</u>	<u>9,629</u>	<u>12,519</u>
Net book value at 30 th June, 2010	<u>2,157</u>	<u>7,857</u>	<u>1,560</u>	<u>9,417</u>	<u>11,574</u>
Net book value at 31 st December, 2010	<u>2,574</u>	<u>8,154</u>	<u>1,686</u>	<u>9,840</u>	<u>12,414</u>
The gross amounts of the above assets are stated:					
At cost	-	8,102	4,321	12,423	12,423
At Directors' valuation					
- 1989	-	815	-	815	815
At professional valuation					
- 2011	2,890	-	-	-	2,890
	<u>2,890</u>	<u>8,917</u>	<u>4,321</u>	<u>13,238</u>	<u>16,128</u>

21. Trading Liabilities

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Exchange fund bills sold	32	-	-
Shares sold	3	2	1
Negative fair value of derivatives	3,292	2,513	3,100
	<u>3,327</u>	<u>2,515</u>	<u>3,101</u>

22. Other Accounts and Provisions

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Accrued interest payable	2,672	1,320	2,010
Acceptance draft payable	17,116	11,556	14,583
Other accounts	12,857	22,942	11,968
	<u>32,645</u>	<u>35,818</u>	<u>28,561</u>

23. Loan Capital

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
USD550 million 5.625% subordinated notes, measured at fair value through profit or loss	-	4,278	-
GBP300 million 6.125% step-up perpetual subordinated notes, measured at fair value through profit or loss	3,733	3,234	3,548
USD600 million floating rate step-up subordinated notes, measured at amortised cost	4,667	4,665	4,660
USD600 million subordinated notes, measured at amortised cost	4,569	-	4,485
	<u>12,969</u>	<u>12,177</u>	<u>12,693</u>

Loan capital of face value of HK\$3,757 million (GBP300 million) and carrying amount of HK\$3,733 million represents 6.125% step-up perpetual subordinated notes qualifying as tier 2 capital which were issued on 20th March, 2007 by the Bank. The notes are listed on the Singapore Stock Exchange. The notes are redeemable at the option of the Bank on 21st March, 2012 or thereafter.

Loan capital of face value of HK\$4,669 million (USD600 million) and carrying amount of HK\$4,667 million represents floating rate step-up subordinated notes qualifying as tier 2 capital which were issued on 21st June, 2007 by the Bank. The notes are listed on the Singapore Stock Exchange and will mature on 22nd June, 2017. The notes are redeemable at the option of the Bank on 22nd June, 2012.

Loan capital of face value of HK\$4,669 million (USD600 million) and carrying amount of HK\$4,569 million represents 6.125% subordinated notes qualifying as tier 2 capital which were issued on 16th July, 2010 (USD450 million) and on 23rd July, 2010 (USD150 million) by the Bank. The notes are listed on the Singapore Stock Exchange and will mature on 16th July, 2020. Hedge ineffectiveness of HK\$3 million in the first half of 2011 was recorded under fair value hedge accounting.

24. Segment Reporting

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

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

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

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

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

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

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

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

Other businesses include insurance business, property-related business, supporting units of Hong Kong operations, investment properties, bank premises, the net results of associates and other subsidiaries in Hong Kong.

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

Segment assets include all tangible 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 30/6/2011

	Hong Kong banking operations							Total reportable segments HK\$ Mn	Others HK\$ Mn	Inter-segment elimination HK\$ Mn	Total HK\$ Mn
	Personal banking	Corporate banking	Treasury markets	Wealth management	China operations	Overseas operations	Corporate services				
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn				
Net interest income/(expense)	922	935	(249)	138	2,270	442	1	4,459	(59)	-	4,400
Non-interest income/(expense)	322	277	27	151	433	159	471	1,840	546	(148)	2,238
Operating income	1,244	1,212	(222)	289	2,703	601	472	6,299	487	(148)	6,638
Operating expenses	(637)	(80)	(50)	(75)	(1,499)	(286)	(314)	(2,941)	(1,009)	148	(3,802)
Operating profit/(loss) before impairment losses	607	1,132	(272)	214	1,204	315	158	3,358	(522)	-	2,836
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(32)	28	4	5	(59)	103	(3)	46	(6)	-	40
Impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	-	-	-	(12)	-	(12)	(9)	-	(21)
Operating profit/(loss) after impairment losses	575	1,160	(268)	219	1,145	406	155	3,392	(537)	-	2,855
Profit on sale of fixed assets, available-for-sale financial assets and loans and receivables	(1)	-	37	-	115	3	(1)	153	65	-	218
Profit on sale of subsidiaries/associates	-	-	-	-	-	15	-	15	-	-	15
Valuation gains/(losses) on investment properties	-	-	-	-	20	(1)	-	19	266	-	285
Share of profits less losses of associates	-	-	-	-	-	-	-	-	202	-	202
Profit/(Loss) before taxation	574	1,160	(231)	219	1,280	423	154	3,579	(4)	-	3,575
Depreciation for the period	(34)	(1)	(2)	(1)	(156)	(15)	(9)	(218)	(92)	-	(310)
Segment assets	46,683	125,896	126,658	18,248	273,230	59,234	2,995	652,944	23,612	(81,385)	595,171
Investments in associates	-	-	-	-	-	-	-	-	3,771	-	3,771
Total assets	46,683	125,896	126,658	18,248	273,230	59,234	2,995	652,944	27,383	(81,385)	598,942
Total liabilities	253,070	1,653	39,564	20,037	252,880	45,266	837	613,307	10,142	(75,455)	547,994

6 months ended 30/6/2010 (Restated)

	Hong Kong banking operations							Total reportable segments HK\$ Mn	Others HK\$ Mn	Inter-segment elimination HK\$ Mn	Total HK\$ Mn
	Personal banking	Corporate banking	Treasury markets	Wealth management	China operations	Overseas operations	Corporate services				
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn				
Net interest income/(expense)	1,041	478	191	86	1,641	341	1	3,779	(110)	-	3,669
Non-interest income	260	40	97	137	284	90	419	1,327	538	(122)	1,743
Operating income	1,301	518	288	223	1,925	431	420	5,106	428	(122)	5,412
Operating expenses	(630)	(62)	(48)	(57)	(1,165)	(255)	(271)	(2,488)	(909)	122	(3,275)
Operating profit/(loss) before impairment losses	671	456	240	166	760	176	149	2,618	(481)	-	2,137
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(10)	(26)	-	2	13	(126)	(2)	(149)	(1)	-	(150)
Impairment losses on available-for-sale financial assets, held-to-maturity investments and associates	-	-	-	-	-	-	-	-	(18)	-	(18)
Operating profit/(loss) after impairment losses	661	430	240	168	773	50	147	2,469	(500)	-	1,969
Profit on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and loans and receivables	-	-	11	-	6	-	-	17	34	-	51
Profit on sale of subsidiaries/ associates	-	-	-	-	-	-	-	-	230	-	230
Valuation gains/(losses) on investment properties	-	-	-	-	1	(1)	-	-	127	-	127
Share of profits less losses of associates	-	-	-	-	-	-	-	-	179	-	179
Profit before taxation	661	430	251	168	780	49	147	2,486	70	-	2,556
Depreciation for the period	(33)	(1)	(2)	(1)	(128)	(15)	(8)	(188)	(93)	-	(281)
Segment assets	46,909	91,776	127,104	10,089	177,075	48,251	3,648	504,852	23,670	(53,675)	474,847
Investments in associates	-	-	-	-	-	-	-	-	3,255	-	3,255
Total assets	46,909	91,776	127,104	10,089	177,075	48,251	3,648	504,852	26,925	(53,675)	478,102
Total liabilities	225,551	4,078	27,634	14,722	159,021	37,763	1,710	470,479	9,546	(48,317)	431,708

25. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2011							Total
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
Assets								
Cash and balances with banks and other financial institutions	27,833	61	56	53	-	-	27,907	55,910
Placements with banks and other financial institutions	524	54,334	8,087	11,758	-	-	-	74,703
Trade bills	92	1,826	5,538	30,548	18	-	1	38,023
Trading assets	-	35	469	1,618	1,985	147	3,709	7,963
Financial assets designated at fair value through profit or loss	-	-	117	1,511	11,833	3,264	443	17,168
Advances to customers and other accounts	5,655	32,514	31,476	71,049	119,318	77,064	3,688	340,764
Available-for-sale financial assets	-	1,873	4,627	5,589	20,821	2,927	2,392	38,229
Held-to-maturity investments	-	1,023	885	1,143	1,899	233	-	5,183
Undated assets	-	-	-	-	-	-	20,999	20,999
Total assets	34,104	91,666	51,255	123,269	155,874	83,635	59,139	598,942
Liabilities								
Deposits and balances of banks and other financial institutions	1,512	9,266	3,157	4,244	743	-	92	19,014
Deposits from customers	134,387	130,766	93,585	83,898	16,690	-	-	459,326
- Demand deposits and current accounts	52,734	-	-	-	-	-	-	52,734
- Savings deposit	80,155	-	-	-	-	-	-	80,155
- Time, call and notice deposits	1,498	130,766	93,585	83,898	16,690	-	-	326,437
Trading liabilities	-	32	-	-	-	-	3,295	3,327
Certificates of deposit issued	-	462	2,875	4,931	3,644	-	-	11,912
Current taxation	-	-	-	877	-	-	-	877
Debt securities issued	-	4,809	-	250	2,407	-	-	7,466
Loan capital	-	-	-	8,400	-	4,569	-	12,969
Other liabilities	1,446	3,458	5,969	9,284	783	2	12,161	33,103
Total liabilities	137,345	148,793	105,586	111,884	24,267	4,571	15,548	547,994
Net gap	(103,241)	(57,127)	(54,331)	11,385	131,607	79,064		

	31/12/2010							Total
	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	
Assets								
Cash and balances with banks and other financial institutions	28,108	70	63	40	-	-	20,012	48,293
Placements with banks and other financial institutions	121	49,427	2,161	6,488	-	-	-	58,197
Trade bills	554	4,723	11,752	1,513	-	-	6	18,548
Trading assets	-	-	12	947	1,204	248	3,434	5,845
Financial assets designated at fair value through profit or loss	-	-	135	1,049	11,676	3,129	203	16,192
Advances to customers and other accounts	4,922	30,209	24,198	65,844	117,380	73,008	4,479	320,040
Available-for-sale financial assets	120	1,734	5,333	8,547	19,385	3,048	2,612	40,779
Held-to-maturity investments	27	868	203	1,456	2,388	772	-	5,714
Undated assets	-	-	-	-	-	-	20,585	20,585
Total assets	33,852	87,031	43,857	85,884	152,033	80,205	51,331	534,193
Liabilities								
Deposits and balances of banks and other financial institutions	1,013	2,941	1,429	3,992	596	-	23	9,994
Deposits from customers	142,673	126,658	72,199	64,052	14,251	-	-	419,833
- Demand deposits and current accounts	59,699	-	-	-	-	-	-	59,699
- Savings deposit	82,366	-	-	-	-	-	-	82,366
- Time, call and notice deposits	608	126,658	72,199	64,052	14,251	-	-	277,768
Trading liabilities	-	-	-	-	-	-	3,101	3,101
Certificates of deposit issued	-	-	535	874	1,776	2,401	-	5,586
Current taxation	-	-	-	618	-	-	-	618
Debt securities issued	-	-	-	4,709	241	-	-	4,950
Loan capital	-	-	-	-	8,208	4,485	-	12,693
Other liabilities	1,674	2,823	4,168	9,522	358	-	10,230	28,775
Total liabilities	145,360	132,422	78,331	83,767	25,430	6,886	13,354	485,550
Net gap	(111,508)	(45,391)	(34,474)	2,117	126,603	73,319		

26. Deferred Tax Assets and Liabilities Recognised

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

Deferred tax arising from :	Depreciation allowances in excess of 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 1 st January, 2011	322	145	(131)	(19)	(147)	(366)	(196)
Charged / (credited) to consolidated income statement	(6)	(1)	(49)	-	50	209	203
Credited to reserves	-	(2)	-	(4)	-	-	(6)
Exchange and other adjustments	-	-	1	(1)	(2)	(1)	(3)
At 30 th June, 2011	<u>316</u>	<u>142</u>	<u>(179)</u>	<u>(24)</u>	<u>(99)</u>	<u>(158)</u>	<u>(2)</u>
Balance as at 30 th June, 2010 (restated)	<u>306</u>	<u>117</u>	<u>(63)</u>	<u>31</u>	<u>(189)</u>	<u>(269)</u>	<u>(67)</u>
Balance as at 31 st December, 2010	<u>322</u>	<u>145</u>	<u>(131)</u>	<u>(19)</u>	<u>(147)</u>	<u>(366)</u>	<u>(196)</u>

27. Reserves

	30/6/2011	30/6/2010 Restated ^c	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Share premium	9,403	9,288	9,331
General reserve	15,888	15,172	15,453
Revaluation reserve on bank premises	1,025	980	1,023
Investment revaluation reserve	239	192	258
Exchange revaluation reserve	2,251	1,353	1,938
Other reserves	2,310	1,841	2,294
Retained profits*	<u>10,250</u>	<u>8,102</u>	<u>8,841</u>
Total	<u>41,366</u>	<u>36,928</u>	<u>39,138</u>
Proposed dividends, not provided for	<u>885</u>	<u>772</u>	<u>1,144</u>

*A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the Hong Kong Monetary Authority. As at 30th June, 2011, HK\$2,484 million (31st December, 2010: HK\$2,306 million) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the Hong Kong Monetary Authority.

28. Consolidated Cash Flow Statement

(a) Purchase of subsidiaries

	<u>30/6/2011</u>	<u>30/6/2010</u>
	HK\$ Mn	HK\$ Mn
Net assets acquired		
Cash and balances with banks and other financial institutions	15	310
Advances and other accounts less provisions	18	473
Fixed assets	1	2
Deferred tax assets	-	3
Current taxation	(3)	(2)
Other accounts and provisions	(10)	(471)
	<u>21</u>	<u>315</u>
Goodwill arising on consolidation	63	34
Intangible assets acquired	-	2
Total purchase price	<u>84</u>	<u>351</u>
Less: Cash and cash equivalents acquired	(15)	(310)
Cash flow on acquisition net of cash acquired	<u>69</u>	<u>41</u>

(b) Disposal of subsidiaries

	<u>30/6/2011</u>	<u>30/6/2010</u>
	HK\$ Mn	HK\$ Mn
Cash and balances with banks and other financial institutions	-	68
Placements with banks and other financial institutions	-	296
Advances and other accounts less provisions	-	2,403
Held-to-maturity investments	-	240
Fixed assets	-	7
Deferred tax assets	-	8
Deposits and balances of banks and other financial institutions	-	(221)
Deposits from customers	-	(1,725)
Trading liabilities	-	(9)
Taxation	-	(1)
Other accounts and provisions	-	(722)
	<u>-</u>	<u>344</u>
Add: Gain on disposal	-	230
Less: Cash and cash equivalents disposed	-	(68)
Cash flow on disposal of subsidiary	<u>-</u>	<u>506</u>

(c) Cash and cash equivalents

	<u>30/6/2011</u>	<u>30/6/2010</u>
	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	30,096	12,991
Placements with banks and other financial institutions with original maturity within three months	56,267	38,085
Treasury bills with original maturity within three months	1,798	4,264
Certificates of deposit held with original maturity within three months	1,015	644
Debt securities with original maturity within three months	227	321
	<u>89,403</u>	<u>56,305</u>
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks and other financial institutions	55,910	27,479
Placements with banks and other financial institutions	74,703	58,149
Treasury bills, certificates of deposit held and debt securities		
- trading assets	4,254	3,400
- designated at fair value through profit or loss	16,725	15,013
- advances and other accounts	39	39
- available-for-sale	35,837	36,737
- held-to-maturity	5,183	6,787
	<u>62,038</u>	<u>61,976</u>
Amount shown in the consolidated statement of financial position	192,651	147,604
Less : Amounts with an original maturity of beyond three months	(77,434)	(76,811)
Cash balance with central bank subject to regulatory restriction	(25,814)	(14,488)
Cash and cash equivalents in the consolidated cash flow statement	<u>89,403</u>	<u>56,305</u>

29. Off-balance Sheet Exposures

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

	30/6/2011	31/12/2010 Restated
	HK\$ Mn	HK\$ Mn
Contractual amounts of contingent liabilities and commitments		
Direct credit substitutes	10,705	8,915
Transaction-related contingencies	1,157	1,309
Trade-related contingencies	1,996	1,907
Commitments that are unconditionally cancellable without prior notice	40,001	37,453
Other commitments		
- up to 1 year	54,179	48,604
- over 1 year	18,957	19,690
Total	<u>126,995</u>	<u>117,878</u>
Credit risk weighted amounts	<u>42,482</u>	<u>40,584</u>
Fair value		
Assets		
Exchange rate contracts	1,073	880
Interest rate contracts	873	703
Equity contracts	225	154
Others	2	2
	<u>2,173</u>	<u>1,739</u>
Liabilities		
Exchange rate contracts	735	712
Interest rate contracts	2,375	2,280
Equity contracts	179	104
Others	3	4
	<u>3,292</u>	<u>3,100</u>
Notional amounts of derivatives		
Exchange rate contracts	323,774	205,530
Interest rate contracts	155,175	86,394
Equity contracts	18,139	10,458
Others	478	513
	<u>497,566</u>	<u>302,895</u>
Credit risk weighted amounts		
Exchange rate contracts	2,882	1,912
Interest rate contracts	985	678
Equity contracts	508	219
Others	17	15
	<u>4,392</u>	<u>2,824</u>

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

(b) Capital Commitments

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

	<u>30/6/2011</u>	<u>31/12/2010</u>
	HK\$ Mn	HK\$ Mn
Expenditure authorised and contracted for	284	179
Expenditure authorised but not contracted for	289	298
	<u>573</u>	<u>477</u>

30. Material Related Party Transactions

The Group maintains certain retirement benefit schemes for its staff. In the six month ended 30th June, 2011, the total amount of contributions the Group made to the schemes was HK\$63 million (six months ended 30th June, 2010: HK\$47 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, 2011, outstanding balances of amounts due from and due to them at 30th June, 2011 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2011 are aggregated as follows:

	<u>Key management personnel</u>		<u>Associates</u>	
	<u>30/6/2011</u>	<u>30/6/2010</u>	<u>30/6/2011</u>	<u>30/6/2010</u>
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest income	62	45	9	2
Interest expense	33	7	-	-
Amounts due from	8,777	6,002	974	1,266
Amounts due to	6,856	5,319	4	4
Maximum amounts due from	11,361	7,764	1,028	1,471
Maximum amounts due to	10,863	9,277	4	16

31. Basis of Consolidation

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

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

List of subsidiaries for financial reporting consolidation

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

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

Tricor Services Limited	Tung Shing Holdings (BVI) Limited
Tricor Signatory Limited	* Tung Shing Holdings Company Limited
Tricor Singapore Pte. Ltd.	* Tung Shing Securities (Brokers) Limited
Tricor Standard Limited	* Tung Shing Services (Brokers) Limited
Tricor Strath Limited	Turquandia Limited
Tricor Subscribers Limited (formerly Tricor Nominees Limited)	U Care Hong Kong Medical Limited
Tricor Tax Services Sdn. Bhd. (formerly PFA Tax Services Sdn. Bhd.)	United Chinese (Nominee) Limited
Tricor Tengis Limited	Vanceburg Limited
Tricor Trustco (Labuan) Limited	Virtual Success Limited
Trident Corporate Management Limited	Vitaway (Mauritius) Limited
Trident Nominees Limited	W.T. (Secretaries) Limited
Tristan Company Limited	Wai Chiu Company Limited
Tudor Nominees Limited	Wai Hop Company Limited
* Tung Shing Financial Services (Brokers) Limited	Westboro Limited
* Tung Shing Futures (Brokers) Limited	Wilfred Co., Ltd.
	Witcombe Corporation
	WT Management (PTC) Inc

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

32. Comparative Figures

As a result of the adoption of the amendments to HKAS 12, Income taxes, for the financial year ended 31st December, 2010, certain comparative figures have been adjusted to reflect the reduction in deferred tax liabilities arising from investment properties carried at fair value. Further details of this change in accounting policies are disclosed in Note (e).

The 2010 figures in Note 24 – Segment Reporting have been restated due to a change in the presentation of certain assets and liabilities within supporting units in Hong Kong for reporting to the Group’s most senior executive management with effect from 2011.

The 2010 figures in the Supplementary Financial Information – (F) Currency Concentrations have been restated to better reflect, from a risk management point of view, the economic substance of certain classes of trades.

Certain other comparative figures have been restated to conform with the current period’s presentation.

33. Statement of Compliance

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

SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy Ratio and Capital Base

(a) Capital adequacy ratio

	<u>30/6/2011</u>	<u>30/6/2010</u>	<u>31/12/2010</u>
	%	%	%
Capital adequacy ratio	12.6	13.8	13.2
Core capital adequacy ratio	9.4	10.3	9.8

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

The basis of consolidation for calculation of capital ratios under the Capital Rules follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are “regulated financial entities” (e.g. insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated regulated financial entities are deducted from the capital base.

(b) Group capital base after deductions

	30/6/2011 HK\$ Mn	30/6/2010 HK\$ Mn	31/12/2010 HK\$ Mn
Core capital			
Paid up ordinary share capital	5,147	5,079	5,105
Share premium	9,403	9,288	9,331
Reserves	21,220	19,135	19,810
Profit and loss account	1,323	720	1,380
Non-controlling interests	3,726	3,727	3,557
Deduct: Goodwill	(1,658)	(1,659)	(1,658)
Net deferred tax assets	(460)	(347)	(399)
Other intangible assets	(27)	(28)	(27)
	<u>38,674</u>	<u>35,915</u>	<u>37,099</u>
Less: Core capital items deductions	<u>(3,461)</u>	<u>(3,756)</u>	<u>(3,593)</u>
Total core capital	<u>35,213</u>	<u>32,159</u>	<u>33,506</u>
Eligible supplementary capital			
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	970	967	970
Revaluation reserves for fair value gains on revaluation of holdings of available-for-sale equities and debt securities	83	54	65
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	78	119	197
Regulatory reserve for general banking risks	86	202	54
Collectively assessed impairment allowances	106	138	129
Surplus provisions	1,056	637	921
Perpetual subordinated debt	3,756	3,511	3,606
Term subordinated debt	9,294	8,946	9,280
	<u>15,429</u>	<u>14,574</u>	<u>15,222</u>
Less: Supplementary capital items deductions	<u>(3,461)</u>	<u>(3,756)</u>	<u>(3,593)</u>
Total supplementary capital	<u>11,968</u>	<u>10,818</u>	<u>11,629</u>
Total capital base	<u>47,181</u>	<u>42,977</u>	<u>45,135</u>

B. Liquidity Ratio

	6 months ended 30/6/2011 %	6 months ended 30/6/2010 %	The year ended 31/12/2010 %
Average liquidity ratio for the period	41.0	43.1	44.9

The average liquidity ratio for the period is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

C. Cross-border Claims

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are disclosed.

	30/6/2011			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	18,418	2,981	60,501	81,900
Asian countries, excluding People's Republic of China	20,134	4,062	17,759	41,955
North America	10,269	304	11,147	21,720
Western Europe	24,194	-	1,494	25,688

	30/6/2010			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	11,789	2,127	46,615	60,531
Asian countries, excluding People's Republic of China	19,093	3,214	13,540	35,847
North America	10,441	225	10,241	20,907
Western Europe	39,280	-	2,014	41,294

	31/12/2010			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
People's Republic of China	17,270	2,153	56,083	75,506
Asian countries, excluding People's Republic of China	23,537	3,047	16,128	42,712
North America	8,035	210	11,273	19,518
Western Europe	29,620	-	4,802	34,422

D. Non-bank Mainland Exposures

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

	30/6/2011			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	166,448	50,746	217,194	32
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	23,869	2,807	26,676	4
Other counterparties the exposures to whom are considered to be non- bank Mainland exposures	14,084	1,566	15,650	-
Total	<u>204,401</u>	<u>55,119</u>	<u>259,520</u>	<u>36</u>
	30/6/2010			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	114,256	23,834	138,090	31
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	21,045	2,441	23,486	8
Other counterparties the exposures to whom are considered to be non- bank Mainland exposures	9,641	402	10,043	-
Total	<u>144,942</u>	<u>26,677</u>	<u>171,619</u>	<u>39</u>
	31/12/2010			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Type of counterparties</u>				
Mainland entities	136,500	41,863	178,363	31
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	36,223	2,631	38,854	5
Other counterparties the exposures to whom are considered to be non- bank Mainland exposures	12,660	102	12,762	-
Total	<u>185,383</u>	<u>44,596</u>	<u>229,979</u>	<u>36</u>

E. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	30/6/2011		30/6/2010		31/12/2010	
	HK\$ Mn	% of total advances to customers	HK\$ Mn	% of total advances to customers	HK\$ Mn	% of total advances to customers
Advances to customers overdue for						
- 6 months or less but over 3 months	141	0.0	173	0.1	98	0.0
- 1 year or less but over 6 months	42	0.0	81	0.0	139	0.0
- Over 1 year	184	0.1	329	0.1	159	0.1
	<u>367</u>	<u>0.1</u>	<u>583</u>	<u>0.2</u>	<u>396</u>	<u>0.1</u>
Rescheduled advances to customers	<u>389</u>	<u>0.1</u>	<u>452</u>	<u>0.2</u>	<u>443</u>	<u>0.2</u>
Total overdue and rescheduled advances	<u>756</u>	<u>0.2</u>	<u>1,035</u>	<u>0.4</u>	<u>839</u>	<u>0.3</u>
Secured overdue advances	<u>230</u>	<u>0.1</u>	<u>350</u>	<u>0.1</u>	<u>220</u>	<u>0.1</u>
Unsecured overdue advances	<u>137</u>	<u>0.0</u>	<u>233</u>	<u>0.1</u>	<u>176</u>	<u>0.1</u>
Market value of security held against secured overdue advances	<u>588</u>		<u>1,948</u>		<u>561</u>	
Individual impairment allowance made on loans overdue for more than 3 months	<u>117</u>		<u>202</u>		<u>148</u>	

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:

- The market value of the asset is readily determinable or can be reasonably established and verified;
- The asset is marketable and there exists a readily available secondary market for disposing of the asset;
- The Bank's right to repossess the asset is legally enforceable and without impediment; and
- The Bank is able to secure control over the asset if necessary.

The two main types of "Eligible Collateral" are as follows:

- "Eligible Financial Collateral" mainly comprises cash deposits and shares.
- "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:

- Debt Rescheduling / Restructuring
- Enforcement of security
- Legal Action
- Recovery via Debt Collector

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30th June, 2011, 30th June, 2010 and 31st December, 2010; nor were there any rescheduled advances to banks and other financial institutions on these three dates.

(b) Other overdue and rescheduled assets

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

	30/06/2010		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	-	-	-
- 1 year or less but over 6 months	-	-	5
- Over 1 year	-	-	-
	-	-	5
Rescheduled assets	-	-	-
Total other overdue and rescheduled assets	-	-	5

	31/12/2010		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	-	-	-
- 1 year or less but over 6 months	-	-	-
- Over 1 year	-	-	5
	-	-	5
Rescheduled assets	-	-	-
Total other overdue and rescheduled assets	-	-	5

* Other assets refer to trade bills and receivables.

(c) Repossessed assets

	30/6/2011	30/6/2010	31/12/2010
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Repossessed land and buildings	6	75	8
Repossessed vehicles and equipment	-	-	-
Total repossessed assets	6	75	8

The amount represents the estimated market value of the repossessed assets as at 30th June, 2011, 30th June, 2010 and 31st December, 2010.

F. Currency Concentrations

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

	30/6/2011			Total
	HK\$ Mn			
	USD	CNY	Others	
Spot assets	97,347	249,750	56,593	403,690
Spot liabilities	(98,164)	(205,898)	(59,215)	(363,277)
Forward purchases	114,317	72,871	10,186	197,374
Forward sales	(110,591)	(107,919)	(5,666)	(224,176)
Net options position	32	-	63	95
Net long non-structural position	<u>2,941</u>	<u>8,804</u>	<u>1,961</u>	<u>13,706</u>

	30/6/2010			Total
	HK\$ Mn			
	USD	CNY	Others	
Spot assets	89,760	143,385	47,860	281,005
Spot liabilities	(76,915)	(132,925)	(55,631)	(265,471)
Forward purchases	72,306	66,483	20,971	159,760
Forward sales	(83,120)	(68,100)	(11,349)	(162,569)
Net options position	(39)	-	(44)	(83)
Net long non-structural position	<u>1,992</u>	<u>8,843</u>	<u>1,807</u>	<u>12,642</u>

	31/12/2010 (Restated)			Total
	HK\$ Mn			
	USD	CNY	Others	
Spot assets	94,806	192,680	50,424	337,910
Spot liabilities	(84,212)	(172,452)	(53,480)	(310,144)
Forward purchases	148,090	94,932	12,559	255,581
Forward sales	(156,605)	(108,056)	(8,196)	(272,857)
Net options position	154	-	(10)	144
Net long non-structural position	<u>2,233</u>	<u>7,104</u>	<u>1,297</u>	<u>10,634</u>

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

	30/6/2010 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	<u>2,470</u>	<u>6,667</u>	<u>629</u>	<u>9,766</u>

	31/12/2010 HK\$ Mn			
	USD	CNY	Others	Total
Net structural position	<u>2,467</u>	<u>6,855</u>	<u>727</u>	<u>10,049</u>

INDEPENDENT REVIEW REPORT

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

INTRODUCTION

We have reviewed the interim financial report set out on pages F-3 to F-41 which comprises the consolidated statement of financial position of The Bank of East Asia, Limited as of 30th June, 2011 and the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June, 2011 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, “Interim financial reporting”.

KPMG
Certified Public Accountants
8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong

Hong Kong, 4th August, 2011

THE BANK OF EAST ASIA, LIMITED

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF THE BANK OF EAST ASIA, LIMITED
(incorporated in Hong Kong with limited liability)**

We have audited the consolidated financial statements of The Bank of East Asia, Limited (“the Bank”) and its subsidiaries (together “the Group”) set out on pages F-45 to F-160, which comprise the consolidated and the Bank’s statements of financial position as at 31st December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS’ RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR’S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

THE BANK OF EAST ASIA, LIMITED

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31st December, 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Hong Kong, 15th February, 2011

THE BANK OF EAST ASIA, LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2010

		2010	2009
	Notes	HK\$ Mn	Restated HK\$ Mn
Interest income	4	13,626	12,121
Interest expense	5	(6,083)	(5,374)
Net interest income		<u>7,543</u>	<u>6,747</u>
Fee and commission income	6	3,649	2,799
Fee and commission expense		(707)	(537)
Net fee and commission income		2,942	2,262
Net trading (losses)/profits	7	(146)	941
Net result from financial instruments designated at fair value through profit or loss	8	263	(267)
Net hedging loss		(5)	-
Other operating income	9	529	505
Non-interest income		<u>3,583</u>	<u>3,441</u>
Operating income		11,126	10,188
Operating expenses	10	(6,904)	(6,129)
Operating profit before impairment losses		<u>4,222</u>	<u>4,059</u>
Impairment losses on loans and advances	11	(285)	(1,105)
Impairment losses on held-to-maturity investments	27	-	(9)
Impairment losses on available-for-sale financial assets		(24)	(14)
Write back of impairment losses on associates		1	-
Write back of/(charge for) impairment losses on bank premises	31	2	(13)
Impairment losses		<u>(306)</u>	<u>(1,141)</u>
Operating profit after impairment losses		3,916	2,918
Net loss on sale of held-to-maturity investments		-	(12)
Net profit on sale of available-for-sale financial assets	12	234	102
Net profit on sale of loans and receivables		1	2
Net profit on sale of subsidiaries/associates		238	-
Net (loss)/profit on sale of fixed assets		(6)	16
Valuation gains on investment properties	31	426	206
Share of profits less losses of associates		341	264
Profit for the year before taxation		<u>5,150</u>	<u>3,496</u>
Income tax	13	(847)	(819)
Profit for the year after taxation		<u><u>4,303</u></u>	<u><u>2,677</u></u>
Attributable to:			
Owners of the parent		4,224	2,604
Non-controlling interests	39	79	73
Profit after taxation		<u><u>4,303</u></u>	<u><u>2,677</u></u>
Earnings per share		HK\$	HK\$
Basic	16	1.92	1.39
Diluted	16	1.92	1.38

The notes on pages F-52 to F-160 form part of these accounts. Details of dividends payable to equity shareholders of the Bank attributable to the profit for the year are set out in Note 15.

THE BANK OF EAST ASIA, LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2010

	Notes	2010 HK\$ Mn	2009 Restated HK\$ Mn
Net profit		4,303	
- As previously reported			2,638
- Adjustment arising from changes in accounting policies			39
- As restated			2,677
Other comprehensive income for the year (after taxation and reclassification adjustments):			
Premises:			
- unrealised surplus on revaluation of premises	38(c)	40	97
- deferred taxes	38(c)	(2)	(37)
- exchange differences		3	-
Available-for-sale investment revaluation reserve:			
- fair value changes taken to equity	38(h)	91	575
- fair value changes transferred from/(to) income statement:			
- on impairment and amortisation	38(h)	24	11
- on disposal	38(h)	(200)	(29)
- deferred taxes	38(h)	57	(43)
Share of changes in equity of associates	38(i)	36	17
Exchange differences on other reserves	38(d)	50	-
Exchange differences on translation of:			
- accounts of overseas branches, subsidiaries and associates	38(f)	769	163
Other comprehensive income		868	754
Total comprehensive income		5,171	3,431
Total comprehensive income attributable to:			
Owners of the parent		5,092	3,358
Non-controlling interests	39	79	73
		5,171	3,431

The notes on pages F-52 to F-160 form part of these accounts.

THE BANK OF EAST ASIA, LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER, 2010

		2010	2009	1 st January,
	Notes	HK\$ Mn	Restated HK\$ Mn	2009 Restated HK\$ Mn
ASSETS				
Cash and balances with banks and other financial institutions	20	48,293	29,712	28,105
Placements with banks and other financial institutions	21	58,197	67,945	96,574
Trade bills	22	18,548	1,847	1,164
Trading assets	23	5,845	5,722	3,437
Financial assets designated at fair value through profit or loss	24	16,192	10,392	4,130
Advances to customers and other accounts	25	320,040	261,803	243,725
Available-for-sale financial assets	26	40,779	30,883	18,560
Held-to-maturity investments	27	5,714	7,239	5,006
Investments in associates	29	3,573	2,615	2,486
Fixed assets	31	12,414	11,467	9,146
- Investment properties		2,574	2,095	1,839
- Other property and equipment		9,840	9,372	7,307
Goodwill and intangible assets	30	4,188	4,135	2,734
Deferred tax assets	33(b)	410	322	301
Total Assets		534,193	434,082	415,368
EQUITY AND LIABILITIES				
Deposits and balances of banks and other financial institutions		9,994	11,886	27,045
Deposits from customers		419,833	342,528	323,802
Trading liabilities	34(a)	3,101	1,455	2,846
Certificates of deposit issued		5,586	2,812	5,491
- At fair value through profit or loss		2,754	2,442	3,777
- At amortised cost		2,832	370	1,714
Current taxation	33(a)	618	147	333
Debt securities issued		4,950	4,346	-
Deferred tax liabilities	33(b)	214	308	7
Other accounts and provisions	34(b)	28,561	18,506	12,139
Loan capital	35	12,693	12,359	11,036
- At fair value through profit or loss		3,548	7,712	6,395
- At amortised cost		9,145	4,647	4,641
Total Liabilities		485,550	394,347	382,699
Share capital	37	5,105	4,623	4,183
Reserves	38	39,138	30,754	28,147
Total equity attributable to owners of the parent		44,243	35,377	32,330
Non-controlling interests	39	4,400	4,358	339
Total Equity		48,643	39,735	32,669
Total Equity and Liabilities		534,193	434,082	415,368

Approved and authorised for issue by the Board of Directors on 15th February, 2011.

Chairman and Chief Executive
David LI Kwok-po

Directors
Allan WONG Chi-yun
WONG Chung-hin
Winston LO Yau-lai

The notes on pages F-52 to F-160 form part of these accounts.

THE BANK OF EAST ASIA, LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER, 2010

	Notes	2010 HK\$ Mn	2009 Restated HK\$ Mn	1 st January, 2009 Restated HK\$ Mn
ASSETS				
Cash and balances with banks and other financial institutions	20	17,808	12,527	4,852
Placements with banks and other financial institutions	21	39,974	61,894	92,735
Trade bills	22	4,166	861	521
Trading assets	23	4,196	3,324	2,914
Financial assets designated at fair value through profit or loss	24	16,192	10,384	4,114
Advances to customers and other accounts	25	191,063	148,596	138,640
Amounts due from subsidiaries	32(a)	30,794	12,719	16,398
Available-for-sale financial assets	26	21,162	18,935	10,985
Held-to-maturity investments	27	3,766	4,802	3,318
Investments in subsidiaries	28	13,719	13,457	11,673
Investments in associates	29	2,390	1,946	1,984
Fixed assets	31	6,691	6,220	5,587
- Investment properties		2,173	1,798	1,819
- Other property and equipment		4,518	4,422	3,768
Goodwill and intangible assets	30	1,460	1,460	1,460
Deferred tax assets	33(b)	208	168	152
Total Assets		353,589	297,293	295,333
EQUITY AND LIABILITIES				
Deposits and balances of banks and other financial institutions		3,233	3,521	1,093
Deposits from customers		276,706	237,517	240,029
Trading liabilities	34(a)	2,432	1,235	2,549
Certificates of deposit issued		7,786	5,012	7,691
- At fair value through profit or loss		2,754	2,442	3,777
- At amortised cost		5,032	2,570	3,914
Amounts due to subsidiaries	32(b)	2,722	1,642	1,994
Current taxation	33(a)	441	18	60
Debt securities issued		241	-	-
Deferred tax liabilities	33(b)	210	133	-
Other accounts and provisions	34(b)	8,343	3,548	3,479
Loan capital	35	17,006	16,275	11,036
- At fair value through profit or loss		7,861	11,628	6,395
- At amortised cost		9,145	4,647	4,641
Total Liabilities		319,120	268,901	267,931
Share capital	37	5,105	4,623	4,183
Reserves	38	29,364	23,769	23,219
Total equity attributable to owners of the Bank		34,469	28,392	27,402
Total Equity and Liabilities		353,589	297,293	295,333

Approved and authorised for issue by the Board of Directors on 15th February, 2011.

Chairman and Chief Executive
David LI Kwok-po

Directors
Allan WONG Chi-yun
WONG Chung-hin
Winston LO Yau-lai

The notes on pages F-52 to F-160 form part of these accounts.

THE BANK OF EAST ASIA, LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2010

	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 1 st January, 2010													
- As previously reported	4,623	4,526	170	1,169	286	928	86	14,866	1,518	6,993	35,165	4,358	39,523
- Adjustment arising from changes in accounting policies	-	-	-	-	-	54	-	-	-	158	212	-	212
- As restated	4,623	4,526	170	1,169	286	982	86	14,866	1,518	7,151	35,377	4,358	39,735
Changes in equity													
Shares issued in lieu of dividend	47	(47)	-	-	-	-	-	557	-	-	557	-	557
Subscription of new shares	418	4,695	-	-	-	-	-	-	-	-	5,113	-	5,113
Shares issued under Staff Shares Option Schemes	17	130	-	-	-	-	-	-	-	-	147	-	147
Equity settled share-based transaction	-	-	29	-	-	-	-	-	-	-	29	-	29
Transfer	-	27	(34)	-	-	-	-	30	439	(462)	-	-	-
Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	(2,072)	(2,072)	(56)	(2,128)
Sale of interests in businesses to non-controlling interests investors	-	-	-	-	-	-	-	-	-	-	-	4	4
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	15	15
Total comprehensive income/expense for the year	-	-	-	769	(28)	41	-	-	86	4,224	5,092	79	5,171
At 31 st December, 2010	5,105	9,331	165	1,938	258	1,023	86	15,453	2,043	8,841	44,243	4,400	48,643
At 1 st January, 2009													
- As previously reported	4,183	4,922	125	1,006	(228)	863	86	14,634	1,216	5,339	32,146	339	32,485
- Adjustment arising from changes in accounting policies	-	-	-	-	-	65	-	-	-	119	184	-	184
- As restated	4,183	4,922	125	1,006	(228)	928	86	14,634	1,216	5,458	32,330	339	32,669
Changes in equity													
Shares issued in lieu of dividend	17	(17)	-	-	-	-	-	177	-	-	177	-	177
Capitalisation issue	418	(418)	-	-	-	-	-	-	-	-	-	-	-
Shares issued under Staff Shares Option Schemes	5	36	-	-	-	-	-	-	-	-	41	-	41
Equity settled share-based transaction	-	-	71	-	-	-	-	-	-	-	71	-	71
Transfer	-	3	(26)	-	-	(6)	-	55	285	(311)	-	-	-
Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	(600)	(600)	(55)	(655)
Sale of interests in businesses to non-controlling interests investors	-	-	-	-	-	-	-	-	-	-	-	132	132
Purchase of interests in businesses from non-controlling interests investors	-	-	-	-	-	-	-	-	-	-	-	(10)	(10)
Hybrid Tier 1 note issue	-	-	-	-	-	-	-	-	-	-	-	3,877	3,877
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	2	2
Total comprehensive income for the year	-	-	-	163	514	71	-	-	17	2,565	3,330	73	3,403
- As previously reported	-	-	-	163	514	71	-	-	17	2,565	3,330	73	3,403
- Adjustments arising from changes in accounting policies	-	-	-	-	-	(11)	-	-	-	39	28	-	28
- As restated	-	-	-	163	514	60	-	-	17	2,604	3,358	73	3,431
At 31 st December, 2009 (as restated)	4,623	4,526	170	1,169	286	982	86	14,866	1,518	7,151	35,377	4,358	39,735

The notes on pages F-52 to F-160 form part of these accounts.

THE BANK OF EAST ASIA, LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2010

	Notes	2010 HK\$ Mn	2009 HK\$ Mn
OPERATING ACTIVITIES			
Profit for the year before taxation		5,150	3,496
Adjustments for:			
Charge for impairment losses on loans and advances	11	285	1,105
(Write back of)/charge for impairment allowances on held-to-maturity investments, available-for-sale financial assets and associates		23	23
Share of profits less losses of associates		(341)	(264)
Net loss on sale of held-to-maturity investments		-	12
Net profit on sale of available-for-sale financial assets		(234)	(102)
Net profit on sale of subsidiaries and associates		(238)	-
Net loss/(profit) on sale of fixed assets		6	(16)
Interest expense on loan capital and certificates of deposit		679	641
Depreciation on fixed assets	10,31	581	512
(Write back of)/charge for impairment loss on bank premises		(2)	13
Dividend income from available-for-sale financial assets		(66)	(46)
Amortisation of intangible assets	10	34	13
Amortisation of premium/discount on certificates of deposit and loan capital issued		68	68
Revaluation losses on certificates of deposit and loan capital issued		140	1,236
Valuation gains on investment properties	31	(426)	(206)
Equity-settled share-based payment expenses		29	71
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL		5,688	6,556
(Increase)/decrease in operating assets:			
Cash and balances with banks with original maturity beyond three months		(8,176)	(2,405)
Placements with banks and other financial institutions with original maturity beyond three months		21,616	(3,875)
Trade bills		(16,701)	(683)
Trading assets		(191)	(2,617)
Financial assets designated at fair value through profit or loss		(5,800)	(6,262)
Advances to customers		(52,025)	(18,095)
Advances to banks and other financial institutions		(642)	172
Held-to-maturity debt securities		1,467	(2,056)
Available-for-sale financial assets		(7,112)	(11,489)
Other accounts and accrued interest		(7,809)	(1,219)
Increase/(decrease) in operating liabilities:			
Deposits and balances of banks and other financial institutions		(1,671)	(15,159)
Deposits from customers		79,030	18,726
Trading liabilities		1,655	(1,391)
Other accounts and provisions		10,150	6,328
Exchange adjustments		551	(114)
NET CASH INFLOW/(OUTFLOW) FROM OPERATIONS		20,030	(33,583)
Income tax paid			
Hong Kong profits tax paid		(39)	(53)
Overseas profits tax paid		(524)	(527)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		19,467	(34,163)

THE BANK OF EAST ASIA, LIMITED
CONSOLIDATED CASH FLOW STATEMENT (Continued)
FOR THE YEAR ENDED 31ST DECEMBER, 2010

	Notes	2010 HK\$ Mn	2009 HK\$ Mn
INVESTING ACTIVITIES			
Dividends received from associates		78	190
Dividends received from available-for-sale equity securities		66	46
Purchase of equity securities		(937)	(851)
Proceeds from sale of equity securities		433	483
Purchase of intangible assets		-	(1,380)
Purchase of fixed assets	31	(873)	(2,561)
Purchase of investment properties		(16)	-
Proceeds from disposal of fixed assets		56	50
(Purchase)/disposal of shareholding in associates		(513)	36
Purchase of subsidiaries	43(a)	(54)	(43)
Proceeds from sale of interest in a subsidiary	43(b)	521	1
Sale of interests in business to non-controlling interests investors		4	132
Purchase of interests in business from non-controlling interests investors		-	(10)
NET CASH USED IN INVESTING ACTIVITIES		(1,235)	(3,907)
FINANCING ACTIVITIES			
Ordinary dividends paid		(1,241)	(427)
Distribution to Hybrid Tier 1 issue holders		(330)	(51)
Issue of ordinary share capital	37	147	41
Issue of Hybrid Tier 1 note		-	3,877
Subscription for new shares		5,113	-
Issue of certificates of deposit		4,111	594
Issue of debt securities		411	4,334
Issue of loan capital		4,615	-
Redemption of certificates of deposit issued		(1,409)	(3,260)
Redemption of loan capital		(4,290)	-
Interest paid on loan capital		(435)	(535)
Interest paid on certificates of deposit issued		(88)	(79)
NET CASH GENERATED FROM FINANCING ACTIVITIES		6,604	4,494
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		24,836	(33,576)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	43(c)	60,530	94,106
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	43(c)	85,366	60,530
Cash flows from operating activities included:			
Interest received		12,733	12,671
Interest paid		5,162	6,238
Dividend received		97	78

The notes on pages F-52 to F-160 form part of these accounts.

THE BANK OF EAST ASIA, LIMITED
NOTES ON THE ACCOUNTS

1. Principal Activities

The Bank and its subsidiaries (the “Group”) are engaged in the provision of banking and related financial services, and business, corporate and investor services.

2. Significant Accounting Policies

(a) Statement of Compliance

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. Note 3 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts.

(b) Basis of Preparation of the Accounts

The accounts for the year ended 31st December, 2010 comprise the Group and the Group’s interest in associates.

The measurement basis used in the preparation of the accounts is historical cost except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (Note 2(f)(ii)); and
- investment properties (Note 2(h)(ii)).

The preparation of accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Details of judgements made by management in the application of HKFRSs that have significant effect on the accounts and major sources of estimation uncertainty are discussed in Note 49.

(c) Basis of Consolidation

(i) Subsidiaries and Non-controlling interests

The consolidated accounts include the accounts of the Bank and all its subsidiaries made up to 31st December each year. Subsidiaries are entities controlled by the Group. Control exists when the

Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as “minority interests”) represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the Group has not agreed any additional terms with the holders of these interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary’s net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to equity shareholders of the Group. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the net profit and total comprehensive income for the year between non-controlling interests and equity shareholders of the Bank.

Changes in the Group’s interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate (Note 2(c)(ii)).

In the Bank’s statement of financial position, its investments in subsidiaries are stated at cost less any impairment losses (Note 2(k)).

(ii) Associates

An associate is a company in which the Group or the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost, adjusted for any excess of the Group’s share of the acquisition-date fair values of the associate’s identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group’s share of the associate’s net assets and any impairment loss relating to the investment (Note 2(j) and 2(k)). Any acquisition-date excess over cost, the Group’s share of the post-acquisition, post-tax results of the associates and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group’s share of the post-acquisition post-tax items of the associate’s other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group’s share of losses exceeds its interest in the associates, the Group’s interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group’s interest in the associate is the carrying amount of the investment under the equity method together with the Group’s long-term interests that in substance form part of the Group’s net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except when unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former associate at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate.

The Bank accounts for the results of associates to the extent of dividends received. Investments in associates are stated at cost less any impairment losses (Note 2(k)).

(d) Translation of Foreign Currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the income statement. Differences arising on translation of available-for-sale equity instruments are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1st January, 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1st January, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(e) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

Interest income for all interest-bearing financial instruments, except those classified as held for trading or designated at fair value through profit or loss, is recognised as interest income in the income statement on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating

the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase in the present value of impaired loans due to the passage of time is reported as interest income.

Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with dividend income attributable to those financial instruments.

Fee and commission income is recognised in the income statement when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as revenue on a straight-line basis over the commitment period.

Finance income implicit in finance leases is recognised as interest income over the period of the lease so as to produce an approximately constant periodic rate of return of the outstanding net investment in the leases for each accounting period.

Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(f) Financial Instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(ii) Categorisation

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Non-hedging derivatives are accounted for as trading instruments.

Financial instruments are designated at fair value through profit or loss upon initial recognition when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is not prohibited.

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sales proceeds or the net payment and the carrying value is included in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise placements with banks and other financial institutions, trade bills and loans and advances to customers.

Securities classified as loans and receivables typically comprise securities issued by the same customers with whom the Group has a lending relationship in its wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally the yield and maturity terms are generally directly negotiated by the Group with the issuer. These securities include commercial paper, short term debentures and preference shares issued by the borrower.

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (Note 2(k)).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity, other than (a) those that the Group, upon initial recognition, designates as at fair value through profit or loss or available-for-sale; and (b) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment losses, if any (Note 2(k)).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the income statement.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (Note 2(k)).

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to the income statement.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

(iv) Derecognition

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

The Group uses the weighted average method to determine realised gains and losses to be recognised in the income statement on derecognition.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

When the embedded derivative is separated, the host contract is accounted for in accordance with note (ii) above.

(g) Hedging

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction and the hedge is effective, the gain or loss on the derivative financial instrument in relation to the hedged risk is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve.

(ii) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of an existing asset or liability that will give rise to a gain or loss being recognised in the income statement.

The hedging instrument is measured at fair value, with fair value changes recognised in the income statement. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of hedging instrument attributable to the risk being hedged. This adjustment is recognised in the income statement to offset the effect of the gain or loss on the hedging instrument.

(h) Properties

(i) Bank premises are stated in the statement of financial position at cost or at Directors' valuation, by reference to an independent professional valuation, less accumulated depreciation and accumulated impairment loss (Note 2(k)).

When a deficit arises on revaluation, it will be charged to the income statement, to the extent that it exceeds the amount held in the bank premises revaluation reserve in respect of that same asset immediately prior to the revaluation; and when a surplus arises on revaluation, it will be credited to the income statement, to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

In preparing these accounts, advantage has been taken of the transitional provisions set out in paragraph 80A of HKAS 16 "Property, Plant and Equipment" issued by the HKICPA, with the effect that bank premises have not been revalued to fair value at the balance sheet date.

(ii) Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. Investment properties are valued annually by external independent valuation companies, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. No allowance has been made in the valuations for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in Note 2(e).

When a bank property is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the bank property immediately prior to transfer and its fair value is recognised as a revaluation of bank premises as described in Note 2(h)(i).

If an investment property becomes owner-occupied, it is reclassified as bank premises and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

A property interest under an operating lease is classified and accounted for as an investment property when the Group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in Note 2(l).

- (iii) Profit or loss on disposal of bank premises and investment properties is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the income statement upon disposal. Any surplus that is included in the bank premises revaluation reserve of the related bank premises disposed is transferred to the general reserve.

(i) Amortisation and Depreciation

(i) Bank premises

Freehold land is not amortised. Leasehold land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease. Leasehold land is amortised on a straight line basis over the remaining term of the lease. Buildings are depreciated on a straight line basis at rates calculated to write off the cost or valuation of each building over its estimated useful life of 50 years or the remaining lease period of the land on which it is situated, whichever is the shorter.

Investment properties are not depreciated.

(ii) Other fixed assets

Other fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses, which is calculated on a straight line basis to write off the assets over their estimated useful lives from 4 to 20 years.

(j) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (Note 2(k)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associates and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (Note 2(k)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in the income statement.

On disposal of a cash generating unit, or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit and loss on disposal.

(k) Impairment of Assets

At each balance sheet date, the carrying amount of the Group's assets are reviewed to determine whether there is objective evidence of impairment. If internal and external sources of information indicate such evidence exists, the carrying amount is reduced to the estimated recoverable amount and an impairment loss is recognised in the income statement.

(i) Loans and receivables

The impairment losses of loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for impairment losses consists of two components: individual impairment allowances, and collective impairment allowances.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgment, the Group believes that the impairment allowances on loans and advances to customers are reasonable and supportable.

All loans and receivables are reviewed and analysed periodically. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and will be charged or credited to the income statement. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

Where there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

(ii) Held-to-maturity investments

Impairment on held-to-maturity investments is considered at both an individual and collective level. The individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at asset's original effective interest rate, where the effect of discounting is material.

All significant assets found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(iii) Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in the fair value reserve is reclassified to the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material.

Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

(iv) Other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment (other than properties carried at revalued amounts);
- investments in subsidiaries and associates;
- goodwill; and
- intangible assets

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(v) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (Note 2(k)(i) to (iv)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not the income statement.

(l) Leased Assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets held under finance leases

The amounts due from lessees in respect of finance leases are recorded in the statement of financial position as advances to customers at the amounts of net investment which represent the total rentals receivable under finance leases less unearned income. Revenue arising from finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 2(e).

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the leased assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 2(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(k). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 2(e).

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(m) Repossession of Assets

In the recovery of impaired loans and advances, the Group may take possession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Group's accounting policy set out in Note 2(k), impairment allowances for impaired loans and advances are maintained after taking into account the net realisable value of the collateral assets, usually resulting in a partial write-off of the loans and advances against impairment allowances. Repossessed assets are reported under other assets if it is highly probable that their carrying amount will be recovered through a sale transaction rather than through continuing use and the assets are available for sale in their present condition. Related loans and advances are then written off.

Repossessed assets are recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the income statement.

(n) Income Tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing deductible temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that

the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2 (h)(ii), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Bank or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Insurance Reserves and Provisions for Outstanding Claims

Insurance reserves, except those attributable to long term business, represent the proportion of retained premiums written in the year relating to the period of risk from 1st January in the following year to the subsequent date of expiry of policies which is carried forward as a provision for unearned premiums and calculated on a daily basis.

The insurance reserve for long term business is ascertained by actuarial valuation.

Full provision is made for the estimated cost of claims notified but not settled at the balance sheet date and for the estimated cost of claims incurred but not reported by that date, after deducting the amounts due from reinsurers. Provision has also been made for the estimated cost of servicing claims notified but not settled at the balance sheet date and to meet expenses on claims incurred but not reported at the balance sheet date.

These reserves and provisions are classified as other accounts and provisions.

(p) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to

settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Employee Benefits

(i) Salaries, bonuses and leave benefits

Employee entitlements to salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are recognised when the absences occur.

(ii) Performance-related bonus plan

Liabilities for performance-related bonus plan, which are due wholly within twelve months after the balance sheet date, are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Retirement benefits

Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Exempted ORSO Scheme (“MPFEOS”) or the Mandatory Provident Fund Scheme (“MPFS”). Both are defined contribution schemes. The employer’s monthly contributions to both schemes are at a maximum of 10% of each employee’s monthly salary.

The pension schemes covering all the Group’s PRC and overseas employees are defined contribution schemes at various funding rates, and are in accordance with local practices and regulations.

The cost of all these schemes is charged to the income statement for the period concerned and the assets of all these schemes are held separately from those of the Group. Under the MPFEOS, the employer’s contribution is not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Under the MPFS, the employer’s contribution is reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(iv) Share based payments

The option exercise price is equal to the higher of:

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

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

unconditionally entitled to those share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

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

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

(r) Related Parties

For the purposes of these accounts, a party is considered to be related to the Group if:

- (i) The party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) The Group and the party are subject to common control;
- (iii) The party is an associate of the Group;
- (iv) The party is a member of key management personnel of the Group, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) The party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) The party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(s) Segment Reporting

Operating segments, and the amounts of each segment item reported in the accounts, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(t) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash, balances with banks and other financial institutions, treasury bills, other eligible bills and certificates of deposit that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3. Changes in Accounting Policies

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

- HKFRS 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*
- Amendment to HKAS 39, *Financial instruments: Recognition and measurement – eligible hedged items*
- Improvements to HKFRSs (2009)
- HK(IFRIC) 17, *Distributions of non-cash assets to owners*
- HK(Int) 5, *Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, with the exception of the amendments to HKAS 12, *Income taxes*, in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, *Investment property*. The amendments are effective for annual periods beginning on or after 1st January, 2012, but as permitted by the amendments, the Group has decided to adopt the amendments early.

Early adoption of the amendments to HKAS 12, Income taxes

The change in policy arising from the amendments to HKAS 12 is the only change which has had a material impact on the current or comparative periods. As a result of this change in policy, the Group now measures any deferred tax liability in respect of its investment properties with reference to the tax liability that would arise if the properties were disposed of at their carrying amounts at the reporting date. Previously, where these properties were held under leasehold interests, deferred tax was generally measured using the tax rate that would apply as a result of recovery of the asset's value through use.

This change in policy has been applied retrospectively by restating the opening balances at 1st January, 2009 and 2010, with consequential adjustments to comparatives for the year ended 31st December, 2009. As the Group's properties are located in Hong Kong, this has resulted in a reduction in the amount of deferred tax provided on valuation gains as follows:

	As previously reported HK\$' Mn	Effect of adoption of amendments to HKAS 12 HK\$' Mn	As restated HK\$' Mn
Consolidated income statement for the year ended			
31 st December, 2009:			
Income tax expense	858	(39)	819
Profit for the year	2,638	39	2,677
Basic earnings per share	HK\$1.36	HK\$0.03	HK\$1.39
Fully diluted earnings per share	HK\$1.36	HK\$0.02	HK\$1.38

Consolidated statement of financial position as at 31 st December, 2009:			
Deferred tax liabilities	520	(212)	308
Retained profits	6,993	158	7,151
Revaluation reserve of bank premises	928	54	982
Consolidated statement of financial position as at 1 st January, 2009:			
Deferred tax assets	187	114	301
Deferred tax liabilities	77	(70)	7
Retained profits	5,339	119	5,458
Revaluation reserve of bank premises	863	65	928
Statement of financial position as at 31 st December, 2009:			
Deferred tax liabilities	333	(200)	133
Retained profits	3,186	146	3,332
Revaluation reserve of bank premises	895	54	949
Statement of financial position as at 1 st January, 2009:			
Deferred tax assets	38	114	152
Deferred tax liabilities	63	(63)	-
Retained profits	2,724	112	2,836
Revaluation reserve of bank premises	899	65	964

Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement, consolidated statement of financial position and statement of financial position and other significant related disclosure items for the year ended 31st December, 2010 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

Effect on the consolidated financial statements

Estimated effect on the consolidated income statement for the year ended 31st December, 2010:

Estimated effect of not applying new policy

	HKAS12 increase/(decrease) HK\$ Mn
Income tax	91
Profit for the year	<u>(91)</u>
Attributable to:	
Owners of the parent	(91)
Non-controlling interests	<u>-</u>
	<u>(91)</u>
Earnings per share	
Basic	<u>HK\$0.04</u>
Diluted	<u>HK\$0.04</u>

Estimated effect on the consolidated statement of financial position as at 31st December, 2010:

Estimated effect of not applying new policy

	HKAS12 increase/(decrease) HK\$ Mn
Deferred tax assets	(11)
Deferred tax liabilities	292
Retained profits	(249)
Revaluation reserve of bank premises	(54)

Estimated effect on the statement of financial position as at 31st December, 2010:

Estimated effect of not applying new policy

	HKAS12 increase/(decrease) HK\$ Mn
Deferred tax liabilities	269
Retained profits	(215)
Revaluation reserve of bank premises	(54)

Other changes in accounting policies as a result of development in HKFRSs

The amendment to HKAS 39 and the issuance of HK(Int) 5 have had no material impact on the Group's accounts as the amendment and the interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in change in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons.

- The impact of the majority of the revisions to HKAS 27, HKFRS 5 and HK(IFRIC) 17 have not yet had a material effect on the Group's accounts as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a material subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interests) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.
- The amendment introduced by the *Improvements to HKFRSs (2009)* omnibus standard in respect of HKAS17, *Leases*, resulted in a change of classification of certain of the Group's leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

Further details of these changes in accounting policy are as follows:

As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1st January, 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

- Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
- If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
- Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.
- If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.
- In addition to the Group's existing policy of measuring the non-controlling interests (previously known as "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1st January, 2010:

- If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.
- If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the reporting date the group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, *Investments in associates*, and HKAS 31, *Interests in joint ventures*, the following policies will be applied as from 1st January, 2010:

- If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
- If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognized at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statement are as follows:

As a result of the amendments to HKAS 27, as from 1st January, 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests.

Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

As a result of the amendment to HKAS 17, *Leases*, arising from the "*Improvements to HKFRSs (2009)*" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate, with the exception of those interests, which are registered and transferable ownership interests in land located in the Hong Kong Special Administrative Region and subject to the Government's land policy of renewal without payment of additional land premium.

4. Interest Income

	2010 HK\$ Mn	2009 HK\$ Mn
Listed securities classified as held-to-maturity or available-for-sale	381	264
Trading assets		
- listed	22	13
- unlisted	66	28
Interest rate swaps	1,382	959
Financial assets designated at fair value through profit or loss		
- listed	431	206
- unlisted	197	81
Loans, deposits with banks and financial institutions, trade bills, and other unlisted securities that are not at fair value through profit or loss	11,147	10,570
Total interest income	<u>13,626</u>	<u>12,121</u>

Included above is interest income accrued on impaired financial assets of HK\$74 million (2009: HK\$79 million) which includes interest income on unwinding of discount on loan impairment losses of HK\$21 million (2009: HK\$40 million) (Note 25(b)) for the year ended 31st December, 2010.

5. Interest Expense

	2010 HK\$ Mn	2009 HK\$ Mn
Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost	3,074	3,650
Debt securities issued	140	61
Subordinated notes carried at amortised cost	174	68
Interest rate swaps	2,185	1,015
Financial instruments designated at fair value through profit or loss	500	566
Other borrowings	10	14
Total interest expense	<u>6,083</u>	<u>5,374</u>

6. Fee and Commission Income

Fee and commission income arises from the following services:

	2010 HK\$ Mn	2009 HK\$ Mn
Corporate services	856	806
Credit cards	674	554
Loans, overdrafts and guarantees	463	322
Securities and brokerage	456	320
Derivatives transactions	289	122
Trade finance	252	141
Other retail banking services	237	193
Trust and other fiduciary activities	100	79
Others	322	262
Total fee and commission income	<u>3,649</u>	<u>2,799</u>

of which:

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

	2,808	2,214
Fee income	<u>3,370</u>	<u>2,680</u>
Fee expenses	<u>(562)</u>	<u>(466)</u>

7. Net Trading (Losses)/Profits

	2010 HK\$ Mn	2009 HK\$ Mn
Profit on dealing in foreign currencies	311	140
Profit on trading securities	133	616
Net (loss)/gain on derivatives	(620)	153
Loss on other dealing activities	(1)	-
Dividend income from listed trading securities	31	32
Total net trading (losses)/profits	<u>(146)</u>	<u>941</u>

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

	2010 HK\$ Mn	2009 HK\$ Mn
Revaluation loss on debts issued	(140)	(1,236)
Net loss on sale of other financial assets designated at fair value through profit or loss	(35)	(42)
Profit on redemption of US\$550M subordinated notes issued	8	-
Revaluation gain on other financial assets designated at fair value through profit or loss	430	1,011
Total net result from financial instruments designated at fair value through profit or loss	<u>263</u>	<u>(267)</u>

9. Other Operating Income

	2010 HK\$ Mn	2009 HK\$ Mn
Dividend income from available-for-sale financial assets		
- listed	35	21
- unlisted	31	25
Rental from safe deposit boxes	78	82
Net revenue from insurance activities	221	180
Rental income on properties	92	92
Others	72	105
Total other operating income	<u>529</u>	<u>505</u>

10. Operating Expenses

	2010 HK\$ Mn	2009 HK\$ Mn
Contributions to defined contribution plan*	248	193
Equity-settled share-based payment expenses	29	71
Salaries and other staff costs	3,338	2,905
Total staff costs	<u>3,615</u>	<u>3,169</u>
Premises and equipment expenses excluding depreciation		
- Rental of premises	492	458
- Maintenance, repairs and others	488	447
Total premises and equipment expenses excluding depreciation	<u>980</u>	<u>905</u>
Depreciation on fixed assets (Note 31)	<u>581</u>	<u>512</u>
Amortisation of intangible assets (Note 30(b))	<u>34</u>	<u>13</u>
Other operating expenses		
- Stamp duty, overseas and PRC** business taxes, and value added taxes	346	304
- Advertising expenses	311	179
- Communications, stationery and printing	286	272
- Legal and professional fees	219	190
- Business promotions and business travel	148	114
- Card related expenses	113	91
- Insurance expenses	43	46
- Audit fee	11	9
- Membership fees	10	8
- Administration expenses of corporate services	9	8
- Donations	8	13
- Bank charges	7	6
- Bank licence	4	4
- Others	179	286
Total other operating expenses	<u>1,694</u>	<u>1,530</u>
Total operating expenses***	<u>6,904</u>	<u>6,129</u>

* Forfeited contributions totalling HK\$9 million (2009: HK\$4 million) were utilised to reduce the Group's contribution during the year. There were no forfeited contributions available for reducing future contributions at the year end (2009: Nil).

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

*** Included in operating expenses are direct operating expenses of HK\$20 million (2009: HK\$37 million) in respect of investment properties which generated rental income during the year.

11. Impairment Losses on Loans and Advances

	2010 HK\$ Mn	2009 HK\$ Mn
Net charge for impairment losses on loans and advances		
Individual impairment loss		
- new provisions (Note 25(b))	463	827
- releases (Note 25(b))	(206)	(75)
- recoveries (Note 25(b))	(51)	(66)
	<u>206</u>	<u>686</u>
Collective impairment loss		
- new provisions (Note 25(b))	79	419
Net charge to income statement	<u>285</u>	<u>1,105</u>

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

	2010 HK\$ Mn	2009 HK\$ Mn
Net revaluation gain transferred from reserves (Note 38(h))	200	29
Profit arising in current year	34	73
	<u>234</u>	<u>102</u>

13. Income Tax

(a) Taxation in the consolidated income statement represents:

	2010 HK\$ Mn	2009 Restated HK\$ Mn
Current tax – Hong Kong (Note 33(a))		
Tax for the year	359	73
Under-provision in respect of prior years	57	-
	<u>416</u>	<u>73</u>
Current tax – overseas		
Tax for the year	589	479
Write back of over-provision in respect of prior years	(32)	(25)
	<u>557</u>	<u>454</u>
Deferred tax (Note 33(b))		
Origination and reversal of temporary differences	(126)	292
	<u>847</u>	<u>819</u>

The provision for Hong Kong profits tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year.

Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

13. Income Tax (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2010	2009
	HK\$ Mn	Restated HK\$ Mn
Profit before tax	<u>5,150</u>	<u>3,496</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	939	661
Tax effect of non-deductible expenses	304	339
Tax effect of non-taxable revenue	(377)	(154)
Tax effect of tax losses not recognised	9	10
Recognition of deferred tax assets on prior year tax losses	(12)	(14)
Under-provision/(Write back of over-provision) in respect of prior years	25	(25)
Tax benefits derived from leasing partnerships	(2)	(12)
Others	(39)	14
Actual tax expense	<u>847</u>	<u>819</u>

14. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent includes a profit of HK\$1,953 million (2009 (restated): HK\$1,029 million) which has been dealt with in the accounts of the Bank.

Reconciliation of the above amount to the Bank's profit for the year

	2010	2009
	HK\$ Mn	Restated HK\$ Mn
Amount of consolidated profit attributable to equity holders dealt with in the Bank's accounts	1,939	1,008
Final dividends from subsidiaries and associates attributable to the profits of the previous financial year and general reserves, approved and paid during the year	<u>14</u>	<u>21</u>
Bank's profit for the year	<u>1,953</u>	<u>1,029</u>

15. Dividends

(a) Dividends attributable to the year

	2010	2009
	HK\$ Mn	HK\$ Mn
Interim dividend declared and paid of HK\$0.38 per share on 2,034 million shares (2009: HK\$0.28 per share on 1,842 million shares) (Note 38(j))	772	516
Final dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the balance sheet date and before the close of the Register of Members of the Bank, of HK\$0.48 per share (2009: HK\$0.02 per share)	2	-
Final dividend proposed after the balance sheet date of HK\$0.56 per share on 2,042 million shares (2009: HK\$0.48 per share on 2,016 million shares)	<u>1,144</u>	<u>968</u>
	<u>1,918</u>	<u>1,484</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

15. Dividends (continued)

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2010 HK\$ Mn	2009 HK\$ Mn
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.48 per share on 2,016 million shares (2009: HK\$0.02 per share on 1,673 million shares)	<u>968</u>	<u>33</u>

(c) Distribution to holders of Hybrid Tier 1 capital instruments

	2010 HK\$ Mn	2009 HK\$ Mn
Interest payable on the Hybrid Tier 1 capital instruments, the details of which are disclosed in Note 35	<u>330</u>	<u>51</u>

16. Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on earnings of HK\$3,894 million (2009 (restated): HK\$2,553 million) after the distribution of HK\$330 million (2009: HK\$51 million) to Hybrid Tier 1 issue holders and on the weighted average of 2,024 million (2009: 1,843 million) ordinary shares outstanding during the year, calculated as follows:

Weighted average number of ordinary shares

	2010 Number of shares million	2009 Number of shares million
Issued ordinary shares at 1 st January	1,849	1,841
Effect of share options exercised and shares issued in lieu of dividends	<u>175</u>	<u>2</u>
Weighted average number of ordinary shares at 31 st December	<u>2,024</u>	<u>1,843</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on earnings of HK\$3,894 million (2009 (restated): HK\$2,553 million) after the distribution of HK\$330 million (2009: HK\$51 million) to Hybrid Tier 1 issue holders and on 2,026 million (2009: 1,844 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

Weighted average number of ordinary shares (diluted)

	2010 Number of shares million	2009 Number of shares million
Weighted average number of ordinary shares at 31 st December	2,024	1,843
Effect of deemed issue of ordinary shares under the Bank's share option scheme for nil consideration	<u>2</u>	<u>1</u>
Weighted average number of ordinary shares (diluted) at 31 st December	<u>2,026</u>	<u>1,844</u>

17. Directors' Remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees HK\$ Mn	Salaries, allowances and benefits in kind HK\$ Mn	Discretionary bonuses HK\$ Mn	Share options HK\$ Mn	Retirement scheme contributions HK\$ Mn	2010 Total HK\$ Mn
Chairman and Chief Executive						
Dr. The Hon. Sir David LI Kwok-po	0.6	8.6	11.1	9.2	0.7	30.2
Non-executive Directors						
Prof. Arthur LI Kwok-cheung	0.2	-	-	-	-	0.2
Mr. Aubrey LI Kwok-sing	0.3	-	-	-	-	0.3
Dr. William MONG Man-wai	0.1	-	-	-	-	0.1
Tan Sri Dr. KHOO Kay-peng	0.2	-	-	-	-	0.2
Mr. Richard LI Tzar-kai	0.2	-	-	-	-	0.2
Mr. Eric LI Fook-chuen	0.3	-	-	-	-	0.3
Mr. Stephen Charles LI Kwok-sze	0.2	-	-	-	-	0.2
Dr. Isidro FAINÉ CASAS	0.3	-	-	-	-	0.3
Independent Non-executive Directors						
Dr. Allan WONG Chi-yun	0.4	-	-	-	-	0.4
Mr. WONG Chung-hin	0.3	-	-	-	-	0.3
Dr. LEE Shau-kee	0.3	-	-	-	-	0.3
Mr. Winston LO Yau-lai	0.4	-	-	-	-	0.4
Mr. Thomas KWOK Ping-kwong	0.3	-	-	-	-	0.3
Mr. Kenneth LO Chin-ming	0.3	-	-	-	-	0.3
Mr. William DOO Wai-hoi	0.3	-	-	-	-	0.3
Mr. KUOK Khoon-ean	0.3	-	-	-	-	0.3
Mr. Valiant CHEUNG Kin-piu	0.4	-	-	-	-	0.4
	<u>5.4</u>	<u>8.6</u>	<u>11.1</u>	<u>9.2</u>	<u>0.7</u>	<u>35.0</u>

17. Directors' Remuneration (continued)

	Directors' fees HK\$ Mn	Salaries, allowances and benefits in kind HK\$ Mn	Discretionary bonuses HK\$ Mn	Share options HK\$ Mn	Retirement scheme contributions HK\$ Mn	2009 Total HK\$ Mn
Chairman and Chief Executive						
Dr. The Hon. Sir David LI Kwok-po	0.5	8.4	25.4	23.0	0.5	57.8
Executive Directors						
Mr. Joseph PANG Yuk-wing *	-	1.0	-	4.5	-	5.5
Non-executive Directors						
Prof. Arthur LI Kwok-cheung	0.2	-	-	-	-	0.2
Mr. Aubrey LI Kwok-sing	0.3	-	-	-	-	0.3
Dr. William MONG Man-wai	0.2	-	-	-	-	0.2
Tan Sri Dr. KHOO Kay-peng	0.2	-	-	-	-	0.2
Mr. Richard LI Tzar-kai	0.2	-	-	-	-	0.2
Mr. Eric LI Fook-chuen	0.3	-	-	-	-	0.3
Mr. Stephen Charles LI Kwok-sze	0.2	-	-	-	-	0.2
Dr. Isidro FAINÉ CASAS	0.1	-	-	-	-	0.1
Independent Non-executive Directors						
Dr. Allan WONG Chi-yun	0.3	-	-	-	-	0.3
Mr. WONG Chung-hin	0.3	-	-	-	-	0.3
Dr. LEE Shau-kee	0.2	-	-	-	-	0.2
Mr. Winston LO Yau-lai	0.3	-	-	-	-	0.3
Mr. Thomas KWOK Ping-kwong	0.2	-	-	-	-	0.2
Mr. Kenneth LO Chin-ming	0.3	-	-	-	-	0.3
Mr. William DOO Wai-hoi	0.3	-	-	-	-	0.3
Mr. KUOK Khoon-ean	0.3	-	-	-	-	0.3
Mr. Valiant CHEUNG Kin-piu	0.4	-	-	-	-	0.4
	<u>4.8</u>	<u>9.4</u>	<u>25.4</u>	<u>27.5</u>	<u>0.5</u>	<u>67.6</u>

* The remuneration of Mr. Joseph Pang Yuk-wing is only for his service being an Executive Director from 1st January, 2009 to 15th April, 2009 (including the fair value of share option).

Included in the above remuneration were share options granted to Executive Directors under the Bank's Staff Share Option Schemes. The details of these benefits in kind are disclosed under the paragraph "Information on Share Options" in the Report of the Directors and Note 36.

18. Five Top-paid Employees

	2010 HK\$ Mn	2009 HK\$ Mn
Salaries and other emoluments	21	20
Performance-related bonuses	20	39
Share options	21	50
Pension contributions	2	1
	<u>64</u>	<u>110</u>

The remuneration of the five top-paid employees is within the following bands:

HK\$	2010 Number of employees	2009 Number of employees
8,500,001 - 9,000,000	4	-
12,000,001 - 12,500,000	-	2
13,500,001 - 14,000,000	-	2
30,000,001 - 30,500,000	1	-
57,500,001 - 58,000,000	-	1

Included in the emoluments of the five top-paid employees were the emoluments of 1 (2009: 1) Director. Their respective directors' emoluments have been included in Note 17 above.

19. Segment Reporting

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

(a) Business segments

The Group has identified the following seven reportable segments.

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

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

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

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

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

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

19. Segment Reporting (continued)

(a) Business segments (continued)

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

Other businesses include insurance business, property-related business, supporting units of Hong Kong operations, investment properties, bank premises, the net results of associates and other subsidiaries in Hong Kong.

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

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

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

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

19. Segment Reporting (continued)

	2010							Total reportable segments HK\$ Mn	Inter-segment		
	Hong Kong banking operations								Others HK\$ Mn	elimination HK\$ Mn	Total HK\$ Mn
	Personal banking HK\$ Mn	Corporate banking HK\$ Mn	Treasury markets HK\$ Mn	Wealth management HK\$ Mn	China operations HK\$ Mn	Overseas operations HK\$ Mn	Corporate services HK\$ Mn				
Net interest income/(expense)	2,011	1,129	276	192	3,462	743	2	7,815	(272)	-	7,543
Non-interest income	529	270	19	259	535	241	864	2,717	1,116	(250)	3,583
Operating income	2,540	1,399	295	451	3,997	984	866	10,532	844	(250)	11,126
Operating expenses	(1,343)	(138)	(108)	(125)	(2,566)	(516)	(566)	(5,362)	(1,792)	250	(6,904)
Operating profit/(loss) before impairment losses	1,197	1,261	187	326	1,431	468	300	5,170	(948)	-	4,222
Impairment losses on loans and advances and other accounts	(25)	(53)	-	(6)	(12)	(184)	(4)	(284)	(1)	-	(285)
Impairment losses on available-for-sale financial assets and associates	-	-	-	-	-	-	-	-	(23)	-	(23)
Write back of impairment losses on bank premises	-	-	-	-	-	-	-	-	2	-	2
Operating profit/(loss) after impairment losses	1,172	1,208	187	320	1,419	284	296	4,886	(970)	-	3,916
Profit/(Loss) on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments, loans and receivables and subsidiaries/associates	(5)	(1)	145	-	8	1	9	157	310	-	467
Valuation gains on investment properties	-	-	-	-	2	2	-	4	422	-	426
Share of profits less losses of associates	-	-	-	-	-	-	-	-	341	-	341
Profit before taxation	1,167	1,207	332	320	1,429	287	305	5,047	103	-	5,150
Depreciation for the year	(67)	(1)	(4)	(2)	(268)	(30)	(17)	(389)	(192)	-	(581)
Segment assets	50,433	107,211	125,742	13,168	220,414	45,971	2,765	565,704	27,764	(62,848)	530,620
Investments in associates	-	-	-	-	-	-	-	-	3,573	-	3,573
Total assets	50,433	107,211	125,742	13,168	220,414	45,971	2,765	565,704	31,337	(62,848)	534,193
Total liabilities	243,264	4,761	30,315	15,827	201,609	37,427	726	533,929	9,255	(57,634)	485,550
Capital expenditure incurred during the year	68	2	6	4	553	29	29	691	256	-	947

19. Segment Reporting (continued)

	2009 (restated)*							Total reportable segments HK\$ Mn	Inter-segment		Total HK\$ Mn
	Hong Kong banking operations								Others HK\$ Mn	elimination HK\$ Mn	
	Personal banking HK\$ Mn	Corporate banking HK\$ Mn	Treasury markets HK\$ Mn	Wealth management HK\$ Mn	China operations HK\$ Mn	Overseas operations HK\$ Mn	Corporate services HK\$ Mn				
Net interest income/(expense)	1,972	764	428	147	2,974	740	1	7,026	(279)	-	6,747
Non-interest income/(expense)	463	646	(208)	195	452	354	816	2,718	955	(232)	3,441
Operating income	2,435	1,410	220	342	3,426	1,094	817	9,744	676	(232)	10,188
Operating expenses	(1,341)	(114)	(129)	(107)	(1,975)	(529)	(512)	(4,707)	(1,654)	232	(6,129)
Operating profit/(loss) before impairment losses	1,094	1,296	91	235	1,451	565	305	5,037	(978)	-	4,059
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(70)	(46)	(3)	(12)	21	(977)	(6)	(1,093)	(12)	-	(1,105)
Impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	(9)	-	-	-	-	(9)	(14)	-	(23)
Impairment losses on bank premises	-	-	-	-	-	-	-	-	(13)	-	(13)
Operating profit/(loss) after impairment losses	1,024	1,250	79	223	1,472	(412)	299	3,935	(1,017)	-	2,918
Profit/(Loss) on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments, loans and receivables and subsidiaries/associates	(3)	-	16	-	22	1	-	36	72	-	108
Valuation gains/(losses) on investment properties	-	-	-	-	7	(3)	-	4	202	-	206
Share of profits less losses of associates	-	-	-	-	-	-	-	-	264	-	264
Profit/(Loss) before taxation	1,021	1,250	95	223	1,501	(414)	299	3,975	(479)	-	3,496
Depreciation for the year	(70)	(1)	(3)	(2)	(186)	(29)	(17)	(308)	(204)	-	(512)
Segment assets	44,005	66,998	132,107	7,359	155,555	49,268	3,540	458,832	19,970	(47,335)	431,467
Investments in associates	-	-	-	-	-	-	-	-	2,615	-	2,615
Total assets	44,005	66,998	132,107	7,359	155,555	49,268	3,540	458,832	22,585	(47,335)	434,082
Total liabilities	208,366	582	24,824	14,719	138,536	40,873	1,645	429,545	6,604	(41,802)	394,347
Capital expenditure incurred during the year	54	-	4	1	3,182	624	32	3,897	66	-	3,963

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

19. Segment Reporting (continued)

(b) Geographical segments

The information concerning geographical analysis has been classified by the location of the principal operations of the subsidiaries, or in the case of the Bank itself, by the location of the branches of the Bank responsible for reporting the results or booking the assets.

	2010					
	Hong Kong HK\$ Mn	People's Republic of China HK\$ Mn	Other Asian Countries HK\$ Mn	Others HK\$ Mn	Inter- segment elimination HK\$ Mn	Consolidated HK\$ Mn
The Group						
Operating income	6,573	4,054	577	906	(984)	11,126
Profit before taxation	2,891	1,506	581	172	-	5,150
Total assets	341,115	220,761	22,633	31,407	(81,723)	534,193
Total liabilities	303,551	201,658	18,393	23,496	(61,548)	485,550
Contingent liabilities and commitments	56,882	52,544	3,875	4,577	-	117,878
Capital expenditure during the year	352	553	14	28	-	947

	2009 (restated)					
	Hong Kong HK\$ Mn	People's Republic of China HK\$ Mn	Other Asian Countries HK\$ Mn	Others HK\$ Mn	Inter- segment elimination HK\$ Mn	Consolidated HK\$ Mn
The Group						
Operating income	6,509	3,479	585	883	(1,268)	10,188
Profit/(Loss) before taxation	1,932	1,596	163	(195)	-	3,496
Total assets	287,223	155,881	19,369	34,708	(63,099)	434,082
Total liabilities	255,389	138,668	16,210	26,904	(42,824)	394,347
Contingent liabilities and commitments	57,919	23,262	3,111	2,946	-	87,238
Capital expenditure during the year	157	3,182	618	6	-	3,963

20. Cash and Balances with Banks and Other Financial Institutions (Note 43(c))

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Cash in hand	1,213	1,101	699	706
Balances with central banks	24,638	15,813	1,114	736
Balances with banks and other financial institutions	22,442	12,798	15,995	11,085
	<u>48,293</u>	<u>29,712</u>	<u>17,808</u>	<u>12,527</u>

21. Placements with Banks and Other Financial Institutions (Note 43(c))

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Placements with banks and authorised institutions	57,955	67,638	39,810	61,894
Placements with other financial institutions	242	307	164	-
	<u>58,197</u>	<u>67,945</u>	<u>39,974</u>	<u>61,894</u>
Maturing				
- within one month	49,548	35,006	37,232	31,895
- between one month and one year	8,649	32,939	2,742	29,999
	<u>58,197</u>	<u>67,945</u>	<u>39,974</u>	<u>61,894</u>

22. Trade Bills

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Gross trade bills	<u>18,548</u>	<u>1,847</u>	<u>4,166</u>	<u>861</u>

23. Trading Assets

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Treasury bills (including Exchange Fund Bills) (Note 43(c))	-	34	-	-
Debt securities (Note 43(c))	2,411	3,090	1,295	904
Equity securities	1,502	1,429	1,502	1,374
Investment funds	194	201	193	201
Trading securities	4,107	4,754	2,990	2,479
Positive fair values of derivatives (Note 42(b))	1,738	968	1,206	845
	<u>5,845</u>	<u>5,722</u>	<u>4,196</u>	<u>3,324</u>
Issued by:				
Central governments and central banks	596	1,857	289	-
Public sector entities	22	299	10	299
Banks and other financial institutions	1,066	1,093	855	716
Corporate entities	2,229	1,492	1,643	1,451
Other entities	194	13	193	13
	<u>4,107</u>	<u>4,754</u>	<u>2,990</u>	<u>2,479</u>
Analysed by place of listing:				
Listed in Hong Kong	1,484	1,484	1,484	1,428
Listed outside Hong Kong	1,071	574	1,071	574
	<u>2,555</u>	<u>2,058</u>	<u>2,555</u>	<u>2,002</u>
Unlisted	1,552	2,696	435	477
	<u>4,107</u>	<u>4,754</u>	<u>2,990</u>	<u>2,479</u>

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

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Debt securities (Note 43(c))	15,989	10,043	15,989	10,035
Equity securities	203	349	203	349
	<u>16,192</u>	<u>10,392</u>	<u>16,192</u>	<u>10,384</u>
Issued by:				
Central governments and central banks	531	235	531	235
Public sector entities	175	177	175	177
Banks and other financial institutions	8,032	4,338	8,032	4,330
Corporate entities	7,454	5,642	7,454	5,642
	<u>16,192</u>	<u>10,392</u>	<u>16,192</u>	<u>10,384</u>
Analysed by place of listing:				
Listed in Hong Kong	3,695	2,946	3,695	2,946
Listed outside Hong Kong	7,171	4,003	7,171	3,995
	<u>10,866</u>	<u>6,949</u>	<u>10,866</u>	<u>6,941</u>
Unlisted	5,326	3,443	5,326	3,443
	<u>16,192</u>	<u>10,392</u>	<u>16,192</u>	<u>10,384</u>

25. Advances to Customers and Other Accounts

(a) Advances to customers and other accounts

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
(i) Advances to customers	297,044	247,654	185,213	143,374
Less: Impairment allowances				
- Individual	(282)	(534)	(226)	(499)
- Collective	(819)	(811)	(654)	(678)
	<u>295,943</u>	<u>246,309</u>	<u>184,333</u>	<u>142,197</u>
(ii) Other accounts				
Advances to banks and other financial institutions *	1,320	678	844	583
Notes and bonds	-	65	-	61
Certificates of deposit held (Note 43(c))	39	39	39	39
Accrued interest	2,206	1,313	1,294	951
Bankers acceptances	14,583	7,976	253	203
Other accounts	5,990	5,463	4,303	4,565
	<u>24,138</u>	<u>15,534</u>	<u>6,733</u>	<u>6,402</u>
Less: Impairment allowances				
- Individual	(38)	(31)	(3)	(3)
- Collective	(3)	(9)	-	-
	<u>24,097</u>	<u>15,494</u>	<u>6,730</u>	<u>6,399</u>
	<u>320,040</u>	<u>261,803</u>	<u>191,063</u>	<u>148,596</u>

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

Receivables from reverse repurchase agreements under which the Group obtains securities on terms which permit it to re-pledge or resell securities to others in the absence of default. At 31st December, 2010, the fair value of financial assets accepted as collateral that the Group is permitted to sell or re-pledge under such terms is Nil (2009: NIL).

25. Advances to Customers and Other Accounts (continued)

(b) Impairment allowances against advances and other accounts for 2010

	The Group					
	Advances to customers		Other accounts		Total	
	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn
At 1 st January	534	811	31	9	565	820
New provisions charged to income statement (Note 11)	451	86	12	(7)	463	79
Net provisions released back to income statement (Note 11)	(235)	-	(1)	-	(236)	-
Amounts written off	(507)	(84)	(6)	-	(513)	(84)
Recoveries (Note 11)	51	-	-	-	51	-
Effect of discounting (Note 4)	(21)	-	-	-	(21)	-
Exchange adjustments	9	6	2	1	11	7
At 31 st December	<u>282</u>	<u>819</u>	<u>38</u>	<u>3</u>	<u>320</u>	<u>822</u>

	The Bank					
	Advances to customers		Other accounts		Total	
	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn
At 1 st January	499	678	3	-	502	678
New provisions charged to income statement	378	49	-	-	378	49
Net provisions released back to income statement	(207)	-	-	-	(207)	-
Amounts written off	(481)	(80)	-	-	(481)	(80)
Recoveries	46	-	-	-	46	-
Effect of discounting	(20)	-	-	-	(20)	-
Exchange adjustments	11	7	-	-	11	7
At 31 st December	<u>226</u>	<u>654</u>	<u>3</u>	<u>-</u>	<u>229</u>	<u>654</u>

25. Advances to Customers and Other Accounts (continued)

(b) Impairment allowances against advances and other accounts for 2009

	The Group					
	Advances to customers		Other accounts		Total	
	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn
At 1 st January	523	521	23	9	546	530
New provisions charged to income statement (Note 11)	813	420	14	(1)	827	419
Net provisions released back to income statement (Note 11)	(98)	-	(3)	-	(101)	-
Amounts written off	(743)	(138)	(4)	-	(747)	(138)
Recoveries (Note 11)	65	-	1	-	66	-
Additions through acquisition of subsidiaries	-	-	-	1	-	1
Effect of discounting (Note 4)	(40)	-	-	-	(40)	-
Exchange adjustments	14	8	-	-	14	8
At 31 st December	<u>534</u>	<u>811</u>	<u>31</u>	<u>9</u>	<u>565</u>	<u>820</u>

	The Bank					
	Advances to customers		Other accounts		Total	
	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn
At 1 st January	438	392	-	-	438	392
New provisions charged to income statement	752	407	3	-	755	407
Net provisions released back to income statement	(81)	-	-	-	(81)	-
Amounts written off	(641)	(128)	-	-	(641)	(128)
Recoveries	57	-	-	-	57	-
Effect of discounting	(38)	-	-	-	(38)	-
Exchange adjustments	12	7	-	-	12	7
At 31 st December	<u>499</u>	<u>678</u>	<u>3</u>	<u>-</u>	<u>502</u>	<u>678</u>

25. Advances to Customers and Other Accounts (continued)

(c) Advances to customers - by industry sectors

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

	2010		2009	
	Gross advances HK\$ Mn	% of secured advances %	Gross advances HK\$ Mn	% of secured advances %
The Group				
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	10,245	60.04	8,790	60.42
- Property investment	40,697	92.44	33,532	93.71
- Financial concerns	6,169	75.47	3,759	79.47
- Stockbrokers	453	84.53	690	14.41
- Wholesale and retail trade	4,710	40.62	3,102	66.50
- Manufacturing	4,876	50.28	2,094	56.10
- Transport and transport equipment	4,461	77.56	3,808	79.08
- Recreational activities	88	16.47	100	44.95
- Information technology	566	57.15	328	1.54
- Others	4,885	55.71	5,058	61.27
- Sub-total	<u>77,150</u>	<u>77.37</u>	<u>61,261</u>	<u>80.34</u>
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,611	100.00	1,532	100.00
- Loans for the purchase of other residential properties	30,130	99.99	25,199	99.87
- Credit card advances	3,087	0.00	2,675	0.00
- Others	13,570	73.38	12,739	77.90
- Sub-total	<u>48,398</u>	<u>86.15</u>	<u>42,145</u>	<u>86.89</u>
Total loans for use in Hong Kong	125,548	80.76	103,406	83.01
Trade finance	9,554	46.03	2,546	53.75
Loans for use outside Hong Kong *	<u>161,942</u>	<u>72.16</u>	<u>141,702</u>	<u>75.76</u>
Total advances to customers	<u>297,044</u>	<u>74.95</u>	<u>247,654</u>	<u>78.56</u>

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

	2010		2009	
	Gross advances HK\$ Mn	% of secured advances %	Gross advances HK\$ Mn	% of secured advances %
Property development	24,732	52.19	13,762	71.12
Property investment	22,722	89.55	24,153	86.36
Wholesale and retail trade	17,835	88.23	19,612	95.16
Manufacturing	9,731	51.77	7,322	48.94
Others	47,628	73.16	39,016	69.86
	<u>122,648</u>	<u>72.46</u>	<u>103,865</u>	<u>77.16</u>

25. Advances to Customers and Other Accounts (continued)

(c) Advances to customers - by industry sectors (continued)

	2010		2009	
	Gross advances HK\$ Mn	% of secured advances %	Gross advances HK\$ Mn	% of secured advances %
The Bank				
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	10,235	60.10	8,780	60.48
- Property investment	40,572	92.42	33,417	93.69
- Financial concerns	6,168	75.48	3,758	79.48
- Stockbrokers	452	84.53	689	14.41
- Wholesale and retail trade	4,652	39.88	3,057	66.01
- Manufacturing	4,831	49.82	2,066	55.48
- Transport and transport equipment	4,461	77.56	3,808	79.08
- Recreational activities	88	16.47	100	44.95
- Information technology	563	56.87	328	1.54
- Others	4,212	48.63	4,798	59.17
- Sub-total	<u>76,234</u>	<u>77.12</u>	<u>60,801</u>	<u>80.21</u>
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,611	100.00	1,532	100.00
- Loans for the purchase of other residential properties	30,077	99.99	25,155	99.87
- Credit card advances	3,087	0.00	2,675	0.00
- Others	12,396	73.06	11,945	78.05
- Sub-total	<u>47,171</u>	<u>86.37</u>	<u>41,307</u>	<u>87.10</u>
Total loans for use in Hong Kong	123,405	80.65	102,108	83.00
Trade finance	7,798	38.22	2,309	52.08
Loans for use outside Hong Kong *	<u>54,010</u>	<u>53.59</u>	<u>38,957</u>	<u>56.27</u>
Total advances to customers	<u>185,213</u>	<u>70.98</u>	<u>143,374</u>	<u>75.24</u>

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

	2010		2009	
	Gross advances HK\$ Mn	% of secured advances %	Gross advances HK\$ Mn	% of secured advances %
Property development	10,122	6.95	3,109	12.16
Property investment	1,893	70.86	1,316	65.82
Wholesale and retail trade	830	95.31	111	9.88
Manufacturing	1,893	52.64	1,541	53.92
Others	3,080	8.42	2,992	10.65
	<u>17,818</u>	<u>22.97</u>	<u>9,069</u>	<u>26.52</u>

25. Advances to Customers and Other Accounts (continued)

(c) Advances to customers - by industry sectors (continued)

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:

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
(i) Property development				
a. Individually impaired loans	528	805	487	771
b. Individual impairment allowance	58	50	48	37
c. Collective impairment allowance	64	83	48	70
d. Provision charged to income statement				
- individual impairment loss	169	324	169	316
- collective impairment loss	22	61	16	57
e. Written off	114	272	112	271
(ii) Property investment				
a. Individually impaired loans	441	309	209	129
b. Individual impairment allowance	67	29	24	16
c. Collective impairment allowance	266	212	192	153
d. Provision charged to income statement				
- individual impairment loss	87	60	32	39
- collective impairment loss	82	119	62	83
e. Written off	27	52	7	21
(iii) Loans for purchase of residential properties				
a. Individually impaired loans	102	135	94	125
b. Individual impairment allowance	-	-	-	-
c. Collective impairment allowance	46	32	41	30
d. Provision charged to income statement				
- individual impairment loss	3	1	1	1
- collective impairment loss	24	23	19	22
e. Written off	3	1	1	1
(iv) Wholesale and retail trade				
a. Individually impaired loans	117	310	94	290
b. Individual impairment allowance	43	162	43	162
c. Collective impairment allowance	76	58	58	39
d. Provision charged to income statement				
- individual impairment loss	35	185	35	184
- collective impairment loss	22	21	18	17
e. Written off	96	131	96	121

25. Advances to Customers and Other Accounts (continued)

(d) 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.

	The Group				
	2010				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	145,109	183	337	77	284
People's Republic of China	118,898	53	222	27	145
Other Asian Countries	12,061	55	101	62	149
Others	20,976	105	932	116	241
Total	297,044	396	1,592	282	819
% of total advances to customers			0.54%		
Market value of security held against impaired advances to customers			3,223		

	The Group				
	2009				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	121,538	217	407	103	299
People's Republic of China	93,084	177	373	34	86
Other Asian Countries	10,103	213	382	247	178
Others	22,929	284	1,286	150	248
Total	247,654	891	2,448	534	811
% of total advances to customers			0.99%		
Market value of security held against impaired advances to customers			4,839		

25. Advances to Customers and Other Accounts (continued)

(d) Advances to customers – by geographical areas (continued)

The Bank					
2010					
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	128,124	161	303	66	264
People's Republic of China	30,691	10	173	27	63
Other Asian Countries	10,786	55	101	62	148
Others	15,612	90	691	71	179
Total	185,213	316	1,268	226	654
% of total advances to customers			<u>0.68%</u>		
Market value of security held against impaired advances to customers			<u>2,733</u>		

The Bank					
2009					
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	103,784	185	357	87	278
People's Republic of China	16,419	23	207	33	26
Other Asian Countries	9,021	213	381	246	177
Others	14,150	270	1,166	133	197
Total	143,374	691	2,111	499	678
% of total advances to customers			<u>1.48%</u>		
Market value of security held against impaired advances to customers			<u>3,048</u>		

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

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

25. Advances to Customers and Other Accounts (continued)

(e) Advances to customers – net investment in finance leases

Advances to customers include net investment in equipment leased under finance leases. The total minimum lease payments receivable under finance leases and their present values at the year end are as follows:

	The Group and the Bank					
	2010			2009		
	Present value of the minimum lease payments HK\$ Mn	Interest income relating to future periods HK\$ Mn	Total minimum lease payments HK\$ Mn	Present value of the minimum lease payments HK\$ Mn	Interest income relating to future periods HK\$ Mn	Total minimum lease payments HK\$ Mn
Amounts receivable:						
Within one year	1,045	137	1,182	1,004	116	1,120
After one year but within five years	1,391	201	1,592	1,100	186	1,286
After five years	2,096	272	2,368	1,729	265	1,994
	<u>4,532</u>	<u>610</u>	<u>5,142</u>	<u>3,833</u>	<u>567</u>	<u>4,400</u>
Less: Individual impairment allowances	(6)			(10)		
Net investment in finance leases	<u>4,526</u>			<u>3,823</u>		

The net investment in finance leases is carried on the statement of financial position as a receivable. No accrual is made for the interest income relating to future periods.

26. Available-For-Sale Financial Assets

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Treasury bills (including Exchange Fund Bills) (Note 43(c))	6,744	5,425	6,704	5,364
Certificates of deposit held (Note 43(c))	2,152	972	1,345	595
Debt securities (Note 43 (c))	29,271	22,599	11,911	11,990
Equity securities	2,290	1,810	982	909
Investment funds	322	77	220	77
	<u>40,779</u>	<u>30,883</u>	<u>21,162</u>	<u>18,935</u>
Issued by:				
Central governments and central banks	11,882	12,787	8,244	6,416
Public sector entities	3,726	236	1	-
Banks and other financial institutions	14,861	14,199	9,872	10,649
Corporate entities	10,016	3,584	2,825	1,793
Other entities	294	77	220	77
	<u>40,779</u>	<u>30,883</u>	<u>21,162</u>	<u>18,935</u>
Analysed by place of listing:				
Listed in Hong Kong	2,249	1,957	1,565	1,495
Listed outside Hong Kong	6,545	5,512	4,136	3,986
	<u>8,794</u>	<u>7,469</u>	<u>5,701</u>	<u>5,481</u>
Unlisted	31,985	23,414	15,461	13,454
	<u>40,779</u>	<u>30,883</u>	<u>21,162</u>	<u>18,935</u>

27. Held-To-Maturity Investments (Note 43 (c))

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	64	189	64	112
Certificates of deposit held	1,288	2,245	1,106	1,584
Debt securities	4,362	4,843	2,596	3,144
	<u>5,714</u>	<u>7,277</u>	<u>3,766</u>	<u>4,840</u>
Less: Impairment allowances	-	(38)	-	(38)
	<u>5,714</u>	<u>7,239</u>	<u>3,766</u>	<u>4,802</u>
Issued by:				
Central governments and central banks	1,506	1,510	1,506	1,506
Public sector entities	455	621	172	276
Banks and other financial institutions	2,897	4,328	1,737	2,629
Corporate entities	856	780	351	391
	<u>5,714</u>	<u>7,239</u>	<u>3,766</u>	<u>4,802</u>
Analysed by place of listing:				
Listed in Hong Kong	948	952	824	848
Listed outside Hong Kong	2,548	2,984	1,861	2,263
	<u>3,496</u>	<u>3,936</u>	<u>2,685</u>	<u>3,111</u>
Unlisted	2,218	3,303	1,081	1,691
	<u>5,714</u>	<u>7,239</u>	<u>3,766</u>	<u>4,802</u>
Fair value:				
Listed securities	3,614	3,998	2,750	3,150
Unlisted securities	2,237	3,320	1,086	1,696
	<u>5,851</u>	<u>7,318</u>	<u>3,836</u>	<u>4,846</u>
Movement of impairment allowances				
	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
At 1 st January	38	107	38	107
Charge for the year	-	9	-	9
Write-off	(38)	(78)	(38)	(78)
At 31 st December	<u>-</u>	<u>38</u>	<u>-</u>	<u>38</u>

27. Held-To-Maturity Investments (continued)

Reclassification of Available-for-sale Financial Assets

On 1st January, 2009, the management have assessed the intention and ability to hold to maturity the Group's available-for-sale financial assets. Based on this assessment, the management concluded that they have the positive intention ability hold them to maturity and therefore have reclassified the portfolio from the available-for-sale category to held-to-maturity. The amount reclassified on the date of reclassification is as follows:

	Carrying amount on 1 st January, 2009 HK\$ Mn
Reclassified from available-for-sale debt securities	
Listed in Hong Kong	(83)
Listed outside Hong Kong	(229)
Unlisted	(364)
	<u>(676)</u>
Reclassified to held-to-maturity securities	
Listed in Hong Kong	83
Listed outside Hong Kong	229
Unlisted	364
	<u>676</u>

There are no unrealised gains and losses arising from changes in fair value recognised in the investment revaluation reserve during the year.

The net unamortised revaluation deficit was HK\$18.5 million (2009: HK\$19 million).

The unamortised revaluation surplus or deficit of individual investments reclassified shall be amortised to the income statement over the respective remaining life of investment using the effective interest method. The net unamortisation during the year was HK\$0.5 million (2009: HK\$3 million).

28. Investments in Subsidiaries

	The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn
Unlisted shares, at cost	13,952	13,690
Less: Impairment allowances	(233)	(233)
	13,719	13,457

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary.

Details of these companies are as follows:

Name of company	Place of incorporation and operation	Issued and paid-up capital	% Held by		Nature of business
			The Bank	The Group	
Ample Delight Limited	Hong Kong	HK\$450,000,000		100%	Investment holding
Bank of East Asia (Trustees) Limited	Hong Kong	HK\$150,000,000	100%		Trustee
BEA Life Limited	Hong Kong	HK\$500,000,000	100%		Life insurance
BEA Pacific Asia Limited	Hong Kong	US\$13,000,000		100%	Investment holding
Blue Cross (Asia-Pacific) Insurance Limited	Hong Kong	HK\$750,000,000	100%		Insurance
BEA Union Investment Management Limited	Hong Kong	HK\$374,580,000	51%		Asset management
BEA Wealth Management Services (Taiwan) Limited	Taiwan, Republic of China	NTD233,200,000		100%	Wealth management services
CCSL St. Lucia Limited	St. Lucia	US\$1,000 (Common) US\$200 (Class A Redeemable)		60.49%	Holding company
Central Town Limited	Hong Kong	HK\$2	100%		Property investment
Century Able Limited	Hong Kong	HK\$929,752,849		100%	Investment holding
Corona Light Limited	BVI	HK\$929,752,849		100%	Investment holding
Credit Gain Finance Company Limited	Hong Kong	HK\$1	100%		Money lenders
Crystal Gleaming Limited	BVI	HK\$929,752,849	100%		Investment holding
East Asia Electronic Data Processing (Guangzhou) Limited	PRC	US\$3,000,000	100%		Servicing
East Asia Financial Services (BVI) Ltd.	BVI	US\$24,096,000	100%		Investment holding

28. Investments in Subsidiaries (continued)

Name of company	Place of incorporation and operation	Issued and paid-up capital	% Held by The Bank The Group		Nature of business
* East Asia Holding Company, Inc.	U.S.A.	US\$5	100%		Bank holding company
East Asia Investments Holdings (BVI) Ltd.	BVI	HK\$186,038,725	100%		Investment holding
East Asia Property Agency Company Limited	Hong Kong	HK\$1,000,000	100%		Property agency
East Asia Property Holdings (Jersey) Limited	BVI	GBP9	100%		Property holding
East Asia Secretaries (BVI) Limited	BVI	HK\$300,000,000		75.61%	Investment holding
East Asia Securities Company Limited	Hong Kong	HK\$25,000,000	100%		Securities broking
East Asia Strategic Holdings Limited	BVI	US\$50,000,000	100%		Investment holding
Golden Empire International Inc.	BVI	US\$10,000		100%	Property investment
Innovate Holdings Limited	BVI	US\$1(Ordinary) US\$500,000,000 (with a liquidation preference of US\$1,000 per share)	100%		Special purpose vehicle company
Skyray Holdings Limited	BVI	HK\$450,000,000	100%		Investment holding
Speedfull Limited	BVI	HK\$450,000,000		100%	Investment holding
The Bank of East Asia (China) Limited (<i>Note 1</i>)	PRC	CNY8,000,000,000	100%		Banking and related financial services
* The Bank of East Asia (U.S.A.) N.A.	U.S.A.	US\$4,500		100%	Banking
Tricor Consultancy (Beijing) Limited (<i>Note 1</i>)	PRC	US\$1,850,000		75.61%	Business consultancy in China
Tricor Holdings Limited	BVI	US\$7,001		75.61%	Investment holding
Tricor Holdings Pte. Ltd.	Singapore	S\$5,000,002		75.61%	Investment holding
Tricor Investor Services Limited	Hong Kong	HK\$2		75.61%	Investor services
Tricor Services Limited	Hong Kong	HK\$2		75.61%	Business, corporate and investor services
Tricor Services (BVI) Limited	BVI	US\$250,000		75.61%	Registered agent and trustee services
Tricor Services (Malaysia) Sdn. Bhd.	Malaysia	RM5,672,484		60.49%	Investment holding
Tung Shing Holdings Company Limited	BVI	US\$20,000,000	100%		Investment holding

28. Investments in Subsidiaries (continued)

Notes: 1. Represents a wholly foreign owned enterprise.

2. BVI denotes the British Virgin Islands and PRC denotes the People's Republic of China.

* Companies not audited by KPMG. The accounts of the subsidiaries not audited by KPMG reflect total net assets and total income constituting approximately 1.3% and 2.2% respectively of the related consolidated totals.

29. Investments in Associates

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Listed shares, at cost	-	-	2,040	1,781
Unlisted shares, at cost	-	-	364	196
Share of net assets	3,322	2,389	-	-
Goodwill	251	226	-	-
	<u>3,573</u>	<u>2,615</u>	<u>2,404</u>	<u>1,977</u>
Less: Impairment allowances	-	-	(14)	(31)
	<u>3,573</u>	<u>2,615</u>	<u>2,390</u>	<u>1,946</u>

Loans to associates amounting to HK\$44 million (2009: HK\$497 million) are included under advances to customers.

Share of associates' taxation for the year amounted to HK\$109 million (2009: HK\$81 million).

The following list contains only the particulars of associates which principally affected the results or assets of the Group:

Name of company	Place of incorporation and operation	% of ordinary shares held by		Nature of business
		The Bank	The Group	
Listed				
AFFIN Holdings Berhad	Malaysia	23.52%		Investment holding
Unlisted				
Dolford Property Holdings Limited	BVI		30%	Investment holding
Founder BEA Trust Company Limited	PRC	19.99%		Trust and other financial businesses
Industrial and Commercial Bank of China (Canada) (formerly The Bank of East Asia (Canada))	Canada	30%		Banking services
Mercedes-Benz Financial Services Hong Kong Limited	Hong Kong		20%	Financing, leasing and insurance services
Mercedes-Benz Financial Services Korea Limited	Republic of Korea		20%	Financial services

29. Investments in Associates (continued)

Name of company	Place of incorporation and operation	% of ordinary shares held by		Nature of business
		The Bank	The Group	
Platinum Holdings Company Limited	Cayman Islands	29.99%		Investment holding
PT. Bank Resona Perdania	Indonesia		30%	Banking and related financial services
Sunfire Enterprises Limited (shares disposed on 2 June 2010)	BVI		20%	Property development
TCL Finance Co., Ltd	PRC	20%		Financial services and cash management
Trans-Ocean Insurance Company, Limited (in liquidation)	Hong Kong	48.7%		Inactive

Notes: BVI denotes the British Virgin Islands and PRC denotes the People's Republic of China.

Summary financial information on associates

	Assets HK\$ Mn	Liabilities HK\$ Mn	Equity HK\$ Mn	Revenue HK\$ Mn	Profit HK\$ Mn
2010					
100 per cent	133,531	117,319	16,212	4,453	1,475
Group's effective interest	<u>31,267</u>	<u>27,945</u>	<u>3,322</u>	<u>1,062</u>	<u>341</u>
2009					
100 per cent	102,075	89,071	13,004	3,506	1,052
Group's effective interest	<u>21,425</u>	<u>19,036</u>	<u>2,389</u>	<u>762</u>	<u>264</u>

30. Goodwill and Intangible Assets

Goodwill and intangible assets include goodwill arising on business combinations and acquired intangible assets. Acquired intangible assets include core deposits which are amortised over their estimated economic useful life of ten years, and naming rights.

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Goodwill	2,822	2,738	1,460	1,460
Acquired intangible assets	<u>1,366</u>	<u>1,397</u>	<u>-</u>	<u>-</u>
	<u>4,188</u>	<u>4,135</u>	<u>1,460</u>	<u>1,460</u>

30. Goodwill and Intangible Assets (continued)

(a) Goodwill

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 st January	2,738	2,705	1,460	1,460
Additions through acquisition of subsidiaries	47	22	-	-
Exchange adjustments	37	11	-	-
At 31 st December	<u>2,822</u>	<u>2,738</u>	<u>1,460</u>	<u>1,460</u>

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to business segments as follows:

	2010	2009
	HK\$ Mn	HK\$ Mn
Personal banking	849	849
Corporate banking	453	453
Treasury markets	158	158
Corporate services	1,183	1,100
Others	179	178
	<u>2,822</u>	<u>2,738</u>

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The pre-tax discount rate used for value-in-use calculations is 17.14% (2009: 14.37%) and the long-term growth rate is 3% - 10% (2009: 3%).

Management determined the budgeted net profit based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the internal forecasts.

30. Goodwill and Intangible Assets (continued)

(b) Intangible assets (other than goodwill)

Intangible assets include acquired core deposits. Intangible assets are stated at cost less accumulated amortisation and impairment loss (Note 2(k)(iv)).

Amortisation of intangible assets with finite useful lives is charged to the income statement over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available to use and their estimated useful lives are as follows:

Acquired core deposits	10 years
Naming rights	Over the shorter of the lease period of building or land

Both the period and method of amortisation are reviewed annually.

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Cost				
At 1 st January	1,418	38	-	-
Additions	-	1,380	-	-
Additions through acquisition of subsidiaries	14	-	-	-
Exchange and other adjustments	1	-	-	-
At 31 st December	<u>1,433</u>	<u>1,418</u>	<u>-</u>	<u>-</u>
Accumulated amortisation				
At 1 st January	(21)	(9)	-	-
Amortisation charge for the year (Note 10)	(34)	(13)	-	-
Additions through acquisition of subsidiaries	(12)	-	-	-
Exchange adjustments	-	1	-	-
At 31 st December	<u>(67)</u>	<u>(21)</u>	<u>-</u>	<u>-</u>
Carrying amount at 31st December	<u>1,366</u>	<u>1,397</u>	<u>-</u>	<u>-</u>

31. Fixed Assets

	2010				
	The Group				
	Investment properties HK\$ Mn	Bank premises HK\$ Mn	Furniture, fixtures and equipment HK\$ Mn	Sub-total HK\$ Mn	Total HK\$ Mn
Cost or valuation					
At 1 st January, 2010	2,095	8,572	3,673	12,245	14,340
Additions	14	313	559	872	886
Additions through acquisition	-	-	37	37	37
Revaluation surplus	426	-	-	-	426
Revaluation of bank premises transferred to investment properties	-	36	-	36	36
Transfer from bank premises to investment properties	26	(26)	-	(26)	-
Redevelopment cost	2	1	-	1	3
Disposals	-	(83)	(154)	(237)	(237)
Exchange adjustments	11	218	45	263	274
At 31 st December, 2010	<u>2,574</u>	<u>9,031</u>	<u>4,160</u>	<u>13,191</u>	<u>15,765</u>
Accumulated depreciation and amortisation					
At 1 st January, 2010	-	775	2,098	2,873	2,873
Additions through acquisition	-	-	33	33	33
Charge for the year (Note 10)	-	132	449	581	581
Revaluation of bank premises transferred to investment properties	-	(4)	-	(4)	(4)
Written back on impairment loss	-	(2)	-	(2)	(2)
Written back on disposals	-	(37)	(131)	(168)	(168)
Exchange adjustments	-	13	25	38	38
At 31 st December, 2010	<u>-</u>	<u>877</u>	<u>2,474</u>	<u>3,351</u>	<u>3,351</u>
Net book value at 31 st December, 2010	<u>2,574</u>	<u>8,154</u>	<u>1,686</u>	<u>9,840</u>	<u>12,414</u>
The gross amounts of the above assets are stated:					
At cost	-	8,216	4,160	12,376	12,376
At Directors' valuation					
- 1989	-	815	-	815	815
At professional valuation					
- 2010	2,574	-	-	-	2,574
	<u>2,574</u>	<u>9,031</u>	<u>4,160</u>	<u>13,191</u>	<u>15,765</u>

31. Fixed Assets (continued)

	2010				
	The Bank				
	Investment properties HK\$ Mn	Bank premises HK\$ Mn	Furniture, fixtures and equipment HK\$ Mn	Sub-total HK\$ Mn	Total HK\$ Mn
Cost or valuation					
At 1 st January, 2010	1,798	3,949	2,255	6,204	8,002
Additions	-	76	224	300	300
Revaluation surplus	416	-	-	-	416
Revaluation of bank premises transferred to investment properties	-	16	-	16	16
Transfer from investment properties to bank premises	(42)	42	-	42	-
Redevelopment cost	1	2	-	2	3
Disposals	-	(61)	(53)	(114)	(114)
Exchange adjustments	-	57	4	61	61
At 31 st December, 2010	<u>2,173</u>	<u>4,081</u>	<u>2,430</u>	<u>6,511</u>	<u>8,684</u>
Accumulated depreciation and amortisation					
At 1 st January, 2010	-	382	1,400	1,782	1,782
Charge for the year	-	50	238	288	288
Revaluation of bank premises transferred to investment properties	-	(3)	-	(3)	(3)
Write back on impairment loss	-	(2)	-	(2)	(2)
Written back on disposals	-	(29)	(45)	(74)	(74)
Exchange adjustments	-	-	2	2	2
At 31 st December, 2010	<u>-</u>	<u>398</u>	<u>1,595</u>	<u>1,993</u>	<u>1,993</u>
Net book value at					
31 st December, 2010	<u>2,173</u>	<u>3,683</u>	<u>835</u>	<u>4,518</u>	<u>6,691</u>
The gross amounts of the above assets are stated:					
At cost	-	3,266	2,430	5,696	5,696
At Directors' valuation					
- 1989	-	815	-	815	815
At professional valuation					
- 2010	2,173	-	-	-	2,173
	<u>2,173</u>	<u>4,081</u>	<u>2,430</u>	<u>6,511</u>	<u>8,684</u>

31. Fixed Assets (continued)

	2009				
	The Group				
	Investment properties HK\$ Mn	Bank premises HK\$ Mn	Furniture, fixtures and equipment HK\$ Mn	Sub-total HK\$ Mn	Total HK\$ Mn
Cost or valuation					
At 1 st January, 2009	1,839	6,293	3,507	9,800	11,639
Additions	-	2,264	297	2,561	2,561
Additions through acquisition	-	-	16	16	16
Revaluation surplus	206	-	-	-	206
Revaluation of bank premises transferred to investment properties	-	97	-	97	97
Transfer from bank premises to investment properties	61	(61)	-	(61)	-
Disposals	(14)	(24)	(162)	(186)	(200)
Exchange adjustments	3	3	15	18	21
At 31 st December, 2009	<u>2,095</u>	<u>8,572</u>	<u>3,673</u>	<u>12,245</u>	<u>14,340</u>
Accumulated depreciation and amortisation					
At 1 st January, 2009	-	675	1,818	2,493	2,493
Additions through acquisition	-	-	7	7	7
Charge for the year (Note 10)	-	99	413	512	512
Impairment loss	-	13	-	13	13
Written back on disposals	-	(12)	(154)	(166)	(166)
Exchange adjustments	-	-	14	14	14
At 31 st December, 2009	<u>-</u>	<u>775</u>	<u>2,098</u>	<u>2,873</u>	<u>2,873</u>
Net book value at 31 st December, 2009	<u>2,095</u>	<u>7,797</u>	<u>1,575</u>	<u>9,372</u>	<u>11,467</u>
The gross amounts of the above assets are stated:					
At cost	-	7,745	3,673	11,418	11,418
At Directors' valuation					
- 1989	-	827	-	827	827
At professional valuation					
- 2009	2,095	-	-	-	2,095
	<u>2,095</u>	<u>8,572</u>	<u>3,673</u>	<u>12,245</u>	<u>14,340</u>

31. Fixed Assets (continued)

	2009				
	The Bank				
	Investment properties HK\$ Mn	Bank premises HK\$ Mn	Furniture, fixtures and equipment HK\$ Mn	Sub-total HK\$ Mn	Total HK\$ Mn
Cost or valuation					
At 1 st January, 2009	1,819	3,135	2,246	5,381	7,200
Additions	-	602	135	737	737
Revaluation surplus	205	-	-	-	205
Transfer from investment properties to bank premises	(212)	212	-	212	-
Disposals	(14)	-	(133)	(133)	(147)
Exchange adjustments	-	-	7	7	7
At 31 st December, 2009	<u>1,798</u>	<u>3,949</u>	<u>2,255</u>	<u>6,204</u>	<u>8,002</u>
Accumulated depreciation and amortisation					
At 1 st January, 2009	-	323	1,290	1,613	1,613
Charge for the year	-	46	232	278	278
Impairment loss	-	13	-	13	13
Written back on disposals	-	-	(128)	(128)	(128)
Exchange adjustments	-	-	6	6	6
At 31 st December, 2009	<u>-</u>	<u>382</u>	<u>1,400</u>	<u>1,782</u>	<u>1,782</u>
Net book value at					
31 st December, 2009	<u>1,798</u>	<u>3,567</u>	<u>855</u>	<u>4,422</u>	<u>6,220</u>
The gross amounts of the above assets are stated:					
At cost	-	3,122	2,255	5,377	5,377
At Directors' valuation					
- 1989	-	827	-	827	827
At professional valuation					
- 2009	1,798	-	-	-	1,798
	<u>1,798</u>	<u>3,949</u>	<u>2,255</u>	<u>6,204</u>	<u>8,002</u>

31. Fixed Assets (continued)

The net book value of bank premises and investment properties comprises:

	The Group			
	2010		2009	
	Investment properties HK\$ Mn	Bank premises HK\$ Mn	Investment properties HK\$ Mn	Bank premises HK\$ Mn
Freeholds – Held outside Hong Kong	94	4,125	79	3,841
Leaseholds				
Held in Hong Kong				
On long lease (over 50 years)	1,877	1,653	1,489	1,586
On medium-term lease (10 - 50 years)	271	1,371	209	1,428
Held outside Hong Kong				
On long lease (over 50 years)	-	178	-	161
On medium-term lease (10 - 50 years)	332	827	318	781
	<u>2,574</u>	<u>8,154</u>	<u>2,095</u>	<u>7,797</u>

	The Bank			
	2010		2009	
	Investment properties HK\$ Mn	Bank premises HK\$ Mn	Investment properties HK\$ Mn	Bank premises HK\$ Mn
Freeholds – Held outside Hong Kong	-	804	-	748
Leaseholds				
Held in Hong Kong				
On long lease (over 50 years)	1,678	1,617	1,391	1,503
On medium-term lease (10 - 50 years)	495	1,259	407	1,313
Held outside Hong Kong				
On long lease (over 50 years)	-	3	-	3
	<u>2,173</u>	<u>3,683</u>	<u>1,798</u>	<u>3,567</u>

The carrying amount of the bank premises of the Group and the Bank would have been HK\$7,245 million (2009: HK\$6,933 million) and HK\$2,533 million (2009: HK\$2,498 million) respectively had they been stated at cost less accumulated depreciation.

Investment properties were valued by independent valuers. Investment properties in Hong Kong were valued at HK\$2,148 million as at 31st December, 2010 by an independent valuer, Savills Valuation and Professional Services Limited, Chartered Surveyors, who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The valuation has been incorporated in the accounts as at 31st December, 2010 and it was performed on an open market value basis.

31. Fixed Assets (continued)

The Group leases out investment properties under operating leases. The leases typically run for an initial period from 1 to 10 years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

Rental income receivable from investment properties held for use under operating leases amounted to HK\$92 million in 2010 (2009: HK\$92 million). There was no contingent rental recognised during the year 2010 (2009: Nil).

The total future minimum lease payments of bank premises and investment properties held for use under non-cancellable operating leases are receivable as follows:

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Within one year	108	78	73	67
After one year but within five years	142	81	60	62
After five years	1	-	-	-
	<u>251</u>	<u>159</u>	<u>133</u>	<u>129</u>

32. Amounts Due from and Due to Subsidiaries

During the year, the Bank entered into transactions with certain subsidiaries in the ordinary course of its banking business. Details of the amounts due from and due to subsidiaries are as follows:

(a) Amounts due from subsidiaries

	The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn
Financial institutions	29,917	11,781
Others	877	938
	<u>30,794</u>	<u>12,719</u>

(b) Amounts due to subsidiaries

	The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn
Financial institutions	-	17
Others	2,722	1,625
	<u>2,722</u>	<u>1,642</u>

33. Income Tax in the Statement of Financial Position

(a) Current taxation in the statement of financial position represents:

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Provision for Hong Kong profits tax for the year (Note 13(a))	359	73	279	-
Provisional profits tax paid	(55)	(49)	-	-
	<u>304</u>	<u>24</u>	<u>279</u>	<u>-</u>
Balance of profits tax provision relating to prior years	109	9	71	(14)
Overseas taxation	205	114	91	32
	<u>618</u>	<u>147</u>	<u>441</u>	<u>18</u>

(b) 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 year are as follows:

Deferred tax arising from:	The Group							Total HK\$ Mn
	Depreciation allowances in excess of related depreciation HK\$ Mn	Revaluation of properties HK\$ Mn	Impairment losses on financial assets HK\$ Mn	Revaluation of available-for-sale securities HK\$ Mn	Tax losses HK\$ Mn	Others HK\$ Mn		
At 1 st January, 2010								
- As restated	300	142	23	39	(216)	(302)	(14)	
Charged/(credited) to income statement (Note 13(a))	21	-	(158)	-	69	(58)	(126)	
Charged/(credited) to reserves (Notes 38(c) and (h))	-	2	-	(57)	-	-	(55)	
Additions through acquisition of subsidiaries	(1)	-	-	-	(3)	-	(4)	
Exchange and other adjustments	2	1	4	(1)	3	(6)	3	
At 31 st December, 2010	<u>322</u>	<u>145</u>	<u>(131)</u>	<u>(19)</u>	<u>(147)</u>	<u>(366)</u>	<u>(196)</u>	

33. Income Tax in the Statement of Financial Position (continued)

(b) Deferred tax assets and liabilities recognised (continued)

Deferred tax arising from:	The Group						
	Depreciation allowances in excess of related	Revaluation of properties	Impairment losses on financial assets	Revaluation of available- for-sale securities	Tax losses	Others	Total
	depreciation HK\$ Mn		HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 st January, 2009							
- As previously reported	361	257	(49)	(4)	(661)	(14)	(110)
- Adjustment arising from change in accounting policies	-	(184)	-	-	-	-	(184)
- As restated	361	73	(49)	(4)	(661)	(14)	(294)
(Credited)/charged to income statement (Note 13(a)) (as restated)	(61)	-	(33)	-	447	(61)	292
Charged to reserves (Notes 38(c) and (h)) (as restated)	-	37	-	43	-	-	80
Exchange and other adjustments	-	32	105	-	(2)	(227)	(92)
At 31 st December, 2009 (as restated)	<u>300</u>	<u>142</u>	<u>23</u>	<u>39</u>	<u>(216)</u>	<u>(302)</u>	<u>(14)</u>

Deferred tax arising from:	The Bank						
	Depreciation allowances in excess of related	Revaluation of properties	Impairment losses on financial assets	Revaluation of available- for-sale securities	Tax losses	Others	Total
	depreciation HK\$ Mn		HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 st January, 2010							
- As restated	289	89	(126)	44	(110)	(221)	(35)
Charged/(credited) to income statement	25	-	(50)	-	46	17	38
Charged/(credited) to reserves (Notes 38(c) and (h))	-	2	-	(1)	-	-	1
Exchange and other adjustments	-	-	(1)	-	3	(4)	(2)
At 31 st December, 2010	<u>314</u>	<u>91</u>	<u>(177)</u>	<u>43</u>	<u>(61)</u>	<u>(208)</u>	<u>2</u>

33. Income Tax in the Statement of Financial Position (continued)

(b) Deferred tax assets and liabilities recognised (continued)

Deferred tax arising from:	The Bank						Total
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Impairment losses on financial assets	Revaluation of available-for-sale securities	Tax losses	Others	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 st January, 2009							
- As previously reported	347	257	(44)	(5)	(528)	(2)	25
- Adjustment arising from change in accounting policies	-	(177)	-	-	-	-	(177)
- As restated	347	80	(44)	(5)	(528)	(2)	(152)
(Credited)/charged to income statement (as restated)	(58)	-	(83)	-	421	7	287
Charged to reserves (Notes 38(c) and (h)) (as restated)	-	9	-	49	-	-	58
Exchange and other adjustments	-	-	1	-	(3)	(226)	(228)
At 31 st December, 2009 (as restated)	<u>289</u>	<u>89</u>	<u>(126)</u>	<u>44</u>	<u>(110)</u>	<u>(221)</u>	<u>(35)</u>

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$ Mn	Restated HK\$ Mn	HK\$ Mn	Restated HK\$ Mn
Net deferred tax assets recognised on the statement of financial position	(410)	(322)	(208)	(168)
Net deferred tax liabilities recognised on the statement of financial position	<u>214</u>	<u>308</u>	<u>210</u>	<u>133</u>
	<u>(196)</u>	<u>(14)</u>	<u>2</u>	<u>(35)</u>

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$712 million (2009: HK\$744 million) as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entity. Under the current tax legislation, the expiry dates of the tax losses were as follows:

	2010	2009
	HK\$ Mn	HK\$ Mn
Expiring within 5 years	23	34
Expiring more than 5 years	83	52
No expiry date	606	658
	<u>712</u>	<u>744</u>

34. Other Liabilities

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
(a) Trading liabilities				
Shares sold	1	6	1	6
Negative fair value of derivatives (Note 42(b))	3,100	1,449	2,431	1,229
	<u>3,101</u>	<u>1,455</u>	<u>2,432</u>	<u>1,235</u>
(b) Other accounts and provisions				
Accrued interest payable	2,010	1,089	1,083	595
Acceptance draft payable	14,583	7,976	4,051	203
Other accounts	11,968	9,441	3,209	2,750
	<u>28,561</u>	<u>18,506</u>	<u>8,343</u>	<u>3,548</u>

35. Loan Capital

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
USD550 million 5.625% subordinated notes, measured at fair value through profit or loss	-	4,281	-	4,281
GBP300 million 6.125% step-up perpetual subordinated notes, measured at fair value through profit or loss	3,548	3,431	3,548	3,431
USD600 million floating rate step-up subordinated notes, measured at amortised cost	4,660	4,647	4,660	4,647
USD500 million Hybrid Tier 1	-	-	4,313	3,916
USD600 million subordinated notes, measured at amortised cost	4,485	-	4,485	-
	<u>12,693</u>	<u>12,359</u>	<u>17,006</u>	<u>16,275</u>

Loan capital of face value of HK\$3,609 million (GBP300 million) and carrying amount of HK\$3,548 million represents 6.125% step-up perpetual subordinated notes qualifying as tier 2 capital which were issued on 20th March, 2007 by the Bank. The notes are listed on the Singapore Stock Exchange.

The carrying amount of financial liabilities designated at fair value through profit or loss for the Group as at 31st December, 2010 was HK\$61 million (2009: HK\$303 million) lower than the contractual amount at maturity and for the Bank was HK\$365 million higher than the contractual amount at maturity (2009: HK\$264 million lower than the contractual amount at maturity). The difference in the accumulated amount of the changes in fair value attributable to changes in credit risk for the Group were HK\$651 million (2009: HK\$618 million) and for the Bank were HK\$966 million (2009: HK\$689 million). The change for the year ended 31st December, 2010 for the Group was HK\$33 million (2009: HK\$1,240 million) and for the Bank was HK\$277 million (2009: HK\$1,169 million).

Loan capital of face value of HK\$4,664 million (USD600 million) and carrying amount of HK\$4,660 million represents floating rate step-up subordinated notes qualifying as tier 2 capital which were issued on 21st June, 2007 by the Bank. The notes are listed on the Singapore Stock Exchange and will mature on 22nd June, 2017. The fair value as of 31st December, 2010 was HK\$4,560 million (USD587 million) (2009: HK\$4,211 million) (USD543 million).

35. Loan Capital (continued)

Hybrid Tier 1 capital instruments comprising step-up subordinated notes (“Notes”) of face value HK\$3,887 million (USD500 million) and carrying amount of HK\$4,313 million and HK\$3,887 million (USD500 million) non-cumulative preference shares (“Innovate Preference Shares”) were issued respectively by the Bank and by Innovate Holdings Limited, a wholly owned subsidiary of the Bank, on 5th November, 2009. The Notes bear a fixed interest rate of 8.5% per annum and will mature on 5th November, 2059. The Innovate Preference Shares are perpetual securities on which no dividend is payable. The Notes and the Innovate Preference Shares are listed, and traded together as units, on the Singapore Stock Exchange. The Hybrid Tier 1 capital instruments are qualified as tier 1 capital of the Bank and the Group. In the consolidated accounts, the Notes are eliminated and the Innovate Preference Shares are classified as non-controlling interests.

Loan capital of face value of HK\$4,664 million (USD600 million) and carrying amount of HK\$4,485 million represents 6.125% subordinated notes qualifying as tier 2 capital which were issued on 16th July, 2010 (USD450 million) and on 23rd July, 2010 (USD150 million) by the Bank. The notes are listed on the Singapore Stock Exchange and will mature on 16th July, 2020. Hedge ineffectiveness of HK\$5 million in 2010 was recorded under fair value hedge accounting.

On 22nd July, 2010, the Bank repurchased US\$74.69 million face value of the 5.625% subordinated notes qualifying as tier 2 capital, which was issued on 13th December, 2005 by the Bank (“2015 Notes”). On 14th December, 2010, the Bank redeemed all the remaining 2015 Notes with face value of US\$475.31 million.

36. Equity Settled Share-based Transactions

The Bank has adopted Staff Share Option Schemes whereby the Board of the Bank may at its discretion grant to any employees, including Executive Directors and Chief Executive, of the Group options to subscribe for shares of the Bank. The options may be exercised during the period beginning on the first anniversary of the Date of Grant and ending on the fifth anniversary of the Date of Grant. All options were granted for nil consideration.

(a) Particulars of share options

<u>Date of grant</u>	<u>Vesting period</u>	<u>Exercise period</u>	<u>Exercise price per share</u> HK\$
03/5/2005	03/5/2005 – 02/5/2006	03/5/2006 – 03/5/2010	20.86
03/5/2006	03/5/2006 – 02/5/2007	03/5/2007 – 03/5/2011	30.04
10/5/2007	10/5/2007 – 09/5/2008	10/5/2008 – 10/5/2012	42.84
05/5/2008	05/5/2008 – 04/5/2009	05/5/2009 – 05/5/2013	40.09
05/5/2009	05/5/2009 – 04/5/2010	05/5/2010 – 05/5/2014	21.25
06/7/2010	06/7/2010 – 05/7/2011	06/7/2011 – 06/7/2015	28.49

36. Equity Settled Share-based Transactions (continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2010		2009	
	Weighted average exercise price	Number of options	Weighted average exercise Price	Number of options
	HK\$	Mn	HK\$	Mn
Outstanding at the beginning of the year	29.55	22	30.53	22
Exercised during the year	21.12	(7)	20.86	(2)
Granted during the year	28.49	6	21.25	6
Lapsed during the year	38.27	-	25.67	(4)
Outstanding at the end of the year	31.81	<u>21</u>	29.55	<u>22</u>
Exercisable at the end of the year	33.16	15	33.04	16

The weighted average share price at the date of exercise for share options exercised during the year was HK\$30.19 (2009: HK\$23.60).

The options outstanding at 31st December, 2010 had an exercise price from HK\$21.25 to HK\$42.84 (2009: from HK\$20.86 to HK\$42.84) and a weighted average remaining contractual life of 2.82 years (2009: 2.63 years).

(c) Fair value of share options and assumptions

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

	2010	2009
Fair value at measurement date	HK\$2.71	HK\$9.66
Share price	HK\$28.25	HK\$21.25
Exercise price	HK\$28.49	HK\$21.25
Expected volatility (expressed as weighted average volatility used in the modelling under trinomial lattice model)	15.07%	59.96%
Option life	5 years	5 years
Expected dividends	3.64%	2.35%
Risk-free interest rate (based on Exchange Fund Notes)	1.49%	1.64%

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

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

37. Share Capital

	2010		2009	
	No. of shares million	Nominal value	No. of shares million	Nominal value
Authorised:				
Ordinary shares of HK\$2.50 each	4,000	HK\$10,000,000,000	2,600	HK\$6,500,000,000
Substitute preference shares of US\$1,000 each	0.5	US\$500,000,000	0.5	US\$500,000,000
		HK\$ Mn		HK\$ Mn
Issued and fully paid:				
At 1 st January	1,849	4,623	1,673	4,183
Shares issued under Staff Share Option Schemes	7	17	2	5
Subscription for new shares	167	418	-	-
Capitalisation issue	-	-	167	418
Shares issued in lieu of dividends	19	47	7	17
At 31 st December	2,042	5,105	1,849	4,623

Pursuant to the approved Staff Share Option Schemes (the “Schemes”), options to purchase ordinary shares in the Bank were granted to eligible employees. The option price of the Schemes equals the fair value of the underlying shares at the date of grant. The options granted under the Schemes will be exercisable between the first and the fifth anniversaries of the date of grant.

(a) Shares issued under Staff Share Option Scheme

During the year, options were exercised to subscribe for 7 million ordinary shares in the Bank at a consideration of HK\$147 million of which HK\$17 million was credited to share capital and the balance of HK\$130 million was credited to the share premium account (Note 38). HK\$27 million has been transferred from the capital reserve to the share premium account in accordance with policy set out in Note 2(q)(iv).

(b) Terms of unexpired and unexercised share options at balance sheet date

Date of options granted	Option price	2010 No. of shares	2009 No. of shares
03/5/2005	HK\$20.86	-	4,737,000
03/5/2006	HK\$30.04	2,420,000	2,695,000
10/5/2007	HK\$42.84	2,585,000	2,750,000
05/5/2008	HK\$40.09	5,170,000	5,500,000
05/5/2009	HK\$21.25	4,480,000	6,600,000
06/7/2010	HK\$28.49	5,950,000	-
		20,605,000	22,282,000

38. Reserves

	2010	
	The Group HK\$ Mn	The Bank HK\$ Mn
(a) Share premium		
At 1 st January	4,526	4,526
Net premium on shares issued under Staff Share Option Schemes	130	130
Transfer of the fair value of options from capital reserve – share options issued	27	27
Shares issued in lieu of dividends	(47)	(47)
Subscription of new shares	4,695	4,695
At 31 st December	<u>9,331</u>	<u>9,331</u>
(b) General reserve		
At 1 st January	14,866	14,552
Transfer from retained profits	30	-
Shares issued in lieu of dividends	557	557
At 31 st December	<u>15,453</u>	<u>15,109</u>
(c) Revaluation reserve on bank premises		
At 1 st January		
- As previously reported	928	895
- Adjustment arising from changes in accounting policies	54	54
- As restated	982	949
Recognition of deferred tax liabilities (Note 33(b))	(2)	(2)
Revaluation surplus on bank premises transferred to investment properties	40	18
Exchange adjustments	3	-
At 31 st December	<u>1,023</u>	<u>965</u>
(d) Statutory reserves		
At 1 st January	1,501	7
Transfer from retained profits	439	-
Exchange adjustments	50	-
At 31 st December	<u>1,990</u>	<u>7</u>
(e) Capital reserve		
At 1 st January and 31 st December	<u>86</u>	<u>-</u>
(f) Exchange revaluation reserve		
At 1 st January	1,169	55
Exchange adjustments	769	41
At 31 st December	<u>1,938</u>	<u>96</u>

38. Reserves (continued)

	2010	
	The Group HK\$ Mn	The Bank HK\$ Mn
(g) Capital reserve – staff share options issued		
At 1 st January	170	170
Transfer of the fair value of options to share premium	(27)	(27)
Forfeited options transfer to retained profits	(7)	(7)
Additions	29	29
At 31 st December	<u>165</u>	<u>165</u>
(h) Investment revaluation reserve		
At 1 st January	286	178
Changes in fair value of securities	91	89
Reversal upon disposal (Note 12)	(200)	(127)
Recognition of deferred tax liabilities (Note 33(b))	57	1
Impairment loss and amortisation	24	-
At 31 st December	<u>258</u>	<u>141</u>
(i) Other reserves		
At 1 st January	17	-
Share of changes in equity of associates	36	-
At 31 st December	<u>53</u>	<u>-</u>
(j) Retained profits		
At 1 st January		
- As previously reported	6,993	3,186
- Adjustment arising from changes in accounting policies	158	146
- As restated	7,151	3,332
Net profit for the year	4,224	1,953
Transfer to general reserve	(30)	-
Transfer to statutory reserve	(439)	-
Forfeited options transfer to retained profits	7	7
Dividends (Note 15)		
- Interim dividend	(772)	(772)
- Final dividend in respect of previous year	(970)	(970)
- Hybrid Tier 1 USD500M	(330)	-
At 31 st December	<u>8,841</u>	<u>3,550</u>
(k) Total reserves	<u>39,138</u>	<u>29,364</u>

38. Reserves (continued)

	2009	
	The Group HK\$ Mn	The Bank HK\$ Mn
(a) Share premium		
At 1 st January	4,922	4,922
Net premium on shares issued under Staff Share Option Schemes	36	36
Transfer of the fair value of options from capital reserve – share options issued	3	3
Shares issued in lieu of dividends	(17)	(17)
Capitalisation issue	(418)	(418)
At 31 st December	<u>4,526</u>	<u>4,526</u>
(b) General reserve		
At 1 st January	14,634	14,369
Transfer from retained profits	49	-
Shares issued in lieu of dividends	177	177
Realised surplus on disposals transferred from property revaluation reserve	6	6
At 31 st December	<u>14,866</u>	<u>14,552</u>
(c) Revaluation reserve on bank premises		
At 1 st January		
- As previously reported	863	899
- Adjustment due to changes in accounting policies	65	65
- As restated	928	964
Recognition of net deferred tax liabilities (Note 33(b)) (as restated)	(37)	(9)
Revaluation surplus on bank premises transferred to investment properties	97	-
Realised surplus on disposals transferred to general reserve	(6)	(6)
At 31 st December	<u>982</u>	<u>949</u>
(d) Statutory reserves		
At 1 st January	1,216	-
Transfer from retained profits	285	7
At 31 st December	<u>1,501</u>	<u>7</u>
(e) Capital reserve		
At 1 st January and 31 st December	<u>86</u>	<u>-</u>
(f) Exchange revaluation reserve		
At 1 st January	1,006	48
Exchange adjustments	163	7
At 31 st December	<u>1,169</u>	<u>55</u>

38. Reserves (continued)

	2009	
	The Group HK\$ Mn	The Bank HK\$ Mn
(g) Capital reserve – staff share options issued		
At 1 st January	125	125
Transfer of the fair value of options to share premium	(3)	(3)
Forfeited options transfer to retained profits	(23)	(23)
Additions	71	71
At 31 st December	<u>170</u>	<u>170</u>
(h) Investment revaluation reserve		
At 1 st January	(228)	(45)
Changes in fair value of securities	575	267
Reversal upon disposal (Note 12)	(29)	5
Recognition of deferred tax liabilities (Note 33(b))	(43)	(49)
Impairment loss and amortisation	11	-
At 31 st December	<u>286</u>	<u>178</u>
(i) Other reserves		
At 1 st January	-	-
Share of changes in equity of associates	17	-
At 31 st December	<u>17</u>	<u>-</u>
(j) Retained profits		
At 1 st January		
- As previously reported	5,339	2,724
- Adjustment arising from changes in accounting policies	119	112
- As restated	5,458	2,836
Net profit for the year		
- As previously reported	2,565	995
- Adjustment arising from changes in accounting policies	39	34
- As restated	2,604	1,029
Transfer to general reserve	(49)	-
Transfer to statutory reserve	(285)	(7)
Forfeited options transfer to retained profits	23	23
Dividends (Note 15)		
- Interim dividend	(516)	(516)
- Final dividend in respect of previous year	(33)	(33)
- Hybrid Tier 1 USD 500M	(51)	-
At 31 st December	<u>7,151</u>	<u>3,332</u>
(k) Total reserves	<u>30,754</u>	<u>23,769</u>

38. Reserves (continued)

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

General reserve was set up from the transfer of retained earnings, the realized revaluation surplus on disposal of properties and the value of shares issued in lieu of dividend.

Revaluation reserve on bank premises and exchange revaluation reserve have been set up and are dealt with in accordance with the accounting policies adopted for the revaluation of bank premises and foreign currency translation.

Statutory reserves are set up to supplement the paid-up capital until the sum of paid-up capital and the statutory reserves is equal to the registered capital for a branch, subsidiary and certain associates.

Capital reserve represents the capitalisation of subsidiaries' reserves.

Capital reserve - staff share options issued comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Bank recognised in accordance with the accounting policy adopted for share based payment in Note 2(q)(iv).

Investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held until the securities are derecognised and is dealt with in accordance with the accounting policies in Notes 2(f) and (k).

Other reserve represents share of changes in equity of associates of investment revaluation reserve and revaluation reserve of bank premises.

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the Hong Kong Monetary Authority. As at 31st December, 2010, HK\$2,306 million (2009: HK\$1,857 million) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the Hong Kong Monetary Authority.

At 31st December, 2010, the aggregate amount of reserves available for distribution to equity holders of the Bank was HK\$15,536 million (2009 (restated): HK\$15,689 million). After the balance sheet date the directors proposed a final dividend of HK\$0.56 per ordinary share (2009: HK\$0.48 per share), amounting to HK\$1,144 million (2009: HK\$968 million). The dividend has not been recognised as a liability at the balance sheet date.

39. Non-controlling interests

	2010 HK\$ Mn	2009 HK\$ Mn
At 1 st January	4,358	339
- sale of interests in businesses to non-controlling interests investors	4	132
- purchase of interests in businesses from non-controlling interests investors	-	(10)
- Hybrid Tier 1 note issue	-	3,877
- final dividend in respect of previous year	(56)	(55)
- exchange adjustments	15	2
Profit for the year	79	73
At 31 st December	<u>4,400</u>	<u>4,358</u>

40. Financial Risk Management

This section presents information on the Group's management of principal risks.

The Group has in place a risk management system to identify, measure, monitor and control the various types of risk that the Group faces and, where appropriate, to set strategy and allocate capital against those risks. The risk management policies covering credit risk, market risk, operational risk, liquidity risk, interest rate risk, strategic risk, legal risk and reputation risk of the Group are reviewed regularly by the Management and specialised risk management committees, and recommendations are made by the Risk Management Committee, which comprises the Group's Chairman and Chief Executive, Senior Advisors, Deputy Chief Executives and the Group Chief Risk Officer, for the approval of the Board of Directors. There is an independent centralised risk management unit, Risk Management Division, responsible for monitoring the activities relating to these principal risks. The internal auditors also perform regular audits on business units to check compliance with policies and procedures.

(a) Credit risk management

Credit risk arises from the possibility that a customer or counterparty in a transaction may default. Such risk may arise from counterparty risks from loan and advances, issuer risks from the securities business and counterparty risks from trading activities.

The Board of Directors has delegated authority to the Credit Committee to oversee management of the Group's credit risk, independent of the business units. The Credit Committee reports to the Board of Directors via the Risk Management Committee, which deals with all risk management related issues of the Group. Credit risk control limits are set at different levels and dimensions. The Board of Directors approves the core control limits and delegates the Credit Committee to approve the detailed control limits. Risk, return and market situations are considered in the limits setting. Active limit monitoring process is undertaken.

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

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

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

40. Financial Risk and Management (continued)

(a) Credit risk management (continued)

The Group's credit risk management for the major types of credit risk is depicted as follows:

(i) Corporate and bank credit risk

The Group has laid down policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate and bank customers, the Group has different internal rating systems that are applied to each counterparty. For exposure classified as Specialised Lending in particular, supervisory slotting criteria are used. To monitor concentration risk, the Group has preset limits for exposures to individual industries and for borrowers and groups of borrowers. The Group also has a review process to ensure that the level of review and approval is proper and will depend on the size of the facility and rating of the credit.

The Group undertakes on-going credit analysis and monitoring at several levels. The policies are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The overall portfolio risk as well as individual impaired loans and potential impaired loans are being monitored on a regular basis.

(ii) Retail credit risk

The Group's retail credit policy and approval process are designed for the fact that there are high volumes of relatively homogeneous and small value transactions in each retail loan category. The design of internal rating system and formulation of credit policies are primarily based on the demographic factors and the loss experience of the loan portfolios. The Group monitors its own and industry experience to determine and periodically revise product terms and desired customer profiles.

(iii) Credit for treasury transactions

The credit risk of the Group's treasury transactions is managed in the same way as the Group manages its corporate lending risk. The Group applies an internal rating system to its counterparties and sets individual counterparty limits.

(iv) Credit-related commitment

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

(v) Concentrations of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is diversified along geographic, industry and product sectors.

The Group monitors its concentration risk by adopting appropriate risk control measures, such as setting limits on exposures to different industries and loan portfolios.

(vi) Maximum exposure

The maximum exposure to credit risk at the balance sheet date without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial assets in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

40. Financial Risk Management (continued)

(a) Credit risk management (continued)

(vi) Maximum exposure (continued)

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Cash and balances with banks, central banks and other financial institutions	47,080	28,611	17,109	11,821
Placements with banks, central banks and other financial institutions	58,197	67,945	39,974	61,894
Trade bills	18,548	1,847	4,166	861
Trading assets	4,149	4,092	2,501	1,749
Financial assets designated at fair value through profit or loss	15,989	10,043	15,989	10,035
Loans and advances to customers	295,943	246,309	184,333	142,197
Available-for-sale financial assets	38,167	28,996	19,960	17,949
Held-to-maturity investments	5,714	7,239	3,766	4,802
Other assets	23,166	14,369	5,891	5,491
Financial guarantees and other credit related contingent liabilities	12,131	9,965	7,829	7,616
Loan commitments and other credit related commitments	105,747	77,273	62,590	59,169
	<u>624,831</u>	<u>496,689</u>	<u>364,108</u>	<u>323,584</u>

(vii) Credit quality of loans and advances

Loans and advances to banks are only made to banks with good credit standing. At 31st December, 2010 and 2009, no loans and advances to bank are impaired. The credit quality of loans and advances to customers can be analysed as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Gross loans and advances to customers				
- neither past due nor impaired	295,383	245,149	183,877	141,219
- past due but not impaired	69	57	68	44
- impaired	1,592	2,448	1,268	2,111
	<u>297,044</u>	<u>247,654</u>	<u>185,213</u>	<u>143,374</u>

Of which:

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Gross loans and advances to customers that are neither past due nor impaired				
- Pass	293,456	242,617	182,251	139,187
- Special mention	1,927	2,532	1,626	2,032
	<u>295,383</u>	<u>245,149</u>	<u>183,877</u>	<u>141,219</u>

The Group classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.

40. Financial Risk Management (continued)

(a) Credit risk management (continued)

(vii) Credit quality of loans and advances (continued)

The ageing analysis of loans and advances to customers that are past due but not impaired is as follows:

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Gross loans and advances to customers that are past due but not impaired				
- Overdue 3 months or less	<u>69</u>	<u>57</u>	<u>68</u>	<u>44</u>

Loans and advances that would be past due or impaired had the terms not been renegotiated amounted to HK\$443 million as at 31st December, 2010 (2009: HK\$489 million).

(viii) Credit quality of financial assets other than loans and advances

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk and risk gradings are applied to the counterparties with individual counterparty limits set.

At the balance sheet date, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, Moody's Investor Services, or equivalent, is as follow:

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Aaa	6,277	7,362	5,991	7,005
Aa1 to Aa3	20,519	16,655	19,426	14,944
A1 to A3	10,664	8,413	9,180	6,966
Lower than A3	<u>4,761</u>	<u>2,122</u>	<u>2,776</u>	<u>1,462</u>
	42,221	34,552	37,373	30,377
Unrated	<u>20,099</u>	<u>14,954</u>	<u>3,676</u>	<u>3,413</u>
Total	<u>62,320</u>	<u>49,506</u>	<u>41,049</u>	<u>33,790</u>

(ix) Collateral and other credit enhancements

The Group holds collateral against loans and advances to customers in the forms of mortgages over property, other registered securities over assets, cash deposits and guarantees. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collaterals held as security for financial assets other than loans and advances is determined by the nature of the instrument.

Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset-based securities and similar instruments, which are secured by pools of financial assets. The Group entered into the ISDA Master Agreement which contractually binds participating parties to apply close-out netting arrangement across outstanding derivatives.

40. Financial Risk Management (continued)

(a) Credit risk management (continued)

(ix) Collateral and other credit enhancements (continued)

The lower of gross loan amount and the estimate of the fair value of collateral and other credit enhancements held against financial assets is as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Fair value of collateral and other credit enhancements held against financial assets that are:				
- neither past due nor impaired	221,122	192,357	130,213	106,004
- past due but not impaired	60	57	59	42
	<u>221,182</u>	<u>192,414</u>	<u>130,272</u>	<u>106,046</u>

(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 statement of financial position or structural positions. The objective of market risk management is to reduce the Group's exposure to the volatility inherent in financial instruments.

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

The Asset and Liability Management Committee deals with all market risk and liquidity risk related issues of the Group. It is also responsible for deciding the future business strategy with respect to interest rates based on internal forecast.

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

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

(i) Currency risk

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

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

40. Financial Risk Management (continued)

(b) Market risk management (continued)

The following table indicates the concentration of currency risk at the balance sheet date:

The Group

	2010				2009			
	USD HK\$ Mn	CNY HK\$ Mn	Other foreign currencies HK\$ Mn	Total HK\$ Mn	USD HK\$ Mn	CNY HK\$ Mn	Other foreign currencies HK\$ Mn	Total HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	2,258	40,961	1,871	45,090	2,241	17,427	1,453	21,121
Placements with banks and other financial institutions	8,656	11,428	17,786	37,870	14,832	4,169	24,609	43,610
Trade bills	5,802	12,695	37	18,534	1,782	8	44	1,834
Trading assets	1,191	1,615	301	3,107	836	2,327	312	3,475
Financial assets designated at fair value through profit or loss	11,645	-	1,722	13,367	6,709	-	908	7,617
Advances to customers and other accounts	54,274	104,025	19,061	177,360	44,193	83,346	19,252	146,791
Available-for-sale financial assets	7,318	16,625	6,671	30,614	7,324	9,650	5,233	22,207
Held-to-maturity investments	2,488	12	1,472	3,972	3,088	-	2,106	5,194
Investment in associates	430	-	51	481	360	-	-	360
Fixed assets	173	5,264	958	6,395	190	4,805	879	5,874
Goodwill and intangible assets	238	35	454	727	239	20	404	663
Deferred tax assets	333	20	40	393	230	-	80	310
Spot assets	94,806	192,680	50,424	337,910	82,024	121,752	55,280	259,056
Liabilities								
Deposits and balances of banks and other financial institutions	(5,974)	(1,539)	(2,038)	(9,551)	(4,715)	(4,582)	(1,949)	(11,246)
Deposits from customers	(58,631)	(149,720)	(47,413)	(255,764)	(60,630)	(97,918)	(48,141)	(206,689)
Trading liabilities	(1,600)	(508)	(69)	(2,177)	(1,042)	(26)	(59)	(1,127)
Certificates of deposit issued	(2,772)	-	-	(2,772)	(1,639)	-	-	(1,639)
Current taxation	(30)	(102)	(83)	(215)	13	(58)	(70)	(115)
Debt securities issued	-	(4,709)	(241)	(4,950)	-	(4,346)	-	(4,346)
Deferred tax liabilities	(4)	-	(2)	(6)	(4)	(82)	(42)	(128)
Other accounts and provisions	(6,056)	(15,874)	(86)	(22,016)	(2,716)	(9,333)	(1,394)	(13,443)
Loan capital	(9,145)	-	(3,548)	(12,693)	(8,928)	-	(3,431)	(12,359)
Spot liabilities	(84,212)	(172,452)	(53,480)	(310,144)	(79,661)	(116,345)	(55,086)	(251,092)
Forward purchases	136,496	94,932	12,559	243,987	59,917	27,419	11,016	98,352
Forward sales	(156,605)	(96,540)	(8,196)	(261,341)	(57,946)	(27,850)	(8,726)	(94,522)
Net options position	154	-	(10)	144	(45)	-	34	(11)
Net long/(short) non-structural position	(9,361)	18,620	1,297	10,556	4,289	4,976	2,518	11,783
Net structural position	2,467	6,855	727	10,049	2,432	6,605	1,012	10,049

40. Financial Risk Management (continued)

(b) Market risk management (continued)

(i) Currency risk (continued)

The Bank

	2010				2009			
	USD HK\$ Mn	CNY HK\$ Mn	Other foreign currencies HK\$ Mn	Total HK\$ Mn	USD HK\$ Mn	CNY HK\$ Mn	Other foreign currencies HK\$ Mn	Total HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	1,145	12,310	1,501	14,956	1,220	1,946	1,055	4,221
Placements with banks and other financial institutions	3,532	-	17,320	20,852	13,504	-	24,506	38,010
Trade bills	4,017	120	15	4,152	838	-	10	848
Trading assets	1,155	1	301	1,457	819	1	311	1,131
Financial assets designated at fair value through profit or loss	11,645	-	1,722	13,367	6,701	-	908	7,609
Advances to customers and other accounts	31,869	150	18,989	51,008	19,052	21	15,385	34,458
Available-for-sale financial assets	4,939	1,363	6,326	12,628	5,638	135	4,991	10,764
Amounts due from subsidiaries	22,327	4,028	171	26,526	7,525	730	695	8,950
Held-to-maturity investments	1,334	-	1,473	2,807	1,788	-	1,985	3,773
Investment in subsidiaries and associates	2,067	-	60	2,127	2,075	-	361	2,436
Fixed assets	5	-	867	872	7	-	807	814
Deferred tax assets	168	-	40	208	91	-	77	168
Spot assets	<u>84,203</u>	<u>17,972</u>	<u>48,785</u>	<u>150,960</u>	<u>59,258</u>	<u>2,833</u>	<u>51,091</u>	<u>113,182</u>
Liabilities								
Deposits and balances of banks and other financial institutions	(1,113)	-	(1,731)	(2,844)	(1,227)	-	(1,654)	(2,881)
Deposits from customers	(42,395)	(14,073)	(46,708)	(103,176)	(42,215)	(2,614)	(45,959)	(90,788)
Trading liabilities	(1,438)	-	(69)	(1,507)	(861)	-	(46)	(907)
Certificates of deposit issued	(2,772)	-	-	(2,772)	(1,639)	-	-	(1,639)
Amounts due to subsidiaries	(352)	-	(9)	(361)	(543)	-	(26)	(569)
Current taxation	(54)	-	(37)	(91)	2	-	(35)	(33)
Debt securities issued	-	-	(241)	(241)	-	-	-	-
Deferred tax liabilities	-	-	(2)	(2)	-	-	-	-
Other accounts and provisions	(2,368)	(3,829)	-	(6,197)	(455)	(6)	(1,248)	(1,709)
Loan capital	<u>(13,458)</u>	<u>-</u>	<u>(3,548)</u>	<u>(17,006)</u>	<u>(12,844)</u>	<u>-</u>	<u>(3,431)</u>	<u>(16,275)</u>
Spot liabilities	<u>(63,950)</u>	<u>(17,902)</u>	<u>(52,345)</u>	<u>(134,197)</u>	<u>(59,782)</u>	<u>(2,620)</u>	<u>(52,399)</u>	<u>(114,801)</u>
Forward purchases	115,481	21,397	11,815	148,693	72,537	161	10,725	83,423
Forward sales	(136,323)	(22,691)	(7,743)	(166,757)	(71,256)	(153)	(8,429)	(79,838)
Net options position	154	-	(10)	144	(45)	-	34	(11)
Net long/(short) non-structural position	<u>(435)</u>	<u>(1,224)</u>	<u>502</u>	<u>(1,157)</u>	<u>712</u>	<u>221</u>	<u>1,022</u>	<u>1,955</u>
Net structural position	<u>2,467</u>	<u>6,855</u>	<u>727</u>	<u>10,049</u>	<u>2,432</u>	<u>6,605</u>	<u>1,012</u>	<u>10,049</u>

40. Financial Risk Management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk

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

(iii) Equity risk

The Group's equity positions arise from equity investment and dynamic hedging of equity options in connection with the Bank's linked deposit business. Equity risk is managed daily by the Investment Department within the limits approved by the Board of Directors.

Market risk control limits have been set at varying levels according to the practical requirements of different units. The Board of Directors approves the core control limits and has delegated the power to set detailed control limits to the Asset and Liability Management Committee. Risk, return and market conditions are considered when setting limits. Active limit monitoring is carried out.

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

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

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

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

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

40. Financial Risk Management (continued)

(b) Market risk management (continued)

Value-at-risk statistics

	2010			
	At 31 st December	Maximum	Minimum	Mean
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
VaR for total trading activities	37	52	33	42
VaR for foreign exchange trading positions *	4	8	2	4
VaR for interest rate trading positions	7	9	2	4
VaR for equity trading positions	30	45	24	35

	2009			
	At 31 st December	Maximum	Minimum	Mean
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
VaR for total trading activities	45	76	43	59
VaR for foreign exchange trading positions *	7	21	5	11
VaR for interest rate trading positions	3	4	1	3
VaR for equity trading positions	37	61	35	46

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

(c) Operational risk management

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

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

The Group has implemented a centralised risk management framework since January 2006. The Board of Directors reviews and approves the policies for operational risk management, and it has delegated the responsibility for ongoing operational risk management to the Operational Risk Management Committee. The Operational Risk Management Committee regularly reports status of operational risk management to the Board of Directors via the Risk Management Committee. Operational Risk Management Department under Risk Management Division of the Group is responsible for monitoring activities relating to operational risk.

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

Furthermore, Operational Risk Management Department under Risk Management Division of the Group has also performed self-assessment on the Group's compliance with the requirements of HKMA Supervisory Policy Manual on Operational Risk Management, with satisfactory result which had been reviewed independently by Internal Audit Department.

40. Financial Risk Management (continued)

(d) Liquidity risk management

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

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

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

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

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

40. Financial Risk Management (continued)

(d) Liquidity risk management (continued)

Analysis of assets and liabilities by remaining maturity

The Group	2010							Total HK\$ Mn
	Repayable on demand HK\$ Mn	Within 1 month HK\$ Mn	3 months or less but over 1 month HK\$ Mn	1 year or less but over 3 months HK\$ Mn	5 years or less but over 1 year HK\$ Mn	Over 5 years HK\$ Mn	Undated or overdue HK\$ Mn	
Assets								
Cash and balances with banks and other financial institutions	28,108	70	63	40	-	-	20,012	48,293
Placements with banks and other financial institutions	121	49,427	2,161	6,488	-	-	-	58,197
Trade bills	554	4,723	11,752	1,513	-	-	6	18,548
Trading assets	-	-	12	947	1,204	248	3,434	5,845
Financial assets designated at fair value through profit or loss	-	-	135	1,049	11,676	3,129	203	16,192
Advances to customers and other accounts	4,922	30,209	24,198	65,844	117,380	73,008	4,479	320,040
Available-for-sale financial assets	120	1,734	5,333	8,547	19,385	3,048	2,612	40,779
Held-to-maturity investments	27	868	203	1,456	2,388	772	-	5,714
Undated assets	-	-	-	-	-	-	20,585	20,585
Total assets	33,852	87,031	43,857	85,884	152,033	80,205	51,331	534,193
Liabilities								
Deposits and balances of banks and other financial institutions	1,013	2,941	1,429	3,992	596	-	23	9,994
Deposits from customers	142,673	126,658	72,199	64,052	14,251	-	-	419,833
- Demand deposits and current accounts	59,699	-	-	-	-	-	-	59,699
- Savings deposit	82,366	-	-	-	-	-	-	82,366
- Time, call and notice deposits	608	126,658	72,199	64,052	14,251	-	-	277,768
Trading liabilities	-	-	-	-	-	-	3,101	3,101
Certificates of deposit issued	-	-	535	874	1,776	2,401	-	5,586
Current taxation	-	-	-	618	-	-	-	618
Debt securities issued	-	-	-	4,709	241	-	-	4,950
Loan capital	-	-	-	-	8,208	4,485	-	12,693
Other liabilities	1,674	2,823	4,168	9,522	358	-	10,230	28,775
Total liabilities	145,360	132,422	78,331	83,767	25,430	6,886	13,354	485,550
Net gap	(111,508)	(45,391)	(34,474)	2,117	126,603	73,319		
The Group								
	2009							
	Repayable on demand HK\$ Mn	Within 1 month HK\$ Mn	3 months or less but over 1 month HK\$ Mn	1 year or less but over 3 months HK\$ Mn	5 years or less but over 1 year HK\$ Mn	Over 5 years HK\$ Mn	Undated or overdue HK\$ Mn	Total HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	18,156	26	48	-	-	-	11,482	29,712
Placements with banks and other financial institutions	-	35,006	15,471	17,468	-	-	-	67,945
Trade bills	38	332	1,028	443	-	-	6	1,847
Trading assets	-	-	126	949	1,949	100	2,598	5,722
Financial assets designated at fair value through profit or loss	-	-	15	108	7,835	2,085	349	10,392
Advances to customers and other accounts	4,410	26,242	14,803	50,376	100,562	61,317	4,093	261,803
Available-for-sale financial assets	-	1,438	3,639	9,241	13,012	1,666	1,887	30,883
Held-to-maturity investments	-	729	602	1,306	4,011	591	-	7,239
Undated assets	-	-	-	-	-	-	18,539	18,539
Total assets	22,604	63,773	35,732	79,891	127,369	65,759	38,954	434,082
Liabilities								
Deposits and balances of banks and other financial institutions	291	5,774	4,155	1,613	20	-	33	11,886
Deposits from customers	129,231	104,732	53,276	44,222	11,067	-	-	342,528
- Demand deposits and current accounts	46,380	-	-	-	-	-	-	46,380
- Savings deposit	81,711	-	-	-	-	-	-	81,711
- Time, call and notice deposits	1,140	104,732	53,276	44,222	11,067	-	-	214,437
Trading liabilities	-	-	-	-	-	-	1,455	1,455
Certificates of deposit issued	-	-	295	1,119	1,094	304	-	2,812
Current taxation	-	-	-	147	-	-	-	147
Debt securities issued	-	-	-	-	4,346	-	-	4,346
Loan capital	-	-	-	4,281	8,078	-	-	12,359
Other liabilities	590	2,391	2,522	4,940	873	-	7,710	19,026
Total liabilities	130,112	112,897	60,248	56,322	25,478	304	9,198	394,559
Net gap	(107,508)	(49,124)	(24,516)	23,569	101,891	65,455		

40. Financial Risk Management (continued)

(d) Liquidity risk management (continued)

The Bank

	2010							Undated or overdue HK\$ Mn	Total HK\$ Mn
	Repayable on demand HK\$ Mn	Within 1 month HK\$ Mn	3 months or less but over 1 month HK\$ Mn	1 year or less but over 3 months HK\$ Mn	5 years or less but over 1 year HK\$ Mn	Over 5 years HK\$ Mn			
Assets									
Cash and balances with banks and other financial institutions	16,583	-	-	-	-	-	1,225	17,808	
Placements with banks and other financial institutions	121	37,111	675	2,067	-	-	-	39,974	
Trade bills	175	1,103	2,539	344	-	-	5	4,166	
Trading assets	-	-	-	291	756	248	2,901	4,196	
Financial assets designated at fair value through profit or loss	-	-	135	1,049	11,676	3,129	203	16,192	
Advances to customers and other accounts	3,983	24,199	13,366	29,309	73,221	43,185	3,800	191,063	
Available-for-sale financial assets	120	1,244	4,018	5,076	8,711	791	1,202	21,162	
Held-to-maturity investments	27	793	153	1,373	1,420	-	-	3,766	
Undated assets	-	-	-	-	-	-	55,262	55,262	
Total assets	21,009	64,450	20,886	39,509	95,784	47,353	64,598	353,589	
Liabilities									
Deposits and balances of banks and other financial institutions	927	1,382	901	-	-	-	23	3,233	
Deposits from customers	95,570	106,057	50,570	23,390	1,119	-	-	276,706	
- Demand deposits and current accounts	16,796	-	-	-	-	-	-	16,796	
- Savings deposit	78,595	-	-	-	-	-	-	78,595	
- Time, call and notice deposits	179	106,057	50,570	23,390	1,119	-	-	181,315	
Trading liabilities	-	-	-	-	-	-	2,432	2,432	
Certificates of deposit issued	-	535	874	1,776	2,401	2,200	-	7,786	
Current taxation	-	-	-	441	-	-	-	441	
Debt securities issued	-	-	-	-	241	-	-	241	
Loan capital	-	-	-	-	8,208	8,798	-	17,006	
Other liabilities	-	736	105	3,851	3	-	6,580	11,275	
Total liabilities	96,497	108,710	52,450	29,458	11,972	10,998	9,035	319,120	
Net gap	(75,488)	(44,260)	(31,564)	10,051	83,812	36,355			

The Bank

	2009							Undated or overdue HK\$ Mn	Total HK\$ Mn
	Repayable on demand HK\$ Mn	Within 1 month HK\$ Mn	3 months or less but over 1 month HK\$ Mn	1 year or less but over 3 months HK\$ Mn	5 years or less but over 1 year HK\$ Mn	Over 5 years HK\$ Mn			
Assets									
Cash and balances with banks and other financial institutions	11,767	-	-	-	-	-	760	12,527	
Placements with banks and other financial institutions	-	31,895	13,313	16,686	-	-	-	61,894	
Trade bills	36	132	528	159	-	-	6	861	
Trading assets	-	-	1	1	802	100	2,420	3,324	
Financial assets designated at fair value through profit or loss	-	-	15	108	7,827	2,085	349	10,384	
Advances to customers and other accounts	4,078	19,841	7,398	17,595	59,910	35,731	4,043	148,596	
Available-for-sale financial assets	-	1,421	3,061	3,692	8,979	796	986	18,935	
Held-to-maturity investments	-	613	563	820	2,805	1	-	4,802	
Undated assets	-	-	-	-	-	-	35,970	35,970	
Total assets	15,881	53,902	24,879	39,061	80,323	38,713	44,534	297,293	
Liabilities									
Deposits and balances of banks and other financial institutions	277	1,300	1,557	354	-	-	33	3,521	
Deposits from customers	93,026	87,296	37,746	18,685	764	-	-	237,517	
- Demand deposits and current accounts	14,860	-	-	-	-	-	-	14,860	
- Savings deposit	78,024	-	-	-	-	-	-	78,024	
- Time, call and notice deposits	142	87,296	37,746	18,685	764	-	-	144,633	
Trading liabilities	-	-	-	-	-	-	1,235	1,235	
Certificates of deposit issued	-	-	295	1,119	1,094	2,504	-	5,012	
Current taxation	-	-	-	18	-	-	-	18	
Loan capital	-	-	-	4,281	8,078	3,916	-	16,275	
Other liabilities	-	686	115	39	18	-	4,665	5,523	
Total liabilities	93,303	89,282	39,713	24,496	9,954	6,420	5,933	269,101	
Net gap	(77,422)	(35,380)	(14,834)	14,565	70,369	32,293			

As the trading and available-for-sale portfolios may be sold before maturity or deposits from customers may mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows.

40. Financial Risk Management (continued)

(d) Liquidity risk management (continued)

The following tables provide an analysis of the undiscounted cashflow projection of the financial liabilities of the Group at the balance sheet date based on the dates of their contractual payment obligations:

The Group	2010							
	Carrying amount HK\$ Mn	Gross cash outflow HK\$ Mn	Repayable on demand HK\$ Mn	Less than three months HK\$ Mn	Between three months and one year HK\$ Mn	Between one and five years HK\$ Mn	More than five years HK\$ Mn	Undated HK\$ Mn
Deposits and balances of banks and other financial institutions	9,994	10,057	1,013	4,377	4,037	607	-	23
Deposits from customers	419,833	421,914	142,715	199,143	64,699	15,357	-	-
- Demand deposits and current accounts	59,699	59,737	59,737	-	-	-	-	-
- Savings deposit	82,366	82,367	82,367	-	-	-	-	-
- Time, call and notice deposits	277,768	279,810	611	199,143	64,699	15,357	-	-
Trading liabilities	3,101	3,101	-	-	-	-	-	3,101
Certificates of deposit issued	5,586	5,676	-	538	903	1,834	2,401	-
Current taxation	618	618	-	-	618	-	-	-
Debt securities issued	4,950	5,086	-	68	4,776	242	-	-
Loan capital	12,693	16,052	-	262	281	9,595	5,914	-
Interest rate swaps	6,101	6,101	-	552	1,006	3,023	1,520	-
Other liabilities	28,775	28,775	1,674	6,991	9,522	358	-	10,230
Total	491,651	497,380	145,402	211,931	85,842	31,016	9,835	13,354

The Group	2009							
	Carrying amount HK\$ Mn	Gross cash outflow HK\$ Mn	Repayable on demand HK\$ Mn	Less than three months HK\$ Mn	Between three months and one year HK\$ Mn	Between one and five years HK\$ Mn	More than five years HK\$ Mn	Undated HK\$ Mn
Deposits and balances of banks and other financial institutions	11,886	12,213	291	9,966	1,869	54	-	33
Deposits from customers	342,528	343,883	129,350	158,358	44,627	11,548	-	-
- Demand deposits and current accounts	46,380	46,380	46,380	-	-	-	-	-
- Savings deposit	81,711	81,730	81,730	-	-	-	-	-
- Time, call and notice deposits	214,437	215,773	1,240	158,358	44,627	11,548	-	-
Trading liabilities	1,455	1,455	-	-	-	-	-	1,455
Certificates of deposit issued	2,812	2,854	-	314	1,136	1,100	304	-
Current taxation	147	147	-	-	147	-	-	-
Debt securities issued	4,346	4,600	-	65	62	4,473	-	-
Loan capital	12,359	13,266	-	124	4,664	8,478	-	-
Interest rate swaps	4,364	4,364	-	266	863	2,206	1,029	-
Other liabilities	19,026	19,026	590	4,913	4,940	873	-	7,710
Total	398,923	401,808	130,231	174,006	58,308	28,732	1,333	9,198

40. Financial Risk Management (continued)

(d) Liquidity risk management (continued)

The Bank	2010							
	Carrying amount HK\$ Mn	Gross cash outflow HK\$ Mn	Repayable on demand HK\$ Mn	Less than three months HK\$ Mn	Between three months and one year HK\$ Mn	Between one and five years HK\$ Mn	More than five years HK\$ Mn	Undated HK\$ Mn
Deposits and balances of banks and other financial institutions	3,233	3,233	927	2,283	-	-	-	23
Deposits from customers	276,706	277,066	95,570	156,781	23,565	1,150	-	-
- Demand deposits and current accounts	16,796	16,796	16,796	-	-	-	-	-
- Savings deposit	78,595	78,595	78,595	-	-	-	-	-
- Time, call and notice deposits	181,315	181,675	179	156,781	23,565	1,150	-	-
Trading liabilities	2,432	2,432	-	-	-	-	-	2,432
Certificates of deposit issued	7,786	7,876	-	1,412	1,805	2,459	2,200	-
Current taxation	441	441	-	-	441	-	-	-
Debt securities issued	241	245	-	1	2	242	-	-
Loan capital	17,006	23,338	-	262	611	10,917	11,548	-
Interest rate swaps	4,965	4,965	-	302	624	2,550	1,489	-
Other liabilities	11,275	11,329	-	844	3,858	47	-	6,580
Total	324,085	330,925	96,497	161,885	30,906	17,365	15,237	9,035

The Bank	2009							
	Carrying amount HK\$ Mn	Gross cash outflow HK\$ Mn	Repayable on demand HK\$ Mn	Less than three months HK\$ Mn	Between three months and one year HK\$ Mn	Between one and five years HK\$ Mn	More than five years HK\$ Mn	Undated HK\$ Mn
Deposits and balances of banks and other financial institutions	3,521	3,523	277	2,859	354	-	-	33
Deposits from customers	237,517	237,777	93,026	125,202	18,782	767	-	-
- Demand deposits and current accounts	14,860	14,860	14,860	-	-	-	-	-
- Savings deposit	78,024	78,024	78,024	-	-	-	-	-
- Time, call and notice deposits	144,633	144,893	142	125,202	18,782	767	-	-
Trading liabilities	1,235	1,235	-	-	-	-	-	1,235
Certificates of deposit issued	5,012	5,054	-	314	1,136	1,100	2,504	-
Current taxation	18	18	-	-	18	-	-	-
Loan capital	16,275	20,478	-	124	4,993	9,797	5,564	-
Interest rate swaps	3,639	3,639	-	166	540	1,959	974	-
Other liabilities	5,523	5,762	-	801	39	18	-	4,904
Total	272,740	277,486	93,303	129,466	25,862	13,641	9,042	6,172

40. Financial Risk Management (continued)

(e) Interest rate risk management

The management of the Bank's interest rate risk is governed by the Interest Rate Risk Management Policy endorsed by Risk Management Committee and approved by the Board of Directors. The Asset and Liability Management Committee is delegated by the Board of Directors to oversee the Bank's interest rate risk management, set the strategy and policy for managing interest rate risk and the means for ensuring that such strategy and policy are implemented. Interest rate risk is daily managed by the Treasury Markets Division within the limit approved by the Board of Directors. The independent centralised risk management unit of the Group is responsible for monitoring the activities of Treasury Markets Division in compliance with the Interest Rate Risk Management Manual and Policy. The Internal Audit Department performs periodic review to make sure the interest rate risk management functions are implemented effectively.

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

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

Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on both sides of the balance sheet and is performed on monthly basis. Sensitivity limits are set to control the Bank's interest rate risk exposure under both earnings and economic value perspectives. The results are reported to the Asset and Liability Management Committee and the Board of Directors on a regular basis.

Sensitivity analysis on interest rate risk

The Bank uses sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income and economic value change:

	2010			2009		
	HKD HK\$ Mn	USD HK\$ Mn	CNY HK\$ Mn	HKD HK\$ Mn	USD HK\$ Mn	CNY HK\$ Mn
Impact on earnings over the next 12 months if interest rates rise by 200 basis points	272	(172)	331	(112)	(72)	(25)
Impact on economic value if interest rates rise by 200 basis points	(66)	(637)	(230)	(231)	(312)	(152)

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis is based on the following assumptions:

- (i) there is a parallel shift in the yield curve and in interest rates;
- (ii) there are no other changes to the portfolio;
- (iii) no loan prepayment is assumed as the majority of loans is on a floating rate basis; and
- (iv) deposits without fixed maturity dates are assumed to be repriced on the next day.

Actual changes in the Bank's net interest income and the economic value resulting from the increases in interest rates may differ from the results of this sensitivity analysis.

40. Financial Risk Management (continued)

(e) Interest rate risk management (continued)

The following table indicates the expected next repricing dates (or maturity dates whichever are earlier) for the interest bearing assets and liabilities at the balance sheet date:

The Group	2010					Total HK\$ Mn
	3 months or less HK\$ Mn	Over 3 months to 1 year HK\$ Mn	Over 1 year to 5 years HK\$ Mn	Over 5 years HK\$ Mn	Non- interest bearing HK\$ Mn	
Assets						
Cash and balances with banks and other financial institutions	44,547	40	-	-	3,706	48,293
Placements with banks and other financial institutions	51,709	6,488	-	-	-	58,197
Trade bills	16,411	1,530	-	-	607	18,548
Trading assets	12	947	1,204	248	3,434	5,845
Financial assets designated at fair value through profit or loss	1,144	620	11,096	3,129	203	16,192
Advances to customers	243,887	41,301	6,677	1,400	2,678	295,943
Other accounts	1,719	120	-	2	22,256	24,097
Available-for-sale financial assets	13,642	6,971	14,583	2,971	2,612	40,779
Held-to-maturity investments	1,729	1,381	1,832	772	-	5,714
Non-interest bearing assets	-	-	-	-	20,585	20,585
Total assets	374,800	59,398	35,392	8,522	56,081	534,193
Liabilities						
Deposits and balances of banks and other financial institutions	8,734	1,222	10	-	28	9,994
Deposits from customers	330,410	69,189	6,143	-	14,091	419,833
Trading liabilities	-	-	-	-	3,101	3,101
Certificates of deposit issued	2,230	1,420	1,936	-	-	5,586
Debt securities issued	241	4,709	-	-	-	4,950
Loan capital	4,660	-	3,548	4,485	-	12,693
Non-interest bearing liabilities	-	-	-	-	29,393	29,393
Total liabilities	346,275	76,540	11,637	4,485	46,613	485,550
Interest rate sensitivity gap	28,525	(17,142)	23,755	4,037		

40. Financial Risk Management (continued)

(e) Interest rate risk management (continued)

The Group	2009					Total HK\$ Mn
	3 months or less HK\$ Mn	Over 3 months to 1 year HK\$ Mn	Over 1 year to 5 years HK\$ Mn	Over 5 years HK\$ Mn	Non- interest bearing HK\$ Mn	
Assets						
Cash and balances with banks and other financial institutions	27,130	22	-	-	2,560	29,712
Placements with banks and other financial institutions	50,477	17,468	-	-	-	67,945
Trade bills	1,359	443	-	-	45	1,847
Trading assets	126	949	1,949	100	2,598	5,722
Financial assets designated at fair value through profit or loss	653	192	7,113	2,085	349	10,392
Advances to customers	191,994	39,853	8,875	3,033	2,554	246,309
Other accounts	786	146	-	-	14,562	15,494
Available-for-sale financial assets	11,350	8,257	8,156	1,233	1,887	30,883
Held-to-maturity investments	2,383	1,050	3,215	591	-	7,239
Non-interest bearing assets	-	-	-	-	18,539	18,539
Total assets	286,258	68,380	29,308	7,042	43,094	434,082
Liabilities						
Deposits and balances of banks and other financial institutions	11,217	589	33	10	37	11,886
Deposits from customers	277,844	47,220	4,227	-	13,237	342,528
Trading liabilities	6	-	-	-	1,449	1,455
Certificates of deposit issued	798	999	711	304	-	2,812
Debt securities issued	-	-	4,346	-	-	4,346
Loan capital	4,647	4,281	3,431	-	-	12,359
Non-interest bearing liabilities	-	-	-	-	19,173	19,173
Total liabilities	294,512	53,089	12,748	314	33,896	394,559
Interest rate sensitivity gap	(8,254)	15,291	16,560	6,728		

40. Financial Risk Management (continued)

(e) Interest rate risk management (continued)

The Bank	2010					Total HK\$ Mn
	3 months or less HK\$ Mn	Over 3 months to 1 year HK\$ Mn	Over 1 year to 5 years HK\$ Mn	Over 5 years HK\$ Mn	Non- interest bearing HK\$ Mn	
Assets						
Cash and balances with banks and other financial institutions	15,663	-	-	-	2,145	17,808
Placements with banks and other financial institutions	37,907	2,067	-	-	-	39,974
Trade bills	3,625	345	-	-	196	4,166
Trading assets	1	290	756	248	2,901	4,196
Financial assets designated at fair value through profit or loss	1,144	620	11,096	3,129	203	16,192
Advances to customers	168,249	8,477	4,431	502	2,674	184,333
Other accounts	916	105	-	-	5,709	6,730
Available-for-sale financial assets	11,838	3,500	3,909	713	1,202	21,162
Held-to-maturity investments	1,604	1,298	864	-	-	3,766
Non-interest bearing assets	-	-	-	-	55,262	55,262
Total assets	240,947	16,702	21,056	4,592	70,292	353,589
Liabilities						
Deposits and balances of banks and other financial institutions	3,205	-	-	-	28	3,233
Deposits from customers	239,202	23,390	1,119	-	12,995	276,706
Trading liabilities	-	-	-	-	2,432	2,432
Certificates of deposit issued	2,230	1,420	1,936	2,200	-	7,786
Debt securities issued	241	-	-	-	-	241
Loan capital	4,660	-	3,548	8,798	-	17,006
Non-interest bearing liabilities	-	-	-	-	11,716	11,716
Total liabilities	249,538	24,810	6,603	10,998	27,171	319,120
Interest rate sensitivity gap	(8,591)	(8,108)	14,453	(6,406)		

40. Financial Risk Management (continued)

(e) Interest rate risk management (continued)

The Bank	2009					Total HK\$ Mn
	3 months or less HK\$ Mn	Over 3 months to 1 year HK\$ Mn	Over 1 year to 5 years HK\$ Mn	Over 5 years HK\$ Mn	Non- interest bearing HK\$ Mn	
Assets						
Cash and balances with banks and other financial institutions	11,233	-	-	-	1,294	12,527
Placements with banks and other financial institutions	45,208	16,686	-	-	-	61,894
Trade bills	657	159	-	-	45	861
Trading assets	1	1	802	100	2,420	3,324
Financial assets designated at fair value through profit or loss	653	192	7,105	2,085	349	10,384
Advances to customers	133,403	4,198	1,689	521	2,386	142,197
Other accounts	655	126	-	-	5,618	6,399
Available-for-sale financial assets	10,816	2,647	4,122	364	986	18,935
Held-to-maturity investments	2,228	563	2,010	1	-	4,802
Non-interest bearing assets	-	-	-	-	35,970	35,970
Total assets	204,854	24,572	15,728	3,071	49,068	297,293
Liabilities						
Deposits and balances of banks and other financial institutions	3,130	354	-	-	37	3,521
Deposits from customers	205,842	18,685	764	-	12,226	237,517
Trading liabilities	6	-	-	-	1,229	1,235
Certificates of deposit issued	798	999	711	2,504	-	5,012
Loan capital	4,647	4,281	3,431	3,916	-	16,275
Non-interest bearing liabilities	-	-	-	-	5,541	5,541
Total liabilities	214,423	24,319	4,906	6,420	19,033	269,101
Interest rate sensitivity gap	(9,569)	253	10,822	(3,349)		

40. Financial Risk Management (continued)

(e) Interest rate risk management (continued)

The following table summarises the range of effective average interest rates for the year ended 31st December for monetary financial instruments:

	The Group		The Bank	
	2010	2009	2010	2009
	%	%	%	%
Assets				
Cash and short-term funds and placements with banks and other financial institutions	0-7.65	0-6.46	0-5.45	0-6.46
Trade bills, advances to customers and advances to banks and other financial institutions	0.46-52.03	0-45.70	0.46-18.00	0-18.52
Securities (Note)	0.04-7.75	0.01-7.75	0.04-7.75	0.01-7.75
Liabilities				
Deposits and balances of banks and other financial institutions	0.01-6.50	0-9.17	0.01-4.65	0-9.17
Deposits from customers	0-12.04	0-10.50	0-5.30	0-8.90
Certificates of deposit issued and loan capital	0.36-10.17	0.01-10.01	0.74-10.17	0.01-10.01

Note: Securities include certificates of deposit held, trading assets, financial assets designated at fair value through profit or loss, securities measured as loans and receivables, available-for-sale financial assets and held-to-maturity investments.

(f) Strategic risk management

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

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

(g) Legal risk and reputation risk management

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

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

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

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

40. Financial Risk Management (continued)

(h) Capital management

The HKMA sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements the HKMA requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the Group's VaR models and uses its internal gradings as the basis for risk weightings for credit risk. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

In addition to meeting the regulatory requirements, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The process of allocating capital to specific operations and activities is undertaken by Asset and Liability Management Committee and is reviewed regularly by the Board of Directors.

Consistent with industry practice, the Group monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the Group's policy on the management of capital during the year, except for a change in the calculation methodology in the capital adequacy ratios.

The capital adequacy ratios as at 31st December, 2010 and 31st December, 2009 are computed on the consolidated basis of the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance which became effective on 1st January, 2007.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year ended 31st December, 2010 and 31st December, 2009 and are well above the minimum required ratio set by the HKMA.

41. 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.

41. Fair values of Financial Instruments (continued)

(a) Financial instruments carried at fair value (continued)

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.

41. Fair values of Financial Instruments (continued)

(a) Financial instruments carried at fair value (continued)

(1) Valuation of financial instruments with significant unobservable inputs

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

	The Group		
	Trading assets – Positive fair value of derivatives HK\$ Mn	Available-for- sale financial assets HK\$ Mn	Total HK\$ Mn
Assets			
At 1 st January, 2010	101	393	494
Purchases	-	191	191
Settlements	(47)	(1)	(48)
Changes in fair value recognised in the income statement	240	-	240
Changes in fair value recognised in the other comprehensive income	-	36	36
At 31 st December, 2010	<u>294</u>	<u>619</u>	<u>913</u>
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 balance sheet date	<u>-</u>	<u>36</u>	<u>36</u>
Total gains or losses for the year included in the income statement for assets held at the balance sheet date recorded in net trading income	<u>240</u>	<u>-</u>	<u>240</u>
	The Bank		
	Trading assets – Positive fair value of derivatives HK\$ Mn	Available-for- sale financial assets HK\$ Mn	Total HK\$ Mn
Assets			
At 1 st January, 2010	21	341	362
Purchases	-	168	168
Settlements	(2)	(1)	(3)
Changes in fair value recognised in the income statement	185	-	185
Changes in fair value recognised in the other comprehensive income	-	36	36
At 31 st December, 2010	<u>204</u>	<u>544</u>	<u>748</u>
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 balance sheet date	<u>-</u>	<u>36</u>	<u>36</u>
Total gains or losses for the year included in the income statement for assets held at the balance sheet date recorded in net trading income	<u>185</u>	<u>-</u>	<u>185</u>

41. Fair values of Financial Instruments (continued)

(a) Financial instruments carried at fair value (continued)

(1) Valuation of financial instruments with significant unobservable inputs (continued)

	The Group		
	Trading assets – Positive fair value of derivatives HK\$ Mn	Available-for- sale financial assets HK\$ Mn	Total HK\$ Mn
Assets			
At 1 st January, 2009	169	471	640
Purchases	-	44	44
Sales	-	(31)	(31)
Settlements	(154)	-	(154)
Changes in fair value recognised in the income statement	86	-	86
Changes in fair value recognised in the other comprehensive income	-	(91)	(91)
At 31 st December, 2009	<u>101</u>	<u>393</u>	<u>494</u>
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 balance sheet date	<u>-</u>	<u>(91)</u>	<u>(91)</u>
Total gains or losses for the year included in the income statement for assets held at the balance sheet date recorded in net trading income	<u>86</u>	<u>-</u>	<u>86</u>
	The Bank		
	Trading assets – Positive fair value of derivatives HK\$ Mn	Available-for- sale financial assets HK\$ Mn	Total HK\$ Mn
Assets			
At 1 st January, 2009	7	420	427
Purchases	-	43	43
Sales	-	(31)	(31)
Settlements	(1)	-	(1)
Changes in fair value recognised in the income statement	15	-	15
Changes in fair value recognised in the other comprehensive income	-	(91)	(91)
At 31 st December, 2009	<u>21</u>	<u>341</u>	<u>362</u>
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 balance sheet date	<u>-</u>	<u>(91)</u>	<u>(91)</u>
Total gains or losses for the year included in the income statement for assets held at the balance sheet date recorded in net trading income	<u>15</u>	<u>-</u>	<u>15</u>

41. Fair values of Financial Instruments (continued)

(a) Financial instruments carried at fair value (continued)

(1) Valuation of financial instruments with significant unobservable inputs (continued)

	The Group Trading liabilities – Negative fair value of derivatives HK\$ Mn	The Bank Trading liabilities – Negative fair value of derivatives HK\$ Mn
Liabilities		
At 1 st January, 2010	92	90
Settlements	(45)	(44)
Changes in fair value recognised in the income statement	<u>231</u>	<u>210</u>
At 31 st December, 2010	<u><u>278</u></u>	<u><u>256</u></u>
Total gains or losses for the year included in the income statement for liabilities held at the balance sheet date recorded in net trading income	<u><u>231</u></u>	<u><u>210</u></u>

	The Group Trading liabilities – Negative fair value of derivatives HK\$ Mn	The Bank Trading liabilities – Negative fair value of derivatives HK\$ Mn
Liabilities		
At 1 st January, 2009	169	168
Settlements	(155)	(154)
Changes in fair value recognised in the income statement	<u>78</u>	<u>76</u>
At 31 st December, 2009	<u><u>92</u></u>	<u><u>90</u></u>
Total gains or losses for the year included in the income statement for liabilities held at the balance sheet date recorded in net trading income	<u><u>78</u></u>	<u><u>76</u></u>

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

	2010			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable HK\$ Mn	(Unfavourable) HK\$ Mn	Favourable HK\$ Mn	(Unfavourable) HK\$ Mn
Trading assets	25	(25)	-	-
Available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>52</u>	<u>(52)</u>
	<u><u>25</u></u>	<u><u>(25)</u></u>	<u><u>52</u></u>	<u><u>(52)</u></u>
Trading liabilities	<u><u>23</u></u>	<u><u>(23)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

41. Fair values of Financial Instruments (continued)

(a) Financial instruments carried at fair value (continued)

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

	2009			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable HK\$ Mn	(Unfavourable) HK\$ Mn	Favourable HK\$ Mn	(Unfavourable) HK\$ Mn
Trading assets	8	(8)	-	-
Available-for-sale financial assets	-	-	33	(33)
	<u>8</u>	<u>(8)</u>	<u>33</u>	<u>(33)</u>
Trading liabilities	<u>8</u>	<u>(8)</u>	<u>-</u>	<u>-</u>

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 of change in fair value to 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 balance sheet date.
- (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 investment with 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.

41. Fair values of Financial Instruments (continued)

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

The carrying amounts of the Group's and the Bank's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31st December, 2010 and 2009 except as follows:

The Group

	2010		2009	
	Carrying amount HK\$ Mn	Fair value HK\$ Mn	Carrying amount HK\$ Mn	Fair value HK\$ Mn
Financial assets				
Held-to-maturity investments	5,714	5,851	7,239	7,318
Financial liabilities				
Debt securities issued	4,950	5,048	4,346	4,601
Subordinated liabilities	9,145	9,045	4,647	4,211

The Bank

	2010		2009	
	Carrying amount HK\$ Mn	Fair value HK\$ Mn	Carrying amount HK\$ Mn	Fair value HK\$ Mn
Financial assets				
Held-to-maturity investments	3,766	3,836	4,802	4,846
Financial liabilities				
Debt securities issued	241	241	-	-
Subordinated liabilities	9,145	9,045	4,647	4,211

42. Off-Balance Sheet Exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Direct credit substitutes	8,915	7,341	5,687	5,792
Transaction-related contingencies	1,309	1,293	826	1,024
Trade-related contingencies	1,907	1,331	1,316	800
Commitments that are unconditionally cancellable without prior notice	37,453	41,555	37,521	40,386
Other commitments with an original maturity				
- up to 1 year	48,604	21,606	6,775	6,097
- over 1 year	19,690	14,112	18,294	12,686
	<u>117,878</u>	<u>87,238</u>	<u>70,419</u>	<u>66,785</u>
Credit risk weighted amounts	<u>40,584</u>	<u>27,305</u>	<u>18,296</u>	<u>16,441</u>

42. Off-Balance Sheet Exposures (continued)

(a) Contingent liabilities and commitments (continued)

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts does not represent expected future cash flows.

(b) Derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

The following is a summary of the notional amounts of each significant type of derivative for the Group and the Bank:

	The Group					
	Trading HK\$ Mn	2010 Non- trading HK\$ Mn	Total HK\$ Mn	Trading HK\$ Mn	2009 Non- trading HK\$ Mn	Total HK\$ Mn
Exchange rate contracts						
Forwards and futures	53,582	-	53,582	19,590	-	19,590
Swaps	17,636	33,376	51,012	12,140	4,664	16,804
Options purchased	1,325	29,643	30,968	1,885	1,209	3,094
Options written	1,793	29,826	31,619	3,085	1,236	4,321
Interest rate contracts						
Forwards and futures	-	1,678	1,678	-	88	88
Swaps	21,894	107,493	129,387	-	70,669	70,669
Equity contracts						
Options purchased	111	2,432	2,543	261	1,638	1,899
Options written	106	1,766	1,872	177	975	1,152
Others	-	233	233	-	-	-
	<u>96,447</u>	<u>206,447</u>	<u>302,894</u>	<u>37,138</u>	<u>80,479</u>	<u>117,617</u>
	The Bank					
	Trading HK\$ Mn	2010 Non- trading HK\$ Mn	Total HK\$ Mn	Trading HK\$ Mn	2009 Non- trading HK\$ Mn	Total HK\$ Mn
Exchange rate contracts						
Forwards and futures	46,127	-	46,127	8,390	-	8,390
Swaps	17,636	4,203	21,839	11,137	4,664	15,801
Options purchased	1,325	29,643	30,968	1,885	1,209	3,094
Options written	1,793	29,826	31,619	3,085	1,236	4,321
Interest rate contracts						
Forwards and futures	-	1,678	1,678	-	88	88
Swaps	-	107,783	107,783	-	67,505	67,505
Equity contracts						
Options purchased	111	2,431	2,542	261	1,638	1,899
Options written	106	2,431	2,537	177	1,638	1,815
Others	-	155	155	-	-	-
	<u>67,098</u>	<u>178,150</u>	<u>245,248</u>	<u>24,935</u>	<u>77,978</u>	<u>102,913</u>

42. Off-Balance Sheet Exposures (continued)

(b) Derivatives (continued)

Derivatives arise from futures, forward, swap and option transactions undertaken by the Group and the Bank in the foreign exchange, interest rate and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

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

	The Group			
	2010		2009	
	Assets	Liabilities	Assets	Liabilities
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Fair value (Notes 23 and 34)				
Exchange rate contracts	748	1,302	317	139
Interest rate contracts	854	1,695	587	1,279
Options purchased/written				
- exchange rate contracts	71	71	9	9
- equity contracts	65	32	55	22
	1,738	3,100	968	1,449

	The Bank			
	2010		2009	
	Assets	Liabilities	Assets	Liabilities
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Fair value (Notes 23 and 34)				
Exchange rate contracts	473	1,057	275	114
Interest rate contracts	597	1,271	506	1,084
Options purchased/written				
- exchange rate contracts	71	71	9	9
- equity contracts	65	32	55	22
	1,206	2,431	845	1,229

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Credit risk weighted amounts *				
Exchange rate contracts	1,912	567	1,683	549
Interest rate contracts	678	350	551	408
Equity contracts	219	90	283	184
Debt security & other commodity	15	6	23	11
	2,824	1,013	2,540	1,152

* The Bank adopted the Foundation Internal Ratings Based (“IRB”) approach according to Banking (Capital) Rules for calculating the credit risk weighted amount as at 31st December, 2010.

The tables above give the contractual or notional amounts, fair value and credit risk weighted amounts of off-balance sheet transactions. The fair value is calculated for the purposes of deriving the credit risk weighted amounts. These are assessed in accordance with the Banking (Capital) Rules. Fair value represents the cost of replacing all contracts which have a positive value when marked to market.

42. Off-Balance Sheet Exposures (continued)

(b) Derivatives (continued)

Fair value is a close approximation of the credit risk for these contracts as at the balance sheet date. The credit risk weighted amount refers to the amount as computed in accordance with the Banking (Capital) Rules.

The following table provides an analysis of the notional amounts of derivatives of the Group by relevant maturity grouping based on the remaining periods to settlement at the balance sheet date.

The Group								
Notional amounts with remaining life of								
	2010				2009			
	1 year or less	Over 1 year to 5 years	Over 5 years	Total	1 year or less	Over 1 year to 5 years	Over 5 years	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest rate derivatives	73,684	41,715	15,666	131,065	46,714	15,727	8,316	70,757
Currency derivatives	157,261	9,791	129	167,181	37,856	5,953	-	43,809
Other derivatives	3,820	622	206	4,648	2,387	268	396	3,051
	<u>234,765</u>	<u>52,128</u>	<u>16,001</u>	<u>302,894</u>	<u>86,957</u>	<u>21,948</u>	<u>8,712</u>	<u>117,617</u>

The Bank								
Notional amounts with remaining life of								
	2010				2009			
	1 year or less	Over 1 year to 5 years	Over 5 years	Total	1 year or less	Over 1 year to 5 years	Over 5 years	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest rate derivatives	68,370	25,430	15,661	109,461	46,123	13,162	8,308	67,593
Currency derivatives	121,089	9,464	-	130,553	25,811	5,795	-	31,606
Other derivatives	3,742	1,088	404	5,234	2,387	535	792	3,714
	<u>193,201</u>	<u>35,982</u>	<u>16,065</u>	<u>245,248</u>	<u>74,321</u>	<u>19,492</u>	<u>9,100</u>	<u>102,913</u>

(c) Capital commitments

Capital commitments outstanding at 31st December and not provided for in the accounts were as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Expenditure authorised and contracted for	179	338	136	100
Expenditure authorised but not contracted for	298	65	208	48
	<u>477</u>	<u>403</u>	<u>344</u>	<u>148</u>

42. Off-Balance Sheet Exposures (continued)

(d) Operating lease commitments

At 31st December, 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Properties				
Within one year	428	365	153	127
After one year but within five years	764	736	156	117
After five years	374	249	-	-
	<u>1,566</u>	<u>1,350</u>	<u>309</u>	<u>244</u>
	The Group		The Bank	
	2010	2009	2010	2009
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Equipment				
Within one year	20	6	2	2
After one year but within five years	18	11	3	4
	<u>38</u>	<u>17</u>	<u>5</u>	<u>6</u>

The Group and the Bank lease certain properties and equipment under operating leases. The leases run for an initial period of one to twenty five years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually adjusted annually to reflect market rentals. None of the leases includes contingent rentals.

(e) Litigation

Claim by a private banking client

In two connected court proceedings initiated in September 2009 in the High Court of Hong Kong, a private banking client made a claim against the Bank and another bank in Hong Kong for, among other things, damages in respect of investment losses allegedly resulting from certain misconduct of a former employee of the Bank acting as the client relationship manager.

The Bank intends to defend these proceedings rigorously and is in the course of preparing the relevant court documents. If the Bank is unsuccessful in defending the claim, the potential amount of claim against the Bank is HK\$175 million (2009: HK\$150 million). As these proceedings are in the preliminary stage and based on the evidence available, the Bank's external lawyers are optimistic on mounting a successful defence to both proceedings, no provisions have been made by the Bank as at 31st December, 2010.

43. Notes on Consolidated Cash Flow Statement

(a) Purchase of subsidiaries

	2010 HK\$ Mn	2009 HK\$ Mn
Net assets acquired		
Cash and balances with banks and other financial institutions	310	23
Advances and other accounts less provisions	473	24
Fixed assets	2	9
Deferred tax assets	3	-
Current taxation	(2)	-
Other accounts and provisions	(471)	(12)
	<u>315</u>	<u>44</u>
Goodwill arising on consolidation	47	22
Intangible assets acquired	2	-
Total purchase price	<u>364</u>	<u>66</u>
Less: cash and cash equivalents acquired	<u>(310)</u>	<u>(23)</u>
Cash flow on acquisition net of cash acquired	<u><u>54</u></u>	<u><u>43</u></u>

(b) Disposal of subsidiary

	2010 HK\$ Mn	2009 HK\$ Mn
Cash and balances with banks and other financial institutions	68	-
Placements with banks and other financial institutions	296	-
Advances and other accounts less provisions	2,410	1
Held-to-maturity investments	240	-
Fixed assets	7	-
Deferred tax assets	8	-
Deposits and balances of banks and other financial institutions	(221)	-
Deposits from customers	(1,725)	-
Trading liabilities	(9)	-
Current taxation	(1)	-
Other accounts and provisions	(722)	-
	<u>351</u>	<u>1</u>
Add: Gain on disposal	238	-
Less: Cash and cash equivalents disposed	<u>(68)</u>	<u>-</u>
Cash flow on disposal of subsidiary	<u><u>521</u></u>	<u><u>1</u></u>

(c) Cash and cash equivalents

(i) Components of cash and cash equivalents in the consolidated cash flow statement

	2010 HK\$ Mn	2009 HK\$ Mn
Cash and balances with banks and other financial institutions	29,649	19,244
Placements with banks and other financial institutions with original maturity within three months	50,102	37,938
Treasury bills with original maturity within three months	4,539	2,400
Certificates of deposit held with original maturity within three months	841	534
Debt securities with original maturity within three months	235	414
	<u>85,366</u>	<u>60,530</u>

43. Notes on Consolidated Cash Flow Statement (continued)

(c) Cash and cash equivalents (continued)

(ii) Reconciliation with the consolidated statement of financial position

	2010 HK\$ Mn	2009 HK\$ Mn
Cash and balances with banks and other financial institutions (Note 20)	48,293	29,712
Placements with banks and other financial institutions (Note 21)	58,197	67,945
Treasury bills, certificates of deposit held and debt securities		
- trading assets (Note 23)	2,411	3,124
- designated at fair value through profit or loss (Note 24)	15,989	10,043
- advances and other accounts (Note 25(a))	39	39
- available-for-sale (Note 26)	38,167	28,996
- held-to-maturity (Note 27)	5,714	7,239
	<u>62,320</u>	<u>49,441</u>
Amounts shown in the consolidated statement of financial position	168,810	147,098
Less: Amounts with an original maturity of beyond three months	(64,800)	(76,100)
Cash balance with central bank subject to regulatory restriction	<u>(18,644)</u>	<u>(10,468)</u>
Cash and cash equivalents in the consolidated cash flow statement	<u><u>85,366</u></u>	<u><u>60,530</u></u>

44. Assets Pledged as Security

The following assets have been pledged as collateral for own liabilities at the balance sheet date:

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Secured liabilities	<u>1,115</u>	<u>1,514</u>	<u>979</u>	<u>810</u>
Assets pledged:				
Advances to customers	1,771	2,070	-	-
Available-for-sale financial assets	40	736	-	-
Held-to-maturity investments	96	96	96	96
	<u>1,907</u>	<u>2,902</u>	<u>96</u>	<u>96</u>

The following balances with banks have been pledged as collateral for securities borrowings and margin deposits of derivatives.

	The Group		The Bank	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Cash collateral for borrowed securities	16	18	16	18
Margin accounts for open futures and forward contracts	727	921	682	876
	<u>743</u>	<u>939</u>	<u>698</u>	<u>894</u>
Capital equivalency deposit	<u>39</u>	<u>39</u>	<u>39</u>	<u>39</u>

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

45. Loans to Officers

The aggregate of loans to officers of the Bank disclosed pursuant to Section 161B(4B) and (4C) of the Hong Kong Companies Ordinance is as follows:

	2010 HK\$ Mn	2009 HK\$ Mn
Aggregate amount of relevant loans outstanding at 31 st December		
By the Bank	4,809	3,711
By subsidiaries	<u>1,334</u>	<u>1,261</u>
	<u>6,143</u>	<u>4,972</u>
 The maximum aggregate amount of relevant loans outstanding during the year		
By the Bank	7,131	5,543
By subsidiaries	<u>1,509</u>	<u>1,656</u>
	<u>8,640</u>	<u>7,199</u>

There was no interest due but unpaid nor any impairment allowance made against these loans at 31st December, 2010 and 31st December, 2009.

46. Material Related Party Transactions

The Group maintains certain retirement benefit schemes for its staff as per Note 2(q)(iii). In 2010, the total amount of contributions the Group made to the schemes was HK\$106 million (2009: HK\$65 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 year, outstanding balances of amounts due from and due to at the year end, and maximum outstanding balance of amounts due from and due to them during the year are aggregated as follows:

	Key management personnel		Subsidiaries		Associates	
	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn	2010 HK\$ Mn	2009 HK\$ Mn
Interest income	130	125	272	588	3	3
Interest expense	34	25	161	560	-	-
Amounts due from	8,601	6,971	30,794	12,719	1,141	626
Amounts due to	8,871	5,147	2,722	1,642	4	4
Maximum amounts due from	14,229	10,443	30,794	15,953	1,625	924
Maximum amounts due to	39,999	9,826	2,838	2,295	15	14

47. Equity Compensation Plans

The Bank has adopted Staff Share Option Schemes whereby the Board of the Bank may at its discretion grant to any employees of the Group, including Executive Directors and Chief Executive, options to subscribe for shares of the Bank. The options may be exercised during the period beginning on the first anniversary of the Date of Grant and ending on the fifth anniversary of the Date of Grant. All options were granted for nil consideration.

(a) Particulars of share options

<u>Date of grant</u>	<u>Vesting period</u>	<u>Exercise period</u>	<u>Exercise price per share HK\$</u>
03/5/2005	03/5/2005 – 02/5/2006	03/5/2006 – 03/5/2010	20.86 *
03/5/2006	03/5/2006 – 02/5/2007	03/5/2007 – 03/5/2011	30.04 *
10/5/2007	10/5/2007 – 09/5/2008	10/5/2008 – 10/5/2012	42.84 *
05/5/2008	05/5/2008 – 04/5/2009	05/5/2009 – 05/5/2013	40.09 *
05/5/2009	05/5/2009 – 04/5/2010	05/5/2010 – 05/5/2014	21.25
06/7/2010	06/7/2010 – 05/7/2011	06/7/2011 – 06/7/2015	28.49

(b) Movement of share options

2010	<u>Number of share options</u>					
<u>Date of grant</u>	<u>Outstanding at 1/1/2010</u>	<u>Granted</u>	<u>Exercised</u>	<u>Lapsed</u>	<u>Outstanding at 31/12/2010</u>	
03/5/2005	4,737,000	-	4,737,000	-	-	-
03/5/2006	2,695,000	-	110,000	165,000	2,420,000	
10/5/2007	2,750,000	-	-	165,000	2,585,000	
05/5/2008	5,500,000	-	-	330,000	5,170,000	
05/5/2009	6,600,000	-	2,120,000	-	4,480,000	
06/7/2010	-	5,950,000	-	-	5,950,000	
Total	22,282,000	5,950,000	6,967,000	660,000	20,605,000	

2009	<u>Number of share options</u>						
<u>Date of grant</u>	<u>Outstanding at 1/1/2009</u>	<u>Additional share options for bonus issue*</u>	<u>Granted</u>	<u>Exercised</u>	<u>Lapsed</u>	<u>Outstanding at 31/12/2009</u>	
22/4/2004	2,765,000	276,500	-	-	3,041,500	-	
03/5/2005	6,105,000	610,500	-	1,978,500	-	4,737,000	
03/5/2006	2,700,000	270,000	-	-	275,000	2,695,000	
10/5/2007	2,750,000	275,000	-	-	275,000	2,750,000	
05/5/2008	5,500,000	550,000	-	-	550,000	5,500,000	
05/5/2009	-	-	6,600,000	-	-	6,600,000	
Total	19,820,000	1,982,000	6,600,000	1,978,500	4,141,500	22,282,000	

* After adjusting for the bonus issue in 2009.

(c) No share options were cancelled during the years ended 31st December, 2010 and 2009.

47. Equity Compensation Plans (continued)

(d) Details of share options exercised

Exercise period	Date of grant	Number of share options	
		2010	2009
January	03/5/2005	235,500	-
February	03/5/2005	142,500	-
March	03/5/2005	3,048,500	-
April	03/5/2005	811,000	-
May	03/5/2005	499,500	190,500
June	03/5/2005	-	208,500
July	03/5/2005	-	14,000
August	03/5/2005	-	79,000
	05/5/2009	2,020,000	-
September	03/5/2005	-	243,500
	05/5/2009	10,000	-
October	03/5/2005	-	292,500
	03/5/2006	110,000	-
	05/5/2009	50,000	-
November	03/5/2005	-	755,500
	05/5/2009	40,000	-
December	03/5/2005	-	195,000
		<u>6,967,000</u>	<u>1,978,500</u>

48. Non-adjusting post balance sheet events

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 15(a).

On 21st January, 2011 the Bank and East Asia Holding Company, Inc. (“EAHC”) a wholly-owned subsidiary of the Bank, entered into a share sale agreement (the “Share Sale Agreement”) with Industrial and Commercial Bank of China Limited (“ICBC”) in respect the sale of 80% of the issued and outstanding common shares of The Bank of East Asia (U.S.A.) National Association (“BEA USA”) by EAHC to ICBC for a total consideration of approximately US\$140 million (equivalent to approximately HK\$1,086 million) (the “Disposal”). The consideration for the Disposal will be adjusted after the completion of the Disposal to reflect any increase or decrease in 80% of the net tangible book value of BEA USA between 30th September, 2010 and the closing date of the Disposal.

Completion of the Disposal is subject to satisfaction or waiver of certain conditions precedent, including receipt of necessary bank regulatory approvals in the U.S. and China (including Hong Kong), and the execution and delivery by the parties of a transition service agreement and a shareholders agreement (the “Shareholders Agreement”) by the date that is fourteen months from the date of the Share Sale Agreement (the “Drop Dead Date”). If by the Drop Dead Date, the conditions precedent to the completion of the Disposal are not satisfied or waived, the parties may mutually agree to extend the Drop Dead Date to a later date.

Upon the completion of the Disposal, BEA USA will cease to be a subsidiary of the Bank and will be held as to 20% by the Bank through EAHC and 80% by ICBC. A Shareholders Agreement will be entered into between the parties to regulate their respective rights and obligations. Under the Shareholders Agreement, at any time from the date that is eighteen months after the completion of the Disposal to the tenth anniversary of the date of completion of the Disposal, the Bank through EAHC will have a put option to sell to ICBC the remaining 20% of the shares of common stock of BEA USA.

49. Accounting Estimates and Judgements

The preparation of accounts requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these accounts and the reported amounts of revenues and expenses for the years presented. Changes in assumptions may have a significant impact on the accounts in the periods where the assumptions are changed. The application of assumptions and estimates means that any selection of different assumptions would cause the Group's reporting to differ. The Group believes that the assumptions that have been made are appropriate and that the accounts therefore present the financial position and results fairly, in all material respects.

Management discussed with the Audit Committee the development, selection and disclosure of the Group's significant accounting policies and estimates and the application of these policies and estimates.

(a) Key sources of estimation uncertainty

Notes 30, 36 and 41 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options granted and fair values of financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Impairment losses

Loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgement as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment includes observable data that the payment status of borrowers in a group has adversely changed. It may also include observable data that correlate with defaults on the assets in the Group. If management has determined, based on their judgement, that objective evidence for impairment exists, expected future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

Available-for-sale financial assets and held-to-maturity investments

The Group determines that available-for-sale financial assets and held-to-maturity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of when a decline in fair value below its cost is not recoverable within a reasonable time period is judgmental by nature, so profit and loss could be affected by differences in this judgement.

(ii) Valuation of financial instruments

The Group's accounting policy for valuation of financial instruments is included in Note 2. The fair value of the financial instruments is mainly based on the quoted market price on a recognised stock exchange or a price quoted from a broker/dealer for non-exchanged traded financial instruments. The fair value of collateralised debt obligations is based on bid prices quoted by reputable brokers and has been carefully assessed for reasonableness by management. The fair value of a SIV is based on its net asset values as provided by the SIV's manager.

49. Accounting Estimates and Judgements (continued)

(b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below:

(i) Held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has a positive intention and ability to hold to maturity as held-to-maturity investments. In making this judgement, the Group evaluates its intention and ability to hold such investments till maturity.

If the Group fails to hold these investments to maturity other than for certain specific circumstances, the Group will have to reclassify the entire portfolio of held-to-maturity investments as available-for-sale, as such class is deemed to have been tainted.

This would result in held-to-maturity investments being measured at fair value instead of at amortised cost.

(ii) Recognition of deferred tax assets

The group recognises deferred tax assets only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Estimates and judgements are applied in determining the amount of future taxable profits and the probability that such future taxable profits are available in the foreseeable future to support recognition of the deferred tax assets. The group uses all readily available information, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs, in determining future taxable profits. Changes in these estimates could significantly affect the timing of deferred tax asset recognition and the amount of asset recognised.

50. Comparative Figures

As a result of the adoption of the amendments to HKAS 12, *Income taxes*, certain comparative figures have been adjusted to reflect the decrease in accrual of deferred tax liabilities related to investment properties carried at fair value. Further details of these changes in accounting policies are disclosed in Note 3.

51. Possible Impact of Amendments, New Standards and Interpretations Issued but not Yet Effective for the Year Ended 31st December, 2010

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and interpretations and one new standard which are not yet effective for the accounting year ended 31st December, 2010 and which have not been adopted in these accounts.

	Effective for accounting periods beginning on or after
Revised HKAS 24, <i>Related party disclosures</i>	1 st January, 2011
HKFRS 9, <i>Financial instruments</i>	1 st January, 2013
Improvements to HKFRSs 2010	1 st July, 2010 or 1 st January, 2011

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for HKFRS 9, *Financial instruments*, which will have an impact on the Group's results and financial position arising from changes in the Group's classification and measurement of financial instruments.

THE BANK OF EAST ASIA, LIMITED

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF THE BANK OF EAST ASIA, LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of The Bank of East Asia, Limited ("the Bank") set out on pages F-163 to F-271, which comprise the consolidated and the Bank statement of financial position as at 31st December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE ACCOUNTS

The Directors of the Bank are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these accounts based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Bank and of the Group as at 31st December, 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Hong Kong, 11th February, 2010

THE BANK OF EAST ASIA, LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2009

	Notes	2009 HK\$ Mn	2008 HK\$ Mn
Interest income	4	12,121	17,465
Interest expense	5	(5,374)	(10,672)
Net interest income		6,747	6,793
Fee and commission income	6	2,799	2,618
Fee and commission expense		(537)	(473)
Net fee and commission		2,262	2,145
Net trading profits/(losses)	7	941	(1,292)
Net result from financial instruments designated at fair value through profit or loss	8	(267)	(1,612)
Other operating income	9	505	423
Non-interest income/(expense)		3,441	(336)
Operating income		10,188	6,457
Operating expenses	10	(6,129)	(5,779)
Operating profit before impairment losses		4,059	678
Impairment losses on loans and advances	11	(1,105)	(558)
Impairment losses on held-to-maturity investments	27	(9)	(44)
Impairment losses on available-for-sale financial assets		(14)	(352)
(Charge for)/Write back of impairment losses on bank premises	31	(13)	6
Impairment losses		(1,141)	(948)
Operating profit/(loss) after impairment losses		2,918	(270)
Net (loss)/profit on sale of held-to-maturity investments		(12)	25
Net profit on sale of available-for-sale financial assets	12	102	197
Net profit on sale of loans and receivables		2	1
Net loss on sale of subsidiaries/associates		-	(8)
Net profit on sale of fixed assets		16	178
Valuation gains/(losses) on investment properties	31	206	(168)
Share of profits less losses on associates		264	53
Profit for the year before taxation		3,496	8
Income tax	13	(858)	96
Profit for the year after taxation		2,638	104
Attributable to:			
Owners of the parent		2,565	39
Minority interest	39	73	65
Profit after taxation		2,638	104
Earnings per share			
Basic	16	1.36	0.02
Diluted	16	1.36	0.02

The notes on pages F-170 to F-271 form part of these accounts. Details of dividends payable to equity shareholders of the Bank attributable to the profit for the year are set out in Note 15.

THE BANK OF EAST ASIA, LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2009

	Notes	2009 HK\$ Mn	2008 HK\$ Mn
Net profit		2,638	104
Other comprehensive income/(expense) for the year (after taxation and reclassification adjustments):			
Premises:			
- unrealised surplus on revaluation of premises	38(c)	97	10
- deferred taxes	38(c)	(26)	13
- effect on opening balance resulting from decrease in tax rate		-	(10)
- exchange differences		-	(1)
Available-for-sale investment revaluation reserve:			
- fair value changes taken to/(from) equity	38(h)	575	(839)
- fair value changes transferred from/(to) income statement:			
- on impairment and amortisation	38(h)	11	153
- on disposal	38(h)	(29)	(115)
- deferred taxes	38(h)	(43)	93
- effect on opening balance resulting from decrease in tax rate		-	5
Share of changes in equity of associates	38(i)	17	(22)
Exchange differences on translation of:			
- financial statements of overseas branches, subsidiaries and associates	38(f)	163	356
Other comprehensive income/(expense)		765	(357)
Total comprehensive income/(expense)		3,403	(253)
Total comprehensive income/(expense) attributable to:			
Owners of the parent		3,330	(318)
Minority interest	39	73	65
		3,403	(253)

The notes on pages F-170 to F-271 form part of these accounts.

THE BANK OF EAST ASIA, LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER, 2009

	Notes	2009 HK\$ Mn	2008 HK\$ Mn
ASSETS			
Cash and balances with banks and other financial institutions	20	29,712	28,105
Placements with banks and other financial institutions	21	67,945	96,574
Trade bills	22	1,847	1,164
Trading assets	23	5,722	3,437
Financial assets designated at fair value through profit or loss	24	10,392	4,130
Advances to customers and other accounts	25	261,803	243,725
Available-for-sale financial assets	26	30,883	18,560
Held-to-maturity investments	27	7,239	5,006
Investments in associates	29	2,615	2,486
Fixed assets	31	11,467	9,146
- Investment properties		2,095	1,839
- Other property and equipment		9,372	7,307
Goodwill and intangible assets	30	4,135	2,734
Deferred tax assets	33(b)	322	187
Total Assets		434,082	415,254
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions		11,886	27,045
Deposits from customers		342,528	323,802
Trading liabilities	34(a)	1,455	2,846
Certificates of deposit issued		2,812	5,491
- At fair value through profit or loss		2,442	3,777
- At amortised cost		370	1,714
Current taxation	33(a)	147	333
Debt securities issued		4,346	-
Deferred tax liabilities	33(b)	520	77
Other accounts and provisions	34(b)	18,506	12,139
Loan capital	35	12,359	11,036
- At fair value through profit or loss		7,712	6,395
- At amortised cost		4,647	4,641
Total Liabilities		394,559	382,769
Share capital	37	4,623	4,183
Reserves	38	30,542	27,963
Total equity attributable to owners of the parent		35,165	32,146
Minority interest	39	4,358	339
Total Equity		39,523	32,485
Total Equity and Liabilities		434,082	415,254

Approved and authorised for issue by the Board of Directors on 11th February, 2010.

Chairman and Chief Executive
David LI Kwok-po

Directors
Allan WONG Chi-yun
WONG Chung-hin
Winston LO Yau-lai

The notes on pages F-170 to F-271 form part of these accounts.

THE BANK OF EAST ASIA, LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER, 2009

	Notes	2009 HK\$ Mn	2008 HK\$ Mn
ASSETS			
Cash and balances with banks and other financial institutions	20	12,527	4,852
Placements with banks and other financial institutions	21	61,894	92,735
Trade bills	22	861	521
Trading assets	23	3,324	2,914
Financial assets designated at fair value through profit or loss	24	10,384	4,114
Advances to customers and other accounts	25	148,596	138,640
Amounts due from subsidiaries	32(a)	12,719	16,398
Available-for-sale financial assets	26	18,935	10,985
Held-to-maturity investments	27	4,802	3,318
Investments in subsidiaries	28	13,457	11,673
Investments in associates	29	1,946	1,984
Fixed assets	31	6,220	5,587
- Investment properties		1,798	1,819
- Other property and equipment		4,422	3,768
Goodwill and intangible assets	30	1,460	1,460
Deferred tax assets	33(b)	168	38
Total Assets		297,293	295,219
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions		3,521	1,093
Deposits from customers		237,517	240,029
Trading liabilities	34(a)	1,235	2,549
Certificates of deposit issued		5,012	7,691
- At fair value through profit or loss		2,442	3,777
- At amortised cost		2,570	3,914
Amounts due to subsidiaries	32(b)	1,642	1,994
Current taxation	33(a)	18	60
Deferred tax liabilities	33(b)	333	63
Other accounts and provisions	34(b)	3,548	3,479
Loan capital	35	16,275	11,036
- At fair value through profit or loss		11,628	6,395
- At amortised cost		4,647	4,641
Total Liabilities		269,101	267,994
Share capital	37	4,623	4,183
Reserves	38	23,569	23,042
Total equity attributable to owners of the Bank		28,192	27,225
Total Equity and Liabilities		297,293	295,219

Approved and authorised for issue by the Board of Directors on 11th February, 2010.

Chairman and Chief Executive
David LI Kwok-po

Directors
Allan WONG Chi-yun
WONG Chung-hin
Winston LO Yau-lai

The notes on pages F-170 to F-271 form part of these accounts.

THE BANK OF EAST ASIA, LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2009

	Share capital	Share premium	Capital reserve – staff share options issued	Exchange revaluation reserve	Investment revaluation reserve	Revaluation reserve of bank premises	Capital reserve	General reserve	Other reserves	Retained profits	Total	Minority interest	Total equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 st January, 2009	4,183	4,922	125	1,006	(228)	863	86	14,634	1,216	5,339	32,146	339	32,485
Changes in equity													
Shares issued in lieu of dividend	17	(17)	-	-	-	-	-	177	-	-	177	-	177
Capitalisation issue	418	(418)	-	-	-	-	-	-	-	-	-	-	-
Shares issued under Staff Shares Option Schemes	5	36	-	-	-	-	-	-	-	-	41	-	41
Equity settled share-based transaction	-	-	71	-	-	-	-	-	-	-	71	-	71
Transfer	-	3	(26)	-	-	(6)	-	55	285	(311)	-	-	-
Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	(600)	(600)	(55)	(655)
Sale of interests in businesses to minority interests investors	-	-	-	-	-	-	-	-	-	-	-	132	132
Purchase of interests in businesses from minority interests investors	-	-	-	-	-	-	-	-	-	-	-	(10)	(10)
Hybrid Tier 1 note issue	-	-	-	-	-	-	-	-	-	-	-	3,877	3,877
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	2	2
Total comprehensive income for the year	-	-	-	163	514	71	-	-	17	2,565	3,330	73	3,403
At 31 st December, 2009	4,623	4,526	170	1,169	286	928	86	14,866	1,518	6,993	35,165	4,358	39,523
As 1 st January, 2008	3,936	1,118	68	650	475	866	86	14,004	22	8,874	30,099	347	30,446
Changes in equity													
Shares issued in lieu of dividend	38	(38)	-	-	-	-	-	597	-	-	597	-	597
Subscription of new shares	197	3,745	-	-	-	-	-	-	-	-	3,942	-	3,942
Shares issued under Staff Shares Option Schemes	12	88	-	-	-	-	-	-	-	-	100	-	100
Equity settled share-based transaction	-	-	66	-	-	-	-	-	-	-	66	-	66
Transfer	-	9	(9)	-	-	(15)	-	33	1,216	(1,234)	-	-	-
Dividends declared or approved during the year	-	-	-	-	-	-	-	-	-	(2,340)	(2,340)	(7)	(2,347)
Purchase of interests in businesses from minority interests investors	-	-	-	-	-	-	-	-	-	-	-	(64)	(64)
Exchange adjustments	-	-	-	-	-	-	-	-	-	-	-	(2)	(2)
Total comprehensive income/(expense) for the year	-	-	-	356	(703)	12	-	-	(22)	39	(318)	65	(253)
At 31 st December, 2008	4,183	4,922	125	1,006	(228)	863	86	14,634	1,216	5,339	32,146	339	32,485

The notes on pages F-170 to F-271 form part of these accounts.

THE BANK OF EAST ASIA, LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2009

	Notes	2009 HK\$ Mn	2008 HK\$ Mn
OPERATING ACTIVITIES			
Profit for the year before taxation		3,496	8
Adjustments for:			
Charge for impairment losses on loans and advances	11	1,105	558
Charge for impairment allowances on held-to-maturity investments, available-for-sale financial assets and associates		23	396
Share of profits less losses of associates		(264)	(53)
Net loss/(profit) on sale of held-to-maturity investments		12	(25)
Net profit on sale of available-for-sale financial assets		(102)	(197)
Net loss on sale of subsidiaries, associates and equities		-	8
Net profit on sale of fixed assets		(16)	(178)
Interest expense on loan capital, certificates of deposit and bonds issued		641	1,014
Depreciation on fixed assets	10,31	512	437
Charge for/(Write back of) impairment loss on bank premises		13	(6)
Dividend income from available-for-sale financial assets		(46)	(50)
Amortisation of intangible assets	10	13	3
Amortisation of premium/discount on certificates of deposit and loan capital issued		68	78
Revaluation losses/(gains) on certificates of deposit and loan capital issued		1,236	(2,624)
Valuation (gains)/losses on investment properties	31	(206)	168
Equity-settled share-based payment expenses		71	66
OPERATING PROFIT/(LOSS) BEFORE CHANGES IN WORKING CAPITAL		6,556	(397)
(Increase)/decrease in operating assets:			
Cash and balances with banks with original maturity beyond three months		(2,405)	(4,397)
Placements with banks and other financial institutions with original maturity beyond three months		(3,875)	(18,823)
Trade bills		(683)	(352)
Trading assets		(2,617)	1,410
Financial assets designated at fair value through profit or loss		(6,262)	4,525
Advances to customers		(18,095)	(12,366)
Advances to banks and other financial institutions		172	1,158
Held-to-maturity debt securities		(2,056)	5,863
Available-for-sale financial assets		(11,489)	(6,000)
Other accounts and accrued interest		(1,219)	(1,323)
Increase/(decrease) in operating liabilities:			
Deposits and balances of banks and other financial institutions		(15,159)	(12,015)
Deposits from customers		18,726	39,616
Trading liabilities		(1,391)	474
Other accounts and provisions		6,328	1,273
Exchange adjustments		(114)	362
NET CASH OUTFLOW FROM OPERATIONS		(33,583)	(992)
Income tax paid			
Hong Kong profits tax paid		(53)	(143)
Overseas profits tax paid		(527)	(383)
NET CASH USED IN OPERATING ACTIVITIES		(34,163)	(1,518)

THE BANK OF EAST ASIA, LIMITED
CONSOLIDATED CASH FLOW STATEMENT (Continued)
FOR THE YEAR ENDED 31ST DECEMBER, 2009

	Notes	2009 HK\$ Mn	2008 HK\$ Mn
INVESTING ACTIVITIES			
Dividends received from associates		190	163
Dividends received from available-for-sale equity securities		46	50
Purchase of equity securities		(851)	(444)
Proceeds from sale of equity securities		483	512
Purchase of intangible assets		(1,380)	(6)
Purchase of fixed assets	31	(2,561)	(2,557)
Purchase of investment properties		-	(291)
Proceeds from disposal of fixed assets		50	213
Disposal/(Purchase) of shareholding in associates		36	(18)
Proceeds from disposal of associates		-	51
Purchase of subsidiaries	43(a)	(43)	(21)
Proceeds from sale of interest in a subsidiary	43(b)	1	-
Sale of interests in business to minority interest investors		132	-
Purchase of interests in business from minority interest investors		(10)	(64)
NET CASH USED IN INVESTING ACTIVITIES		(3,907)	(2,412)
FINANCING ACTIVITIES			
Ordinary dividends paid		(427)	(1,750)
Distribution to Hybrid Tier 1 issue holders		(51)	-
Issue of ordinary share capital	37,38(a)	41	100
Issue of Hybrid Tier 1 note		3,877	-
Subscription for new shares		-	3,942
Issue of certificates of deposit		594	4,656
Issue of debt securities		4,334	-
Redemption of certificates of deposit issued		(3,260)	(11,434)
Interest paid on loan capital		(535)	(708)
Interest paid on certificates of deposit issued		(79)	(488)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		4,494	(5,682)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(33,576)	(9,612)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	43(c)	94,106	103,718
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	43(c)	60,530	94,106
Cash flows from operating activities included:			
Interest received		12,671	17,514
Interest paid		6,238	10,305
Dividend received		78	93

The notes on pages F-170 to F-271 form part of these accounts.

THE BANK OF EAST ASIA, LIMITED
NOTES ON THE ACCOUNTS

1. Principal Activities

The Bank and its subsidiaries (the “Group”) are engaged in the provision of banking and related financial services, and business, corporate and investor services.

2. Significant Accounting Policies

(a) Statement of Compliance

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. Note 3 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts.

(b) Basis of Preparation of the Accounts

The accounts for the year ended 31st December, 2009 comprise the Group and the Group’s interest in associates.

The measurement basis used in the preparation of the accounts is historical cost except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (Note 2(f)(ii)); and
- investment properties (Note 2(h)(ii)).

The preparation of accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Details of judgements made by management in the application of HKFRSs that have significant effect on the accounts and major sources of estimation uncertainty are discussed in Note 49.

(c) Basis of Consolidation

(i) Subsidiaries and minority interests

The consolidated accounts include the accounts of the Bank and all its subsidiaries made up to 31st December each year. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of these interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. They are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to equity holders of the Group. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the net profit and total comprehensive income for the year between minority interests and equity holders of the Group.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost less any impairment losses (Note 2(k)).

(ii) Associates

An associate is a company in which the Group or the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (Note 2(j) and 2(k)). The Group's share of the post-acquisition, post-tax results of the associates and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the associate's other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associates, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except when unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

The Bank accounts for the results of associates to the extent of dividends received. Investments in associates are stated at cost less any impairment losses (Note 2(k)).

(d) Translation of Foreign Currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the income statement. Differences arising on translation of available-for-sale equity instruments are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1st January, 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1st January, 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(e) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows.

Interest income for all interest-bearing financial instruments, except those classified as held for trading or designated at fair value through profit or loss, is recognised as interest income in the income statement on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase in the present value of impaired loans due to the passage of time is reported as interest income.

Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with dividend income attributable to those financial instruments.

Fee and commission income is recognised in the income statement when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as revenue on a straight-line basis over the commitment period.

Finance income implicit in finance leases is recognised as interest income over the period of the lease so as to produce an approximately constant periodic rate of return of the outstanding net investment in the leases for each accounting period.

Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(f) Financial Instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(ii) Categorisation

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Non-hedging derivatives are accounted for as trading instruments.

Financial instruments are designated at fair value through profit or loss upon initial recognition when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is not prohibited.

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sales proceeds or the net payment and the carrying value is included in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise placements with banks and other financial institutions, trade bills and loans and advances to customers.

Securities classified as loans and receivables typically comprise securities issued by the same customers with whom the Group has a lending relationship in its wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally the yield and maturity terms are generally directly negotiated by the Group with the issuer. These securities include commercial paper, short term debentures and preference shares issued by the borrower.

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (Note 2(k)).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity, other than (a) those that the Group, upon initial recognition, designates as at fair value through profit or loss or available-for-sale; and (b) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment losses, if any (Note 2(k)).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the income statement.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (Note 2(k)).

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to the income statement.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

(iv) Derecognition

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

The Group uses the weighted average method to determine realised gains and losses to be recognised in the income statement on derecognition.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

When the embedded derivative is separated, the host contract is accounted for in accordance with note (ii) above.

(g) Hedging

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction and the hedge is effective, the gain or loss on the derivative financial instrument in relation to the hedged risk is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve.

(ii) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of an existing asset or liability that will give rise to a gain or loss being recognised in the income statement.

The hedging instrument is measured at fair value, with fair value changes recognised in the income statement. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of hedging instrument attributable to the risk being hedged. This adjustment is recognised in the income statement to offset the effect of the gain or loss on the hedging instrument.

The Group currently does not use hedge accounting.

(h) Properties

(i) Bank premises are stated in the statement of financial position at cost or at Directors' valuation, by reference to an independent professional valuation, less accumulated depreciation and accumulated impairment loss (Note 2(k)).

When a deficit arises on revaluation, it will be charged to the income statement, to the extent that it exceeds the amount held in the bank premises revaluation reserve in respect of that same asset immediately prior to the revaluation; and when a surplus arises on revaluation, it will be credited to the income statement, to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

In preparing these accounts, advantage has been taken of the transitional provisions set out in paragraph 80A of HKAS 16 "Property, Plant and Equipment" issued by the HKICPA, with the effect that bank premises have not been revalued to fair value at the balance sheet date.

(ii) Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. Investment properties are valued annually by external independent valuation companies, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. No allowance has been made in the valuations for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in Note 2(e).

When a bank property is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the bank property immediately prior to transfer and its fair value is recognised as a revaluation of bank premises as described in Note 2(h)(i).

If an investment property becomes owner-occupied, it is reclassified as bank premises and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

A property interest under an operating lease is classified and accounted for as an investment property when the Group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in Note 2(l).

(iii) Profit or loss on disposal of bank premises and investment properties is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the income statement upon disposal. Any surplus that is included in the bank premises revaluation reserve of the related bank premises disposed is transferred to the general reserve.

(i) Amortisation and Depreciation

(i) Bank premises

Freehold land is not amortised. Leasehold land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease. Leasehold land is amortised on a straight line basis over the remaining term of the lease. Buildings are depreciated on a straight line basis at rates calculated to write off the cost or valuation of each building over its estimated useful life of 50 years or the remaining lease period of the land on which it is situated, whichever is the shorter.

Investment properties are not depreciated.

(ii) Other fixed assets

Other fixed assets are stated in the statement of financial position at cost less accumulated depreciation, which is calculated on a straight line basis to write off the assets over their estimated useful lives from 4 to 20 years.

(j) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (Note 2(k)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associates and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (Note 2(k)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in the income statement.

On disposal of a cash generating unit, or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit and loss on disposal.

(k) Impairment of Assets

At each balance sheet date, the carrying amount of the Group's assets are reviewed to determine whether there is objective evidence of impairment. If internal and external sources of information indicate such evidence exists, the carrying amount is reduced to the estimated recoverable amount and an impairment loss is recognised in the income statement.

(i) Loans and receivables

The impairment losses of loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for impairment losses consists of two components: individual impairment allowances, and collective impairment allowances.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgment, the Group believes that the impairment allowances on loans and advances to customers are reasonable and supportable.

All loans and receivables are reviewed and analysed periodically. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and will be charged or credited to the income statement. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

Where there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

(ii) Held-to-maturity investments

Impairment on held-to-maturity investments is considered at both an individual and collective level. The individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at asset's original effective interest rate, where the effect of discounting is material.

All significant assets found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(iii) Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in the fair value reserve is reclassified to the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material.

Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

(iv) Other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment (other than properties carried at revalued amounts);
- investments in subsidiaries and associates;
- goodwill; and
- intangible assets

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(v) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (Note 2(k)(i) to (iv)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not the income statement.

(l) Leased Assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets held under finance leases

The amounts due from lessees in respect of finance leases are recorded in the statement of financial position as advances to customers at the amounts of net investment which represent the total rentals receivable under finance leases less unearned income. Revenue arising from finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 2(e).

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the leased assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 2(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(k). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note 2(e).

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(m) Repossession of Assets

In the recovery of impaired loans and advances, the Group may take possession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Group's accounting policy set out in Note 2(k), impairment allowances for impaired loans and advances are maintained after taking into account the net realisable value of the collateral assets, usually resulting in a partial write-off of the loans and advances against impairment allowances. Repossessed assets are reported under other assets if it is highly probable that their carrying amount will be recovered through a sale transaction rather than through continuing use and the assets are available for sale in their present condition. Related loans and advances are then written off.

Repossessed assets are recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the income statement.

(n) Income Tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing deductible temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
 - in the case of current tax assets and liabilities, the Bank or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or

- different taxable entities, which in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Insurance Reserves and Provisions for Outstanding Claims

Insurance reserves, except those attributable to long term business, represent the proportion of retained premiums written in the year relating to the period of risk from 1st January in the following year to the subsequent date of expiry of policies which is carried forward as a provision for unearned premiums and calculated on a daily basis.

The insurance reserve for long term business is ascertained by actuarial valuation.

Full provision is made for the estimated cost of claims notified but not settled at the balance sheet date and for the estimated cost of claims incurred but not reported by that date, after deducting the amounts due from reinsurers. Provision has also been made for the estimated cost of servicing claims notified but not settled at the balance sheet date and to meet expenses on claims incurred but not reported at the balance sheet date.

These reserves and provisions are classified as other accounts and provisions.

(p) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Employee Benefits

(i) Salaries, bonuses and leave benefits

Employee entitlements to salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are recognised when the absences occur.

(ii) Performance-related bonus plan

Liabilities for performance-related bonus plan, which are due wholly within twelve months after the balance sheet date, are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Retirement benefits

Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under either the Mandatory Provident Fund Exempted ORSO Scheme (“MPFEOS”) or the Mandatory Provident Fund Scheme (“MPFS”). Both are defined contribution schemes. The employer’s monthly contributions to both schemes are at a maximum of 10% of each employee’s monthly salary.

The pension schemes covering all the Group's PRC and overseas employees are defined contribution schemes at various funding rates, and are in accordance with local practices and regulations.

The cost of all these schemes is charged to the income statement for the period concerned and the assets of all these schemes are held separately from those of the Group. Under the MPFEOS, the employer's contribution is not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Under the MPFS, the employer's contribution is reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(iv) Share based payments

The option exercise price is equal to the higher of:

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

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

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

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

(r) Related Parties

For the purposes of these accounts, a party is considered to be related to the Group if:

- (i) The party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) The Group and the party are subject to common control;
- (iii) The party is an associate of the Group;
- (iv) The party is a member of key management personnel of the Group, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) The party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

- (vi) The party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(s) Segment Reporting

Operating segments, and the amounts of each segment item reported in the accounts, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(t) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash, balances with banks and other financial institutions, treasury bills, other eligible bills and certificates of deposit that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3. Changes in Accounting Policies

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

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to HKFRS 2, *Share-based payment – vesting conditions and cancellations*
- HK(IFRIC) 13, *Customer loyalty programmes*

The amendments to HKFRS 2 has had no material impact on the Group's accounts as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see Note 19). Corresponding amounts have been provided on a basis consistent with the revised segment information.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
- As a result of the adoption of the amendments to HKFRS 7, the accounts include expanded disclosures in Note 41 about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.
- The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. The impact of these amendments are not considered to be material to the Group, except for the following, which result in changes to the Group's accounting policies:
 - As a result of amendments to HKAS 28, *Investments in associates*, impairment losses recognised in respect of the associates carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.
 - The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1st January, 2009, all dividends receivable from subsidiaries and associates, whether out of pre- or post-acquisitions profits, will be recognised in the Bank's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Bank would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.
 - HK(IFRIC) 13 addresses how reporting entities that grant their customers loyalty award credits when buying goods or services should account for their obligation to provide free or discounted goods and services, if and when the customers redeem these credits. HK(IFRIC) 13 requires reporting entities to allocate some of the proceeds of the initial sales to the award credits and recognise these proceeds as revenue when they have fulfilled their obligations to provide goods or services. The effect of the adoption of HK(IFRIC) 13 was not considered to be material for the Group and therefore, the prior year figures have not been restated.

4. Interest Income

	2009 HK\$ Mn	2008 HK\$ Mn
Listed securities classified as held-to-maturity or available-for-sale	264	261
Trading assets		
- listed	13	2
- unlisted	28	8
Interest rate swaps	959	917
Financial assets designated at fair value through profit or loss		
- listed	206	128
- unlisted	81	310
Loans, deposits with banks and financial institutions, trade bills, and other unlisted securities that are not at fair value through profit or loss	10,570	15,839
Total interest income	<u>12,121</u>	<u>17,465</u>

Included above is interest income accrued on impaired financial assets of HK\$79 million (2008: HK\$73 million) which includes interest income on effect of discounting of HK\$40 million (2008: HK\$12 million) (Note 25(b)) for the year ended 31st December, 2009.

5. Interest Expense

	2009 HK\$ Mn	2008 HK\$ Mn
Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost	3,650	8,696
Debt securities issued	61	-
Subordinated notes carried at amortised cost	68	184
Interest rate swaps	1,015	1,062
Financial instruments designated at fair value through profit or loss	566	725
Other borrowings	14	5
Total interest expense	<u>5,374</u>	<u>10,672</u>

6. Fee and Commission Income

Fee and commission income arises from the following services:

	2009 HK\$ Mn	2008 HK\$ Mn
Corporate services	806	818
Credit cards	554	462
Loans, overdrafts and guarantees	444	382
Securities and brokerage	320	255
Other retail banking services	193	187
Trade finance	141	160
Trust and other fiduciary activities	79	102
Others	262	252
Total fee and commission income	<u>2,799</u>	<u>2,618</u>

of which:

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

	2,214	2,134
Fee income	<u>2,680</u>	<u>2,528</u>
Fee expenses	<u>(466)</u>	<u>(394)</u>

7. Net Trading Profits/(Losses)

	2009 HK\$ Mn	2008 HK\$ Mn
Profit on dealing in foreign currencies	140	316
Profit/(Loss) on trading securities	616	(618)
Net gain/(loss) on derivatives	153	(1,032)
Loss on other dealing activities	-	(1)
Dividend income from listed trading securities	32	43
Total net trading profits/(losses)	<u>941</u>	<u>(1,292)</u>

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

	2009 HK\$ Mn	2008 HK\$ Mn
Revaluation and disposal loss on Collateralised Debt Obligations	-	(3,549)
Revaluation (loss)/gain on debts issued	(1,236)	2,624
Net (loss)/profit on sale of other financial assets designated at fair value through profit or loss	(42)	3
Revaluation gain/(loss) on other financial assets designated at fair value through profit or loss	<u>1,011</u>	<u>(690)</u>
Total net result from financial instruments designated at fair value through profit or loss	<u>(267)</u>	<u>(1,612)</u>

9. Other Operating Income

	2009 HK\$ Mn	2008 HK\$ Mn
Dividend income from available-for-sale financial assets		
- listed	21	20
- unlisted	25	30
Rental from safe deposit boxes	82	87
Net revenue from insurance activities	180	99
Rental income on properties	92	90
Others	105	97
Total other operating income	<u>505</u>	<u>423</u>

10. Operating Expenses

	2009 HK\$ Mn	2008 HK\$ Mn
Contributions to defined contribution plan*	193	225
Equity-settled share-based payment expenses	71	66
Salaries and other staff costs	<u>2,905</u>	<u>2,689</u>
Total staff costs	<u>3,169</u>	<u>2,980</u>
Premises and equipment expenses excluding depreciation		
- Rental of premises	458	378
- Maintenance, repairs and others	<u>447</u>	<u>445</u>
Total premises and equipment expenses excluding depreciation	<u>905</u>	<u>823</u>
Depreciation on fixed assets (Note 31)	<u>512</u>	<u>437</u>
Amortisation of intangible assets (Note 30(b))	<u>13</u>	<u>3</u>
Other operating expenses		
- Stamp duty, overseas and PRC** business taxes, and value added taxes	304	373
- Communications, stationery and printing	272	274
- Legal and professional fees	190	193
- Advertising expenses	179	287
- Business promotions and business travel	114	97
- Card related expenses	91	72
- Insurance expenses	46	43
- Donations	13	9
- Audit fee	9	8
- Administration expenses of corporate services	8	7
- Membership fees	8	7
- Bank charges	6	7
- Bank licence	4	4
- Others	<u>286</u>	<u>155</u>
Total other operating expenses	<u>1,530</u>	<u>1,536</u>
Total operating expenses***	<u>6,129</u>	<u>5,779</u>

* Forfeited contributions totalling HK\$4 million (2008: HK\$10 million) were utilised to reduce the Group's contribution during the year. There were no forfeited contributions available for reducing future contributions at the year end (2008: Nil).

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

*** Included in operating expenses are direct operating expenses of HK\$37 million (2008: \$19 million) in respect of investment properties which generated rental income during the year.

11. Impairment Losses on Loans and Advances

	2009 HK\$ Mn	2008 HK\$ Mn
Net charge for impairment losses on loans and advances		
Individual impairment loss		
- new provisions (Note 25(b))	827	596
- releases (Note 25(b))	(75)	(81)
- recoveries (Note 25(b))	(66)	(140)
	<u>686</u>	<u>375</u>
Collective impairment loss		
- new provisions (Note 25(b))	419	183
- releases (Note 25(b))	-	-
Net charge to income statement	<u>1,105</u>	<u>558</u>

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

	2009 HK\$ Mn	2008 HK\$ Mn
Net revaluation gain transferred from reserves (Note 38(h))	29	115
Profit arising in current year	73	82
	<u>102</u>	<u>197</u>

13. Income Tax

(a) Taxation in the consolidated income statement represents:

	2009 HK\$ Mn	2008 HK\$ Mn
Current tax - provision for Hong Kong profits tax (Note 33(a))	<u>73</u>	<u>64</u>
Current tax – overseas		
Tax for the year	479	601
Write back of over-provision in respect of prior years	(25)	(35)
	<u>454</u>	<u>566</u>
Deferred tax (Note 33(b))		
Origination and reversal of temporary differences	297	(712)
Movements in the value of investment properties	34	(14)
	<u>331</u>	<u>(726)</u>
	<u>858</u>	<u>(96)</u>

The provision for Hong Kong profits tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the year.

Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

13. Income Tax (continued)

(b) Reconciliation between tax expense/(credit) and accounting profit at applicable tax rates:

	2009 HK\$ Mn	2008 HK\$ Mn
Profit before tax	<u>3,496</u>	<u>8</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	661	149
Tax effect of non-deductible expenses	339	389
Tax effect of non-taxable revenue	(115)	(607)
Tax effect of tax losses not recognised	10	32
Recognition of deferred tax assets on prior year tax losses	(14)	(14)
Effect on opening deferred tax balances resulting from a decrease in tax rate during the year	-	(22)
Write back of over-provision in respect of prior years	(25)	(35)
Tax benefits derived from leasing partnerships	(12)	(6)
Others	14	18
Actual tax expense/(credit)	<u>858</u>	<u>(96)</u>

14. Profit/(Loss) Attributable to Owners of the Parent

The consolidated profit/(loss) attributable to owners of the parent includes a profit/(loss) of HK\$995 million (2008: (HK\$882) million) which has been dealt with in the accounts of the Bank.

Reconciliation of the above amount to the Bank's profit/(loss) for the year

	2009 HK\$ Mn	2008 HK\$ Mn
Amount of consolidated profit/(loss) attributable to equity holders dealt with in the Bank's accounts	974	(924)
Final dividends from subsidiaries and associates attributable to the profits of the previous financial year and general reserves, approved and paid during the year	<u>21</u>	<u>42</u>
Bank's profit/(loss) for the year	<u>995</u>	<u>(882)</u>

15. Dividends

(a) Dividends attributable to the year

	2009 HK\$ Mn	2008 HK\$ Mn
Interim dividend declared and paid of HK\$0.28 per share on 1,842 million shares (2008: HK\$0.23 per share on 1,671 million shares, or HK\$0.21 per share on 1,838 million shares after adjusting for the bonus issue in 2009) (Note 38(j))	516	384
Final dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the balance sheet date and before the close of the Register of Members of the Bank, of HK\$0.02 per share (2008: HK\$1.18 per share or HK\$1.07 per share after adjusting for the bonus issue in 2009)	-	98
Final dividend proposed after the balance sheet date of HK\$0.48 per share on 2,016 million shares (2008: HK\$0.02 per share on 1,673 million shares or HK\$0.02 per share on 1,841 million shares after adjusting for the bonus issue in 2009)	<u>968</u>	<u>33</u>
	<u>1,484</u>	<u>515</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

15. Dividends (continued)

- (b) Dividends attributable to the previous financial year, approved and paid during the year

	2009 HK\$ Mn	2008 HK\$ Mn
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.02 per share on 1,673 million shares or HK\$0.02 per share on 1,841 million shares after adjusting for the bonus issue in 2009 (2008: HK\$1.18 per share on 1,574 million shares or HK\$1.07 per share on 1,732 million shares after adjusting for the bonus issue in 2009)	<u>33</u>	<u>1,858</u>

- (c) Distribution to holders of Hybrid Tier 1 capital instruments

	2009 HK\$ Mn	2008 HK\$ Mn
Interest payable on the Hybrid Tier 1 capital instruments, the details of which are disclosed in Note 35	<u>51</u>	<u>-</u>

16. Earnings Per Share

- (a) Basic earnings per share

The calculation of basic earnings per share is based on earnings of HK\$2,514 million (2008: HK\$39 million) after the distribution of HK\$51 million (2008: Nil) to Hybrid Tier 1 issue holders and on the weighted average of 1,843 million (2008: 1,833 million after adjusting for the bonus issue in 2009) ordinary shares outstanding during the year, calculated as follows:

Weighted average number of ordinary shares

	2009 Number of shares million	2008 Number of shares million
Issued ordinary shares at 1 st January	1,841	1,732
Effect of share options exercised and shares issued in lieu of dividends	<u>2</u>	<u>101</u>
Weighted average number of ordinary shares at 31 st December	<u>1,843</u>	<u>1,833</u>

- (b) Diluted earnings per share

The calculation of diluted earnings per share is based on earnings of HK\$2,514 million (2008: HK\$39 million) after the distribution of HK\$51 million (2008: Nil) to Hybrid Tier 1 issue holders and on 1,844 million (2008: 1,837 million after adjusting for the bonus issue in 2009) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

Weighted average number of ordinary shares (diluted)

	2009 Number of shares million	2008 Number of shares million
Weighted average number of ordinary shares at 31 st December	1,843	1,833
Effect of deemed issue of ordinary shares under the Bank's share option scheme for nil consideration	<u>1</u>	<u>4</u>
Weighted average number of ordinary shares (diluted) at 31 st December	<u>1,844</u>	<u>1,837</u>

17. Directors' Remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees HK\$ Mn	Salaries, allowances and benefits in kind HK\$ Mn	Discretionary bonuses HK\$ Mn	Share options HK\$ Mn	Retirement scheme contributions HK\$ Mn	2009 Total HK\$ Mn
Chairman and Chief Executive						
Dr. The Hon. Sir David LI Kwok-po	0.3	8.4	25.4	23.0	0.5	57.6
Executive Director						
Mr. Joseph PANG Yuk-wing *	-	1.0	-	4.5	-	5.5
Non-executive Directors						
Prof. Arthur LI Kwok-cheung	0.2	-	-	-	-	0.2
Mr. Aubrey LI Kwok-sing	0.3	-	-	-	-	0.3
Dr. William MONG Man-wai	0.2	-	-	-	-	0.2
Tan Sri Dr. KHOO Kay-peng	0.2	-	-	-	-	0.2
Mr. Richard LI Tzar-kai	0.2	-	-	-	-	0.2
Mr. Eric LI Fook-chuen	0.3	-	-	-	-	0.3
Mr. Stephen Charles LI Kwok-sze	0.2	-	-	-	-	0.2
Dr. Isidro FAINÉ CASAS	0.1	-	-	-	-	0.1
Independent Non-executive Directors						
Dr. Allan WONG Chi-yun	0.3	-	-	-	-	0.3
Mr. WONG Chung-hin	0.3	-	-	-	-	0.3
Dr. LEE Shau-kee	0.2	-	-	-	-	0.2
Mr. Winston LO Yau-lai	0.3	-	-	-	-	0.3
Mr. Thomas KWOK Ping-kwong	0.2	-	-	-	-	0.2
Mr. Kenneth LO Chin-ming	0.3	-	-	-	-	0.3
Mr. William DOO Wai-hoi	0.3	-	-	-	-	0.3
Mr. KUOK Khoon-ean	0.3	-	-	-	-	0.3
Mr. Valiant CHEUNG Kin-piu	0.3	-	-	-	-	0.3
	<u>4.5</u>	<u>9.4</u>	<u>25.4</u>	<u>27.5</u>	<u>0.5</u>	<u>67.3</u>

*The remuneration of Mr. Joseph Pang Yuk-wing is only for his service being an Executive Director from 1st January, 2009 to 15th April, 2009 (including the fair value of share option).

17. Directors' Remuneration (continued)

	Directors' fees HK\$ Mn	Salaries, allowances and benefits in kind HK\$ Mn	Discretionary bonuses HK\$ Mn	Share options HK\$ Mn	Retirement scheme contributions HK\$ Mn	2008 Total HK\$ Mn
Chairman and Chief Executive						
Dr. The Hon. Sir David LI Kwok-po	0.3	8.3	-	24.1	0.8	33.5
Executive Directors						
Mr. Joseph PANG Yuk-wing	0.2	3.6	-	12.0	0.3	16.1
Non-executive Directors						
Dr. LI Fook-wo	-	-	-	-	-	-
Mr. Aubrey LI Kwok-sing	0.3	-	-	-	-	0.3
Dr. William MONG Man-wai	0.2	-	-	-	-	0.2
Tan Sri Dr. KHOO Kay-peng	0.2	-	-	-	-	0.2
Mr. Richard LI Tzar-kai	0.2	-	-	-	-	0.2
Mr. Eric LI Fook-chuen	0.3	-	-	-	-	0.3
Mr. Stephen Charles LI Kwok-sze	0.2	-	-	-	-	0.2
Prof. Arthur LI Kwok-cheung	0.2	-	-	-	-	0.2
Independent Non-executive Directors						
Mr. WONG Chung-hin	0.3	-	-	-	-	0.3
Dr. LEE Shau-kee	0.2	-	-	-	-	0.2
Dr. Allan WONG Chi-yun	0.3	-	-	-	-	0.3
Mr. Winston LO Yau-lai	0.3	-	-	-	-	0.3
Mr. Thomas KWOK Ping-kwong	0.3	-	-	-	-	0.3
Mr. TAN Man-kou	0.2	-	-	-	-	0.2
Mr. Kenneth LO Chin-ming	0.3	-	-	-	-	0.3
Mr. William Doo Wai-hoi	0.3	-	-	-	-	0.3
Mr. Kuok Khoon-ean	0.3	-	-	-	-	0.3
Mr. Valiant CHEUNG Kin-piu	-	-	-	-	-	-
	<u>4.6</u>	<u>11.9</u>	<u>-</u>	<u>36.1</u>	<u>1.1</u>	<u>53.7</u>

Included in the above remuneration were share options granted to Executive Directors under the Bank's Staff Share Option Schemes. The details of these benefits in kind are disclosed under the paragraph "Information on Share Options" in the Report of the Directors and Note 36.

18. Five Top-paid Employees

	2009 HK\$ Mn	2008 HK\$ Mn
Salaries and other emoluments	20	21
Performance-related bonuses	39	3
Share options	50	52
Pension contributions	<u>1</u>	<u>2</u>
	<u>110</u>	<u>78</u>

The remuneration of the five top-paid employees is within the following bands:

HK\$	2009 Number of employees	2008 Number of employees
8,500,001 - 9,000,000	-	2
10,500,001 - 11,000,000	-	1
12,000,001 - 12,500,000	2	-
13,500,001 - 14,000,000	2	-
16,000,001 - 16,500,000	-	1
33,500,001 - 34,000,000	-	1
57,500,001 - 58,000,000	1	-

Included in the emoluments of the five top-paid employees were the emoluments of 1 (2008: 2) Director. Their respective directors' emoluments have been included in Note 17 above.

19. Segment Reporting

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

(a) Business segments

The Group has identified the following seven reportable segments.

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

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

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

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

China operations include all branches and subsidiaries in China, except those subsidiaries carrying out corporate services and associates operated in China.

Overseas operations include overseas branches and subsidiaries, except those subsidiaries carrying out corporate services and associates operated in overseas.

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

19. Segment Reporting (continued)

(a) Business segments (continued)

Other businesses include insurance business, property-related business, supporting units of Hong Kong operation, investment properties, bank premises, the net results of associates and other subsidiaries in Hong Kong.

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

Segment assets include all tangible except for properties, intangible assets and financial assets with the exception of interests in associates, deferred tax assets and other corporate assets. Segment liabilities include deposits, financial liabilities and other liabilities attributable to the banking activities of 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.

19. Segment Reporting (continued)

	2009							Total reportable segments HK\$ Mn	Others HK\$ Mn	Inter-segment elimination HK\$ Mn	Total HK\$ Mn
	Hong Kong banking operations										
	Personal banking HK\$ Mn	Corporate banking HK\$ Mn	Treasury markets HK\$ Mn	Wealth management HK\$ Mn	China operations HK\$ Mn	Overseas operations HK\$ Mn	Corporate services HK\$ Mn				
Net interest income/(expense)	1,972	763	377	147	2,974	731	1	6,965	(337)	119	6,747
Non-interest income/(expense)	463	647	(247)	195	498	346	816	2,718	1,573	(850)	3,441
Operating income	2,435	1,410	130	342	3,472	1,077	817	9,683	1,236	(731)	10,188
Operating expenses	(1,341)	(114)	(129)	(107)	(1,997)	(514)	(512)	(4,714)	(1,877)	462	(6,129)
Operating profit/(loss) before impairment losses	1,094	1,296	1	235	1,475	563	305	4,969	(641)	(269)	4,059
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(70)	(46)	(3)	(12)	21	(977)	(6)	(1,093)	(12)	-	(1,105)
Impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	(9)	-	-	-	-	(9)	(14)	-	(23)
Impairment losses on bank premises	-	-	-	-	-	-	-	-	(13)	-	(13)
Operating profit/(loss) after impairment losses	1,024	1,250	(11)	223	1,496	(414)	299	3,867	(680)	(269)	2,918
Profit/(Loss) on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments, loans and receivables and subsidiaries/associates	(3)	-	16	-	22	1	-	36	73	(1)	108
Valuation gains/(losses) on investment properties	-	-	-	-	7	(3)	-	4	235	(33)	206
Share of profits less losses of associates	-	-	-	-	-	-	-	-	264	-	264
Profit/(Loss) before taxation	1,021	1,250	5	223	1,525	(416)	299	3,907	(108)	(303)	3,496
Depreciation for the year	(70)	(1)	(3)	(2)	(189)	(29)	(17)	(311)	(198)	(3)	(512)
Segment assets	44,005	66,998	132,107	7,359	154,030	50,764	4,144	459,407	19,395	(47,335)	431,467
Investments in associates	-	-	-	-	-	-	-	-	2,615	-	2,615
Total assets	44,005	66,998	132,107	7,359	154,030	50,764	4,144	459,407	22,010	(47,335)	434,082
Total liabilities	208,366	582	24,824	14,719	138,531	40,873	1,645	429,540	6,821	(41,802)	394,559
Capital expenditure incurred during the year	54	-	4	1	3,182	624	32	3,897	66	-	3,963

19. Segment Reporting (continued)

	2008 (restated)							Total reportable segments HK\$ Mn	Others HK\$ Mn	Inter-segment elimination HK\$ Mn	Total HK\$ Mn
	Hong Kong banking operations										
	Personal banking HK\$ Mn	Corporate banking HK\$ Mn	Treasury markets HK\$ Mn	Wealth management HK\$ Mn	China operations HK\$ Mn	Overseas operations HK\$ Mn	Corporate services HK\$ Mn				
Net interest income/(expense)	1,404	571	1,200	15	2,967	722	-	6,879	(154)	68	6,793
Non-interest income/(expense)	539	(487)	(2,206)	237	410	(49)	816	(740)	1,131	(727)	(336)
Operating income/(expense)	1,943	84	(1,006)	252	3,377	673	816	6,139	977	(659)	6,457
Operating expenses	(1,306)	(114)	(74)	(92)	(1,824)	(528)	(504)	(4,442)	(1,756)	419	(5,779)
Operating profit/(loss) before impairment losses	637	(30)	(1,080)	160	1,553	145	312	1,697	(779)	(240)	678
(Charge for)/Write back of impairment losses on loans and advances and other accounts	(74)	(110)	-	(48)	(98)	(211)	(10)	(551)	(13)	6	(558)
Impairment losses on available-for-sale financial assets and held-to-maturity investments	-	-	(264)	-	-	-	-	(264)	(132)	-	(396)
Write back of impairment losses on bank premises	-	-	-	-	-	-	-	-	6	-	6
Operating profit/(loss) after impairment losses	563	(140)	(1,344)	112	1,455	(66)	302	882	(918)	(234)	(270)
Profit/(Loss) on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments, loans and receivables and subsidiaries/ associates	-	-	206	-	(1)	181	(1)	385	4	4	393
Valuation gains/ (losses) on investment properties	-	-	-	-	(1)	(20)	-	(21)	(181)	34	(168)
Share of profits less losses of associates	-	-	-	-	-	-	-	-	53	-	53
Profit/(Loss) before taxation	563	(140)	(1,138)	112	1,453	95	301	1,246	(1,042)	(196)	8
Depreciation for the year	(64)	(3)	(2)	(3)	(128)	(26)	(17)	(243)	(191)	(3)	(437)
Segment assets	40,869	60,239	143,582	5,656	139,736	40,215	4,056	434,353	18,583	(40,168)	412,768
Investments in associates	-	-	-	-	-	-	-	-	2,486	-	2,486
Total assets	40,869	60,239	143,582	5,656	139,736	40,215	4,056	434,353	21,069	(40,168)	415,254
Total liabilities	213,785	561	21,014	14,723	128,728	35,552	1,653	416,016	5,355	(38,602)	382,769
Capital expenditure incurred during the year	126	-	7	5	2,028	47	72	2,285	330	-	2,615

19. Segment Reporting (continued)

(b) Geographical segments

The information concerning geographical analysis has been classified by the location of the principal operations of the subsidiaries, or in the case of the Bank itself, by the location of the branches of the Bank responsible for reporting the results or booking the assets.

	2009					
	Hong Kong HK\$ Mn	People's Republic of China HK\$ Mn	Other Asian Countries HK\$ Mn	Others HK\$ Mn	Inter- segment elimination HK\$ Mn	Consolidated HK\$ Mn
The Group						
Operating income	6,461	3,527	585	883	(1,268)	10,188
Profit/(Loss) before taxation	1,931	1,598	163	(196)	-	3,496
Total assets	287,184	155,920	19,369	34,708	(63,099)	434,082
Total liabilities	255,572	138,697	16,210	26,904	(42,824)	394,559
Contingent liabilities and commitments	57,919	23,262	3,111	2,946	-	87,238
Capital expenditure during the year	157	3,182	618	6	-	3,963
	2008 (restated)					
	Hong Kong HK\$ Mn	People's Republic of China HK\$ Mn	Other Asian Countries HK\$ Mn	Others HK\$ Mn	Inter- segment elimination HK\$ Mn	Consolidated HK\$ Mn
The Group						
Operating income	2,962	3,447	525	492	(969)	6,457
Profit/(Loss) before taxation	(1,876)	1,484	381	19	-	8
Total assets	285,121	141,036	18,735	27,890	(57,528)	415,254
Total liabilities	255,902	129,147	15,778	24,329	(42,387)	382,769
Contingent liabilities and commitments	53,162	15,944	3,818	3,244	-	76,168
Capital expenditure during the year	541	2,027	8	39	-	2,615

20. Cash and Balances with Banks and Other Financial Institutions (Note 43(c))

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Cash in hand	1,101	1,083	706	698
Balances with central banks	15,813	17,911	736	167
Balances with banks and other financial institutions	12,798	9,111	11,085	3,987
	<u>29,712</u>	<u>28,105</u>	<u>12,527</u>	<u>4,852</u>

21. Placements with Banks and Other Financial Institutions

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Placements with banks and authorised institutions	67,638	96,458	61,894	92,735
Placements with other financial institutions	307	116	-	-
	<u>67,945</u>	<u>96,574</u>	<u>61,894</u>	<u>92,735</u>
Maturing				
- within one month	35,006	46,714	31,895	43,009
- between one month and one year	32,939	49,860	29,999	49,726
	<u>67,945</u>	<u>96,574</u>	<u>61,894</u>	<u>92,735</u>

22. Trade Bills

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Gross trade bills	<u>1,847</u>	<u>1,164</u>	<u>861</u>	<u>521</u>

23. Trading Assets

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	34	400	-	400
Debt securities	3,090	126	904	126
Equity securities	1,429	989	1,374	949
Investment funds	201	188	201	188
Trading securities	4,754	1,703	2,479	1,663
Positive fair values of derivatives (Note 42(b))	968	1,734	845	1,251
	<u>5,722</u>	<u>3,437</u>	<u>3,324</u>	<u>2,914</u>
Issued by:				
Central governments and central banks	1,857	400	-	400
Public sector entities	299	13	299	13
Banks and other financial institutions	1,093	443	716	433
Corporate entities	1,492	840	1,451	810
Other entities	13	7	13	7
	<u>4,754</u>	<u>1,703</u>	<u>2,479</u>	<u>1,663</u>
Analysed by place of listing:				
Listed in Hong Kong	1,484	825	1,428	785
Listed outside Hong Kong	574	294	574	294
	<u>2,058</u>	<u>1,119</u>	<u>2,002</u>	<u>1,079</u>
Unlisted	2,696	584	477	584
	<u>4,754</u>	<u>1,703</u>	<u>2,479</u>	<u>1,663</u>

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

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
Debt securities	10,043	4,130	10,035	4,114
Equity securities	349	-	349	-
	<u>10,392</u>	<u>4,130</u>	<u>10,384</u>	<u>4,114</u>
Issued by:				
Central governments and central banks	235	-	235	-
Public sector entities	177	142	177	142
Banks and other financial institutions	4,338	1,642	4,330	1,634
Corporate entities	5,642	2,346	5,642	2,338
	<u>10,392</u>	<u>4,130</u>	<u>10,384</u>	<u>4,114</u>
Analysed by place of listing:				
Listed in Hong Kong	2,946	1,325	2,946	1,325
Listed outside Hong Kong	4,003	1,178	3,995	1,161
	<u>6,949</u>	<u>2,503</u>	<u>6,941</u>	<u>2,486</u>
Unlisted	3,443	1,627	3,443	1,628
	<u>10,392</u>	<u>4,130</u>	<u>10,384</u>	<u>4,114</u>

25. Advances to Customers and Other Accounts

(a) Advances to customers and other accounts

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
(i) Advances to customers	247,654	230,339	143,374	131,123
Less: Impairment allowances				
- Individual	(534)	(523)	(499)	(438)
- Collective	(811)	(521)	(678)	(392)
	<u>246,309</u>	<u>229,295</u>	<u>142,197</u>	<u>130,293</u>
(ii) Other accounts				
Advances to banks and other financial institutions *	678	850	583	205
Notes and bonds	65	129	61	125
Certificates of deposit held	39	39	39	39
Accrued interest	1,313	1,863	951	1,119
Bankers acceptances	7,976	2,989	203	272
Other accounts	5,463	8,592	4,565	6,587
	<u>15,534</u>	<u>14,462</u>	<u>6,402</u>	<u>8,347</u>
Less: Impairment allowances				
- Individual	(31)	(23)	(3)	-
- Collective	(9)	(9)	-	-
	<u>15,494</u>	<u>14,430</u>	<u>6,399</u>	<u>8,347</u>
	<u>261,803</u>	<u>243,725</u>	<u>148,596</u>	<u>138,640</u>

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

Receivables from reverse repurchase agreements under which the Group obtains securities on terms which permit it to re-pledge or resell securities to others in the absence of default. At 31st December, 2009, the fair value of financial assets accepted as collateral that the Group is permitted to sell or re-pledge under such terms is Nil (2008: HK\$155 million).

25. Advances to Customers and Other Accounts (continued)

(b) Impairment allowances against advances and other accounts for 2009

	The Group					
	<u>Advances to customers</u>		<u>Other accounts</u>		<u>Total</u>	
	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn
At 1 st January	523	521	23	9	546	530
New provisions charged to income statement (Note 11)	813	420	14	(1)	827	419
Net provisions released back to income statement (Note 11)	(98)	-	(3)	-	(101)	-
Amounts written off	(743)	(138)	(4)	-	(747)	(138)
Recoveries (Note 11)	65	-	1	-	66	-
Additions through acquisition of subsidiaries	-	-	-	1	-	1
Effect of discounting (Note 4)	(40)	-	-	-	(40)	-
Exchange adjustments	14	8	-	-	14	8
At 31 st December	<u>534</u>	<u>811</u>	<u>31</u>	<u>9</u>	<u>565</u>	<u>820</u>

	The Bank					
	<u>Advances to customers</u>		<u>Other accounts</u>		<u>Total</u>	
	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn
At 1 st January	438	392	-	-	438	392
New provisions charged to income statement	752	407	3	-	755	407
Net provisions released back to income statement	(81)	-	-	-	(81)	-
Amounts written off	(641)	(128)	-	-	(641)	(128)
Recoveries	57	-	-	-	57	-
Effect of discounting	(38)	-	-	-	(38)	-
Exchange adjustments	12	7	-	-	12	7
At 31 st December	<u>499</u>	<u>678</u>	<u>3</u>	<u>-</u>	<u>502</u>	<u>678</u>

25. Advances to Customers and Other Accounts (continued)

(b) Impairment allowances against advances and other accounts for 2008

	The Group					
	Advances to customers		Other accounts		Total	
	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn
At 1 st January	264	433	25	6	289	439
New provisions charged to income statement (Note 11)	583	183	13	-	596	183
Net provisions released back to income statement (Note 11)	(204)	-	(5)	-	(209)	-
Amounts written off	(245)	(96)	(10)	-	(255)	(96)
Recoveries (Note 11)	140	-	-	-	140	-
Additions through acquisition of subsidiaries	-	-	-	3	-	3
Effect of discounting (Note 4)	(12)	-	-	-	(12)	-
Exchange adjustments	(3)	1	-	-	(3)	1
At 31 st December	<u>523</u>	<u>521</u>	<u>23</u>	<u>9</u>	<u>546</u>	<u>530</u>

	The Bank					
	Advances to customers		Other accounts		Total	
	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn	Individual HK\$ Mn	Collective HK\$ Mn
At 1 st January	79	332	-	-	79	332
New provisions charged to income statement	460	149	6	-	466	149
Net provisions released back to income statement	(153)	-	-	-	(153)	-
Amounts written off	(50)	(87)	(6)	-	(56)	(87)
Recoveries	115	-	-	-	115	-
Effect of discounting	(10)	-	-	-	(10)	-
Exchange adjustments	(3)	(2)	-	-	(3)	(2)
At 31 st December	<u>438</u>	<u>392</u>	<u>-</u>	<u>-</u>	<u>438</u>	<u>392</u>

25. Advances to Customers and Other Accounts (continued)

(c) Advances to customers - by industry sectors

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

	2009		2008	
	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%
The Group				
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	9,411	73.43	8,855	61.25
- Property investment	29,766	91.11	27,431	86.88
- Financial concerns	2,699	75.10	2,542	69.94
- Stockbrokers	1,190	50.35	550	99.75
- Wholesale and retail trade	3,265	68.46	2,405	64.60
- Manufacturing	2,177	57.94	2,055	52.54
- Transport and transport equipment	3,794	79.39	3,642	74.80
- Recreational activities	45	47.90	285	91.11
- Information technology	8	38.02	4	49.13
- Others	13,006	77.87	9,954	71.52
- Sub-total	<u>65,361</u>	81.57	<u>57,723</u>	76.78
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,529	100.00	1,318	100.00
- Loans for the purchase of other residential properties	25,220	99.87	24,297	99.74
- Credit card advances	2,675	0.00	2,997	0.00
- Others	8,839	68.17	6,553	74.35
- Sub-total	<u>38,263</u>	85.57	<u>35,165</u>	86.52
Total loans for use in Hong Kong	103,624	83.05	92,888	80.47
Trade finance	2,652	53.27	2,905	59.03
Loans for use outside Hong Kong *	<u>141,378</u>	75.75	<u>134,546</u>	76.56
Total advances to customers	<u>247,654</u>	78.56	<u>230,339</u>	77.91

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

	2009		2008	
	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%
Property development	14,156	72.70	14,351	78.64
Property investment	22,441	88.36	24,215	87.95
Wholesale and retail trade	18,574	95.28	19,021	88.93
Manufacturing	7,299	48.78	9,547	63.58
Others	41,180	69.34	31,906	69.99
	<u>103,650</u>	77.12	<u>99,040</u>	78.66

25. Advances to Customers and Other Accounts (continued)

(c) Advances to customers - by industry sectors (continued)

	2009		2008	
	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%
The Bank				
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	9,401	73.50	8,844	61.32
- Property investment	29,650	91.08	27,345	86.84
- Financial concerns	2,699	75.11	2,542	69.95
- Stockbrokers	1,190	50.35	550	99.75
- Wholesale and retail trade	3,220	68.02	2,353	63.82
- Manufacturing	2,157	57.55	2,055	52.54
- Transport and transport equipment	3,794	79.39	3,642	74.80
- Recreational activities	45	47.90	285	91.11
- Information technology	8	38.02	4	49.13
- Others	12,732	77.39	9,830	71.16
- Sub-total	<u>64,896</u>	81.46	<u>57,450</u>	76.69
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,529	100.00	1,318	100.00
- Loans for the purchase of other residential properties	25,180	99.87	24,273	99.75
- Credit card advances	2,675	0.00	2,997	0.00
- Others	8,046	67.44	6,147	74.92
- Sub-total	<u>37,430</u>	85.76	<u>34,735</u>	86.76
Total loans for use in Hong Kong	102,326	83.03	92,185	80.49
Trade finance	2,322	52.35	2,684	58.87
Loans for use outside Hong Kong *	<u>38,726</u>	56.01	<u>36,254</u>	57.35
Total advances to customers	<u>143,374</u>	75.24	<u>131,123</u>	73.65

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

	2009		2008	
	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%
Property development	3,075	12.30	2,310	0.00
Property investment	866	100.00	951	98.95
Wholesale and retail trade	111	9.88	12	99.97
Manufacturing	1,531	53.61	1,878	74.86
Others	3,271	3.48	2,733	8.17
	<u>8,854</u>	24.74	<u>7,884</u>	32.75

25. Advances to Customers and Other Accounts (continued)

(c) Advances to customers - by industry sectors (continued)

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:

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
(i) Property development				
a. Individually impaired loans	805	207	771	171
b. Individual impairment allowance	50	8	37	2
c. Collective impairment allowance	83	36	69	20
d. Provision charged to income statement				
- individual impairment loss	324	2	315	2
- collective impairment loss	59	12	54	7
e. Written off	272	84	271	-
(ii) Property investment				
a. Individually impaired loans	334	145	168	6
b. Individual impairment allowance	25	29	11	-
c. Collective impairment allowance	193	96	138	62
d. Provision charged to income statement				
- individual impairment loss	56	29	35	-
- collective impairment loss	111	24	78	16
e. Written off	52	-	22	-
(iii) Loans for purchase of residential properties				
a. Individually impaired loans	137	117	127	108
b. Individual impairment allowance	-	2	-	2
c. Collective impairment allowance	32	30	30	21
d. Provision charged to income statement				
- individual impairment loss	1	5	1	5
- collective impairment loss	23	6	22	3
e. Written off	1	3	1	3
(iv) Wholesale and retail trade				
a. Individually impaired loans	327	222	290	181
b. Individual impairment allowance	162	129	162	120
c. Collective impairment allowance	56	48	38	24
d. Provision charged to income statement				
- individual impairment loss	185	133	184	116
- collective impairment loss	18	21	16	12
e. Written off	131	4	121	4

25. Advances to Customers and Other Accounts (continued)

(d) 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.

The Group					
2009					
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	121,538	217	407	103	299
People's Republic of China	93,084	177	373	34	86
Other Asian Countries	10,103	213	382	247	178
Others	22,929	284	1,286	150	248
Total	247,654	891	2,448	534	811
% of total advances to customers			<u>0.99%</u>		
Market value of security held against impaired advances to customers			<u>4,839</u>		

The Group					
2008					
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	112,038	207	642	267	278
People's Republic of China	85,741	242	454	78	115
Other Asian Countries	10,798	159	246	168	103
Others	21,762	25	244	10	25
Total	230,339	633	1,586	523	521
% of total advances to customers			<u>0.69%</u>		
Market value of security held against impaired advances to customers			<u>3,769</u>		

25. Advances to Customers and Other Accounts (continued)

(d) Advances to customers – by geographical areas (continued)

The Bank					
2009					
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	103,784	185	357	87	278
People's Republic of China	16,419	23	207	33	26
Other Asian Countries	9,021	213	381	246	177
Others	14,150	270	1,166	133	197
Total	143,374	691	2,111	499	678
% of total advances to customers			1.48%		
Market value of security held against impaired advances to customers			3,048		

The Bank					
2008					
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Hong Kong	93,211	169	556	232	248
People's Republic of China	14,271	95	280	36	26
Other Asian Countries	9,856	159	246	168	102
Others	13,785	14	192	2	16
Total	131,123	437	1,274	438	392
% of total advances to customers			0.97%		
Market value of security held against impaired advances to customers			2,168		

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

There were no impaired advances to banks and other financial institutions as at 31st December, 2009 and 31st December, 2008, nor were there any individual impairment allowances made for them on these two dates.

25. Advances to Customers and Other Accounts (continued)

(e) Advances to customers – net investment in finance leases

Advances to customers include net investment in equipment leased under finance leases. The total minimum lease payments receivable under finance leases and their present values at the year end are as follows:

	The Group and the Bank					
	2009			2008		
	Present value of the minimum lease payments HK\$ Mn	Interest income relating to future periods HK\$ Mn	Total minimum lease payments HK\$ Mn	Present value of the minimum lease payments HK\$ Mn	Interest income relating to future periods HK\$ Mn	Total minimum lease payments HK\$ M
Amounts receivable:						
Within one year	1,004	116	1,120	1,280	152	1,432
After one year but within five years	1,100	186	1,286	1,512	206	1,718
After five years	1,729	265	1,994	1,468	246	1,714
	<u>3,833</u>	<u>567</u>	<u>4,400</u>	<u>4,260</u>	<u>604</u>	<u>4,864</u>
Less: Individual impairment allowances	<u>(10)</u>			<u>(21)</u>		
Net investment in finance leases	<u>3,823</u>			<u>4,239</u>		

The net investment in finance leases is carried on the statement of financial position as a receivable. No accrual is made for the interest income relating to future periods.

26. Available-For-Sale Financial Assets

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	5,425	10,391	5,364	4,558
Certificates of deposit held	972	762	595	508
Debt securities	22,599	6,398	11,990	5,210
Equity securities	1,810	899	909	611
Investment funds	77	110	77	98
	<u>30,883</u>	<u>18,560</u>	<u>18,935</u>	<u>10,985</u>
Issued by:				
Central governments and central banks	12,787	10,419	6,416	4,558
Public sector entities	236	231	-	126
Banks and other financial institutions	14,199	5,773	10,649	4,759
Corporate entities	3,584	2,027	1,793	1,444
Other entities	77	110	77	98
	<u>30,883</u>	<u>18,560</u>	<u>18,935</u>	<u>10,985</u>
Analysed by place of listing:				
Listed in Hong Kong	1,957	397	1,495	197
Listed outside Hong Kong	5,512	9,329	3,986	2,619
	<u>7,469</u>	<u>9,726</u>	<u>5,481</u>	<u>2,816</u>
Unlisted	23,414	8,834	13,454	8,169
	<u>30,883</u>	<u>18,560</u>	<u>18,935</u>	<u>10,985</u>

27. Held-To-Maturity Investments

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	189	180	112	180
Certificates of deposit held	2,245	1,717	1,584	1,056
Debt securities	4,843	3,216	3,144	2,189
	<u>7,277</u>	<u>5,113</u>	<u>4,840</u>	<u>3,425</u>
Less: Impairment allowances	(38)	(107)	(38)	(107)
	<u>7,239</u>	<u>5,006</u>	<u>4,802</u>	<u>3,318</u>
Issued by:				
Central governments and central banks	1,510	243	1,506	239
Public sector entities	621	318	276	231
Banks and other financial institutions	4,328	3,344	2,629	2,117
Corporate entities	780	1,101	391	731
	<u>7,239</u>	<u>5,006</u>	<u>4,802</u>	<u>3,318</u>
Analysed by place of listing:				
Listed in Hong Kong	952	287	848	268
Listed outside Hong Kong	2,984	1,863	2,263	1,477
	<u>3,936</u>	<u>2,150</u>	<u>3,111</u>	<u>1,745</u>
Unlisted	3,303	2,856	1,691	1,573
	<u>7,239</u>	<u>5,006</u>	<u>4,802</u>	<u>3,318</u>
Fair value:				
Listed securities	3,998	2,028	3,150	1,640
Unlisted securities	3,320	2,870	1,696	1,569
	<u>7,318</u>	<u>4,898</u>	<u>4,846</u>	<u>3,209</u>

Movement of impairment allowances

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
At 1 st January	107	42	107	42
Charge for the year	9	44	9	44
Write-off	(78)	-	(78)	-
Exchange and other adjustments	-	21	-	21
At 31 st December	<u>38</u>	<u>107</u>	<u>38</u>	<u>107</u>

27. Held-To-Maturity Investments (continued)

Reclassification of Available-for-sale Financial Assets

On 1st January, 2009, the management have assessed the intention and ability to hold to maturity the Group's available-for-sale financial assets. Based on this assessment, the management concluded that they have the positive intention ability hold them to maturity and therefore have reclassified the portfolio from the available-for-sale category to held-to-maturity. The amount reclassified on the date of reclassification is as follows:

	Carrying amount on 1 st January, 2009 HK\$ Mn
Reclassified from available-for-sale debt securities	
Listed in Hong Kong	(83)
Listed outside Hong Kong	(229)
Unlisted	(364)
	<u>(676)</u>
Reclassified to held-to-maturity securities	
Listed in Hong Kong	83
Listed outside Hong Kong	229
Unlisted	364
	<u>676</u>

There are no unrealised gains and losses arising from changes in fair value recognised in the investment revaluation reserve during the year.

The net unamortised revaluation deficit was HK\$19 million as at 31st December, 2009.

	HK\$ Mn
Reclassification	16
Amortisation during the year	3
Balance as at 31 st December, 2009	<u>19</u>

The unamortised revaluation surplus or deficit of individual investments reclassified shall be amortised to the income statement over the respective remaining life of investment using the effective interest method.

28. Investments in Subsidiaries

	The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn
Unlisted shares, at cost	13,690	11,906
Less: Impairment allowances	<u>(233)</u>	<u>(233)</u>
	<u>13,457</u>	<u>11,673</u>

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary.

28. Investments in Subsidiaries (continued)

Details of these companies are as follows:

Name of company	Place of incorporation and operation	Issued and paid-up capital	% Held by The Bank The Group		Nature of business
Ample Delight Limited	Hong Kong	HK\$450,000,000		100%	Investment holding
Bank of East Asia (Trustees) Limited	Hong Kong	HK\$150,000,000	100%		Trustee
BEA Life Limited	Hong Kong	HK\$500,000,000	100%		Life insurance
BEA Pacific Asia Limited	Hong Kong	US\$13,000,000		100%	Investment holding
BEA Pacific Holding Company Limited	Bermuda	HK\$10,000	100%		Investment holding
Blue Cross (Asia-Pacific) Insurance Limited	Hong Kong	HK\$750,000,000	100%		Insurance
BEA Union Investment Management Limited	Hong Kong	HK\$374,580,000	51%		Asset management
BEA Wealth Management Services (Taiwan) Limited	Taiwan, Republic of China	NTD218,000,000		100%	Wealth management services
CCSL St. Lucia Limited	St. Lucia	US\$1,200	60.49%		Holding company
Central Town Limited	Hong Kong	HK\$2	100%		Property investment
Century Able Limited	Hong Kong	HK\$866,951,045		100%	Investment holding
Corona Light Limited	BVI	HK\$866,951,045		100%	Investment holding
Credit Gain Finance Company Limited	Hong Kong	HK\$1	100%		Money lenders
Crystal Gleaming Limited	BVI	HK\$866,951,045	100%		Investment holding
East Asia Corporate Services (BVI) Limited	BVI	US\$250,000	75.61%		Registered agent and trustee services
East Asia Facility Management Limited	Hong Kong	HK\$10,000		100%	Facility management
East Asia Financial Services (BVI) Ltd.	BVI	US\$24,096,000	100%		Investment holding
East Asia Futures Limited	Hong Kong	HK\$7,000,000	100%		Futures and options trading
* East Asia Holding Company, Inc.	U.S.A.	US\$5	100%		Bank holding company
East Asia Indonesian Holdings Limited	Seychelles	US\$100,000		100%	Investment holding
East Asia Investment Holdings Limited	Hong Kong	HK\$100,000,000	100%		Investment Holding
East Asia Investments Holdings (BVI) Ltd.	BVI	HK\$186,038,725	100%		Investment holding
East Asia Marketing Limited	BVI	US\$1	75.61%		Marketing services to related companies
East Asia Property Agency Company Limited	Hong Kong	HK\$1,000,000	100%		Property agency
East Asia Properties Holding Company Limited	Hong Kong	HK\$10,000	100%		Investment holding

28. Investments in Subsidiaries (continued)

Name of company	Place of incorporation and operation	Issued and paid-up capital	% Held by		Nature of business
			The Bank	The Group	
* East Asia Properties (US), Inc.	U.S.A.	US\$5		100%	Property holding
East Asia Secretaries (BVI) Limited	BVI	HK\$300,000,000		75.61%	Investment holding
East Asia Securities Company Limited	Hong Kong	HK\$25,000,000	100%		Securities broking
East Asia Strategic Holdings Limited	BVI	US\$50,000,000	100%		Investment holding
Flowery World Corporation	BVI	US\$1		75.61%	Holding company
Innovate Holdings Limited	BVI	US\$1	100%		Special purpose vehicle company
Skyray Holdings Limited	BVI	HK\$450,000,000	100%		Investment holding
Speedfull Limited	BVI	HK\$450,000,000		100%	Investment holding
The Bank of East Asia (Canada)	Canada	C\$58,000,000	100%		Banking services
The Bank of East Asia (China) Limited <i>(Note 1)</i>	PRC	CNY8,000,000,000	100%		Banking and related financial services
* The Bank of East Asia (U.S.A.) N.A.	U.S.A.	US\$4,500		100%	Banking
Tricor Consultancy (Beijing) Limited <i>(Note 1)</i>	PRC	US\$1,850,000		75.61%	Business consultancy in China
Tricor Holdings Limited	BVI	US\$7,001		75.61%	Investment holding
Tricor Holdings Pte. Ltd.	Singapore	S\$2		75.61%	Investment holding
Tricor Investor Services Limited	Hong Kong	HK\$2		75.61%	Investor services
Tricor Services Limited	Hong Kong	HK\$2		75.61%	Business, corporate and investor services
Tricor Services (BVI) Limited	BVI	US\$250,000		75.61%	Registered agent and trustee services
Tricor Services (Malaysia) Sdn. Bhd.	Malaysia	RM5,672,484		60.49%	Investment holding
Vitaway (Mauritius) Limited	Mauritius	US\$1		75.61%	Regional treasurer

Notes: 1. Represents a wholly foreign owned enterprise.

2. BVI denotes the British Virgin Islands and PRC denotes the People's Republic of China.

** Companies not audited by KPMG. The accounts of the subsidiaries not audited by KPMG reflect total net assets and total income constituting approximately 6.3% and 2.1% respectively of the related consolidated totals.*

29. Investments in Associates

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
Listed shares, at cost	-	-	1,781	1,743
Unlisted shares, at cost	-	-	196	271
Share of net assets	2,389	2,260	-	-
Goodwill	226	226	-	-
	<u>2,615</u>	<u>2,486</u>	<u>1,977</u>	<u>2,014</u>
Less: Impairment allowances	-	-	(31)	(30)
	<u>2,615</u>	<u>2,486</u>	<u>1,946</u>	<u>1,984</u>

Loans to associates amounting to HK\$497 million (2008: HK\$76 million) are included under advances to customers.

Share of associates' taxation for the year amounted to HK\$81 million (2008: HK\$59 million).

The following list contains only the particulars of associates which principally affected the results or assets of the Group:

Name of company	Place of incorporation and operation	% of ordinary shares held by		Nature of business
		The Bank	The Group	
Listed				
Affin Holdings Berhad	Malaysia	21.095%		Investment holding
Unlisted				
ICEA Finance Holdings Limited	BVI	25%		Investment holding
Mercedes-Benz Financial Services Hong Kong Limited	Hong Kong		20%	Financing, leasing and insurance services
Mercedes-Benz Financial Services Korea Limited	Republic of Korea		20%	Financial services
Platinum Holdings Company Limited	Cayman Islands	29.99%		Investment holding
PT. Bank Resona Perdania	Indonesia		30%	Banking and related financial services
Sunfire Enterprises Limited	BVI		20%	Property development
TCL Finance Co., Ltd	PRC	20%		Financial services and cash management
Trans-Ocean Insurance Company, Limited	Hong Kong	48.7%		Inactive

Notes: BVI denotes the British Virgin Islands and PRC denotes the People's Republic of China.

29. Investments in Associates (continued)

Summary financial information on associates

	Assets HK\$ Mn	Liabilities HK\$ Mn	Equity HK\$ Mn	Revenue HK\$ Mn	Profit HK\$ Mn
2009					
100 per cent	102,075	89,071	13,004	3,506	1,052
Group's effective interest	<u>21,425</u>	<u>19,036</u>	<u>2,389</u>	<u>762</u>	<u>264</u>
2008					
100 per cent	95,485	83,118	12,367	3,584	516
Group's effective interest	<u>19,756</u>	<u>17,496</u>	<u>2,260</u>	<u>767</u>	<u>53</u>

30. Goodwill and Intangible Assets

Goodwill and intangible assets include goodwill arising on business combinations and acquired intangible assets. Acquired intangible assets comprise core deposits which are amortised over their estimated economic useful life of ten years.

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
Goodwill	2,738	2,705	1,460	1,460
Acquired intangible assets	<u>1,397</u>	<u>29</u>	<u>-</u>	<u>-</u>
	<u>4,135</u>	<u>2,734</u>	<u>1,460</u>	<u>1,460</u>

(a) Goodwill

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
At 1 st January	2,705	2,656	1,460	1,460
Additions through acquisition of subsidiaries	22	52	-	-
Exchange adjustments	<u>11</u>	<u>(3)</u>	<u>-</u>	<u>-</u>
At 31 st December	<u>2,738</u>	<u>2,705</u>	<u>1,460</u>	<u>1,460</u>

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to business segments as follows:

	2009 HK\$ Mn	2008 HK\$ Mn
Personal banking	849	849
Corporate banking	453	453
Treasury markets	158	158
Corporate services	1,100	1,067
Others	<u>178</u>	<u>178</u>
	<u>2,738</u>	<u>2,705</u>

30. Goodwill and Intangible Assets (continued)

(a) Goodwill (continued)

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The pre-tax discount rate used for value-in-use calculations is 14.37% (2008: 8.28%) and the long-term growth rate is 3% (2008: 4%).

Management determined the budgeted net profit based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the internal forecasts.

(b) Intangible assets (other than goodwill)

Intangible assets include acquired core deposits. Intangible assets are stated at cost less accumulated amortisation and impairment loss (Note 2(k)(iv)).

Amortisation of intangible assets with finite useful lives is charged to the income statement over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available to use and their estimated useful lives are as follows:

Acquired core deposits	10 years
Naming rights	Over the shorter of the lease period of building or land

Both the period and method of amortisation are reviewed annually.

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Cost				
At 1 st January	38	16	-	-
Additions	1,380	6	-	-
Exchange and other adjustments	-	16	-	-
At 31 st December	<u>1,418</u>	<u>38</u>	<u>-</u>	<u>-</u>
Accumulated amortisation				
At 1 st January	(9)	(4)	-	-
Amortisation charge for the year (Note 10)	(13)	(3)	-	-
Exchange adjustments	1	(2)	-	-
At 31 st December	<u>(21)</u>	<u>(9)</u>	<u>-</u>	<u>-</u>
Carrying amount at 31 st December	<u>1,397</u>	<u>29</u>	<u>-</u>	<u>-</u>

31. Fixed Assets

	2009				
	Investment properties HK\$ Mn	Bank premises HK\$ Mn	The Group Furniture, fixtures and equipment HK\$ Mn	Sub-total HK\$ Mn	Total HK\$ Mn
Cost or valuation					
At 1 st January, 2009	1,839	6,293	3,507	9,800	11,639
Additions	-	2,264	297	2,561	2,561
Additions through acquisition	-	-	16	16	16
Revaluation surplus	206	-	-	-	206
Revaluation of bank premises transferred to investment properties	-	97	-	97	97
Transfer from bank premises to investment properties	61	(61)	-	(61)	-
Disposals	(14)	(24)	(162)	(186)	(200)
Exchange adjustments	3	3	15	18	21
At 31 st December, 2009	<u>2,095</u>	<u>8,572</u>	<u>3,673</u>	<u>12,245</u>	<u>14,340</u>
Accumulated depreciation and amortisation					
At 1 st January, 2009	-	675	1,818	2,493	2,493
Additions through acquisition	-	-	7	7	7
Charge for the year (Note 10)	-	99	413	512	512
Impairment loss	-	13	-	13	13
Written back on disposals	-	(12)	(154)	(166)	(166)
Exchange adjustments	-	-	14	14	14
At 31 st December, 2009	<u>-</u>	<u>775</u>	<u>2,098</u>	<u>2,873</u>	<u>2,873</u>
Net book value at 31 st December, 2009	<u>2,095</u>	<u>7,797</u>	<u>1,575</u>	<u>9,372</u>	<u>11,467</u>
The gross amounts of the above assets are stated:					
At cost	-	7,745	3,673	11,418	11,418
At Directors' valuation					
- 1989	-	827	-	827	827
At professional valuation					
- 2009	2,095	-	-	-	2,095
	<u>2,095</u>	<u>8,572</u>	<u>3,673</u>	<u>12,245</u>	<u>14,340</u>

Fixed Assets (continued)

	2009				
	Investment properties	Bank premises	The Bank Furniture, fixtures and equipment	Sub-total	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Cost or valuation					
At 1 st January, 2009	1,819	3,135	2,246	5,381	7,200
Additions	-	602	135	737	737
Revaluation surplus	205	-	-	-	205
Transfer from investment properties to bank premises	(212)	212	-	212	-
Disposals	(14)	-	(133)	(133)	(147)
Exchange adjustments	-	-	7	7	7
At 31 st December, 2009	<u>1,798</u>	<u>3,949</u>	<u>2,255</u>	<u>6,204</u>	<u>8,002</u>
Accumulated depreciation and amortisation					
At 1 st January, 2009	-	323	1,290	1,613	1,613
Charge for the year	-	46	232	278	278
Impairment loss	-	13	-	13	13
Written back on disposals	-	-	(128)	(128)	(128)
Exchange adjustments	-	-	6	6	6
At 31 st December, 2009	<u>-</u>	<u>382</u>	<u>1,400</u>	<u>1,782</u>	<u>1,782</u>
Net book value at					
31 st December, 2009	<u>1,798</u>	<u>3,567</u>	<u>855</u>	<u>4,422</u>	<u>6,220</u>
The gross amounts of the above assets are stated:					
At cost	-	3,122	2,255	5,377	5,377
At Directors' valuation					
- 1989	-	827	-	827	827
At professional valuation					
- 2009	1,798	-	-	-	1,798
	<u>1,798</u>	<u>3,949</u>	<u>2,255</u>	<u>6,204</u>	<u>8,002</u>

31. Fixed Assets (continued)

	2008				
	Investment properties HK\$	Bank premises HK\$ Mn	The Group Furniture, fixtures and equipment HK\$ Mn	Sub-total HK\$ Mn	Total HK\$ Mn
Cost or valuation					
At 1 st January, 2008	1,726	4,609	2,711	7,320	9,046
Additions	-	1,659	898	2,557	2,557
Additions through acquisition	303	-	15	15	318
Revaluation losses	(168)	-	-	-	(168)
Revaluation of bank premises transferred to investment properties	-	9	-	9	9
Transfer from bank premises to investment properties	9	(9)	-	(9)	-
Disposals	(13)	(34)	(126)	(160)	(173)
Exchange adjustments	(18)	59	9	68	50
At 31 st December, 2008	<u>1,839</u>	<u>6,293</u>	<u>3,507</u>	<u>9,800</u>	<u>11,639</u>
Accumulated depreciation and amortisation					
At 1 st January, 2008	-	617	1,573	2,190	2,190
Additions through acquisition	-	-	11	11	11
Charge for the year (Note 10)	-	81	356	437	437
Revaluation of bank premises transferred to investment properties	-	(1)	-	(1)	(1)
Write back of impairment loss	-	(6)	-	(6)	(6)
Written back on disposals	-	(25)	(113)	(138)	(138)
Exchange adjustments	-	9	(9)	-	-
At 31 st December, 2008	<u>-</u>	<u>675</u>	<u>1,818</u>	<u>2,493</u>	<u>2,493</u>
Net book value at 31 st December, 2008	<u>1,839</u>	<u>5,618</u>	<u>1,689</u>	<u>7,307</u>	<u>9,146</u>
The gross amounts of the above assets are stated:					
At cost	-	5,466	3,507	8,973	8,973
At Directors' valuation					
- 1989	-	827	-	827	827
At professional valuation					
- 2008	1,839	-	-	-	1,839
	<u>1,839</u>	<u>6,293</u>	<u>3,507</u>	<u>9,800</u>	<u>11,639</u>

31. Fixed Assets (continued)

	2008				
	Investment properties	Bank premises	The Bank	Sub-total	Total
			Furniture, fixtures and equipment		
	HK\$	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Cost or valuation					
At 1 st January, 2008	1,829	3,192	1,858	5,050	6,879
Additions	-	2	487	489	489
Revaluation losses	(87)	-	-	-	(87)
Revaluation of bank premises transferred to investment properties	-	52	-	52	52
Transfer from bank premises to investment properties	89	(89)	-	(89)	-
Disposals	(12)	(20)	(79)	(99)	(111)
Exchange adjustments	-	(2)	(20)	(22)	(22)
At 31 st December, 2008	<u>1,819</u>	<u>3,135</u>	<u>2,246</u>	<u>5,381</u>	<u>7,200</u>
Accumulated depreciation and amortisation					
At 1 st January, 2008	-	304	1,168	1,472	1,472
Charge for the year	-	43	218	261	261
Revaluation of bank premises transferred to investment properties	-	(5)	-	(5)	(5)
Write back of impairment loss	-	(6)	-	(6)	(6)
Written back on disposals	-	(12)	(77)	(89)	(89)
Exchange adjustments	-	(1)	(19)	(20)	(20)
At 31 st December, 2008	<u>-</u>	<u>323</u>	<u>1,290</u>	<u>1,613</u>	<u>1,613</u>
Net book value at					
31 st December, 2008	<u>1,819</u>	<u>2,812</u>	<u>956</u>	<u>3,768</u>	<u>5,587</u>
The gross amounts of the above assets are stated:					
At cost	-	2,308	2,246	4,554	4,554
At Directors' valuation					
- 1989	-	827	-	827	827
At professional valuation					
- 2008	1,819	-	-	-	1,819
	<u>1,819</u>	<u>3,135</u>	<u>2,246</u>	<u>5,381</u>	<u>7,200</u>

31. Fixed Assets (continued)

The net book value of bank premises and investment properties comprises:

	The Group			
	2009		2008	
	Investment properties HK\$ Mn	Bank premises HK\$ Mn	Investment properties HK\$ Mn	Bank premises HK\$ Mn
Freeholds – Held outside Hong Kong	79	3,841	78	1,748
Leaseholds				
Held in Hong Kong				
On long lease (over 50 years)	1,489	1,586	1,449	1,477
On medium-term lease (10 - 50 years)	209	1,428	303	1,354
Held outside Hong Kong				
On long lease (over 50 years)	-	161	-	193
On medium-term lease (10 - 50 years)	318	781	9	846
	<u>2,095</u>	<u>7,797</u>	<u>1,839</u>	<u>5,618</u>

	The Bank			
	2009		2008	
	Investment properties HK\$ Mn	Bank premises HK\$ Mn	Investment properties HK\$ Mn	Bank premises HK\$ Mn
Freeholds – Held outside Hong Kong	-	748	-	150
Leaseholds				
Held in Hong Kong				
On long lease (over 50 years)	1,391	1,503	1,365	1,391
On medium-term lease (10 - 50 years)	407	1,313	454	1,267
Held outside Hong Kong				
On long lease (over 50 years)	-	3	-	3
On medium-term lease (10 - 50 years)	-	-	-	1
	<u>1,798</u>	<u>3,567</u>	<u>1,819</u>	<u>2,812</u>

The carrying amount of the bank premises of the Group and the Bank would have been HK\$6,933 million (2008: HK\$4,624 million) and HK\$2,498 million (2008: HK\$1,929 million) respectively had they been stated at cost less accumulated depreciation.

Investment properties were valued by independent valuers. Investment properties in Hong Kong were valued at HK\$1,698 million as at 31st December, 2009 by an independent valuer, Savills Valuation and Professional Services Limited, Chartered Surveyors, who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The valuation has been incorporated in the accounts as at 31st December, 2009 and it was performed on an open market value basis.

31. Fixed Assets (continued)

The Group leases out investment properties under operating leases. The leases typically run for an initial period from 1 to 10 years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

Rental income receivable from investment properties held for use under operating leases amounted to HK\$92 million in 2009 (2008: HK\$90 million). There was no contingent rental recognised during the year 2009 (2008: Nil).

The total future minimum lease payments of bank premises and investment properties held for use under non-cancellable operating leases are receivable as follows:

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Within one year	78	74	67	69
After one year but within five years	81	62	62	47
	<u>159</u>	<u>136</u>	<u>129</u>	<u>116</u>

32. Amounts Due from and Due to Subsidiaries

During the year, the Bank entered into transactions with certain subsidiaries in the ordinary course of its banking business. Details of the amounts due from and due to subsidiaries are as follows:

(a) Amounts due from subsidiaries

	The Bank	
	2009	2008
	HK\$ Mn	HK\$ Mn
Financial institutions	11,781	15,454
Others	938	944
	<u>12,719</u>	<u>16,398</u>

(b) Amounts due to subsidiaries

	The Bank	
	2009	2008
	HK\$ Mn	HK\$ Mn
Financial institutions	17	47
Others	1,625	1,947
	<u>1,642</u>	<u>1,994</u>

33. Income Tax in the Statement of Financial Position

(a) Current taxation in the statement of financial position represents:

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Provision for Hong Kong profits tax for the year (Note 13(a))	73	64	-	-
Provisional profits tax paid	(49)	(51)	-	-
	24	13	-	-
Balance of profits tax provision relating to prior years	9	(1)	(14)	(14)
Overseas taxation	114	321	32	74
	<u>147</u>	<u>333</u>	<u>18</u>	<u>60</u>

(b) 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 year are as follows:

Deferred tax arising from:	The Group						
	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 1 st January, 2009	361	257	(49)	(4)	(661)	(14)	(110)
Charged/(credited) to income statement (Note 13(a))	(56)	34	(33)	-	447	(61)	331
Credited to reserves (Notes 38(c) and (h))	-	26	-	43	-	-	69
Exchange and other adjustments	-	32	105	-	(2)	(227)	(92)
At 31 st December, 2009	<u>305</u>	<u>349</u>	<u>23</u>	<u>39</u>	<u>(216)</u>	<u>(302)</u>	<u>198</u>

Deferred tax arising from:	The Group						
	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 1 st January, 2008	321	274	58	94	(59)	114	802
Charged/(credited) to income statement (Note 13(a))	26	(14)	(114)	-	(601)	(23)	(726)
Credited to reserves (Notes 38(c) and (h))	-	(3)	-	(98)	-	-	(101)
Additions through acquisition	14	-	-	-	(2)	-	12
Exchange and other adjustments	-	-	7	-	1	(105)	(97)
At 31 st December, 2008	<u>361</u>	<u>257</u>	<u>(49)</u>	<u>(4)</u>	<u>(661)</u>	<u>(14)</u>	<u>(110)</u>

33. Income Tax in the Statement of Financial Position (continued)

(b) Deferred tax assets and liabilities recognised (continued)

Deferred tax arising from:	The Bank						
	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 1 st January, 2009	347	257	(44)	(5)	(528)	(2)	25
Charged/(credited) to income statement	(58)	34	(83)	-	421	7	321
Credited to reserves (Notes 38(c) and (h))	-	(2)	-	49	-	-	47
Exchange and other adjustments	-	-	1	-	(3)	(226)	(228)
At 31 st December, 2009	<u>289</u>	<u>289</u>	<u>(126)</u>	<u>44</u>	<u>(110)</u>	<u>(221)</u>	<u>165</u>

Deferred tax arising from:	The Bank						
	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 1 st January, 2008	313	274	(43)	94	(9)	113	742
Charged/(credited) to income statement	34	(14)	(1)	-	(519)	(11)	(511)
Credited to reserves (Notes 38(c) and (h))	-	(3)	-	(99)	-	-	(102)
Exchange and other adjustments	-	-	-	-	-	(104)	(104)
At 31 st December, 2008	<u>347</u>	<u>257</u>	<u>(44)</u>	<u>(5)</u>	<u>(528)</u>	<u>(2)</u>	<u>25</u>

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Net deferred tax assets recognised on the statement of financial position	(322)	(187)	(168)	(38)
Net deferred tax liabilities recognised on the statement of financial position	<u>520</u>	<u>77</u>	<u>333</u>	<u>63</u>
	<u>198</u>	<u>(110)</u>	<u>165</u>	<u>25</u>

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$744 million (2008: HK\$737 million) as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entity. Under the current tax legislation, the expiry dates of the tax losses were as follows:

	2009 HK\$ Mn	2008 HK\$ Mn
Expiring within 5 years	34	57
Expiring more than 5 years	52	7
No expiry date	658	673
	<u>744</u>	<u>737</u>

34. Other Liabilities

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
(a) Trading liabilities				
Exchange fund bills sold	-	330	-	330
Shares sold	6	-	6	-
	<u>6</u>	<u>330</u>	<u>6</u>	<u>330</u>
Negative fair value of derivatives (Note 42(b))	1,449	2,516	1,229	2,219
	<u>1,455</u>	<u>2,846</u>	<u>1,235</u>	<u>2,549</u>
(b) Other accounts and provisions				
Accrued interest payable	1,089	1,953	595	1,035
Acceptance draft payable	7,976	2,989	203	272
Other accounts	9,441	7,197	2,750	2,172
	<u>18,506</u>	<u>12,139</u>	<u>3,548</u>	<u>3,479</u>

35. Loan Capital

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
USD550 million 5.625% subordinated notes, measured at fair value through profit or loss	4,281	3,644	4,281	3,644
GBP300 million 6.125% step-up perpetual subordinated notes, measured at fair value through profit or loss	3,431	2,751	3,431	2,751
USD600 million floating rate step-up subordinated notes, measured at amortised cost	4,647	4,641	4,647	4,641
USD500 million Hybrid Tier 1	-	-	3,916	-
	<u>12,359</u>	<u>11,036</u>	<u>16,275</u>	<u>11,036</u>

Loan capital of face value of HK\$4,265 million (USD550 million) and carrying amount of HK\$4,281 million represents 5.625% subordinated notes qualifying as tier 2 capital which were issued on 13th December, 2005 by the Bank. The notes are listed on the Hong Kong Stock Exchange and will mature on 13th December, 2015.

Loan capital of face value of HK\$3,749 million (GBP300 million) and carrying amount of HK\$3,431 million represents 6.125% step-up perpetual subordinated notes qualifying as tier 2 capital which were issued on 20th March, 2007 by the Bank. The notes are listed on the Singapore Stock Exchange.

The carrying amount of financial liabilities designated at fair value through profit or loss for the Group as at 31st December, 2009 was HK\$303 million (2008: HK\$1,232 million) and for the Bank was HK\$264 million (2008: HK\$1,232 million) lower than the contractual amount at maturity. The difference in the accumulated amount of the changes in fair value attributable to changes in credit risk for the Group were HK\$618 million (2008: HK\$1,858 million) and for the Bank were HK\$689 million (2008: HK\$1,858 million). The change for the year ended 31st December, 2009 for the Group was HK\$1,240 million (2008: HK\$2,183 million) and for the Bank was HK\$1,169 million (2008: HK\$2,183 million).

Loan capital of face value of HK\$4,653 million (USD600 million) and carrying amount of HK\$4,647 million represents floating rate step-up subordinated notes qualifying as tier 2 capital which were issued on 21st June, 2007 by the Bank. The notes are listed on the Singapore Stock Exchange and will mature on 22nd June, 2017. The fair value as of 31st December, 2009 was HK\$4,211 million (USD543 million) (2008: HK\$3,953 million) (USD510 million).

Hybrid Tier 1 capital instruments comprising step-up subordinated notes (“Notes”) of face value HK\$3,878 million (USD500 million) and carrying amount of HK\$3,916 million and HK\$3,878 million (USD500 million) non-cumulative preference shares (“Innovate Preference Shares”) were issued respectively by the Bank and by Innovate Holdings Limited, a wholly owned subsidiary of the Bank, on 5th November, 2009. The Notes bear a fixed interest rate of 8.5% per annum and will mature on 5th November, 2059. The Innovate Preference Shares are perpetual securities on which no dividend is payable. The Notes and the Innovate Preference Shares are listed, and traded together as units, on the Singapore Stock Exchange. The Hybrid Tier 1 capital instruments are qualified as tier 1 capital of the Bank and the Group. In the consolidated accounts, the Notes are eliminated and the Innovate Preference Shares are classified as minority interest.

36. Equity Settled Share-based Transactions

The Bank has adopted Staff Share Option Schemes whereby the Board of the Bank may at its discretion grant to any employees, including Executive Directors and Chief Executive, of the Group options to subscribe for shares of the Bank. The options may be exercised during the period beginning on the first anniversary of the Date of Grant and ending on the fifth anniversary of the Date of Grant. All options were granted for nil consideration.

(a) Particulars of share options

<u>Date of grant</u>	<u>Vesting period</u>	<u>Exercise period</u>	<u>Exercise price per share</u> HK\$
22/4/2004	22/4/2004 – 21/4/2005	22/4/2005 – 22/4/2009	21.11*
03/5/2005	03/5/2005 – 02/5/2006	03/5/2006 – 03/5/2010	20.86*
03/5/2006	03/5/2006 – 02/5/2007	03/5/2007 – 03/5/2011	30.04*
10/5/2007	10/5/2007 – 09/5/2008	10/5/2008 – 10/5/2012	42.84*
05/5/2008	05/5/2008 – 04/5/2009	05/5/2009 – 05/5/2013	40.09*
05/5/2009	05/5/2009 – 04/5/2010	05/5/2010 – 05/5/2014	21.25

36. Equity Settled Share-based Transactions (continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2009		2008	
	Weighted average exercise price HK\$	Number of options Mn	Weighted average exercise Price * HK\$	Number of options * Mn
Outstanding at the beginning of the year	30.53	22	24.73	21
Exercised during the year	20.86	(2)	18.56	(5)
Granted during the year	21.25	6	40.09	6
Lapsed during the year	25.67	(4)	21.11	-
Outstanding at the end of the year	29.55	<u>22</u>	30.53	<u>22</u>
Exercisable at the end of the year	33.04	16	26.86	16

The weighted average share price at the date of exercise for shares options exercised during the year was HK\$23.60 (2008: HK\$33.72 or HK\$30.65 after adjusting for the bonus issue in 2009).

The options outstanding at 31st December, 2009 had an exercise price from HK\$20.86 to HK\$42.84 (2008: from HK\$22.95 to HK\$47.13 or from HK\$20.86 to HK\$42.84 after adjusting for the bonus issue in 2009) and a weighted average remaining contractual life of 2.63 years (2008: 2.44 years).

(c) Fair value of share options and assumptions

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

	2009	2008
Fair value at measurement date	HK\$9.66	HK\$13.88*
Share price	HK\$21.25	HK\$40.09*
Exercise price	HK\$21.25	HK\$40.09*
Expected volatility (expressed as weighted average volatility used in the modelling under trinomial lattice model)	59.96%	48.88%
Option life	5 years	5 years
Expected dividends	2.35%	4.64%
Risk-free interest rate (based on Exchange Fund Notes)	1.64%	2.48%

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

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

* The Bank made a one for 10 bonus issue of shares on 17th April, 2009 (the "Bonus Issue"). For share options remained exercisable on 17th April, 2009, adjustments for the Bonus Issue were made to the effect that the number of share options have been increased by 10% and the exercise prices have been decreased accordingly. These adjustments were made in accordance with the Rules of the relevant share option schemes.

37. Share Capital

	2009		2008	
	No. of shares million	Nominal value	No. of shares million	Nominal value
Authorised:				
Ordinary shares of HK\$2.50 each	2,600	HK\$6,500,000,000	2,600	HK\$6,500,000,000
Substitute preference shares of US\$1,000 each	0.5	US\$500,000,000	-	-
		HK\$ Mn		HK\$ Mn
Issued and fully paid:				
At 1 st January	1,673	4,183	1,574	3,936
Shares issued under Staff Share Option Schemes	2	5	5	12
Subscription for new shares	-	-	79	197
Capitalisation issue	167	418	-	-
Shares issued in lieu of dividends	7	17	15	38
At 31 st December	1,849	4,623	1,673	4,183

Pursuant to the approved Staff Share Option Schemes (the “Schemes”), options to purchase ordinary shares in the Bank were granted to eligible employees. The option price of the Schemes equals the fair value of the underlying shares at the date of grant. The options granted under the Schemes will be exercisable between the first and the fifth anniversaries of the date of grant.

(a) Shares issued under Staff Share Option Scheme

During the year, options were exercised to subscribe for 2 million ordinary shares in the Bank at a consideration of HK\$41 million of which HK\$5 million was credited to share capital and the balance of HK\$36 million was credited to the share premium account (Note 38). HK\$3 million has been transferred from the capital reserve to the share premium account in accordance with policy set out in Note 2(q)(iv).

(b) Terms of unexpired and unexercised share options at balance sheet date

Date of options granted	Option price	2009 No. of shares	2008 No. of shares
22/4/2004	HK\$21.11*	-	3,041,500*
03/5/2005	HK\$20.86*	4,737,000	6,715,500*
03/5/2006	HK\$30.04*	2,695,000	2,970,000*
10/5/2007	HK\$42.84*	2,750,000	3,025,000*
05/5/2008	HK\$40.09*	5,500,000	6,050,000*
05/5/2009	HK\$21.25	6,600,000	-
		22,282,000	21,802,000*

* After adjusting for the bonus issue in 2009.

38. Reserves

	2009	
	The Group HK\$ Mn	The Bank HK\$ Mn
(a) Share premium (undistributable)		
At 1 st January	4,922	4,922
Net premium on shares issued under Staff Share Option Schemes	36	36
Transfer of the fair value of options from capital reserve – share options issued	3	3
Shares issued in lieu of dividends	(17)	(17)
Capitalisation issue	(418)	(418)
At 31 st December	<u>4,526</u>	<u>4,526</u>
(b) General reserve		
At 1 st January	14,634	14,369
Transfer from retained profits	49	-
Shares issued in lieu of dividends	177	177
Realised surplus on disposals transferred from property revaluation reserve	6	6
At 31 st December	<u>14,866</u>	<u>14,552</u>
(c) Revaluation reserve on bank premises (undistributable)		
At 1 st January	863	899
Recognition of net deferred tax liabilities (Note 33(b))	(26)	2
Revaluation surplus on bank premises transferred to investment properties	97	-
Realised surplus on disposals transferred to general reserve	(6)	(6)
At 31 st December	<u>928</u>	<u>895</u>
(d) Statutory reserves (undistributable)		
At 1 st January	1,216	-
Transfer from retained profits	285	7
At 31 st December	<u>1,501</u>	<u>7</u>
(e) Capital reserve (undistributable)		
At 1 st January and 31 st December	<u>86</u>	<u>-</u>
(f) Exchange revaluation reserve (undistributable)		
At 1 st January	1,006	48
Exchange adjustments	163	7
At 31 st December	<u>1,169</u>	<u>55</u>

38. Reserves (continued)

	2009	
	The Group HK\$ Mn	The Bank HK\$ Mn
(g) Capital reserve – staff share options issued (undistributable)		
At 1 st January	125	125
Transfer of the fair value of options to share premium	(3)	(3)
Forfeited options transfer to retained profits	(23)	(23)
Additions	<u>71</u>	<u>71</u>
At 31 st December	<u><u>170</u></u>	<u><u>170</u></u>
(h) Investment revaluation reserve (undistributable)		
At 1 st January	(228)	(45)
Changes in fair value of securities	575	267
Reversal upon disposal (Note 12)	(29)	5
Recognition of deferred tax liabilities (Note 33(b))	(43)	(49)
Impairment loss and amortisation	<u>11</u>	<u>-</u>
At 31 st December	<u><u>286</u></u>	<u><u>178</u></u>
(i) Other reserves		
At 1 st January	-	-
Share of changes in equity of associates	<u>17</u>	<u>-</u>
At 31 st December	<u><u>17</u></u>	<u><u>-</u></u>
(j) Retained profits		
At 1 st January	5,339	2,724
Net profit for the year	2,565	995
Transfer to general reserve	(49)	-
Transfer to statutory reserve	(285)	(7)
Forfeited options transfer to retained profits	23	23
Dividends (Note 15)		
- Interim dividend	(516)	(516)
- Final dividend in respect of previous year	(33)	(33)
- Hybrid Tier 1 USD500M	<u>(51)</u>	<u>-</u>
At 31 st December	<u><u>6,993</u></u>	<u><u>3,186</u></u>
(k) Total reserves	<u><u>30,542</u></u>	<u><u>23,569</u></u>

38. Reserves (continued)

	2008	
	The Group HK\$ Mn	The Bank HK\$ Mn
(a) Share premium (undistributable)		
At 1 st January	1,118	1,118
Net premium on shares issued under Staff Share Option Schemes	88	88
Transfer of the fair value of options from capital reserve – share options issued	9	9
Shares issued in lieu of dividends	(38)	(38)
Subscription for new shares	3,745	3,745
At 31 st December	<u>4,922</u>	<u>4,922</u>
(b) General reserve		
At 1 st January	14,004	13,757
Transfer from retained profits	18	-
Shares issued in lieu of dividends	597	597
Realised surplus on disposals transferred from property revaluation reserve	15	15
At 31 st December	<u>14,634</u>	<u>14,369</u>
(c) Revaluation reserve on bank premises (undistributable)		
At 1 st January	866	854
Recognition of net deferred tax liabilities (Note 33(b))	3	3
Revaluation surplus on bank premises transferred to investment properties	10	57
Realised surplus on disposals transferred to general reserve	(15)	(15)
Exchange adjustments	(1)	-
At 31 st December	<u>863</u>	<u>899</u>
(d) Statutory reserves (undistributable)		
At 1 st January	-	-
Transfer from retained profits	1,216	-
At 31 st December	<u>1,216</u>	-
(e) Capital reserve (undistributable)		
At 1 st January and 31 st December	<u>86</u>	-
(f) Exchange revaluation reserve (undistributable)		
At 1 st January	650	80
Exchange adjustments	356	(32)
At 31 st December	<u>1,006</u>	<u>48</u>

38. Reserves (continued)

	2008	
	The Group HK\$ Mn	The Bank HK\$ Mn
(g) Capital reserve – staff share options issued (undistributable)		
At 1 st January	68	68
Transfer of the fair value of options to share premium	(9)	(9)
Additions	66	66
At 31 st December	<u>125</u>	<u>125</u>
(h) Investment revaluation reserve (undistributable)		
At 1 st January	475	422
Changes in fair value of securities	(830)	(472)
Reversal upon disposal (Note 12)	(115)	(114)
Recognition of deferred tax liabilities (Note 33(b))	98	99
Impairment loss	153	20
Exchange adjustments	(9)	-
At 31 st December	<u>(228)</u>	<u>(45)</u>
(i) Other reserves		
At 1 st January	22	-
Share of changes in equity of associates	(22)	-
At 31 st December	<u>-</u>	<u>-</u>
(j) Retained profits		
At 1 st January	8,874	5,946
Net profit/(loss) for the year	39	(882)
Transfer to general reserve	(18)	-
Transfer to statutory reserve	(1,216)	-
Dividends (Note 15)		
- Interim dividend	(384)	(384)
- Final dividend in respect of previous year	(1,956)	(1,956)
At 31 st December	<u>5,339</u>	<u>2,724</u>
(k) Total reserves	<u>27,963</u>	<u>23,042</u>

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

General reserve was set up from the transfer of retained earnings, the realised revaluation surplus on disposal of properties and the value of shares issued in lieu of dividend.

Revaluation reserve on bank premises and exchange revaluation reserve have been set up and are dealt with in accordance with the accounting policies adopted for the revaluation of bank premises and foreign currency translation.

Statutory reserves are set up to supplement the paid-up capital until the sum of paid-up capital and the statutory reserves is equal to the registered capital for a subsidiary and certain associates.

Capital reserve represents the capitalization of subsidiaries' reserves.

38. Reserves (continued)

Capital reserve - staff share options issued comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Bank recognized in accordance with the accounting policy adopted for share based payment in Note 2(q)(iv).

Investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held until the securities are derecognised and is dealt with in accordance with the accounting policies in Notes 2(f) and (k).

Other reserve represents share of changes in equity of associates of investment revaluation reserve and revaluation reserve of bank premises.

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the Hong Kong Monetary Authority. As at 31st December, 2009, HK\$1,857 million (2008: HK\$1,996 million) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the Hong Kong Monetary Authority.

At 31st December, 2009 the aggregate amount of reserves available for distribution to equity holders of the Bank was HK\$17,738 million (2008: HK\$17,093 million). After the balance sheet date the directors proposed a final dividend of HK\$0.48 per ordinary share (2008: HK\$0.02 per share), amounting to HK\$968 million (2008: HK\$33 million). The dividend has not been recognised as a liability at the balance sheet date.

39. Minority Interests

	2009 HK\$ Mn	2008 HK\$ Mn
At 1 st January	339	347
- sale of interests in businesses to minority interests investors	132	-
- purchase of interests in businesses from minority interests investors	(10)	(64)
- Hybrid Tier 1 note issue	3,877	-
- final dividend in respect of previous year	(55)	(7)
- exchange adjustments	2	(2)
Profit for the year	<u>73</u>	<u>65</u>
At 31 st December	<u><u>4,358</u></u>	<u><u>339</u></u>

40. Financial Risk Management

This section presents information on the Group's management of principal risks.

The Group has in place a risk management system to identify, measure, monitor and control the various types of risk that the Group faces and, where appropriate, to set strategy and allocate capital against those risks. The risk management policies covering credit risk, market risk, operational risk, liquidity risk, interest rate risk, strategic risk, legal risk and reputation risk of the Group are reviewed regularly by the Management and specialised risk management committees, and recommendations are made by the Risk Management Committee, which comprises the Group's Chairman and Chief Executive, Senior Advisors, Deputy Chief Executives and the Group Chief Risk Officer, for the approval of the Board of Directors. There is an independent centralised risk management unit, Risk Management Division, responsible for monitoring the activities relating to these principal risks. The internal auditors also perform regular audits on business units to check compliance with policies and procedures.

(a) Credit risk management

Credit risk arises from the possibility that a customer or counterparty in a transaction may default. Such risk may arise from counterparty risks from loan and advances, issuer risks from the securities business and counterparty risks from trading activities.

The Board of Directors has delegated authority to the Credit Committee to oversee management of the Group's credit risk, independent of the business units. The Credit Committee reports to the Board of Directors via the Risk Management Committee, which deals with all risk management related issues of the Group. Credit risk control limits are set at different levels and dimensions. The Board of Directors approves the core control limits and delegates the Credit Committee to approve the detailed control limits. Risk, return and market situations are considered in the limits setting. Active limit monitoring process is undertaken.

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

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

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

40. Financial Risk and Management (continued)

(a) Credit risk management (continued)

The Group's credit risk management for the major types of credit risk is depicted as follows:

(i) Corporate and bank credit risk

The Group has laid down policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate and bank customers, the Group has different internal rating systems that are applied to each counterparty. For exposure classified as Specialised Lending in particular, supervisory slotting criteria are used. To monitor concentration risk, the Group has preset limits for exposures to individual industries and for borrowers and groups of borrowers. The Group also has a review process to ensure that the level of review and approval is proper and will depend on the size of the facility and rating of the credit.

The Group undertakes on-going credit analysis and monitoring at several levels. The policies are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The overall portfolio risk as well as individual impaired loans and potential impaired loans are being monitored on a regular basis.

(ii) Retail credit risk

The Group's retail credit policy and approval process are designed for the fact that there are high volumes of relatively homogeneous and small value transactions in each retail loan category. The design of internal rating system and formulation of credit policies are primarily based on the demographic factors and the loss experience of the loan portfolios. The Group monitors its own and industry experience to determine and periodically revise product terms and desired customer profiles.

(iii) Credit for treasury transactions

The credit risk of the Group's treasury transactions is managed in the same way as the Group manages its corporate lending risk. The Group applies an internal rating system to its counterparties and sets individual counterparty limits.

(iv) Credit-related commitment

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

(v) Concentrations of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is diversified along geographic, industry and product sectors.

The Group monitors its concentration risk by adopting appropriate risk control measures, such as setting limits on exposures to different industries and loan portfolios.

(vi) Maximum exposure

The maximum exposure to credit risk at the balance sheet date without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial assets in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

40. Financial Risk Management (continued)

(a) Credit risk management (continued)

(vi) Maximum exposure (continued)

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Cash and balances with banks, central banks and other financial institutions	28,611	27,022	11,821	4,154
Placements with banks, central banks and other financial institutions	67,945	96,574	61,894	92,735
Trade bills	1,847	1,164	861	521
Trading assets	4,092	2,260	1,749	1,777
Financial assets designated at fair value through profit or loss	10,043	4,130	10,035	4,114
Loans and advances to customers	246,309	229,295	142,197	130,293
Available-for-sale financial assets	28,996	17,551	17,949	10,276
Held-to-maturity investments	7,239	5,006	4,802	3,318
Other assets	14,369	11,478	5,491	7,376
Financial guarantees and other credit related contingent liabilities	9,965	10,088	7,616	9,138
Loan commitments and other credit related commitments	77,273	66,080	59,169	53,283
	<u>496,689</u>	<u>470,648</u>	<u>323,584</u>	<u>316,985</u>

(vii) Credit quality of loans and advances

Loans and advances to banks are only made to banks with good credit standing. At 31st December, 2009 and 2008, no loans and advances to bank are impaired. The credit quality of loans and advances to customers can be analysed as follows:

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Gross loans and advances to customers				
- neither past due nor impaired	245,149	228,479	141,219	129,683
- past due but not impaired	57	274	44	166
- impaired	2,448	1,586	2,111	1,274
	<u>247,654</u>	<u>230,339</u>	<u>143,374</u>	<u>131,123</u>

Of which:

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Gross loans and advances to customers that are neither past due nor impaired				
- Pass	242,617	226,550	139,187	128,219
- Special mention	2,532	1,929	2,032	1,464
	<u>245,149</u>	<u>228,479</u>	<u>141,219</u>	<u>129,683</u>

The Group classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.

40. Financial Risk Management (continued)

(a) Credit risk management (continued)

(vii) Credit quality of loans and advances (continued)

The ageing analysis of loans and advances to customers that are past due but not impaired is as follows:

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Gross loans and advances to customers that are past due but not impaired				
- Overdue 3 months or less	<u>57</u>	<u>274</u>	<u>44</u>	<u>166</u>

Loans and advances that would be past due or impaired had the terms not been renegotiated amounted to HK\$234 million as at 31st December, 2009 (2008: HK\$239 million).

(viii) Credit quality of financial assets other than loans and advances

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk and risk gradings are applied to the counterparties with individual counterparty limits set.

At the balance sheet date, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, Moody's Investor Services, or equivalent, is as follow:

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Aaa	4,783	1,790	4,571	1,608
Aa1 to Aa3	11,672	5,706	10,395	4,604
A1 to A3	7,616	2,706	6,384	2,029
Lower than A3	<u>1,967</u>	<u>1,121</u>	<u>1,462</u>	<u>851</u>
	26,038	11,323	22,812	9,092
P-1	10,176	-	-	-
Unrated	<u>4,323</u>	<u>2,440</u>	<u>3,223</u>	<u>2,440</u>
Total	<u>40,537</u>	<u>13,763</u>	<u>26,035</u>	<u>11,532</u>

(ix) Collateral and other credit enhancements

The Group holds collateral against loans and advances to customers in the forms of mortgages over property, other registered securities over assets, cash deposits and guarantees. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collaterals held as security for financial assets other than loans and advances is determined by the nature of the instrument.

Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset-based securities and similar instruments, which are secured by pools of financial assets. The Group entered into the ISDA Master Agreement which contractually binds both parties to apply close-out netting arrangement across outstanding derivatives.

40. Financial Risk Management (continued)

(a) Credit risk management (continued)

(ix) Collateral and other credit enhancements (continued)

The lower of gross loan amount and the estimate of the fair value of collateral and other credit enhancements held against financial assets is as follows:

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Fair value of collateral and other credit enhancements held against financial assets that are:				
- neither past due nor impaired	192,357	178,200	106,004	95,567
- past due but not impaired	57	210	42	147
	<u>192,414</u>	<u>178,410</u>	<u>106,046</u>	<u>95,714</u>

(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 statement of financial position or structural positions. The objective of market risk management is to reduce the Group's exposure to the volatility inherent in financial instruments.

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

The Asset and Liability Management Committee deals with all market risk and liquidity risk related issues of the Group. It is also responsible for deciding the future business strategy with respect to interest rates trend review.

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk, as part of its asset and liability management process. The principal 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 risk to manage are:

(i) Currency risk

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

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

40. Financial Risk Management (continued)

(b) Market risk management (continued)

(i) Currency risk (continued)

The following table indicates the concentration of currency risk at the balance sheet date:

The Group

	2009				2008			
	USD HK\$ Mn	CNY HK\$ Mn	Other foreign currencies HK\$ Mn	Total HK\$ Mn	USD HK\$ Mn	CNY HK\$ Mn	Other foreign currencies HK\$ Mn	Total HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	2,241	17,427	1,453	21,121	2,425	23,215	1,263	26,903
Placements with banks and other financial institutions	14,832	4,169	24,609	43,610	28,670	1,252	18,795	48,717
Trade bills	1,782	8	44	1,834	1,078	-	72	1,150
Trading assets	836	2,327	312	3,475	652	438	160	1,250
Financial assets designated at fair value through profit or loss	6,709	-	908	7,617	2,158	-	631	2,789
Advances to customers and other accounts	44,193	83,346	19,252	146,791	42,442	75,119	17,419	134,980
Available-for-sale financial assets	7,324	9,650	5,233	22,207	3,261	6,184	3,594	13,039
Held-to-maturity investments	3,088	-	2,106	5,194	1,941	-	1,864	3,805
Investment in associates	360	-	-	360	292	-	-	292
Fixed assets	190	4,805	879	5,874	211	3,083	267	3,561
Goodwill and intangible assets	239	20	404	663	241	20	386	647
Deferred tax assets	230	-	80	310	161	-	8	169
Spot assets	<u>82,024</u>	<u>121,752</u>	<u>55,280</u>	<u>259,056</u>	<u>83,532</u>	<u>109,311</u>	<u>44,459</u>	<u>237,302</u>
Liabilities								
Deposits and balances of banks and other financial institutions	(4,715)	(4,582)	(1,949)	(11,246)	(1,456)	(25,020)	(297)	(26,773)
Deposits from customers	(60,630)	(97,918)	(48,141)	(206,689)	(59,678)	(73,464)	(41,000)	(174,142)
Trading liabilities	(1,042)	(26)	(59)	(1,127)	(1,595)	(148)	(199)	(1,942)
Certificates of deposit issued	(1,639)	-	-	(1,639)	(2,452)	-	(426)	(2,878)
Current taxation	13	(58)	(70)	(115)	(27)	(192)	(31)	(250)
Debt securities issued	-	(4,346)	-	(4,346)	-	-	-	-
Deferred tax liabilities	(4)	(82)	(42)	(128)	(4)	-	-	(4)
Other accounts and provisions	(2,716)	(9,333)	(1,394)	(13,443)	(2,176)	(4,524)	(966)	(7,666)
Loan capital	(8,928)	-	(3,431)	(12,359)	(8,285)	-	(2,751)	(11,036)
Spot liabilities	<u>(79,661)</u>	<u>(116,345)</u>	<u>(55,086)</u>	<u>(251,092)</u>	<u>(75,673)</u>	<u>(103,348)</u>	<u>(45,670)</u>	<u>(224,691)</u>
Forward purchases	59,917	27,419	11,016	98,352	51,244	18,872	11,843	81,959
Forward sales	(57,946)	(27,850)	(8,726)	(94,522)	(55,976)	(18,781)	(8,713)	(83,470)
Net option position	(45)	-	34	(11)	3	-	(4)	(1)
Net long non-structural position	<u>4,289</u>	<u>4,976</u>	<u>2,518</u>	<u>11,783</u>	<u>3,130</u>	<u>6,054</u>	<u>1,915</u>	<u>11,099</u>
Net structural position	<u>2,432</u>	<u>6,605</u>	<u>1,012</u>	<u>10,049</u>	<u>2,179</u>	<u>6,602</u>	<u>940</u>	<u>9,721</u>

40. Financial Risk Management (continued)

(b) Market risk management (continued)

(i) Currency risk (continued)

The Bank

	2009				2008			
	USD HK\$ Mn	CNY HK\$ Mn	Other foreign currencies HK\$ Mn	Total HK\$ Mn	USD HK\$ Mn	CNY HK\$ Mn	Other foreign currencies HK\$ Mn	Total HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	1,220	1,946	1,055	4,221	1,107	1,373	962	3,442
Placements with banks and other financial institutions	13,504	-	24,506	38,010	26,730	-	18,795	45,525
Trade bills	838	-	10	848	454	-	55	509
Trading assets	819	1	311	1,131	611	1	159	771
Financial assets designated at fair value through profit or loss	6,701	-	908	7,609	2,141	-	631	2,772
Advances to customers and other accounts	19,052	21	15,385	34,458	20,184	18	14,602	34,804
Available-for-sale financial assets	5,638	135	4,991	10,764	2,178	428	3,511	6,117
Amounts due from subsidiaries	7,525	730	695	8,950	12,663	549	-	13,212
Held-to-maturity investments	1,788	-	1,985	3,773	1,098	-	1,738	2,836
Investment in subsidiaries and associates	2,075	-	361	2,436	1,786	-	361	2,147
Fixed assets	7	-	807	814	9	-	203	212
Deferred tax assets	91	-	77	168	33	-	5	38
Spot assets	<u>59,258</u>	<u>2,833</u>	<u>51,091</u>	<u>113,182</u>	<u>68,994</u>	<u>2,369</u>	<u>41,022</u>	<u>112,385</u>
Liabilities								
Deposits and balances of banks and other financial institutions	(1,227)	-	(1,654)	(2,881)	(620)	-	(202)	(822)
Deposits from customers	(42,215)	(2,614)	(45,959)	(90,788)	(48,260)	(2,488)	(39,107)	(89,855)
Trading liabilities	(861)	-	(46)	(907)	(1,464)	-	(181)	(1,645)
Certificates of deposit issued	(1,639)	-	-	(1,639)	(2,452)	-	(426)	(2,878)
Amounts due to subsidiaries	(543)	-	(26)	(569)	(552)	-	(198)	(750)
Current taxation	2	-	(35)	(33)	(29)	-	(45)	(74)
Other accounts and provisions	(455)	(6)	(1,248)	(1,709)	(821)	(6)	(829)	(1,656)
Loan capital	<u>(12,844)</u>	<u>-</u>	<u>(3,431)</u>	<u>(16,275)</u>	<u>(8,285)</u>	<u>-</u>	<u>(2,751)</u>	<u>(11,036)</u>
Spot liabilities	<u>(59,782)</u>	<u>(2,620)</u>	<u>(52,399)</u>	<u>(114,801)</u>	<u>(62,483)</u>	<u>(2,494)</u>	<u>(43,739)</u>	<u>(108,716)</u>
Forward purchases	72,537	161	10,725	83,423	44,169	15	11,820	56,004
Forward sales	(71,256)	(153)	(8,429)	(79,838)	(49,326)	(19)	(8,184)	(57,529)
Net option position	(45)	-	34	(11)	3	-	(4)	(1)
Net long/(short) non-structural position	<u>712</u>	<u>221</u>	<u>1,022</u>	<u>1,955</u>	<u>1,357</u>	<u>(129)</u>	<u>915</u>	<u>2,143</u>
Net structural position	<u>2,432</u>	<u>6,605</u>	<u>1,012</u>	<u>10,049</u>	<u>2,179</u>	<u>6,602</u>	<u>940</u>	<u>9,721</u>

40. Financial Risk Management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk

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

(iii) Equity risk

The Group's equity positions arise from equity investment and dynamic hedging of equity options in connection with the Bank's linked deposit business. Equity risk is managed daily by the Investment Department within the limits approved by the Board of Directors.

Market risk control limits have been set at varying levels according to the practical requirements of different units. The Board of Directors approves the core control limits and has delegated the power to set detailed control limits to the Asset and Liability Management Committee. Risk, return and market conditions are considered when setting limits. Active limit monitoring is carried out.

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

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

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

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

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

40. Financial Risk Management (continued)

(b) Market risk management (continued)

Value-at-risk statistics

	2009			
	At 31 st December	Maximum	Minimum	Mean
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
VaR for total trading activities	45	76	43	59
VaR for foreign exchange trading positions *	7	21	5	11
VaR for interest rate trading positions	3	4	1	3
VaR for equity trading positions	37	61	35	46

	2008			
	At 31 st December	Maximum	Minimum	Mean
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
VaR for total trading activities	70	139	39	73
VaR for foreign exchange trading positions *	12	21	1	5
VaR for interest rate trading positions	1	2	-	1
VaR for equity trading positions	57	123	38	69

* Included all foreign exchange positions but excluded structured foreign exchange positions.

(c) Operational risk management

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

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

The Group has implemented a centralised risk management framework since January 2006. The Board of Directors reviews and approves the policies for operational risk management, and it has delegated the responsibility for ongoing operational risk management to the Operational Risk Management Committee. The Operational Risk Management Committee regularly reports status of operational risk management to the Board of Directors via the Risk Management Committee. Operational Risk Management Department under Risk Management Division of the Group is responsible for monitoring activities relating to operational risk.

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

Furthermore, Operational Risk Management Department under Risk Management Division of the Group has also performed self-assessment on the Group's compliance with the requirements of HKMA Supervisory Policy Manual on Operational Risk Management, with satisfactory result which had been reviewed independently by Internal Audit Department.

40. Financial Risk Management (continued)

(d) Liquidity risk management

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

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

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

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

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

40. Financial Risk Management (continued)

(d) Liquidity risk management (continued)

Analysis of assets and liabilities by remaining maturity

The Group	2009							
	Repayable on demand HK\$ Mn	Within 1 month HK\$ Mn	3 months or less but over 1 month HK\$ Mn	1 year or less but over 3 months HK\$ Mn	5 years or less but over 1 year HK\$ Mn	Over 5 years HK\$ Mn	Undated or overdue HK\$ Mn	Total HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	18,156	26	48	-	-	-	11,482	29,712
Placements with banks and other financial institutions	-	35,006	15,471	17,468	-	-	-	67,945
Trade bills	38	332	1,028	443	-	-	6	1,847
Trading assets	-	-	126	949	1,949	100	2,598	5,722
Financial assets designated at fair value through profit or loss	-	-	15	108	7,835	2,085	349	10,392
Advances to customers and other accounts	4,410	26,242	14,803	50,376	100,562	61,317	4,093	261,803
Available-for-sale financial assets	-	1,438	3,639	9,241	13,012	1,666	1,887	30,883
Held-to-maturity investments	-	729	602	1,306	4,011	591	-	7,239
Undated assets	-	-	-	-	-	-	18,539	18,539
Total assets	22,604	63,773	35,732	79,891	127,369	65,759	38,954	434,082
Liabilities								
Deposits and balances of banks and other financial institutions	291	5,774	4,155	1,613	20	-	33	11,886
Deposits from customers	129,231	104,732	53,276	44,222	11,067	-	-	342,528
- Demand deposits and current accounts	46,380	-	-	-	-	-	-	46,380
- Savings deposit	81,711	-	-	-	-	-	-	81,711
- Time, call and notice deposits	1,140	104,732	53,276	44,222	11,067	-	-	214,437
Trading liabilities	-	-	-	-	-	-	1,455	1,455
Certificates of deposit issued	-	-	295	1,119	1,094	304	-	2,812
Current taxation	-	-	-	147	-	-	-	147
Debt securities issued	-	-	-	-	4,346	-	-	4,346
Loan capital	-	-	-	4,281	8,078	-	-	12,359
Other liabilities	590	2,391	2,522	4,940	873	-	7,710	19,026
Total liabilities	130,112	112,897	60,248	56,322	25,478	304	9,198	394,559
Net gap	(107,508)	(49,124)	(24,516)	23,569	101,891	65,455		
The Group								
	2008							
	Repayable on demand HK\$ Mn	Within 1 month HK\$ Mn	3 months or less but over 1 month HK\$ Mn	1 year or less but over 3 months HK\$ Mn	5 years or less but over 1 year HK\$ Mn	Over 5 years HK\$ Mn	Undated or overdue HK\$ Mn	Total HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	19,099	42	25	-	-	-	8,939	28,105
Placements with banks and other financial institutions	-	46,714	35,910	13,950	-	-	-	96,574
Trade bills	18	371	620	139	-	-	16	1,164
Trading assets	-	400	-	2	81	43	2,911	3,437
Financial assets designated at fair value through profit or loss	-	23	117	448	3,104	438	-	4,130
Advances to customers and other accounts	4,431	25,229	18,521	42,249	86,169	55,285	11,841	243,725
Available-for-sale financial assets	-	2,523	2,918	5,651	5,510	949	1,009	18,560
Held-to-maturity investments	-	483	497	1,546	2,160	320	-	5,006
Undated assets	-	-	-	-	-	-	14,553	14,553
Total assets	23,548	75,785	58,608	63,985	97,024	57,035	39,269	415,254
Liabilities								
Deposits and balances of banks and other financial institutions	871	7,105	11,045	7,644	362	10	8	27,045
Deposits from customers	86,109	121,332	70,761	35,341	9,237	1,022	-	323,802
- Demand deposits and current accounts	36,332	-	-	-	-	-	-	36,332
- Savings deposit	45,781	-	-	-	-	-	-	45,781
- Time, call and notice deposits	3,996	121,332	70,761	35,341	9,237	1,022	-	241,689
Trading liabilities	-	100	30	200	-	-	2,516	2,846
Certificates of deposit issued	-	-	1,941	881	2,028	641	-	5,491
Current taxation	-	-	-	333	-	-	-	333
Loan capital	-	-	-	-	11,036	-	-	11,036
Other liabilities	714	539	1,645	2,237	-	-	7,081	12,216
Total liabilities	87,694	129,076	85,422	46,636	22,663	1,673	9,605	382,769
Net gap	(64,146)	(53,291)	(26,814)	17,349	74,361	55,362		

40. Financial Risk Management (continued)

(d) Liquidity risk management (continued)

The Bank	2009							
	Repayable on demand HK\$ Mn	Within 1 month HK\$ Mn	3 months or less but over 1 month HK\$ Mn	1 year or less but over 3 months HK\$ Mn	5 years or less but over 1 year HK\$ Mn	Over 5 years HK\$ Mn	Undated or overdue HK\$ Mn	Total HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	11,767	-	-	-	-	-	760	12,527
Placements with banks and other financial institutions	-	31,895	13,313	16,686	-	-	-	61,894
Trade bills	36	132	528	159	-	-	6	861
Trading assets	-	-	1	1	802	100	2,420	3,324
Financial assets designated at fair value through profit or loss	-	-	15	108	7,827	2,085	349	10,384
Advances to customers and other accounts	4,078	19,841	7,398	17,595	59,910	35,731	4,043	148,596
Available-for-sale financial assets	-	1,421	3,061	3,692	8,979	796	986	18,935
Held-to-maturity investments	-	613	563	820	2,805	1	-	4,802
Undated assets	-	-	-	-	-	-	35,970	35,970
Total assets	15,881	53,902	24,879	39,061	80,323	38,713	44,534	297,293
Liabilities								
Deposits and balances of banks and other financial institutions	277	1,300	1,557	354	-	-	33	3,521
Deposits from customers	93,026	87,296	37,746	18,685	764	-	-	237,517
- Demand deposits and current accounts	14,860	-	-	-	-	-	-	14,860
- Savings deposit	78,024	-	-	-	-	-	-	78,024
- Time, call and notice deposits	142	87,296	37,746	18,685	764	-	-	144,633
Trading liabilities	-	-	-	-	-	-	1,235	1,235
Certificates of deposit issued	-	-	295	1,119	1,094	2,504	-	5,012
Current taxation	-	-	-	18	-	-	-	18
Loan capital	-	-	-	4,281	8,078	3,916	-	16,275
Other liabilities	-	686	115	39	18	-	4,665	5,523
Total liabilities	93,303	89,282	39,713	24,496	9,954	6,420	5,933	269,101
Net gap	(77,422)	(35,380)	(14,834)	14,565	70,369	32,293		
The Bank								
	2008							
	Repayable on demand HK\$ Mn	Within 1 month HK\$ Mn	3 months or less but over 1 month HK\$ Mn	1 year or less but over 3 months HK\$ Mn	5 years or less but over 1 year HK\$ Mn	Over 5 years HK\$ Mn	Undated or overdue HK\$ Mn	Total HK\$ Mn
Assets								
Cash and balances with banks and other financial institutions	4,189	-	-	-	-	-	663	4,852
Placements with banks and other financial institutions	-	43,010	35,777	13,948	-	-	-	92,735
Trade bills	14	182	174	135	-	-	16	521
Trading assets	-	400	-	2	81	43	2,388	2,914
Financial assets designated at fair value through profit or loss	-	23	117	448	3,088	438	-	4,114
Advances to customers and other accounts	4,319	19,054	8,034	16,085	51,694	31,570	7,884	138,640
Available-for-sale financial assets	-	574	562	3,947	5,067	126	709	10,985
Held-to-maturity investments	-	315	147	1,092	1,653	111	-	3,318
Undated assets	-	-	-	-	-	-	37,140	37,140
Total assets	8,522	63,558	44,811	35,657	61,583	32,288	48,800	295,219
Liabilities								
Deposits and balances of banks and other financial institutions	329	327	422	7	-	-	8	1,093
Deposits from customers	54,219	110,232	56,082	18,439	1,057	-	-	240,029
- Demand deposits and current accounts	10,272	-	-	-	-	-	-	10,272
- Savings deposit	43,262	-	-	-	-	-	-	43,262
- Time, call and notice deposits	685	110,232	56,082	18,439	1,057	-	-	186,495
Trading liabilities	-	100	30	200	-	-	2,219	2,549
Certificates of deposit issued	-	-	1,941	881	2,028	2,841	-	7,691
Current taxation	-	-	-	60	-	-	-	60
Loan capital	-	-	-	-	11,036	-	-	11,036
Other liabilities	-	153	142	28	-	-	5,213	5,536
Total liabilities	54,548	110,812	58,617	19,615	14,121	2,841	7,440	267,994
Net gap	(46,026)	(47,254)	(13,806)	16,042	47,462	29,447		

As the trading and available-for-sale portfolios may be sold before maturity or deposits from customers may mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows.

40. Financial Risk Management (continued)

(d) Liquidity risk management (continued)

The following tables provide an analysis of the residual contractual maturities of non-derivatives financial liabilities of the Group at the balance sheet date:

The Group	2009							
	Carrying amount HK\$ Mn	Gross cash outflow HK\$ Mn	Repayable on demand HK\$ Mn	Less than three months HK\$ Mn	Between three months and one year HK\$ Mn	Between one and five years HK\$ Mn	More than five years HK\$ Mn	Undated HK\$ Mn
Deposits and balances of banks and other financial institutions	11,886	12,213	291	9,966	1,869	54	-	33
Deposits from customers	342,528	343,883	129,350	158,358	44,627	11,548	-	-
- Demand deposits and current accounts	46,380	46,380	46,380	-	-	-	-	-
- Savings deposit	81,711	81,730	81,730	-	-	-	-	-
- Time, call and notice deposits	214,437	215,773	1,240	158,358	44,627	11,548	-	-
Trading liabilities	1,455	1,455	-	-	-	-	-	1,455
Certificates of deposit issued	2,812	2,854	-	314	1,136	1,100	304	-
Current taxation	147	147	-	-	147	-	-	-
Debt securities issued	4,346	4,600	-	65	62	4,473	-	-
Loan capital	12,359	13,266	-	124	4,664	8,478	-	-
Interest rate swaps	4,364	4,364	-	266	863	2,206	1,029	-
Other liabilities	19,026	19,026	590	4,913	4,940	873	-	7,710
Total	398,923	401,808	130,231	174,006	58,308	28,732	1,333	9,198

The Group	2008							
	Carrying amount HK\$ Mn	Gross cash outflow HK\$ Mn	Repayable on demand HK\$ Mn	Less than three months HK\$ Mn	Between three months and one year HK\$ Mn	Between one and five years HK\$ Mn	More than five years HK\$ Mn	Undated HK\$ Mn
Deposits and balances of banks and other financial institutions	27,045	27,374	871	18,293	7,803	389	10	8
Deposits from customers	323,802	326,711	86,289	193,188	36,028	9,964	1,242	-
- Demand deposits and current accounts	36,332	36,332	36,332	-	-	-	-	-
- Savings deposit	45,781	45,781	45,781	-	-	-	-	-
- Time, call and notice deposits	241,689	244,598	4,176	193,188	36,028	9,964	1,242	-
Trading liabilities	2,846	2,846	-	130	200	-	-	2,516
Certificates of deposit issued	5,491	5,625	-	1,996	911	2,077	641	-
Current taxation	333	333	-	-	333	-	-	-
Loan capital	11,036	12,621	-	130	422	12,069	-	-
Interest rate swaps	1,792	1,792	-	297	522	835	138	-
Other liabilities	12,216	12,216	714	2,184	2,237	-	-	7,081
Total	384,561	389,518	87,874	216,218	48,456	25,334	2,031	9,605

40. Financial Risk Management (continued)

(d) Liquidity risk management (continued)

The Bank	2009							
	Carrying amount HK\$ Mn	Gross cash outflow HK\$ Mn	Repayable on demand HK\$ Mn	Less than three months HK\$ Mn	Between three months and one year HK\$ Mn	Between one and five years HK\$ Mn	More than five years HK\$ Mn	Undated HK\$ Mn
Deposits and balances of banks and other financial institutions	3,521	3,523	277	2,859	354	-	-	33
Deposits from customers	237,517	237,777	93,026	125,202	18,782	767	-	-
- Demand deposits and current accounts	14,860	14,860	14,860	-	-	-	-	-
- Savings deposit	78,024	78,024	78,024	-	-	-	-	-
- Time, call and notice deposits	144,633	144,893	142	125,202	18,782	767	-	-
Trading liabilities	1,235	1,235	-	-	-	-	-	1,235
Certificates of deposit issued	5,012	5,054	-	314	1,136	1,100	2,504	-
Current taxation	18	18	-	-	18	-	-	-
Loan capital	16,275	20,478	-	124	4,993	9,797	5,564	-
Interest rate swaps	3,639	3,639	-	166	540	1,959	974	-
Other liabilities	5,523	5,762	-	801	39	18	-	4,904
Total	272,740	277,486	93,303	129,466	25,862	13,641	9,042	6,172

The Bank	2008							
	Carrying amount HK\$ Mn	Gross cash outflow HK\$ Mn	Repayable on demand HK\$ Mn	Less than three months HK\$ Mn	Between three months and one year HK\$ Mn	Between one and five years HK\$ Mn	More than five years HK\$ Mn	Undated HK\$ Mn
Deposits and balances of banks and other financial institutions	1,093	1,094	329	750	7	-	-	8
Deposits from customers	240,029	241,201	54,219	167,044	18,744	1,194	-	-
- Demand deposits and current accounts	10,272	10,272	10,272	-	-	-	-	-
- Savings deposit	43,262	43,262	43,262	-	-	-	-	-
- Time, call and notice deposits	186,495	187,667	685	167,044	18,744	1,194	-	-
Trading liabilities	2,549	2,549	-	130	200	-	-	2,219
Certificates of deposit issued	7,691	7,825	-	1,996	911	2,077	2,841	-
Current taxation	60	60	-	-	60	-	-	-
Loan capital	11,036	12,621	-	130	422	12,069	-	-
Interest rate swaps	1,285	1,285	-	226	373	616	70	-
Other liabilities	5,536	5,695	-	305	51	68	58	5,213
Total	269,279	272,330	54,548	170,581	20,768	16,024	2,969	7,440

40. Financial Risk Management (continued)

(e) Interest rate risk management

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

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

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

Sensitivity analysis on earnings and economic value to interest rate changes is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on both sides of the balance sheet and performed on monthly basis. Sensitivity limits are set to control the Bank's interest rate risk exposure under both earnings and economic value perspectives. The results are reported to the Asset and Liability Management Committee and the Board of Directors on a regular basis.

Sensitivity analysis on interest rate risk

The Bank uses sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income and economic value change:

	2009			2008		
	HKD HK\$ Mn	USD HK\$ Mn	CNY HK\$ Mn	HKD HK\$ Mn	USD HK\$ Mn	CNY HK\$ Mn
Impact on earnings over the next 12 months if interest rates rise by 200 basis points	(112)	(72)	(25)	64	(26)	185
Impact on economic value if interest rates rise by 200 basis points	(231)	(312)	(152)	(98)	(203)	113

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis is based on the following assumptions:

- (i) there is a parallel shift in the yield curve and in interest rates;
- (ii) there are no other changes to the portfolio;
- (iii) no loan prepayment is assumed as the majority of loans are on a floating rate basis; and
- (iv) deposits without fixed maturity dates are assumed to be repriced on the next day.

Actual changes in the Bank's net interest income and the economic value resulting from the increases in interest rates may differ from the results of this sensitivity analysis.

40. Financial Risk Management (continued)

(e) Interest rate risk management (continued)

The following table indicates the expected next repricing dates (or maturity dates whichever are earlier) for the interest bearing assets and liabilities at the balance sheet date:

The Group	2009					Total HK\$ Mn
	3 months or less HK\$ Mn	Over 3 months to 1 year HK\$ Mn	Over 1 year to 5 years HK\$ Mn	Over 5 years HK\$ Mn	Non- interest bearing HK\$ Mn	
Assets						
Cash and balances with banks and other financial institutions	27,130	22	-	-	2,560	29,712
Placements with banks and other financial institutions	50,477	17,468	-	-	-	67,945
Trade bills	1,359	443	-	-	45	1,847
Trading assets	126	949	1,949	100	2,598	5,722
Financial assets designated at fair value through profit or loss	653	192	7,113	2,085	349	10,392
Advances to customers	191,994	39,853	8,875	3,033	2,554	246,309
Other accounts	786	146	-	-	14,562	15,494
Available-for-sale financial assets	11,350	8,257	8,156	1,233	1,887	30,883
Held-to-maturity investments	2,383	1,050	3,215	591	-	7,239
Non-interest bearing assets	-	-	-	-	18,539	18,539
Total assets	286,258	68,380	29,308	7,042	43,094	434,082
Liabilities						
Deposits and balances of banks and other financial institutions	11,217	589	33	10	37	11,886
Deposits from customers	277,844	47,220	4,227	-	13,237	342,528
Trading liabilities	6	-	-	-	1,449	1,455
Certificates of deposit issued	798	999	711	304	-	2,812
Debt securities issued	-	-	4,346	-	-	4,346
Loan capital	4,647	4,281	3,431	-	-	12,359
Non-interest bearing liabilities	-	-	-	-	19,173	19,173
Total liabilities	294,512	53,089	12,748	314	33,896	394,559
Interest rate sensitivity gap	(8,254)	15,291	16,560	6,728		

40. Financial Risk Management (continued)

(e) Interest rate risk management (continued)

The Group	2008					Total HK\$ Mn
	3 months or less HK\$ Mn	Over 3 months to 1 year HK\$ Mn	Over 1 year to 5 years HK\$ Mn	Over 5 years HK\$ Mn	Non- interest bearing HK\$ Mn	
Assets						
Cash and balances with banks and other financial institutions	25,610	-	-	-	2,495	28,105
Placements with banks and other financial institutions	82,624	13,950	-	-	-	96,574
Trade bills	977	137	-	-	50	1,164
Trading assets	406	2	81	37	2,911	3,437
Financial assets designated at fair value through profit or loss	1,110	595	1,987	438	-	4,130
Advances to customers	181,640	36,159	6,237	2,680	2,579	229,295
Other accounts	551	661	-	-	13,218	14,430
Available-for-sale financial assets	8,125	5,508	2,965	953	1,009	18,560
Held-to-maturity investments	2,029	1,513	1,197	267	-	5,006
Non-interest bearing assets	-	-	-	-	14,553	14,553
Total assets	303,072	58,525	12,467	4,375	36,815	415,254
Liabilities						
Deposits and balances of banks and other financial institutions	18,091	8,671	260	10	13	27,045
Deposits from customers	270,892	38,309	4,354	33	10,214	323,802
Trading liabilities	130	200	-	-	2,516	2,846
Certificates of deposit issued	2,503	654	1,014	1,320	-	5,491
Loan capital	4,641	-	6,395	-	-	11,036
Non-interest bearing liabilities	-	-	-	-	12,549	12,549
Total liabilities	296,257	47,834	12,023	1,363	25,292	382,769
Interest rate sensitivity gap	6,815	10,691	444	3,012		

40. Financial Risk Management (continued)

(e) Interest rate risk management (continued)

The Bank	2009					Total HK\$ Mn
	3 months or less HK\$ Mn	Over 3 months to 1 year HK\$ Mn	Over 1 year to 5 years HK\$ Mn	Over 5 years HK\$ Mn	Non- interest bearing HK\$ Mn	
Assets						
Cash and balances with banks and other financial institutions	11,233	-	-	-	1,294	12,527
Placements with banks and other financial institutions	45,208	16,686	-	-	-	61,894
Trade bills	657	159	-	-	45	861
Trading assets	1	1	802	100	2,420	3,324
Financial assets designated at fair value through profit or loss	653	192	7,105	2,085	349	10,384
Advances to customers	133,403	4,198	1,689	521	2,386	142,197
Other accounts	655	126	-	-	5,618	6,399
Available-for-sale financial assets	10,816	2,647	4,122	364	986	18,935
Held-to-maturity investments	2,228	563	2,010	1	-	4,802
Non-interest bearing assets	-	-	-	-	35,970	35,970
Total assets	204,854	24,572	15,728	3,071	49,068	297,293
Liabilities						
Deposits and balances of banks and other financial institutions	3,130	354	-	-	37	3,521
Deposits from customers	205,842	18,685	764	-	12,226	237,517
Trading liabilities	6	-	-	-	1,229	1,235
Certificates of deposit issued	798	999	711	2,504	-	5,012
Loan capital	4,647	4,281	3,431	3,916	-	16,275
Non-interest bearing liabilities	-	-	-	-	5,541	5,541
Total liabilities	214,423	24,319	4,906	6,420	19,033	269,101
Interest rate sensitivity gap	(9,569)	253	10,822	(3,349)		

40. Financial Risk Management (continued)

(e) Interest rate risk management (continued)

The Bank	2008					Total HK\$ Mn
	3 months or less HK\$ Mn	Over 3 months to 1 year HK\$ Mn	Over 1 year to 5 years HK\$ Mn	Over 5 years HK\$ Mn	Non- interest bearing HK\$ Mn	
Assets						
Cash and balances with banks and other financial institutions	3,619	-	-	-	1,233	4,852
Placements with banks and other financial institutions	78,787	13,948	-	-	-	92,735
Trade bills	342	129	-	-	50	521
Trading assets	406	2	81	37	2,388	2,914
Financial assets designated at fair value through profit or loss	1,110	595	1,971	438	-	4,114
Advances to customers	118,503	5,034	3,106	1,120	2,530	130,293
Other accounts	340	188	-	-	7,819	8,347
Available-for-sale financial assets	3,821	3,803	2,522	126	713	10,985
Held-to-maturity investments	1,512	1,058	690	58	-	3,318
Non-interest bearing assets	-	-	-	-	37,140	37,140
Total assets	208,440	24,757	8,370	1,779	51,873	295,219
Liabilities						
Deposits and balances of banks and other financial institutions	1,072	8	-	-	13	1,093
Deposits from customers	211,740	18,398	1,057	-	8,834	240,029
Trading liabilities	130	200	-	-	2,219	2,549
Certificates of deposit issued	2,503	654	1,014	3,520	-	7,691
Loan capital	4,641	-	6,395	-	-	11,036
Non-interest bearing liabilities	-	-	-	-	5,596	5,596
Total liabilities	220,086	19,260	8,466	3,520	16,662	267,994
Interest rate sensitivity gap	(11,646)	5,497	(96)	(1,741)		

40. Financial Risk Management (continued)

(e) Interest rate risk management (continued)

The following table summarises the range of effective average interest rates for the year ended 31st December for monetary financial instruments:

	The Group		The Bank	
	2009	2008	2009	2008
	%	%	%	%
Assets				
Cash and short-term funds and placements with banks and other financial institutions	0-6.46	0-10.28	0-6.46	0-10.28
Trade bills, advances to customers and advances to banks and other financial institutions	0-45.70	0.50-36.10	0-18.52	0.60-18.33
Securities (Note)	0.01-7.75	0.04-8.23	0.01-7.75	0.04-8.23
Liabilities				
Deposits and balances of banks and other financial institutions	0-9.17	0.02-13.21	0-9.17	0.02-13.21
Deposits from customers	0-10.50	0-9.00	0-8.90	0-9.00
Certificates of deposit issued and loan capital	0.01-10.01	0.92-10.14	0.01-10.01	0.92-10.14

Note: Securities include certificates of deposit held, trading assets, financial assets designated at fair value through profit or loss, securities measured as loans and receivables, available-for-sale financial assets and held-to-maturity investments.

(f) Strategic risk management

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

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

(g) Legal risk and reputation risk management

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

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

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

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

40. Financial Risk Management (continued)

(h) Capital management

The HKMA sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements the HKMA requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the Group's VaR models and uses its internal gradings as the basis for risk weightings for credit risk. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

In addition to meeting the regulatory requirements, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The process of allocating capital to specific operations and activities is undertaken by Asset and Liability Management Committee and is reviewed regularly by the Board of Directors.

Consistent with industry practice, the Group monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the Group's policy on the management of capital during the year.

The capital adequacy ratios as at 31st December, 2009 and 31st December, 2008 are computed on the consolidated basis of the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance which became effective on 1st January, 2007.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year ended 31st December, 2009 and 31st December, 2008 and the Group is well above the minimum required ratio set by the HKMA.

41. 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.

41. Fair values of Financial Instruments (continued)

(a) Financial instruments carried at fair value (continued)

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

	2009							
	The Group				The Bank			
	Level One HK\$ Mn	Level Two HK\$ Mn	Level Three HK\$ Mn	Total HK\$ Mn	Level One HK\$ Mn	Level Two HK\$ Mn	Level Three HK\$ Mn	Total HK\$ Mn
Assets								
Trading assets	4,467	1,154	101	5,722	2,193	1,110	21	3,324
Financial assets designated at fair value through profit or loss	5,290	5,102	-	10,392	5,281	5,103	-	10,384
Available-for-sale financial assets	21,922	8,568	393	30,883	10,845	7,749	341	18,935
	<u>31,679</u>	<u>14,824</u>	<u>494</u>	<u>46,997</u>	<u>18,319</u>	<u>13,962</u>	<u>362</u>	<u>32,643</u>
Liabilities								
Trading liabilities	6	1,357	92	1,455	6	1,139	90	1,235
Financial liabilities designated at fair value through profit or loss	7,712	2,442	-	10,154	11,628	2,442	-	14,070
	<u>7,718</u>	<u>3,799</u>	<u>92</u>	<u>11,609</u>	<u>11,634</u>	<u>3,581</u>	<u>90</u>	<u>15,305</u>

During the year there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

(1) Valuation of financial instruments with significant unobservable inputs

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

	The Group		
	Trading assets – Positive fair value of derivatives HK\$ Mn	Available-for- sale financial assets HK\$ Mn	Total HK\$ Mn
Assets			
At 1 st January, 2009	169	471	640
Purchases	-	44	44
Sales	-	(31)	(31)
Settlements	(154)	-	(154)
Changes in fair value recognised in the income statement	86	-	86
Changes in fair value recognised in the other comprehensive income	-	(91)	(91)
At 31 st December, 2009	<u>101</u>	<u>393</u>	<u>494</u>
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 balance sheet date	<u>-</u>	<u>(91)</u>	<u>(91)</u>
Total gains or losses for the year included in the income statement for assets held at the balance sheet date recorded in net trading income	<u>86</u>	<u>-</u>	<u>86</u>

41. Fair values of Financial Instruments (continued)

(a) Financial instruments carried at fair value (continued)

(1) Valuation of financial instruments with significant unobservable inputs (continued)

	The Bank		Total HK\$ Mn
	Trading assets – Positive fair value of derivatives HK\$ Mn	Available-for- sale financial assets HK\$ Mn	
Assets			
At 1 st January, 2009	7	420	427
Purchases	-	43	43
Sales	-	(31)	(31)
Settlements	(1)	-	(1)
Changes in fair value recognised in the income statement	15	-	15
Changes in fair value recognised in the other comprehensive income	-	(91)	(91)
At 31 st December, 2009	<u>21</u>	<u>341</u>	<u>362</u>
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 balance sheet date	<u>-</u>	<u>(91)</u>	<u>(91)</u>
Total gains or losses for the year included in the income statement for assets held at the balance sheet date recorded in net trading income	<u>15</u>	<u>-</u>	<u>15</u>

	The Group	The Bank
	Trading liabilities – Negative fair value of derivatives HK\$ Mn	Trading liabilities – Negative fair value of derivatives HK\$ Mn
Liabilities		
At 1 st January, 2009	169	168
Settlements	(155)	(154)
Changes in fair value recognised in the income statement	78	76
At 31 st December, 2009	<u>92</u>	<u>90</u>
Total gains or losses for the year included in the income statement for liabilities held at the balance sheet date recorded in net trading income	<u>78</u>	<u>76</u>

41. Fair values of Financial Instruments (continued)

(a) Financial instruments carried at fair value (continued)

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

	2009			
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable HK\$ Mn	(Unfavourable) HK\$ Mn	Favourable HK\$ Mn	(Unfavourable) HK\$ Mn
Trading assets	8	(8)	-	-
Available-for-sale financial assets	-	-	33	(33)
	<u>8</u>	<u>(8)</u>	<u>33</u>	<u>(33)</u>
Trading liabilities	<u>8</u>	<u>(8)</u>	<u>-</u>	<u>-</u>

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 of change in fair value to 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 balance sheet date.
- (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 investment with 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.

41. Fair values of Financial Instruments (continued)

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

(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 Group's and the Bank's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31st December, 2009 and 2008 except as follows:

The Group	2009		2008	
	Carrying amount HK\$ Mn	Fair value HK\$ Mn	Carrying amount HK\$ Mn	Fair value HK\$ Mn
Financial assets				
Held-to-maturity investments	7,239	7,318	5,006	4,898
Financial liabilities				
Debt securities issued	4,346	4,601	-	-
Subordinated liabilities	4,647	4,211	4,641	3,953
The Bank				
	2009		2008	
	Carrying amount HK\$ Mn	Fair value HK\$ Mn	Carrying amount HK\$ Mn	Fair value HK\$ Mn
Financial assets				
Held-to-maturity investments	4,802	4,846	3,318	3,209
Financial liabilities				
Subordinated liabilities	4,647	4,211	4,641	3,953

42. Off-Balance Sheet Exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
Direct credit substitutes	7,341	7,272	5,792	6,888
Transaction-related contingencies	1,293	1,771	1,024	1,529
Trade-related contingencies	1,331	1,045	800	721
Commitments that are unconditionally cancellable without prior notice	41,555	41,692	40,386	38,683
Other commitments				
- up to 1 year	21,606	5,651	6,097	3,049
- over 1 year	14,112	18,737	12,686	11,551
	<u>87,238</u>	<u>76,168</u>	<u>66,785</u>	<u>62,421</u>
Credit risk weighted amounts	<u>27,305</u>	<u>20,642</u>	<u>16,441</u>	<u>14,002</u>

42. Off-Balance Sheet Exposures (continued)

(a) Contingent liabilities and commitments (continued)

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts does not represent expected future cash flows.

(b) Derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

The following is a summary of the notional amounts of each significant type of derivative for the Group and the Bank:

	The Group					
	2009			2008		
	Trading HK\$ Mn	Non- trading HK\$ Mn	Total HK\$ Mn	Trading HK\$ Mn	Non- trading HK\$ Mn	Total HK\$ Mn
Exchange rate contracts						
Forwards and futures	19,590	-	19,590	23,860	-	23,860
Swaps	12,140	4,664	16,804	1,633	12,863	14,496
Options purchased	1,885	1,209	3,094	919	151	1,070
Options written	3,085	1,236	4,321	1,075	151	1,226
Interest rate contracts						
Forwards and futures	-	88	88	25	-	25
Swaps	-	70,669	70,669	-	44,699	44,699
Equity contracts						
Options purchased	261	1,638	1,899	82	1,638	1,720
Options written	177	975	1,152	427	1,039	1,466
	<u>37,138</u>	<u>80,479</u>	<u>117,617</u>	<u>28,021</u>	<u>60,541</u>	<u>88,562</u>
	The Bank					
	2009			2008		
	Trading HK\$ Mn	Non- trading HK\$ Mn	Total HK\$ Mn	Trading HK\$ Mn	Non- trading HK\$ Mn	Total HK\$ Mn
Exchange rate contracts						
Forwards and futures	8,390	-	8,390	10,842	-	10,842
Swaps	11,137	4,664	15,801	1,311	12,253	13,564
Options purchased	1,885	1,209	3,094	971	151	1,122
Options written	3,085	1,236	4,321	1,075	151	1,226
Interest rate contracts						
Forwards and futures	-	88	88	25	-	25
Swaps	-	67,505	67,505	-	42,684	42,684
Equity contracts						
Options purchased	261	1,638	1,899	82	2,307	2,389
Options written	177	1,638	1,815	427	1,039	1,466
	<u>24,935</u>	<u>77,978</u>	<u>102,913</u>	<u>14,733</u>	<u>58,585</u>	<u>73,318</u>

42. Off-Balance Sheet Exposures (continued)

(b) Derivatives (continued)

Derivatives arise from futures, forward, swap and option transactions undertaken by the Group and the Bank in the foreign exchange, interest rate and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

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

	The Group			
	2009		2008	
	Assets HK\$ Mn	Liabilities HK\$ Mn	Assets HK\$ Mn	Liabilities HK\$ Mn
Fair value (Notes 23 and 34)				
Exchange rate contracts	317	139	488	505
Interest rate contracts	587	1,279	1,012	1,928
Options purchased/written				
- exchange rate contracts	9	9	3	5
- equity contracts	55	22	231	78
	<u>968</u>	<u>1,449</u>	<u>1,734</u>	<u>2,516</u>

	The Bank			
	2009		2008	
	Assets HK\$ Mn	Liabilities HK\$ Mn	Assets HK\$ Mn	Liabilities HK\$ Mn
Fair value (Notes 23 and 34)				
Exchange rate contracts	275	114	262	365
Interest rate contracts	506	1,084	755	1,771
Options purchased/written				
- exchange rate contracts	9	9	3	5
- equity contracts	55	22	231	78
	<u>845</u>	<u>1,229</u>	<u>1,251</u>	<u>2,219</u>

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Credit risk weighted amounts *				
Exchange rate contracts	567	391	549	340
Interest rate contracts	350	225	408	321
Equity contracts	90	181	184	248
Debt security & other commodity	6	22	11	38
	<u>1,013</u>	<u>819</u>	<u>1,152</u>	<u>947</u>

* The Bank adopted the Foundation Internal Ratings Based (“IRB”) approach according to Banking (Capital) Rules for calculating the credit risk weighted amount as at 31st December, 2009.

The tables above give the contractual or notional amounts, fair value and credit risk weighted amounts of off-balance sheet transactions. The fair value is calculated for the purposes of deriving the credit risk weighted amounts. These are assessed in accordance with the Banking (Capital) Rules. Fair value represents the cost of replacing all contracts which have a positive value when marked to market.

42. Off-Balance Sheet Exposures (continued)

(b) Derivatives (continued)

Fair value is a close approximation of the credit risk for these contracts as at the balance sheet date. The credit risk weighted amount refers to the amount as computed in accordance with the Banking (Capital) Rules.

The following table provides an analysis of the notional amounts of derivatives of the Group by relevant maturity grouping based on the remaining periods to settlement at the balance sheet date.

The Group								
Notional amounts with remaining life of								
	2009			Total	2008			Total
	1 year or less	Over 1 year to 5 years	Over 5 years		1 year or less	Over 1 year to 5 years	Over 5 years	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest rate derivatives	46,714	15,727	8,316	70,757	26,641	14,193	3,890	44,724
Currency derivatives	37,856	5,953	-	43,809	35,145	5,507	-	40,652
Other derivatives	2,387	268	396	3,051	2,514	8	664	3,186
	<u>86,957</u>	<u>21,948</u>	<u>8,712</u>	<u>117,617</u>	<u>64,300</u>	<u>19,708</u>	<u>4,554</u>	<u>88,562</u>

The Bank								
Notional amounts with remaining life of								
	2009			Total	2008			Total
	1 year or less	Over 1 year to 5 years	Over 5 years		1 year or less	Over 1 year to 5 years	Over 5 years	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Interest rate derivatives	46,123	13,162	8,308	67,593	26,341	12,384	3,984	42,709
Currency derivatives	25,811	5,795	-	31,606	21,247	5,507	-	26,754
Other derivatives	2,387	535	792	3,714	3,183	8	664	3,855
	<u>74,321</u>	<u>19,492</u>	<u>9,100</u>	<u>102,913</u>	<u>50,771</u>	<u>17,899</u>	<u>4,648</u>	<u>73,318</u>

(c) Capital commitments

Capital commitments outstanding at 31st December and not provided for in the accounts were as follows:

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Expenditure authorised and contracted for	338	1,611	100	608
Expenditure authorised but not contracted for	65	107	48	98
	<u>403</u>	<u>1,718</u>	<u>148</u>	<u>706</u>

42. Off-Balance Sheet Exposures (continued)

(d) Operating lease commitments

At 31st December, 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Properties				
Within one year	365	338	127	135
After one year but within five years	736	684	117	117
After five years	249	358	-	-
	<u>1,350</u>	<u>1,380</u>	<u>244</u>	<u>252</u>
	The Group		The Bank	
	2009	2008	2009	2008
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Equipment				
Within one year	6	7	2	2
After one year but within five years	11	10	4	2
After five years	-	-	-	-
	<u>17</u>	<u>17</u>	<u>6</u>	<u>4</u>

The Group and the Bank lease certain properties and equipment under operating leases. The leases run for an initial period of one to twenty five years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually adjusted annually to reflect market rentals. None of the leases includes contingent rentals.

(e) Litigation

Claim by a private banking client

In two connected court proceedings initiated in September 2009 in the High Court of Hong Kong, a private banking client made a claim against the Bank and another bank in Hong Kong for, among other things, damages in respect of investment losses allegedly resulting from certain misconduct of a former employee of the Bank acting as the client relationship manager.

The Bank intends to defend these proceedings rigorously and is in the course of preparing the relevant court documents. If the Bank is unsuccessful in defending the claim, the Bank estimates the maximum amount of exposure is approximately HK\$150 million. As these proceedings are in the preliminary stage and based on the evidence available, the Bank's external lawyers are optimistic on mounting a successful defence to both proceedings, no provisions have been made by the Bank as at 31st December, 2009.

43. Notes on Consolidated Cash Flow Statement

(a) Purchase of subsidiaries

	2009 HK\$ Mn	2008 HK\$ Mn
Net assets acquired		
Cash and balances with banks and other financial institutions	23	12
Advances and other accounts less provisions	24	10
Fixed assets	9	4
Goodwill	-	25
Other accounts and provisions	(12)	(45)
	<u>44</u>	<u>6</u>
Goodwill arising on consolidation	22	27
Total purchase price	<u>66</u>	<u>33</u>
Less: cash and cash equivalents acquired	(23)	(12)
Cash flow on acquisition net of cash acquired	<u><u>43</u></u>	<u><u>21</u></u>

(b) Disposal of subsidiary

	2009 HK\$ Mn	2008 HK\$ Mn
Advances and other accounts less provisions	1	-
Taxation	-	-
Other accounts and provisions	-	-
	<u>1</u>	<u>-</u>
Add: gain on disposal	-	-
Cash flow on disposal of subsidiary	<u><u>1</u></u>	<u><u>-</u></u>

(c) Cash and cash equivalents

(i) Components of cash and cash equivalents in the consolidated cash flow statement

	2009 HK\$ Mn	2008 HK\$ Mn
Cash and balances with banks and other financial institutions	19,244	20,042
Placements with banks and other financial institutions with original maturity within three months	37,938	70,442
Treasury bills with original maturity within three months	2,814	3,251
Certificates of deposit held with original maturity within three months	534	371
	<u><u>60,530</u></u>	<u><u>94,106</u></u>

43. Notes on Consolidated Cash Flow Statement (continued)

(c) Cash and cash equivalents (continued)

(ii) Reconciliation with the consolidated statement of financial position

	2009 HK\$ Mn	2008 HK\$ Mn
Cash and balances with banks and other financial institutions (Note 20)	29,712	28,105
Placements with banks and other financial institutions (Note 21)	67,945	96,574
Treasury bills and certificates of deposit held		
- trading assets (Note 23)	34	400
- advances and other accounts (Note 25)	39	39
- available-for-sale (Note 26)	6,397	11,153
- held-to-maturity (Note 27)	2,434	1,897
	<u>8,904</u>	<u>13,489</u>
Amounts shown in the consolidated statement of financial position	106,561	138,168
Less: Amounts with an original maturity of beyond three months	(35,563)	(35,999)
Cash balance with central bank subject to regulatory restriction	<u>(10,468)</u>	<u>(8,063)</u>
Cash and cash equivalents in the consolidated cash flow statement	<u><u>60,530</u></u>	<u><u>94,106</u></u>

44. Assets Pledged as Security

The following assets have been pledged as collateral for own liabilities at the balance sheet date:

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
Secured liabilities	<u>1,514</u>	<u>1,161</u>	<u>810</u>	<u>1,102</u>
Assets pledged:				
Available-for-sale financial assets	736	76	-	-
Held-to-maturity investments	<u>96</u>	<u>96</u>	<u>96</u>	<u>96</u>
	<u>832</u>	<u>172</u>	<u>96</u>	<u>96</u>

The following balances with banks have been pledged as collateral for securities borrowings and margin deposits of derivatives.

	The Group		The Bank	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
Cash collateral for borrowed securities	18	7	18	7
Margin accounts for open futures and forward contracts	<u>921</u>	<u>912</u>	<u>876</u>	<u>912</u>
	<u>939</u>	<u>919</u>	<u>894</u>	<u>919</u>
Capital equivalency deposit	<u>39</u>	<u>39</u>	<u>39</u>	<u>39</u>

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

45. Loans to Officers

The aggregate of loans to officers of the Bank disclosed pursuant to Section 161B(4B) and (4C) of the Hong Kong Companies Ordinance is as follows:

	2009 HK\$ Mn	2008 HK\$ Mn
Aggregate amount of relevant loans outstanding at 31 st December		
By the Bank	3,711	4,169
By subsidiaries	<u>1,261</u>	<u>1,073</u>
	<u>4,972</u>	<u>5,242</u>
 The maximum aggregate amount of relevant loans outstanding during the year		
By the Bank	5,543	4,573
By subsidiaries	<u>1,656</u>	<u>1,492</u>
	<u>7,199</u>	<u>6,065</u>

There was no interest due but unpaid nor any impairment allowance made against these loans at 31st December, 2009 and 31st December, 2008.

46. Material Related Party Transactions

The Group maintains certain retirement benefit schemes for its staff as per Note 2(q)(iii). In 2009, the total amount of contributions the Group made to the schemes was HK\$65 million (2008: HK\$107 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 year, outstanding balances of amounts due from and due to at the year end, and maximum outstanding balance of amounts due from and due to them during the year are aggregated as follows:

	Key management personnel		Subsidiaries		Associates	
	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn	2009 HK\$ Mn	2008 HK\$ Mn
Interest income	125	264	588	1,079	3	8
Interest expense	25	88	560	148	-	-
Amounts due from	6,971	8,209	12,719	16,398	626	124
Amounts due to	5,147	3,696	1,642	1,994	4	7
Maximum amounts due from	10,443	12,429	15,953	22,072	924	446
Maximum amounts due to	9,826	8,527	2,295	2,850	14	34

47. Equity Compensation Plans

The Bank has adopted Staff Share Option Schemes whereby the Board of the Bank may at its discretion grant to any employees, including Executive Directors and Chief Executive, of the Group options to subscribe for shares of the Bank. The options may be exercised during the period beginning on the first anniversary of the Date of Grant and ending on the fifth anniversary of the Date of Grant. All options were granted for nil consideration.

(a) Particulars of share options

<u>Date of grant</u>	<u>Vesting period</u>	<u>Exercise period</u>	<u>Exercise price per share HK\$</u>
22/4/2004	22/4/2004 – 21/4/2005	22/4/2005 – 22/4/2009	21.11*
03/5/2005	03/5/2005 – 02/5/2006	03/5/2006 – 03/5/2010	20.86*
03/5/2006	03/5/2006 – 02/5/2007	03/5/2007 – 03/5/2011	30.04*
10/5/2007	10/5/2007 – 09/5/2008	10/5/2008 – 10/5/2012	42.84*
05/5/2008	05/5/2008 – 04/5/2009	05/5/2009 – 05/5/2013	40.09*
05/5/2009	05/5/2009 – 04/5/2010	05/5/2010 – 05/5/2014	21.25

(b) Movement of share options

<u>Date of grant</u>	<u>Number of share options</u>					<u>Outstanding at 31/12/2009</u>
	<u>Outstanding at 1/1/2009</u>	<u>Additional share options for bonus issue*</u>	<u>Granted</u>	<u>Exercised</u>	<u>Lapsed</u>	
22/4/2004	2,765,000	276,500	-	-	3,041,500	-
03/5/2005	6,105,000	610,500	-	1,978,500	-	4,737,000
03/5/2006	2,700,000	270,000	-	-	275,000	2,695,000
10/5/2007	2,750,000	275,000	-	-	275,000	2,750,000
05/5/2008	5,500,000	550,000	-	-	550,000	5,500,000
05/5/2009	-	-	6,600,000	-	-	6,600,000
Total	19,820,000	1,982,000	6,600,000	1,978,500	4,141,500	22,282,000

<u>Date of grant</u>	<u>Number of share options</u>				<u>Outstanding at 31/12/2008</u>
	<u>Outstanding at 1/1/2008</u>	<u>Granted</u>	<u>Exercised</u>	<u>Lapsed</u>	
02/5/2003	2,205,000	-	2,205,000	-	-
22/4/2004	3,915,000	-	1,080,000	70,000	2,765,000
03/5/2005	7,230,000	-	1,125,000	-	6,105,000
03/5/2006	3,200,000	-	500,000	-	2,700,000
10/5/2007	2,750,000	-	-	-	2,750,000
05/5/2008	-	5,500,000	-	-	5,500,000
Total	19,300,000	5,500,000	4,910,000	70,000	19,820,000

* After adjusting for the bonus issue in 2009.

(c) No share options were cancelled during the years ended 31st December, 2009 and 2008.

47. Equity Compensation Plans (continued)

(d) Details of share options exercised

Exercise period	Date of grant	Number of share options	
		2009	2008
January	02/5/2003	-	1,005,000
	22/4/2004	-	130,000
	03/5/2005	-	75,000
February	02/5/2003	-	20,000
	22/4/2004	-	20,000
	03/5/2005	-	25,000
March	02/5/2003	-	1,060,000
	22/4/2004	-	665,000
	03/5/2005	-	715,000
	03/5/2006	-	500,000
April	02/5/2003	-	30,000
	22/4/2004	-	165,000
	03/5/2005	-	110,000
May	02/5/2003	-	90,000
	22/4/2004	-	20,000
	03/5/2005	190,500	75,000
June	22/4/2004	-	25,000
	03/5/2005	208,500	25,000
July	22/4/2004	-	5,000
	03/5/2005	14,000	55,000
August	22/4/2004	-	30,000
	03/5/2005	79,000	45,000
September	22/4/2004	-	20,000
	03/5/2005	243,500	-
October	03/5/2005	292,500	-
November	03/5/2005	755,500	-
December	03/5/2005	195,000	-
		<u>1,978,500</u>	<u>4,910,000</u>

48. Non-adjusting post balance sheet events

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 15(a).

On 30th December, 2009, the Bank entered into a subscription agreement with Negocio de Finanzas e Inversiones I, SLU, a subsidiary of Criteria Caixa Corp., SA and Sumitomo Mitsui Banking Corporation respectively in relation to the subscription as principal of an aggregate of 167,104,200 shares in the share capital of the Bank at HK\$30.60 per new share subject to regulatory approval. These 167,104,200 shares represent approximately 8.29% of the entire issued share capital of the Bank as enlarged by the subscriptions. The subscription price represents a discount of approximately 2.08% to the closing price of HK\$31.25 per share quoted on the Stock Exchange on 30th December, 2009. Following with a regulatory approval, shares issued and proceeds are received on 14th January, 2010.

In June 2009, BEA signed a Sale and Purchase Agreement with the Industrial and Commercial Bank of China Limited (“ICBC”) to sell a 70% interest in its banking subsidiary in Canada, The Bank of East Asia (Canada), to ICBC. The transaction closed on 28th January, 2010.

49. Accounting Estimates and Judgements

The preparation of accounts requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these accounts and the reported amounts of revenues and expenses for the years presented. Changes in assumptions may have a significant impact on the accounts in the periods where the assumptions are changed. The application of assumptions and estimates means that any selection of different assumptions would cause the Group's reporting to differ. The Group believes that the assumptions that have been made are appropriate and that the accounts therefore present the financial position and results fairly, in all material respects.

Management discussed with the Audit Committee the development, selection and disclosure of the Group's significant accounting policies and estimates and the application of these policies and estimates.

(a) Key sources of estimation uncertainty

Notes 30, 36 and 41 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options granted and fair values of financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Impairment losses

Loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgement as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment includes observable data that the payment status of borrowers in a group has adversely changed. It may also include observable data that correlate with defaults on the assets in the Group. If management has determined, based on their judgement, that objective evidence for impairment exists, expected future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

Available-for-sale financial assets and held-to-maturity investments

The Group determines that available-for-sale financial assets and held-to-maturity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of when a decline in fair value below its cost is not recoverable within a reasonable time period is judgmental by nature, so profit and loss could be affected by differences in this judgement.

(ii) Valuation of financial instruments

The Group's accounting policy for valuation of financial instruments is included in Note 2. The fair value of the financial instruments is mainly based on the quoted market price on a recognised stock exchange or a price quoted from a broker/dealer for non-exchanged traded financial instruments. The fair value of collateralised debt obligations is based on bid prices quoted by reputable brokers and has been carefully assessed for reasonableness by management. The fair value of SIV is based on their net asset values as provided by the SIV's managers.

49. Accounting Estimates and Judgements (continued)

(b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below:

(i) Held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has a positive intention and ability to hold to maturity as held-to-maturity investments. In making this judgement, the Group evaluates its intention and ability to hold such investments till maturity.

If the Group fails to hold these investments to maturity other than for certain specific circumstances, the Group will have to reclassify the entire portfolio of held-to-maturity investments as available-for-sale, as such class is deemed to have been tainted.

This would result in held-to-maturity investments being measured at fair value instead of at amortised cost.

(ii) Recognition of deferred tax assets

The group recognises deferred tax assets only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Estimates and judgements are applied in determining the amount of future taxable profits and the probability that such future taxable profits are available in the foreseeable future to support recognition of the deferred tax assets. The group uses all readily available information, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs, in determining future taxable profits. Changes in these estimates could significantly affect the timing of deferred tax asset recognition and the amount of asset recognised.

50. Comparative Figures

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statement*, and HKFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in Note 3.

The Group has reviewed the disclosures in the financial statements and has made a number of presentation changes in Note 40. In such case, comparative figures in the notes have been amended to ensure consistency with the current year.

51. Proposed Impact of Amendments, New Standards and Interpretations Issued but not Yet Effective for the Year Ended 31st December, 2009

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments, new standard and interpretations which are not yet effective for the accounting year ended 31st December, 2009 and which have not been adopted in these accounts.

	Effective for accounting periods beginning on or after
HKFRS 3 (Revised), <i>Business combinations</i>	1 st July, 2009
Amendment to HKAS 27, <i>Consolidated and separate financial statements</i>	1 st July, 2009
Amendment to HKAS 39, <i>Financial instruments: Recognition and measurement – Eligible hedged items</i>	1 st July, 2009
HK(IFRIC) 17, <i>Distributions of non-cash assets to owners</i>	1 st July, 2009
Improvements to HKFRSs 2009	1 st July, 2009 or 1 st January, 2010
HKFRS 9, <i>Financial instruments</i>	1 st January, 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for HKFRS 9, Financial instruments, which may have an impact on the Group's results and financial position arising from changes in the Group's classification and measurement of financial instruments.

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Supplement dated 28 October 2011

The Bank of East Asia, Limited

Issue of U.S.\$500,000,000 6.375 per cent. Subordinated Notes due 2022
under the U.S.\$3,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

1	Issuer:	The Bank of East Asia, Limited
2	Series Number:	1
3	Specified Currency or Currencies:	U.S. dollars
4	Aggregate Nominal Amount:	U.S.\$500,000,000
5	(i) Issue Price:	99.849 per cent. of the Aggregate Nominal Amount
	(ii) Net proceeds:	U.S.\$497,495,000
6	(i) Specified Denominations:	U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof up to and including U.S.\$199,000
	(ii) Calculation Amount:	U.S.\$1,000
7	(i) Issue Date:	4 November 2011
	(ii) Interest Commencement Date:	Issue Date
8	Maturity Date:	4 May 2022
9	Interest Basis:	6.375 per cent. Fixed Rate
10	Redemption/Payment Basis:	Redemption at par
11	Change of Interest or Redemption/ Payment Basis:	Interest rate reset. See paragraph 16(i) below.
12	Put/Call Options:	Issuer Call
13	Status of the Notes:	Subordinated
14	Listing and admission to trading:	The Singapore Exchange Securities Trading Limited
15	Method of distribution:	Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Note Provisions	Applicable
	(i) Rate of Interest:	From (and including) the Issue Date to (but excluding) the First Call Date (as defined in paragraph 21 below), the Notes will bear interest at a rate of 6.375 per cent. per annum payable semi-annually in arrear. From (and including) the First Call Date to (but excluding) the Maturity Date, the Notes will bear interest at a rate of interest expressed as a percentage per annum equal to the sum of (a) the Initial Spread and (b) the Treasury Rate (as defined below) payable semi-annually in arrear.

For the purposes of this Pricing Supplement:

“Comparable Treasury Issue” means the U.S. Treasury security selected by the Issuing and Paying Agent as having a maturity of five years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of five years;

“Comparable Treasury Price” means the average of the Reference Treasury Dealer Quotations for the First Call Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations;

“Initial Spread” means (a) 6.395 per cent. per annum (being the yield on the Notes at the date of this Pricing Supplement) minus (b) 1.168. For information purposes only, (b) is the rate in per cent. per annum equal to the yield on U.S. Treasury securities having a maturity of five years as was displayed on Bloomberg page “PX1” at 7.15 p.m. (Hong Kong time) on 28 October 2011;

“Reuters Screen USAUCTION 10/11” means the display on the Reuters (or any successor service) pages designated as “USAUCTION 10” or “USAUCTION 11” or any other page that replaces the applicable page on that service for the purpose of displaying the rate for the most recent auction of Treasury bills;

“Reference Treasury Dealer” means (a) Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and UBS Securities LLC or the respective successor of any of them; provided, however, that if any of the foregoing shall cease to be a primary U.S. government securities dealer in the United States (a **“Primary Treasury Dealer”**), the Issuing and Paying Agent will substitute therefor another Primary Treasury Dealer; and (b) any other Primary Treasury Dealer selected by the Issuing and Paying Agent;

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer, the average, as determined by the Issuing and Paying Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount), as provided to the Issuing and Paying Agent by that Reference Treasury Dealer at 5:00 p.m., New York City time, on the New York Business Day preceding the First Call Date; and

“Treasury Rate” means the rate in per cent. per annum notified by the Issuing and Paying Agent to the Issuer and the holders of the Notes (in accordance with Condition 16) equal to the yield on U.S. Treasury

securities having a maturity of five years as is displayed on Bloomberg page “PX1” (or any successor page or service displaying yields on U.S. Treasury securities as agreed between the Issuing and Paying Agent and the Issuer) at 3.00 p.m. (Hong Kong time) on the First Call Date. If such page (or any successor page or service) does not display the relevant yield at 3.00 p.m. (Hong Kong time) on the First Call Date, “**Treasury Rate**” shall mean the rate in per cent. per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the First Call Date.

- (ii) Interest Payment Date(s): 4 May and 4 November in each year beginning on 4 May 2012, provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which case the Interest Payment Date shall be brought forward to the immediately preceding Business Day.
- (iii) Fixed Coupon Amount(s): Not Applicable
- (iv) Broken Amount(s): Not Applicable
- (v) Day Count Fraction: 30/360
- (vi) Determination Dates: Not Applicable
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: Not Applicable

- 17 **Floating Rate Note Provisions** Not Applicable
- 18 **Zero Coupon Note Provisions** Not Applicable
- 19 **Index-Linked Interest Note Provisions** Not Applicable
- 20 **Dual Currency Note Provisions** Not Applicable

PROVISIONS RELATING TO REDEMPTION

- 21 **Call Option** Applicable
 - (i) Optional Redemption Date(s): 4 May 2017 (the “**First Call Date**”) or any Interest Payment Date thereafter, subject to the prior written consent of the Hong Kong Monetary Authority (or any successor thereto) (the “**HKMA**”).
 - (ii) Optional Redemption Amount(s) of each Note and specified denomination method, if any, of calculation of such amount(s): U.S.\$1,000 per Calculation Amount
 - (iii) If redeemable in part: Not Applicable

	(iv) Notice period:	15 days' notice.
22	Put Option	Not Applicable
23	Final Redemption Amount of each Note	U.S.\$1,000 per Calculation Amount
24	Early Redemption Amount	
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):	U.S.\$1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25	Form of Notes:	Registered Notes
26	Financial Centre(s) or other special provisions relating to Payment Dates:	Not Applicable
27	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Not Applicable
28	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
29	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	Not Applicable
30	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
31	Consolidation provisions:	Not Applicable
32	Other terms or special conditions:	<p>Redemption for Regulatory Reasons</p> <p>The Notes may be redeemed at the option of the Issuer in whole, but not in part, (but subject to the consent thereto having been obtained from the HKMA) at any time on giving not less than 30 days' and not more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount together with interest accrued but unpaid to but excluding the date fixed for redemption following the occurrence of a Regulatory Redemption Event.</p> <p>For the purposes of this Pricing Supplement, a</p>

“**Regulatory Redemption Event**” occurs if the Notes no longer qualify as term subordinated debt for inclusion in Category II – Supplementary Capital of the Issuer as a result of amendments to the relevant provisions of the Banking Ordinance of Hong Kong Cap. 155, the Banking (Capital) Rules or the statutory guidelines issued by the HKMA in relation thereto after the Issue Date, excluding non-qualification (a) solely by virtue of the Issuer already having in issue securities with an aggregate principal amount up to or in excess of the limit of Supplementary Capital permitted from time to time by the HKMA or solely as a result of any discounting requirements as to the eligibility of the Notes for such inclusion pursuant to the relevant legislation and statutory guidelines in force from time to time, or (b) as a result of the implementation into Hong Kong law and regulation of the Basel III reforms, as set out in the publication entitled “Basel III: A global regulatory framework for more resilient banks and banking systems” published by the Basel Committee on Banking Supervision in December 2010 and revised in June 2011.

DISTRIBUTION

33	(i) If syndicated, names of Managers:	Citigroup Global Markets Limited, Deutsche Bank AG, Singapore Branch and UBS AG, Hong Kong Branch
	(ii) Stabilising Manager (if any):	UBS AG, Hong Kong Branch
34	If non-syndicated, name of Dealer:	Not Applicable
35	U.S. selling restrictions:	Reg. S Category 2; TEFRA Not Applicable
36	Additional selling restrictions:	Not Applicable

OPERATIONAL INFORMATION

37	ISIN Code:	XS0700181521
38	Common Code:	070018152
39	CMU Instrument Number:	Not Applicable
40	CUSIP Number:	Not Applicable
41	Any clearing system(s) other than Euroclear Bank, Clearstream, Luxembourg and the CMU and the relevant identification number(s):	Not Applicable
42	Delivery:	Delivery against payment
43	Additional Paying Agent(s) (if any):	Not Applicable