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The Bank of East Asia, Limited

東亞銀行有限公司

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

ANNOUNCEMENT OF 2015 INTERIM RESULTS

INTERIM RESULTS

The Board of Directors of the Bank is pleased to announce the unaudited results (Note 1(a)) of the Group for the six months ended 30th June, 2015.

Consolidated Income Statement

		6 months ended 30/6/2015	6 months ended 30/6/2014 Restated
	Notes	HK\$ Mn	HK\$ Mn
Interest income	3	12,331	12,587
Interest expense	4	(6,145)	(6,339)
Net interest income		6,186	6,248
Fee and commission income	5	2,653	2,579
Fee and commission expense		(467)	(438)
Net fee and commission income		2,186	2,141
Net trading (losses)/profits	6	(36)	531
Net result from financial instruments designated at fair value through profit or loss	7	(24)	(53)
Net hedging loss	8	(23)	(1)
Other operating income	9	410	336
Non-interest income		2,513	2,954
Operating income		8,699	9,202
Operating expenses	10	(4,620)	(4,893)
Operating profit before impairment losses		4,079	4,309
Impairment losses on loans and advances		(781)	(319)
Write back of impairment losses on held-to-maturity investments		-	3
Impairment losses on available-for-sale financial assets		(1)	-
Impairment losses		(782)	(316)
Operating profit after impairment losses		3,297	3,993
Net profit on sale of held-to-maturity investments		3	-
Net profit on sale of available-for-sale financial assets	11	54	68
Net loss on sale of loans and receivables		(2)	-
Net gain/(loss) on disposal of fixed assets	12	112	(3)
Valuation gains on investment properties	20	340	115
Share of profits less losses of associates		254	309
Profit for the period before taxation		4,058	4,482
Income tax			
Current tax	1(b)		
- Hong Kong		(423)	(406)
- Outside Hong Kong		(382)	(407)
Deferred tax	26	162	(37)
Profit for the period after taxation		3,415	3,632
Attributable to:			
Owners of the parent		3,354	3,580
Non-controlling interests		61	52
Profit after taxation		3,415	3,632
Profit for the Bank		2,193	1,790
Per share			
- Basic earnings	1(c)	HK\$1.28	HK\$1.48
- Diluted earnings	1(c)	HK\$1.28	HK\$1.48

Consolidated Statement of Comprehensive Income

		6 months ended 30/6/2015 HK\$ Mn	6 months ended 30/6/2014 HK\$ Mn
	Notes		
Net profit		3,415	3,632
Other comprehensive income for the period:			
Item that will not be reclassified to income statement:			
Premises:			
- exchange differences		-	(2)
Items that may be reclassified subsequently to income statement:			
Premises:			
- deferred taxes	26	(14)	-
Available-for-sale investment revaluation reserve:			
- fair value changes recognised to equity		338	732
- fair value changes reclassified from/(to) income statement:			
- on impairment and amortisation		10	1
- on disposal	11	(102)	(43)
- deferred taxes	26	(23)	(131)
- exchange differences		-	5
Share of changes in equity of associates		24	(24)
Exchange differences on other reserves		-	(80)
Exchange differences on translation of:			
- accounts of overseas branches, subsidiaries and associates		(349)	(473)
Other comprehensive income		(116)	(15)
Total comprehensive income		3,299	3,617
Total comprehensive income attributable to:			
Owners of the parent		3,246	3,565
Non-controlling interests		53	52
		3,299	3,617

Consolidated Statement of Financial Position

		30/6/2015	31/12/2014
	Notes	HK\$ Mn	HK\$ Mn
ASSETS			
Cash and balances with banks and other financial institutions		59,391	70,358
Placements with banks and other financial institutions	13	77,485	50,769
Trade bills	14	45,975	60,675
Trading assets	15	8,893	2,885
Financial assets designated at fair value through profit or loss	16	5,540	8,713
Positive fair value of derivatives	31(a)	4,083	3,537
Advances to customers and other accounts	17	493,143	482,140
Available-for-sale financial assets	18	90,282	86,816
Held-to-maturity investments	19	7,779	6,747
Investments in associates		6,089	6,083
Fixed assets	20	13,277	13,117
- Investment properties		4,885	4,544
- Other property and equipment		8,392	8,573
Goodwill and intangible assets		3,927	3,955
Deferred tax assets	26	122	96
Total Assets		815,986	795,891
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions		36,982	33,323
Deposits from customers		551,409	548,184
- Demand deposits and current accounts		77,675	67,337
- Savings deposits		107,053	100,782
- Time, call and notice deposits		366,681	380,065
Trading liabilities	21	2,461	21
Negative fair value of derivatives	31(a)	6,065	4,823
Certificates of deposit issued		46,480	44,398
- Designated at fair value through profit or loss		17,439	14,444
- At amortised cost		29,041	29,954
Current taxation		1,693	1,172
Debt securities issued		16,671	22,424
- Designated at fair value through profit or loss		4,513	7,595
- At amortised cost		12,158	14,829
Deferred tax liabilities	26	582	686
Other accounts and provisions	22	53,501	50,081
Loan capital - at amortised cost	23	17,273	17,335
Total Liabilities		733,117	722,447
Share capital	1(e)	33,153	25,217
Reserves	27	45,146	43,663
Total equity attributable to owners of the parent		78,299	68,880
Non-controlling interests		4,570	4,564
Total Equity		82,869	73,444
Total Equity and Liabilities		815,986	795,891

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Capital reserve – staff share options issued	Exchange revaluation reserve	Investment revaluation reserve	Revaluation reserve of bank premises	Capital reserve	General reserve	Other reserves*	Retained profits	Total	Non-controlling interests	Total Equity
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
At 1 st January, 2015	25,217	-	84	1,970	1,660	1,642	228	13,930	4,300	19,849	68,880	4,564	73,444
Changes in equity													
Profit for the period	-	-	-	-	-	-	-	-	-	3,354	3,354	61	3,415
Other comprehensive income	-	-	-	(341)	223	(14)	-	-	24	-	(108)	(8)	(116)
Total comprehensive income	-	-	-	(341)	223	(14)	-	-	24	3,354	3,246	53	3,299
Shares issued in lieu of dividend (Note 1(e))	1,216	-	-	-	-	-	-	-	-	-	1,216	-	1,216
Subscription of new shares (Note 1(e))	6,576	-	-	-	-	-	-	-	-	-	6,576	-	6,576
Shares issued under Staff Share Option Schemes (Note 1(e))	131	-	-	-	-	-	-	-	-	-	131	-	131
Equity settled share-based transaction	-	-	12	-	-	-	-	-	-	-	12	-	12
Transfer	13	-	(13)	-	-	-	2	-	114	(116)	-	-	-
Dividends declared or approved during the period (Note 1(d))	-	-	-	-	-	-	-	-	-	(1,762)	(1,762)	(47)	(1,809)
At 30 th June, 2015	33,153	-	83	1,629	1,883	1,628	230	13,930	4,438	21,325	78,299	4,570	82,869
At 1 st January, 2014	5,724	17,770	69	2,874	978	1,642	200	13,877	3,770	16,778	63,682	4,552	68,234
Changes in equity													
Profit for the period	-	-	-	-	-	-	-	-	-	3,580	3,580	52	3,632
Other comprehensive income	-	-	-	(473)	564	(2)	-	-	(104)	-	(15)	-	(15)
Total comprehensive income	-	-	-	(473)	564	(2)	-	-	(104)	3,580	3,565	52	3,617
Shares issued in lieu of dividend	1,096	-	-	-	-	-	-	-	-	-	1,096	-	1,096
Shares issued under Staff Share Option Schemes	26	-	-	-	-	-	-	-	-	-	26	-	26
Equity settled share-based transaction	-	-	11	-	-	-	-	-	-	-	11	-	11
Transfer	6	-	(6)	-	-	-	30	56	32	(118)	-	-	-
Dividends declared or approved during the period (Note 1(d))	-	-	-	-	-	-	-	-	-	(1,722)	(1,722)	(53)	(1,775)
Purchase of interests in businesses from non-controlling interests investors	-	-	-	-	-	-	-	-	-	-	-	1	1
Transition to no-par value regime on 3 rd March, 2014 (Note 1(e))	17,770	(17,770)	-	-	-	-	-	-	-	-	-	-	-
At 30 th June, 2014	24,622	-	74	2,401	1,542	1,640	230	13,933	3,698	18,518	66,658	4,552	71,210

* Other reserves include statutory reserve and other reserves.

Condensed Consolidated Cash Flow Statement

	Notes	6 months ended 30/6/2015 HK\$ Mn	6 months ended 30/6/2014 HK\$ Mn
NET CASH INFLOW/(OUTFLOW) FROM OPERATIONS		16,894	(38,182)
Income tax paid			
Hong Kong profits tax paid		(3)	(89)
Outside Hong Kong profits tax paid		(283)	(556)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		16,608	(38,827)
INVESTING ACTIVITIES			
Dividends received from associates		9	19
Dividends received from available-for-sale equity securities		13	18
Purchase of equity securities		(1,523)	(800)
Proceeds from sale of equity securities		1,123	703
Purchase of fixed assets		(143)	(152)
Purchase of investment properties		-	(43)
Proceeds from disposal of fixed assets		156	3
Purchase of shareholding in associates		(61)	(698)
Purchase of subsidiaries	28(a)	-	(2)
Purchase of interests in business from non-controlling interests investors		-	1
NET CASH USED IN INVESTING ACTIVITIES		(426)	(951)
FINANCING ACTIVITIES			
Ordinary dividends paid		(428)	(514)
Distribution to Hybrid Tier 1 issue holders	1(d)	(165)	(165)
Issue of ordinary share capital		131	26
Subscription of new shares		6,576	-
Issue of certificates of deposit		43,695	41,264
Issue of debt securities		9,167	22,100
Redemption of certificates of deposit issued		(41,837)	(35,439)
Redemption of debt securities issued		(14,814)	(2,784)
Interest paid on loan capital		(451)	(375)
Interest paid on certificates of deposit issued		(466)	(260)
Interest paid on debt securities issued		(288)	(99)
NET CASH GENERATED FROM FINANCING ACTIVITIES		1,120	23,754
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		17,302	(16,024)
CASH AND CASH EQUIVALENTS AT 1 ST JANUARY		71,986	90,007
CASH AND CASH EQUIVALENTS AT 30 TH JUNE	28(b)	89,288	73,983
Cash flows from operating activities included:			
Interest received		12,379	13,470
Interest paid		6,442	6,941
Dividend received		38	44

Notes:

1. (a) The information in this announcement is not audited or reviewed by the external auditors but is extracted from the interim report prepared under HKAS 34 “Interim Financial Reporting” issued by the HKICPA. Hence this announcement does not constitute the Group’s statutory accounts. The interim report, which has been reviewed by the Bank’s Audit Committee, is prepared on a basis consistent with the accounting policies and methods of computation adopted in the 2014 audited accounts, except for the accounting policy changes required under new HKFRSs and amendments that are first effective for the current accounting period as described in note 2 below, or otherwise explicitly stated, and has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA, whose unmodified review report is included in the interim report which will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Bank, together with the disclosures required by the Banking (Disclosure) Rules issued by the HKMA, by 30th September, 2015 as required by the Listing Rules and the Banking (Disclosure) Rules. The statutory accounts for the year ended 31st December, 2014 are available from the Bank’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 12th February, 2015.

The financial information relating to the financial year ended 31st December, 2014 that is included in the interim financial report as comparative information does not constitute the Bank’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31st December, 2014 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Bank’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance (or under their equivalent requirements found in section 141 of the predecessor Companies Ordinance (Cap.32)).

- (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, 2015. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.
- (c) (i) The calculation of basic earnings per share is based on earnings of HK\$3,189 million (six months ended 30th June, 2014: HK\$3,415 million) after the distribution of HK\$165 million (six months ended 30th June, 2014: HK\$165 million) to Hybrid Tier 1 issue holders and on the weighted average of 2,489 million (six months ended 30th June, 2014: 2,309 million) ordinary shares outstanding during the six months ended 30th June, 2015.
- (ii) The calculation of diluted earnings per share is based on earnings of HK\$3,189 million (six months ended 30th June, 2014: HK\$3,415 million) after the distribution of HK\$165 million (six months ended 30th June, 2014: HK\$165 million) to Hybrid Tier 1 issue holders and on 2,490 million (six months ended 30th June, 2014: 2,309 million) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2015, adjusted for the effects of all dilutive potential shares.

(d) Dividends

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

	6 months ended 30/6/2015 HK\$ Mn	6 months ended 30/6/2014 HK\$ Mn
Interim dividend declared after the interim period of HK\$0.38 per share on 2,616 million shares (six months ended 30 th June, 2014: HK\$0.43 per share on 2,329 million shares)	<u>994</u>	<u>1,001</u>

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

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

	6 months ended 30/6/2015 HK\$ Mn	6 months ended 30/6/2014 HK\$ Mn
Second interim dividend paid in respect of the previous financial year on shares issued under the share option schemes subsequent to the end of the reporting period and before the close of the Register of Members of the Bank, of HK\$0.68 per share (2014: HK\$0.68 per share)	1	-
Second interim dividend of HK\$0.68 per share on 2,347 million shares (2014: HK\$0.68 per share on 2,290 million shares)	<u>1,596</u>	<u>1,557</u>
	<u>1,597</u>	<u>1,557</u>

(iii) Distribution to holders of Hybrid Tier 1 capital instruments

	6 months ended 30/6/2015 HK\$ Mn	6 months ended 30/6/2014 HK\$ Mn
Interest payable on the Hybrid Tier 1 capital instruments	<u>165</u>	<u>165</u>

(e) Share Capital

The transition to the no-par value regime under the Companies Ordinance occurred automatically on 3rd March, 2014. On that date, the share premium account and any capital redemption reserve were subsumed into share capital in accordance with section 37 of Schedule 11 to the Companies Ordinance. These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been made in accordance with the requirements of Parts 4 and 5 of the Companies Ordinance.

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

	At 30 th June, 2015		At 31 st December, 2014	
	No. of shares		No. of shares	
	Mn	HK\$ Mn	Mn	HK\$ Mn
Ordinary shares, issued and fully paid:				
At 1st January	2,347	25,217	2,290	5,724
Subscription of new shares	223	6,576	-	-
Shares issued under Staff Share Option Schemes	4	131	2	50
Transition to no-par value regime on 3 rd March, 2014	-	-	-	17,770
Transfer of the fair value of options from capital reserve – share options issued	-	13	-	9
Share issued in lieu of dividend	42	1,216	55	1,664
At 30 th June/31 st December	<u>2,616</u>	<u>33,153</u>	<u>2,347</u>	<u>25,217</u>

2. Changes in Accounting Policies

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

- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

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

3. Interest Income

	6 months ended 30/6/2015	6 months ended 30/6/2014 Restated
	HK\$ Mn	HK\$ Mn
Securities classified as held-to-maturity or available-for-sale	1,249	1,113
Trading assets	88	93
Financial assets designated at fair value through profit or loss	74	139
Loans, deposits with banks and financial institutions, and trade bills	10,920	11,242
	<u>12,331</u>	<u>12,587</u>

Included above is interest income accrued on impaired financial assets of HK\$87 million (six months ended 30th June, 2014: HK\$53 million).

Included within interest income is HK\$12,252 million (six months ended 30th June, 2014: HK\$12,394 million), before hedging effect, for financial assets that are not recognized at fair value through profit or loss.

For the transactions where interest rate risk is hedged, the periodic payments and receipts arising from interest rate contracts which are qualifying hedging instruments for or individually managed in conjunction with interest bearing financial assets are first netted together and then combined with the interest income from the corresponding financial assets.

4. Interest Expense

	6 months ended 30/6/2015	6 months ended 30/6/2014 Restated
	HK\$ Mn	HK\$ Mn
Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost	5,525	5,855
Debt securities issued	146	137
Subordinated notes carried at amortised cost	317	280
Financial instruments designated at fair value through profit or loss	147	66
Other borrowings	10	1
	<u>6,145</u>	<u>6,339</u>

Included within interest expense is HK\$6,131 million (six months ended 30th June, 2014: HK\$6,368 million), before hedging effect, for financial liabilities that are not recognized at fair value through profit or loss.

For the transactions where interest rate risk is hedged, the periodic payments and receipts arising from interest rate contracts which are qualifying hedging instruments for or individually managed in conjunction with interest bearing financial liabilities are first netted together and then combined with the interest expense from the corresponding financial liabilities.

5. Fee and Commission Income

Fee and commission income arises from the following services:

	6 months ended 30/6/2015	6 months ended 30/6/2014
	HK\$ Mn	HK\$ Mn
Corporate services	597	559
Loans, overdrafts and guarantees	479	500
Credit cards	460	437
Securities and brokerage	274	158
Trade finance	270	364
Other retail banking services	212	233
Trust and other fiduciary activities	87	84
Others	274	244
Total fee and commission income	<u>2,653</u>	<u>2,579</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

	2,200	2,152
Fee income	2,653	2,579
Fee expenses	(453)	(427)

6. Net Trading (Losses)/Profits

	6 months ended 30/6/2015 HK\$ Mn	6 months ended 30/6/2014 Restated HK\$ Mn
Loss on dealing in foreign currencies and funding swaps	(601)	(68)
Profit on trading securities	277	80
Net gain on derivatives	263	493
Dividend income from listed trading securities	25	26
	<u>(36)</u>	<u>531</u>

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

	6 months ended 30/6/2015 HK\$ Mn	6 months ended 30/6/2014 HK\$ Mn
Revaluation (loss)/gain on debts issued	(40)	19
Profit on sale of debts issued	3	2
Revaluation gain/(loss) on financial assets	15	(73)
Loss on sale of financial assets	(2)	(1)
	<u>(24)</u>	<u>(53)</u>

8. Net Hedging Loss

	6 months ended 30/6/2015 HK\$ Mn	6 months ended 30/6/2014 HK\$ Mn
Fair value hedges		
- Net loss on hedged items attributable to the hedged risk	(21)	(2)
- Net (loss)/gain on hedging instruments	(2)	1
	<u>(23)</u>	<u>(1)</u>

There was insignificant ineffectiveness recognised in the Group's income statement arising from cash flow hedge for the six months ended 30th June, 2015 and 30th June, 2014.

9. Other Operating Income

	6 months ended 30/6/2015 HK\$ Mn	6 months ended 30/6/2014 HK\$ Mn
Dividend income from available-for-sale financial assets		
- listed	5	7
- unlisted	8	11
Rental from safe deposit boxes	43	39
Net revenue from insurance activities	203	174
Rental income on properties	103	65
Others	48	40
	<u>410</u>	<u>336</u>

10. Operating Expenses

	6 months ended 30/6/2015 HK\$ Mn	6 months ended 30/6/2014 HK\$ Mn
Contributions to defined contribution plan		
- Hong Kong	80	77
- Outside Hong Kong	176	172
Equity-settled share-based payment expenses	12	11
Salaries and other staff costs	<u>2,294</u>	<u>2,475</u>
Total staff costs	<u>2,562</u>	<u>2,735</u>
Premises and equipment expenses excluding depreciation		
- Rental of premises	346	331
- Maintenance, repairs and others	<u>289</u>	<u>297</u>
Total premises and equipment expenses excluding depreciation	<u>635</u>	<u>628</u>
Depreciation on fixed assets* (Note 20)	266	328
Amortisation of intangible assets	16	16
Other operating expenses		
- Stamp duty, overseas and PRC business taxes, and value added taxes	338	399
- Legal and professional fees	193	180
- Communications, stationery and printing	157	158
- Advertising expenses	121	143
- Business promotions and business travel	81	84
- Card related expenses	63	29
- Insurance expenses	33	24
- Administration expenses of corporate services	10	8
- Membership fees	8	8
- Bank charges	4	5
- Donations	3	3
- Bank licence	2	2
- Others	<u>128</u>	<u>143</u>
Total other operating expenses	<u>1,141</u>	<u>1,186</u>
Total operating expenses	<u>4,620</u>	<u>4,893</u>

* During the period, the Group revised the useful lives of certain fixed assets. The revisions were accounted for prospectively as a change in accounting estimates and as a result, the impact for current period and expected impact for future periods on depreciation charges are as follows:

Current period	Increase/(decrease) in depreciation charges					
	Future periods					
1 st half, 2015	2 nd half, 2015	2016	2017	2018	2019	Later
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
(47)	(40)	(36)	4	21	34	64

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

	6 months ended 30/6/2015 HK\$ Mn	6 months ended 30/6/2014 HK\$ Mn
Net revaluation gain transferred from reserves	102	43
(Loss)/Profit arising in the period	(48)	25
	<u>54</u>	<u>68</u>

12. Net Gain/(Loss) on Disposal of Fixed Assets

	6 months ended 30/6/2015 HK\$ Mn	6 months ended 30/6/2014 HK\$ Mn
Net gain/(loss) on disposal of bank premises, furniture, fixtures and equipment	112	(3)
	<u>112</u>	<u>(3)</u>

13. Placements with Banks and Other Financial Institutions

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
Placements with banks and authorised institutions	77,485	50,769
Placements with central banks	-	-
	<u>77,485</u>	<u>50,769</u>
Maturing		
- within one month	55,538	26,536
- between one month and one year	21,947	24,233
	<u>77,485</u>	<u>50,769</u>

14. Trade Bills

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
Gross trade bills	45,979	60,679
Less: Individual impairment allowances	(4)	(4)
	<u>45,975</u>	<u>60,675</u>

15. Trading Assets

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	2,454	78
Certificates of deposit held	1,985	-
Debt securities	2,704	1,412
Equity securities	1,729	1,374
Investment funds	21	21
	<u>8,893</u>	<u>2,885</u>
Issued by:		
Central governments and central banks	2,462	129
Public sector entities	8	52
Banks and other financial institutions	3,698	1,170
Corporate entities	2,702	1,501
Other entities	23	33
	<u>8,893</u>	<u>2,885</u>
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	8	13
Listed outside Hong Kong	25	113
	<u>33</u>	<u>126</u>
Unlisted	7,110	1,364
	<u>7,143</u>	<u>1,490</u>
Equity securities		
Listed in Hong Kong	1,488	1,131
Listed outside Hong Kong	241	243
	<u>1,729</u>	<u>1,374</u>
Investment funds		
Listed in Hong Kong	7	7
Listed outside Hong Kong	14	14
	<u>21</u>	<u>21</u>
	<u>8,893</u>	<u>2,885</u>

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

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
Certificates of deposit held	621	1,495
Debt securities	4,462	6,792
Equity securities	329	353
Investment funds	128	73
	<u>5,540</u>	<u>8,713</u>
Issued by:		
Central governments and central banks	92	94
Banks and other financial institutions	2,444	5,072
Corporate entities	2,875	3,474
Other entities	129	73
	<u>5,540</u>	<u>8,713</u>
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	1,213	1,093
Listed outside Hong Kong	2,191	3,597
	<u>3,404</u>	<u>4,690</u>
Unlisted	1,679	3,597
	<u>5,083</u>	<u>8,287</u>
Equity securities		
Listed in Hong Kong	120	128
Listed outside Hong Kong	209	225
	<u>329</u>	<u>353</u>
Investment funds		
Listed in Hong Kong	30	-
Listed outside Hong Kong	4	9
	<u>34</u>	<u>9</u>
Unlisted	94	64
	<u>128</u>	<u>73</u>
	<u>5,540</u>	<u>8,713</u>

17. Advances to Customers and Other Accounts

(a) Advances to customers and other accounts

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
(i) Advances to customers	452,889	443,287
Less: Impairment allowances		
- Individual	(562)	(419)
- Collective	(1,091)	(935)
	<u>451,236</u>	<u>441,933</u>
(ii) Other accounts		
Advances to banks and other financial institutions	20	55
Less: Impairment allowances - Individual	(1)	(1)
	<u>19</u>	<u>54</u>
Notes and bonds	1	1
Certificates of deposit held	77	116
Accrued interest	2,856	2,904
Customer liabilities under acceptances	27,361	26,460
Other accounts	<u>11,630</u>	<u>10,703</u>
	41,925	40,184
Less: Impairment allowances		
- Individual	(17)	(13)
- Collective	(20)	(18)
	<u>41,888</u>	<u>40,153</u>
	<u><u>493,143</u></u>	<u><u>482,140</u></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 HKMA.

	30/6/2015		31/12/2014	
	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	15,039	66.86	17,177	71.40
- Property investment	38,418	85.73	38,906	86.53
- Financial concerns	12,949	72.41	15,562	82.32
- Stockbrokers	9,538	95.53	1,901	95.94
- Wholesale and retail trade	21,631	52.82	21,070	56.15
- Manufacturing	5,620	40.96	7,090	50.93
- Transport and transport equipment	6,449	67.86	6,835	67.01
- Recreational activities	143	54.36	138	56.53
- Information technology	1,132	27.34	836	15.53
- Others	22,526	70.65	19,113	69.23
- Sub-total	<u>133,445</u>	71.85	<u>128,628</u>	73.10
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,067	100.00	1,058	100.00
- Loans for the purchase of other residential properties	39,845	100.00	33,052	100.00
- Credit card advances	4,390	0.00	5,079	0.00
- Others	20,986	84.84	19,181	82.12
- Sub-total	<u>66,288</u>	88.58	<u>58,370</u>	85.42
Total loans for use in Hong Kong	199,733	77.40	186,998	76.95
Trade finance	5,727	53.59	5,527	59.14
Loans for use outside Hong Kong *	<u>247,429</u>	69.24	<u>250,762</u>	71.38
Total advances to customers	<u>452,889</u>	72.64	<u>443,287</u>	73.57

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

	30/6/2015		31/12/2014	
	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$ Mn	%	HK\$ Mn	%
Property development	42,265	59.55	40,010	60.01
Property investment	32,185	97.88	32,701	98.51
Wholesale and retail trade	26,918	77.77	32,072	80.53
Manufacturing	9,824	53.46	11,224	61.73
Others	<u>73,851</u>	60.18	<u>73,200</u>	61.45
	<u>185,043</u>	68.80	<u>189,207</u>	70.80

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:

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
(i) Property development		
a. Individually impaired loans	623	42
b. Individual impairment allowance	138	10
c. Collective impairment allowance	158	116
d. Provision charged to income statement		
- individual impairment loss	128	1
- collective impairment loss	55	67
e. Written off	-	-
(ii) Property investment		
a. Individually impaired loans	562	299
b. Individual impairment allowance	9	3
c. Collective impairment allowance	205	175
d. Provision charged to income statement		
- individual impairment loss	5	13
- collective impairment loss	51	67
e. Written off	-	9
(iii) Loans for purchase of residential properties		
a. Individually impaired loans	304	236
b. Individual impairment allowance	20	12
c. Collective impairment allowance	110	82
d. Provision charged to income statement		
- individual impairment loss	10	23
- collective impairment loss	26	29
e. Written off	1	11
(iv) Wholesale and retail trade		
a. Individually impaired loans	1,082	633
b. Individual impairment allowance	193	74
c. Collective impairment allowance	129	124
d. Provision charged to income statement		
- individual impairment loss	239	318
- collective impairment loss	36	57
e. Written off	133	286
(v) Hotels		
a. Individually impaired loans	831	637
b. Individual impairment allowance	24	58
c. Collective impairment allowance	55	49
d. Provision charged to income statement		
- individual impairment loss	29	59
- collective impairment loss	14	22
e. Written off	62	-

(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.

	30/6/2015				
	Total advances to customers HK\$ Mn	Advances overdue for over three months HK\$ Mn	Impaired advances to customers HK\$ Mn	Individual impairment allowance HK\$ Mn	Collective impairment allowance HK\$ Mn
Hong Kong	193,896	247	471	96	252
People's Republic of China	215,545	2,997	3,941	446	731
Other Asian Countries	20,714	70	165	19	52
Others	22,734	12	82	1	56
Total	<u>452,889</u>	<u>3,326</u>	<u>4,659</u>	<u>562</u>	<u>1,091</u>
% of total advances to customers			<u>1.03%</u>		
Market value of security held against impaired advances to customers			<u>8,527</u>		
	31/12/2014				
	Total advances to customers HK\$ Mn	Advances overdue for over three months HK\$ Mn	Impaired advances to customers HK\$ Mn	Individual impairment allowance HK\$ Mn	Collective impairment allowance HK\$ Mn
Hong Kong	186,000	226	404	95	248
People's Republic of China	213,984	1,784	2,108	307	563
Other Asian Countries	20,813	79	143	17	68
Others	22,490	7	81	-	56
Total	<u>443,287</u>	<u>2,096</u>	<u>2,736</u>	<u>419</u>	<u>935</u>
% of total advances to customers			<u>0.62%</u>		
Market value of security held against impaired advances to customers			<u>4,680</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.

18. Available-for-Sale Financial Assets

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	16,664	27,906
Certificates of deposit held	3,640	1,626
Debt securities	66,287	54,116
Equity securities	3,134	2,895
Investment funds	557	273
	<u>90,282</u>	<u>86,816</u>
Issued by:		
Central governments and central banks	15,732	28,238
Public sector entities	595	691
Banks and other financial institutions	32,992	27,788
Corporate entities	40,368	29,788
Other entities	595	311
	<u>90,282</u>	<u>86,816</u>
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	17,843	12,511
Listed outside Hong Kong	18,535	11,391
	<u>36,378</u>	<u>23,902</u>
Unlisted	50,213	59,746
	<u>86,591</u>	<u>83,648</u>
Equity securities		
Listed in Hong Kong	899	766
Listed outside Hong Kong	1,487	1,376
	<u>2,386</u>	<u>2,142</u>
Unlisted	748	753
	<u>3,134</u>	<u>2,895</u>
Investment funds		
Listed in Hong Kong	140	-
Listed outside Hong Kong	19	29
	<u>159</u>	<u>29</u>
Unlisted	398	244
	<u>557</u>	<u>273</u>
	<u>90,282</u>	<u>86,816</u>

19. Held-to-Maturity Investments

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
Treasury bills (including Exchange Fund Bills)	873	737
Certificates of deposit held	3,993	2,710
Debt securities	2,913	3,300
	<u>7,779</u>	<u>6,747</u>
Issued by:		
Central governments and central banks	1,602	1,546
Public sector entities	22	22
Banks and other financial institutions	3,828	2,495
Corporate entities	2,327	2,684
	<u>7,779</u>	<u>6,747</u>
Analysed by place of listing:		
Debt securities		
Listed in Hong Kong	1,812	1,905
Listed outside Hong Kong	1,347	1,590
	<u>3,159</u>	<u>3,495</u>
Unlisted	4,620	3,252
	<u>7,779</u>	<u>6,747</u>
Fair value:		
Listed securities	3,208	3,516
Unlisted securities	4,625	3,218
	<u>7,833</u>	<u>6,734</u>

20. Fixed Assets

	30/6/2015				
	<u>Investment properties</u>	<u>Bank premises</u>	<u>Furniture, fixtures and equipment</u>	<u>Sub-total</u>	<u>Total</u>
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Cost or valuation					
At 1 st January, 2015	4,544	8,729	5,003	13,732	18,276
Additions	2	1	142	143	145
Revaluation surplus	340	-	-	-	340
Redevelopment cost	(2)	-	-	-	(2)
Disposals	-	(42)	(43)	(85)	(85)
Exchange adjustments	1	(14)	(4)	(18)	(17)
At 30 th June, 2015	4,885	8,674	5,098	13,772	18,657
Accumulated depreciation and amortisation					
At 1 st January, 2015	-	1,491	3,668	5,159	5,159
Charge for the period (Note 10)	-	89	177	266	266
Written off on disposal	-	(7)	(34)	(41)	(41)
Exchange adjustments	-	(1)	(3)	(4)	(4)
At 30 th June, 2015	-	1,572	3,808	5,380	5,380
Net book value at 30 th June, 2015	4,885	7,102	1,290	8,392	13,277
Net book value at 31 st December, 2014	4,544	7,238	1,335	8,573	13,117
The gross amounts of the above assets are stated:					
At cost	-	7,862	5,098	12,960	12,960
At Directors' valuation					
- 1989	-	812	-	812	812
At professional valuation					
- 2015	4,885	-	-	-	4,885
	4,885	8,674	5,098	13,772	18,657

21. Trading Liabilities

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
Exchange fund bills sold	2,445	1
Shares sold	16	20
	<u>2,461</u>	<u>21</u>

22. Other Accounts and Provisions

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
Accrued interest payable	4,556	4,853
Acceptance draft payable	27,361	26,460
Other accounts	21,584	18,768
	<u>53,501</u>	<u>50,081</u>

23. Loan Capital

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
USD600 million subordinated notes, measured at amortised cost	4,896	4,899
USD500 million subordinated notes (under the Euro Medium Term Note Programme), measured at amortised cost	3,911	3,907
SGD800 million subordinated notes (under the Euro Medium Term Note Programme), measured at amortised cost	4,583	4,667
USD500 million subordinated notes (under the Euro Medium Term Note Programme), measured at amortised cost	3,883	3,862
	<u>17,273</u>	<u>17,335</u>

Two tranches of loan capital of face value totalling HK\$4,651 million (USD600 million) and carrying amount totalling HK\$4,896 million (31/12/2014: HK\$4,899 million) were issued on 16th July, 2010 (USD450 million) and on 23rd July, 2010 (USD150 million) by the Bank. These subordinated notes carrying a coupon rate of 6.125% qualifying as Tier 2 capital are listed on the Singapore Stock Exchange and will mature on 16th July, 2020. Hedge ineffectiveness of HK\$3 million loss in the first half of 2015 (first half 2014: HK\$2 million loss) was recorded under fair value hedge accounting.

Loan capital of face value of HK\$3,876 million (USD500 million) and carrying amount of HK\$3,911 million (31/12/2014: HK\$3,907 million) represents 6.375% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 4th November, 2011 by the Bank. The notes are listed on the Singapore Stock Exchange and will mature on 4th May, 2022. Hedge ineffectiveness of HK\$0.1 million loss in the first half of 2015 (first half 2014: HK\$0.1 million loss) was recorded under the fair value hedge accounting for the USD400 million subordinated notes. The fair value as of 30th June, 2015 for the USD100 million subordinated notes was HK\$828 million (USD106.8 million) (31/12/2014: HK\$837 million (USD107.9 million)).

Loan capital of face value of HK\$4,611 million (SGD800 million) and carrying amount of HK\$4,583 million (31/12/2014: HK\$4,667 million) represents two tranches of 4.25% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 13th March, 2012 (SGD600 million) and on 27th April, 2012 (SGD200 million) by the Bank. The notes are listed on the Singapore Stock Exchange and will mature on 13th September, 2022. Hedge ineffectiveness of HK\$3 million loss in the first half of 2015 (first half 2014: HK\$2 million profit) was recorded under the fair value hedge accounting.

Loan capital of face value of HK\$3,876 million (USD500 million) and carrying amount of HK\$3,883 million (31/12/2014: HK\$3,862 million) represents 4.25% subordinated notes (under the Euro Medium Term Note Programme) qualifying as Tier 2 capital issued on 20th November, 2014 by the Bank. The notes are listed on the Stock Exchange and will mature on 20th November, 2024. Hedge ineffectiveness of HK\$0.003 million profit in the first half of 2015 was recorded under the 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 senior management for the purposes of resource allocation and performance assessment, the Group has presented the following nine reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Hong Kong banking operations									Total reportable segments HK\$ Mn	Inter-segment elimination		Total HK\$ Mn
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	China operations	Overseas operations	Corporate services		Others	Inter-segment elimination	
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn		HK\$ Mn	HK\$ Mn	
6 months ended 30th June, 2015													
Net interest income	1,342	1,191	100	190	35	160	2,534	561	4	6,117	69	-	6,186
Non-interest income/ (expense)	432	351	(433)	244	8	409	631	85	596	2,323	373	(183)	2,513
Operating income	1,774	1,542	(333)	434	43	569	3,165	646	600	8,440	442	(183)	8,699
Operating expenses	(833)	(100)	(61)	(87)	(6)	(317)	(1,799)	(232)	(408)	(3,843)	(960)	183	(4,620)
Operating profit/(loss) before impairment losses	941	1,442	(394)	347	37	252	1,366	414	192	4,597	(518)	-	4,079
(Charge for)/write back of impairment losses on loans and advances and other accounts	(70)	(8)	13	1	-	(31)	(684)	15	(4)	(768)	(13)	-	(781)
Impairment losses on available-for-sale financial assets	-	-	-	-	-	(1)	-	-	-	(1)	-	-	(1)
Operating profit/(loss) after impairment losses	871	1,434	(381)	348	37	220	682	429	188	3,828	(531)	-	3,297
Profit/(Loss) on sale of fixed assets, loans and receivables, held-to- maturity investments and available-for-sale financial assets	(2)	4	46	-	-	3	1	-	-	52	115	-	167
Valuation gains on investment properties	-	-	-	-	-	-	-	16	-	16	324	-	340
Share of profits less losses of associates	-	-	-	-	-	1	108	144	1	254	-	-	254
Profit/(Loss) before taxation	869	1,438	(335)	348	37	224	791	589	189	4,150	(92)	-	4,058
Depreciation for the period	(32)	(1)	(1)	(1)	-	(12)	(117)	(10)	(14)	(188)	(78)	-	(266)
At 30 th June, 2015													
Segment assets	66,462	176,012	150,368	28,362	10,675	21,677	351,679	87,758	2,276	895,269	17,482	(102,854)	809,897
Investments in associates	-	-	-	-	-	56	1,078	4,934	21	6,089	-	-	6,089
Total assets	66,462	176,012	150,368	28,362	10,675	21,733	352,757	92,692	2,297	901,358	17,482	(102,854)	815,986
Total liabilities	285,834	1,054	96,778	24,574	4	17,340	307,117	75,357	372	808,430	2,636	(77,949)	733,117

	Hong Kong banking operations									Total reportable segments HK\$ Mn	Inter-segment elimination		Total HK\$ Mn
	Personal banking	Corporate banking	Treasury markets	Wealth management	Financial institutions	Others	China operations	Overseas operations	Corporate services		Others		
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn		HK\$ Mn	HK\$ Mn	
6 months ended 30 th June, 2014 (Restated)													
Net interest income/(expense)	1,230	1,112	(53)	136	89	118	2,982	547	2	6,163	85	-	6,248
Non-interest income	372	339	134	180	12	310	811	79	565	2,802	321	(169)	2,954
Operating income	1,602	1,451	81	316	101	428	3,793	626	567	8,965	406	(169)	9,202
Operating expenses	(765)	(95)	(67)	(90)	(7)	(284)	(2,180)	(258)	(387)	(4,133)	(929)	169	(4,893)
Operating profit/(loss) before impairment losses	837	1,356	14	226	94	144	1,613	368	180	4,832	(523)	-	4,309
(Charge for)/write back of impairment losses on loans and advances and other accounts	(53)	(19)	1	(2)	-	(11)	(168)	(65)	(2)	(319)	-	-	(319)
Write back of impairment losses on held-to-maturity investments	-	-	3	-	-	-	-	-	-	3	-	-	3
Operating profit/(loss) after impairment losses	784	1,337	18	224	94	133	1,445	303	178	4,516	(523)	-	3,993
Profit/(Loss) on sale of fixed assets and available-for-sale financial assets	-	24	41	-	-	2	(2)	-	-	65	-	-	65
Valuation gains on investment properties	-	-	-	-	-	-	-	1	-	1	114	-	115
Share of profits less losses of associates	-	-	-	-	-	(2)	97	213	1	309	-	-	309
Profit/(Loss) before taxation	784	1,361	59	224	94	133	1,540	517	179	4,891	(409)	-	4,482
Depreciation for the period	(37)	(1)	(2)	(2)	-	(13)	(161)	(10)	(13)	(239)	(89)	-	(328)
At 31 st December, 2014													
Segment assets	58,929	173,050	140,170	29,917	9,813	17,536	372,623	102,380	2,222	906,640	18,030	(134,862)	789,808
Investments in associates	-	-	-	-	-	55	972	5,036	20	6,083	-	-	6,083
Total assets	58,929	173,050	140,170	29,917	9,813	17,591	373,595	107,416	2,242	912,723	18,030	(134,862)	795,891
Total liabilities	278,557	1,164	94,513	23,218	4	13,355	328,698	91,134	387	831,030	2,379	(110,962)	722,447

25. Analysis of Assets and Liabilities by Remaining Maturity

30/6/2015							
Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets							
Cash and balances with banks and other financial institutions	27,586	-	-	-	-	31,805	59,391
Placements with banks and other financial institutions	54	55,484	8,877	13,070	-	-	77,485
Trade bills	25	10,409	15,262	20,277	-	2	45,975
Trading assets	-	2,004	1,857	1,874	1,284	1,750	8,893
Financial assets designated at fair value through profit or loss	-	210	188	1,951	2,711	457	5,540
Positive fair value of derivatives	-	-	-	-	-	4,083	4,083
Advances to customers and other accounts	8,671	64,666	39,723	112,274	167,043	9,740	493,143
Available-for-sale financial assets	317	2,678	9,868	14,454	46,107	3,691	90,282
Held-to-maturity investments	-	2,239	582	2,742	2,017	-	7,779
Undated assets	-	-	-	-	-	23,415	23,415
Total assets	36,653	137,690	76,357	166,642	219,162	74,943	815,986
Liabilities							
Deposits and balances of banks and other financial institutions	3,594	18,308	5,248	7,561	2,213	58	36,982
Deposits from customers	187,231	114,326	118,531	103,776	27,545	-	551,409
- Demand deposits and current accounts	77,675	-	-	-	-	-	77,675
- Savings deposits	107,053	-	-	-	-	-	107,053
- Time, call and notice deposits	2,503	114,326	118,531	103,776	27,545	-	366,681
Trading liabilities	-	1,788	657	-	-	16	2,461
Negative fair value of derivatives	-	-	-	-	-	6,065	6,065
Certificates of deposit issued	-	4,517	12,989	23,427	5,547	-	46,480
Current taxation	-	-	-	1,693	-	-	1,693
Debt securities issued	-	3,133	710	5,455	7,373	-	16,671
Loan capital	-	-	-	-	12,377	4,896	17,273
Other liabilities	1,183	6,519	7,616	19,943	8,094	2,573	54,083
Total liabilities	192,008	148,591	145,751	161,855	63,149	7,527	733,117
Net gap	(155,355)	(10,901)	(69,394)	4,787	156,013	97,012	

31/12/2014							
Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets							
Cash and balances with banks and other financial institutions	36,188	13	-	-	-	34,157	70,358
Placements with banks and other financial institutions	4	26,532	18,522	5,711	-	-	50,769
Trade bills	60	9,982	16,013	34,620	-	-	60,675
Trading assets	-	135	253	257	820	1,395	2,885
Financial assets designated at fair value through profit or loss	-	1,268	1,025	1,242	3,934	426	8,713
Positive fair value of derivatives	-	-	-	-	-	3,537	3,537
Advances to customers and other accounts	7,144	67,645	49,403	105,308	156,071	6,499	482,140
Available-for-sale financial assets	-	4,191	20,650	9,841	39,261	3,168	86,816
Held-to-maturity investments	34	1,760	675	1,463	2,629	-	6,747
Undated assets	-	-	-	-	-	23,251	23,251
Total assets	43,430	111,526	106,541	158,442	202,715	72,433	795,891
Liabilities							
Deposits and balances of banks and other financial institutions	3,860	13,445	9,194	5,561	1,217	46	33,323
Deposits from customers	169,769	128,604	134,960	96,039	18,749	63	548,184
- Demand deposits and current accounts	67,337	-	-	-	-	-	67,337
- Savings deposits	100,782	-	-	-	-	-	100,782
- Time, call and notice deposits	1,650	128,604	134,960	96,039	18,749	63	380,065
Trading liabilities	-	-	-	-	-	21	21
Negative fair value of derivatives	-	-	-	-	-	4,823	4,823
Certificates of deposit issued	-	7,959	12,849	17,931	5,659	-	44,398
Current taxation	-	-	-	1,172	-	-	1,172
Debt securities issued	-	1,948	5,264	6,508	8,704	-	22,424
Loan capital	-	-	-	-	12,436	4,899	17,335
Other liabilities	1,061	8,217	10,512	14,353	7,290	2,220	50,767
Total liabilities	174,690	160,173	172,779	141,564	54,055	7,228	722,447
Net gap	(131,260)	(48,647)	(66,238)	16,878	148,660	93,576	

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 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	Total HK\$ Mn
At 1 st January, 2015	325	197	10	157	(9)	(90)	590
(Credited)/Charged to income statement	(47)	(18)	(147)	-	2	48	(162)
Charged to reserves	-	14	-	23	-	-	37
Exchange and other adjustments	-	-	(1)	-	-	(4)	(5)
At 30 th June, 2015	<u>278</u>	<u>193</u>	<u>(138)</u>	<u>180</u>	<u>(7)</u>	<u>(46)</u>	<u>460</u>
Balance as at 31 st December, 2014	<u>325</u>	<u>197</u>	<u>10</u>	<u>157</u>	<u>(9)</u>	<u>(90)</u>	<u>590</u>

27. Reserves

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
General reserve	13,930	13,930
Revaluation reserve on bank premises	1,628	1,642
Investment revaluation reserve	1,883	1,660
Exchange revaluation reserve	1,629	1,970
Other reserves	4,751	4,612
Retained profits*	<u>21,325</u>	<u>19,849</u>
	<u>45,146</u>	<u>43,663</u>
Proposed dividends, not provided for	<u>994</u>	<u>1,596</u>

* A regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the HKMA. As at 30th June, 2015, HK\$5,706 million (31st December, 2014: HK\$5,715 million) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the HKMA.

28. Consolidated Cash Flow Statement

(a) Purchase of subsidiaries

	30/6/2015	30/6/2014
	HK\$ Mn	HK\$ Mn
Net assets acquired		
Other accounts and provisions	-	(1)
	-	(1)
Goodwill arising on consolidation	-	3
Total purchase price	-	2
Cash flow on acquisition net of cash acquired	-	2

(b) Cash and cash equivalents

	30/6/2015	30/6/2014
	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	28,487	25,456
Placements with banks and other financial institutions with original maturity within three months	52,288	32,932
Treasury bills with original maturity within three months	6,258	14,557
Certificates of deposit held with original maturity within three months	1,830	1,038
Debt securities with original maturity within three months	425	-
	<u>89,288</u>	<u>73,983</u>

(ii) Reconciliation with the consolidated statement of financial position

Cash and balances with banks and other financial institutions	59,391	61,451
Placements with banks and other financial institutions	77,485	63,886
Treasury bills, certificates of deposit held and debt securities		
- trading assets	7,143	3,316
- designated at fair value through profit or loss	5,083	10,312
- advances and other accounts	78	117
- available-for-sale	86,591	83,177
- held-to-maturity	7,779	5,504
	<u>106,674</u>	<u>102,426</u>
Amount shown in the consolidated statement of financial position	243,550	227,763
Less : Amounts with an original maturity of beyond three months	(123,358)	(117,785)
Cash balance with central bank subject to regulatory restriction	(30,904)	(35,995)
Cash and cash equivalents in the consolidated cash flow statement	<u>89,288</u>	<u>73,983</u>

29. Offsetting Financial Instruments

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

	At 30 th June, 2015				
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related financial instruments that are not set off	Net Amount
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets					
Positive fair value of derivatives	35	-	35	(35)	-
Other accounts	1,560	(1,560)	-	-	-
Total	1,595	(1,560)	35	(35)	-

	At 30 th June, 2015				
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related financial instruments that are not set off	Net Amount
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Liabilities					
Negative fair value of derivatives	198	-	198	(35)	163
Other accounts	1,824	(1,560)	264	-	264
Total	2,022	(1,560)	462	(35)	427

	At 31 st December, 2014				
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related financial instruments that are not set off	Net Amount
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets					
Positive fair value of derivatives	103	-	103	(91)	12
Other accounts	1,031	(643)	388	-	388
Total	1,134	(643)	491	(91)	400

At 31st December, 2014

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related financial instruments that are not set off	Net Amount
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Liabilities					
Negative fair value of derivatives	156	-	156	(91)	65
Other accounts	643	(643)	-	-	-
Total	799	(643)	156	(91)	65

30. 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 measurement that reflects the price of the financial instrument that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the reporting date.

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

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

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

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised.

	30/6/2015				31/12/2014			
	Level One	Level Two	Level Three	Total	Level One	Level Two	Level Three	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
<u>Recurring fair value measurement</u>								
Assets								
Trading assets	4,237	4,656	-	8,893	1,599	1,286	-	2,885
Financial assets designated at fair value through profit or loss	3,766	1,774	-	5,540	5,052	3,661	-	8,713
Positive fair value of derivatives	-	1,861	2,222	4,083	-	1,983	1,554	3,537
Available-for-sale financial assets	70,498	18,766	1,018	90,282	53,513	32,310	993	86,816
	<u>78,501</u>	<u>27,057</u>	<u>3,240</u>	<u>108,798</u>	<u>60,164</u>	<u>39,240</u>	<u>2,547</u>	<u>101,951</u>
Liabilities								
Trading liabilities	2,461	-	-	2,461	21	-	-	21
Negative fair value of derivatives	-	3,890	2,175	6,065	-	3,252	1,571	4,823
Financial liabilities designated at fair value through profit or loss	-	21,952	-	21,952	-	22,039	-	22,039
	<u>2,461</u>	<u>25,842</u>	<u>2,175</u>	<u>30,478</u>	<u>21</u>	<u>25,291</u>	<u>1,571</u>	<u>26,883</u>

During the six months ended 30th June, 2015, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy (2014: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about significant unobservable inputs in Level 3 valuations

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

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

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

Valuation of financial instruments in Level 3 is subject to the same valuation control framework as described in above and reviewed regularly by FIVG.

(1) Valuation of financial instruments with significant unobservable inputs

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

	30/6/2015		
	Positive fair value of derivatives	Available-for- sale financial assets	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets			
At 1 st January, 2015	1,554	993	2,547
Purchases	-	4	4
Settlements	(104)	(1)	(105)
Changes in fair value recognised in the income statement	772	-	772
Changes in fair value recognised in the other comprehensive income	-	22	22
At 30 th June, 2015	<u>2,222</u>	<u>1,018</u>	<u>3,240</u>
 Total gains or losses for the period included in available-for-sale fair value reserve of the other comprehensive income for assets held at the end of the reporting period	 <u>-</u>	 <u>22</u>	 <u>22</u>
 Total gains or losses for the period included in the income statement for assets held at the end of the reporting period recorded in net trading income	 <u>772</u>	 <u>-</u>	 <u>772</u>

	31/12/2014		
	Positive fair value of derivatives	Available-for-sale financial assets	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Assets			
At 1 st January, 2014	585	1,010	1,595
Purchases	-	20	20
Settlements	(204)	(120)	(324)
Changes in fair value recognised in the income statement	1,173	(14)	1,159
Changes in fair value recognised in the other comprehensive income	-	98	98
Exchange adjustments	-	(1)	(1)
At 31 st December, 2014	<u>1,554</u>	<u>993</u>	<u>2,547</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 end of the reporting period	<u>-</u>	<u>98</u>	<u>98</u>
Total gains or losses for the year included in the income statement for assets held at the end of the reporting period recorded in net trading income	<u>1,173</u>	<u>(14)</u>	<u>1,159</u>
			30/6/2015
			Negative fair value of derivatives
			HK\$ Mn
Liabilities			
At 1 st January, 2015			1,571
Settlements			(105)
Changes in fair value recognised in the income statement			709
At 30 th June, 2015			<u>2,175</u>
Total gains or losses for the period included in the income statement for liabilities held at the end of the reporting period recorded in net trading income			<u>709</u>
			31/12/2014
			Negative fair value of derivatives
			HK\$ Mn
Liabilities			
At 1 st January, 2014			565
Settlements			(185)
Changes in fair value recognised in the income statement			1,191
At 31 st December, 2014			<u>1,571</u>
Total gains or losses for the year included in the income statement for liabilities held at the end of the reporting period recorded in net trading income			<u>1,191</u>

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

30/6/2015				
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Positive fair value of derivatives	186	(186)	-	-
Available-for-sale financial assets	-	-	85	(85)
	<u>186</u>	<u>(186)</u>	<u>85</u>	<u>(85)</u>
Negative fair value of derivatives	<u>182</u>	<u>(182)</u>	<u>-</u>	<u>-</u>
31/12/2014				
	Effect recorded in profit or loss		Effect recorded directly in equity	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Positive fair value of derivatives	130	(130)	-	-
Available-for-sale financial assets	-	-	83	(83)
	<u>130</u>	<u>(130)</u>	<u>83</u>	<u>(83)</u>
Negative fair value of derivatives	<u>131</u>	<u>(131)</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 in reasonably possible alternative assumptions.

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

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

- (i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the end of the reporting period.
- (ii) The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value.

- (iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.
- (iv) The fair value of unquoted equity investments is estimated, if possible, using the applicable dividend discount model, or share of net asset value in the investment, or applying a discount to the market value of investments with a lock-up period.
- (v) The fair value of unlisted open-ended investment funds is estimated using the net asset value per share as reported by the managers of such funds.
- (vi) The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The carrying amounts of the financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30th June, 2015 and 31st December, 2014 except as follows:

	30/6/2015		31/12/2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Financial assets				
Held-to-maturity investments	7,779	7,833	6,747	6,734
Financial liabilities				
Certificates of deposits issued	29,041	29,051	29,954	29,942
Debt securities issued	12,158	12,233	14,829	14,927
Subordinated liabilities	17,273	17,988	17,335	18,192

31. Off-balance Sheet Exposures

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

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
Contractual amounts of contingent liabilities and commitments		
Direct credit substitutes	35,313	32,120
Transaction-related contingencies	1,130	1,118
Trade-related contingencies	850	1,016
Commitments that are unconditionally cancellable without prior notice	195,445	170,895
Other commitments with an original maturity		
- up to 1 year	18,471	20,640
- over 1 year	20,950	22,779
Total	<u>272,159</u>	<u>248,568</u>
Credit risk weighted amounts	<u>29,873</u>	<u>28,953</u>
	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
Fair value of derivatives		
Assets		
Exchange rate contracts	1,371	1,973
Interest rate contracts	2,313	1,158
Equity contracts	353	340
Others	46	66
	<u>4,083</u>	<u>3,537</u>
Liabilities		
Exchange rate contracts	3,266	3,212
Interest rate contracts	2,285	1,163
Equity contracts	465	383
Others	49	65
	<u>6,065</u>	<u>4,823</u>
Notional amounts of derivatives		
Exchange rate contracts	573,006	544,162
Interest rate contracts	521,439	300,759
Equity contracts	28,625	13,267
Others	7,154	3,956
	<u>1,130,224</u>	<u>862,144</u>
Credit risk weighted amounts *		
Exchange rate contracts	5,225	5,871
Interest rate contracts	1,152	1,647
Equity contracts	567	756
Others	644	113
	<u>7,588</u>	<u>8,387</u>

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

* The Bank adopted the Foundation Internal Ratings Based ("IRB") approach according to Capital Rules for calculating the credit risk weighted amount as at 30th June, 2015 and 31st December, 2014.

(b) Capital Commitments

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

	30/6/2015 HK\$ Mn	31/12/2014 HK\$ Mn
Expenditure authorised and contracted for	231	181
Expenditure authorised but not contracted for	61	41
	<u>292</u>	<u>222</u>

32. Material Related Party Transactions

(a) Key management personnel remuneration

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

	30/6/2015 HK\$ Mn	30/6/2014 HK\$ Mn
Short-term employee benefits	57	63
Post-employment benefits	3	3
Equity compensation benefits	12	11
	<u>72</u>	<u>77</u>

- (b) The Group maintains certain retirement benefit schemes for its staff. In the six months ended 30th June, 2015, the total amount of contributions the Group made to the schemes was HK\$83 million (six months ended 30th June, 2014: HK\$79 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, 2015, outstanding balances of amounts due from and due to them at 30th June, 2015 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2015 are aggregated as follows:

	Key management personnel		Associates	
	30/6/2015 HK\$ Mn	30/6/2014 HK\$ Mn	30/6/2015 HK\$ Mn	30/6/2014 HK\$ Mn
Interest income	49	34	6	6
Interest expense	24	36	-	-
Amounts due from	5,191	4,110	768	759
Amounts due to	3,610	5,090	97	279
Maximum amounts due from	7,727	6,644	785	1,544
Maximum amounts due to	7,884	7,492	1,007	556
Committed facilities to	5,447	3,401	352	265

33. Basis of Consolidation

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

The capital adequacy ratio and liquidity position 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.

34. Comparative Figures

To better reflect the nature of periodic payments and receipts arising from interest rate contracts, such payments and receipts arising from interest rate contracts which are qualifying hedging instruments for or individually managed in conjunction with interest bearing financial assets are first netted together and then combined with the interest income from the corresponding financial assets. Similarly, payments and receipts arising from interest rate contracts which are qualifying hedging instruments for or individually managed in conjunction with interest bearing financial liabilities are also first netted together and then combined with the interest expense from the corresponding financial liabilities.

The net payments and receipts arising from interest rate contracts other than the above are included in net trading profits.

Certain 2014 comparative figures have been restated to conform to current period's presentation. Please also refer to Notes 3, 4, 6 and 24 of the Interim Report for the effect of restatement.

35. Statement of Compliance

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Listing Rules and in compliance with HKAS 34, "Interim Financial Reporting", issued by the HKICPA. It was authorised for issue on 3rd August, 2015. It also contains the disclosure information required under the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance.

SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy

	30/6/2015	31/12/2014
	HK\$ Mn	HK\$ Mn
Capital base		
- Common Equity Tier 1 capital	61,936	53,424
- Additional Tier 1 capital	2,481	2,835
- Total Tier 1 capital	64,417	56,259
- Tier 2 capital	17,987	19,197
- Total capital	82,404	75,456
Risk weighted assets by risk type		
- Credit risk	418,663	410,891
- Market risk	22,207	13,355
- Operational risk	30,086	29,687
	470,956	453,933
Less: Deductions	(3,060)	(2,479)
	467,896	451,454
	30/6/2015	31/12/2014
	%	%
Common Equity Tier 1 capital ratio	13.2	11.8
Tier 1 capital ratio	13.8	12.5
Total capital ratio	17.6	16.7

Capital adequacy ratios are compiled in accordance with the Capital Rules issued by the HKMA. In accordance with the Capital Rules, the Bank has adopted the foundation internal ratings-based approach for the calculation of the risk-weighted assets for credit risk and the internal models approach for the calculation of market risk and standardised approach for operational risk.

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. Subsidiaries included in consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with Section 3C of the Capital Rules. Subsidiaries not included in consolidation for regulatory purposes are non-financial companies and the securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Capital Rules and the Banking Ordinance. The Bank's shareholdings in these subsidiaries are deducted from its Tier 1 capital and Tier 2 capital subject to the thresholds and transitional arrangements as determined in accordance with Part 3 and Schedule 4H of the Capital Rules respectively.

The subsidiaries that are included in consolidation for regulatory purposes are listed in Note 33 of the Interim Report.

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

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

B. Liquidity Position

		2015	The year ended 31/12/2014
		%	%
Average liquidity coverage ratio	- First quarter	127.2	N.A.
	- Second quarter	137.5	N.A.
Average liquidity ratio for the period		N.A.	50.2

The liquidity coverage ratio is calculated in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015. The information for the regulatory disclosure can be found on the Bank's website accessible through the "Regulatory Disclosure" link on the home page of the Bank's website at www.hkbea.com or at the following direct link: www.hkbea.com/regulatory_disclosures

The Bank held an amount of HKD-denominated level 1 assets that was not less than 20% of its HKD-denominated total net cash outflows. There is no significant currency mismatch in the Bank's LCR at respective levels of consolidation.

The average liquidity ratio for the year ended 2014 was the simple average of each calendar month's average liquidity ratio, which was computed on the consolidated basis as required by the HKMA for its regulatory purposes, and was in accordance with the Fourth Schedule to the Banking Ordinance.

C. International Claims

The information on international 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 recognized risk transfer. 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 international claims after taking into account any recognized risk transfer are disclosed.

	30/6/2015							
	Non-bank private sector				Of which:			
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Others	Total claims	Cross-border claims	Local claims (in all currencies)
Counterparty country/ jurisdiction	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn	HK\$ Mn
Developed countries	35,905	4,834	1,200	28,480	-	70,419	42,355	28,064
Offshore centres	13,395	31,020	12,935	237,354	-	294,704	33,995	260,709
- of which: Hong Kong	10,097	24,956	12,869	212,250	-	260,172	26,151	234,021
Developing Europe	-	-	-	53	-	53	53	-
Developing Latin America and Caribbean	-	-	-	2	-	2	2	-
Developing Africa and Middle East	96	81	-	26	-	203	195	8
Developing Asia and Pacific	107,132	36,976	12,281	274,439	-	430,828	125,430	305,398
- of which: China	98,843	35,292	11,853	264,016	-	410,004	111,951	298,053
Total	156,528	72,911	26,416	540,354	-	796,209	202,030	594,179

Counterparty country/ jurisdiction	31/12/2014							
	Non-bank private sector					Of which:		
	Banks HK\$ Mn	Official sector HK\$ Mn	Non-bank financial institutions HK\$ Mn	Non- financial private sector HK\$ Mn	Others HK\$ Mn	Total claims HK\$ Mn	Cross- border claims HK\$ Mn	Local claims (in all currencies) HK\$ Mn
Developed countries	15,818	7,003	1,440	26,507	32	50,800	22,493	28,307
Offshore centres	10,033	41,661	6,607	236,427	6	294,734	28,783	265,951
- of which: Hong Kong	9,204	32,594	6,524	211,437	-	259,759	24,311	235,448
Developing Europe	-	-	-	47	-	47	47	-
Developing Latin America and Caribbean	-	-	-	200	-	200	30	170
Developing Africa and Middle East	111	141	-	40	-	292	290	2
Developing Asia and Pacific	136,224	4,400	11,559	280,169	-	432,352	112,648	319,704
- of which: China	128,267	3,168	11,059	269,877	-	412,371	97,481	314,890
Total	162,186	53,205	19,606	543,390	38	778,425	164,291	614,134

The above figures are disclosed according to the return of international banking statistics the Bank submitted to the HKMA pursuant to section 63 of the Banking Ordinance in respect of the interim reporting period, which are computed on the consolidated basis as required by the HKMA for its regulatory purposes.

D. Mainland Activities

The table below summaries the non-bank Mainland China exposure of the Bank's Hong Kong Office and the Bank's Mainland subsidiary banks categorised by types of counterparties:

Type of counterparties	30/6/2015		
	On-balance sheet exposure	Off-balance sheet exposure	Total
	HK\$ Mn	HK\$ Mn	HK\$ Mn
1. Central government, central government-owned entities and their subsidiaries and joint venture	24,705	3,953	28,658
2. Local governments, local government-owned entities and their subsidiaries and joint venture	18,851	3,051	21,902
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint venture	177,837	36,848	214,685
4. Other entities of central government not reported in item 1 above	4,803	749	5,552
5. Other entities of local governments not reported in item 2 above	5,038	187	5,225
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	10,100	752	10,852
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	32,692	1,107	33,799
Total	274,026	46,647	320,673
Total assets after provision	789,380		
On-balance sheet exposures as percentage of total assets	34.7%		

	31/12/2014	
	On-balance sheet exposure HK\$ Mn	Off-balance sheet exposure HK\$ Mn
<u>Type of counterparties</u>		Total HK\$ Mn
1. Central government, central government-owned entities and their subsidiaries and joint ventures	23,037	27,673
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	18,205	22,201
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	191,383	226,803
4. Other entities of central government not reported in item 1 above	6,776	8,843
5. Other entities of local governments not reported in item 2 above	3,634	4,035
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	6,950	7,297
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	32,328	34,456
Total	282,313	331,308
Total assets after provision	798,037	
On-balance sheet exposures as percentage of total assets	35.4%	

The above figures are disclosed in accordance with the return relating to Mainland activities the Bank submitted to the HKMA pursuant to section 63 of the Banking Ordinance in respect of the interim reporting period, which are computed on the consolidated basis as required by the HKMA for its regulatory purposes.

E. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

	30/6/2015		31/12/2014	
	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	743	0.2	1,076	0.3
- 1 year or less but over 6 months	1,871	0.4	469	0.1
- Over 1 year	712	0.2	551	0.1
	<u>3,326</u>	<u>0.8</u>	<u>2,096</u>	<u>0.5</u>
Rescheduled advances to customers	75	0.0	83	0.0
Total overdue and rescheduled advances	<u>3,401</u>	<u>0.8</u>	<u>2,179</u>	<u>0.5</u>
Secured overdue advances	<u>3,024</u>	<u>0.7</u>	<u>1,871</u>	<u>0.4</u>
Unsecured overdue advances	<u>301</u>	<u>0.1</u>	<u>225</u>	<u>0.1</u>
Market value of security held against secured overdue advances	<u>6,082</u>		<u>3,870</u>	
Individual impairment allowance made on loans overdue for more than 3 months	<u>332</u>		<u>302</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

(b) Advances to banks

	30/6/2015	31/12/2014
	HK\$ Mn	HK\$ Mn
Advances to banks overdue for		
- 6 months or less but over 3 months	-	-
- 1 year or less but over 6 months	-	-
- Over 1 year	-	-
	<u>-</u>	<u>-</u>
Rescheduled advances to banks	-	-
Total overdue and rescheduled advances	<u><u>-</u></u>	<u><u>-</u></u>

(c) Other overdue and rescheduled assets

	30/6/2015		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	-	-	-
- 1 year or less but over 6 months	-	-	-
- Over 1 year	-	-	4
	<u>-</u>	<u>-</u>	<u>4</u>
Rescheduled assets	-	-	-
Total other overdue and rescheduled assets	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>4</u></u>

	31/12/2014		
	Accrued interest	Debt securities	Other assets*
	HK\$ Mn	HK\$ Mn	HK\$ Mn
Other assets overdue for			
- 6 months or less but over 3 months	-	-	-
- 1 year or less but over 6 months	-	-	-
- Over 1 year	-	-	4
	<u>-</u>	<u>-</u>	<u>4</u>
Rescheduled assets	-	-	-
Total other overdue and rescheduled assets	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>4</u></u>

* Other assets refer to trade bills and receivables.

(d) Repossessed assets

	30/6/2015	31/12/2014
	HK\$ Mn	Restated HK\$ Mn
Reposessed land and buildings *	379	280
Reposessed vehicles and equipment	-	4
Reposessed machines	2	2
Total reposessed assets	<u><u>381</u></u>	<u><u>286</u></u>

The amount represents the estimated market value of the reposessed assets as at 30th June, 2015 and 31st December, 2014.

*The balance included HK\$76 million (2014: Nil) relating to properties that were contracted for sale but not yet completed.

F. Currency Concentrations

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

	30/6/2015					
	USD HK\$ Mn	RMB HK\$ Mn	JPY HK\$ Mn	SGD HK\$ Mn	Other foreign currencies HK\$ Mn	Total HK\$ Mn
Spot assets	167,123	361,667	977	22,854	54,570	607,191
Spot liabilities	(156,816)	(339,652)	(5,395)	(26,201)	(50,921)	(578,985)
Forward purchases	125,334	89,529	6,719	4,376	12,706	238,664
Forward sales	(133,671)	(112,351)	(2,189)	(1,404)	(16,343)	(265,958)
Net options position	(82)	38	(13)	-	4	(53)
Net long/(short) non-structural position	<u>1,888</u>	<u>(769)</u>	<u>99</u>	<u>(375)</u>	<u>16</u>	<u>859</u>

	31/12/2014					
	USD HK\$ Mn	RMB HK\$ Mn	GBP HK\$ Mn	SGD HK\$ Mn	Other foreign currencies HK\$ Mn	Total HK\$ Mn
Spot assets	192,783	398,802	27,725	25,563	22,559	667,432
Spot liabilities	(182,966)	(367,570)	(19,269)	(30,405)	(39,025)	(639,235)
Forward purchases	122,471	74,025	968	5,891	20,055	223,410
Forward sales	(129,557)	(106,508)	(9,510)	(1,589)	(3,653)	(250,817)
Net options position	(31)	(1)	(1)	-	36	3
Net long/(short) non-structural position	<u>2,700</u>	<u>(1,252)</u>	<u>(87)</u>	<u>(540)</u>	<u>(28)</u>	<u>793</u>

	30/6/2015				
	USD HK\$ Mn	RMB HK\$ Mn	MYR HK\$ Mn	Other foreign currencies HK\$ Mn	Total HK\$ Mn
Net structural position	<u>2,169</u>	<u>11,614</u>	<u>2,414</u>	<u>978</u>	<u>17,175</u>

	31/12/2014				
	USD HK\$ Mn	RMB HK\$ Mn	MYR HK\$ Mn	Other foreign currencies HK\$ Mn	Total HK\$ Mn
Net structural position	<u>2,143</u>	<u>11,623</u>	<u>2,610</u>	<u>922</u>	<u>17,298</u>

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

G. Leverage Ratio

	<u>30/6/2015</u>	<u>31/12/2014</u>
	%	%
Leverage ratio	7.4	N.A.

The disclosure on leverage ratio is effective since 31st March, 2015 and is computed on the same consolidated basis as specified in a notice from the HKMA in accordance with section 3C of the Capital Rules. The relevant disclosures pursuant to section 24A of the Banking (Disclosure) Rules can be found on the Bank's website accessible through the "Regulatory Disclosure" link on the home page of the Bank's website at www.hkbea.com or at the following direct link: www.hkbea.com/regulatory_disclosures

H. Countercyclical Capital Buffer Ratio

There is no information disclosed relating to the Countercyclical capital buffer ratio pursuant to section 24B of the Banking (Disclosure) Rules for this period because the applicable JCCyB ratios for Hong Kong and for jurisdiction outside Hong Kong are at 0% before 1st January, 2016 according to section 3P and section 3Q of the Capital Rules.

I. Capital Conservation Buffer Ratio

Under section 3M of the Capital Rules, the capital conservation buffer ratio for calculating the Bank's buffer level is 0% for 2015.

J. Higher Loss Absorbency Ratio

The HKMA has designated the Bank as a domestic systematically important authorised institution ("D-SIB"). Under section 3V of the Capital Rules, the higher loss absorbency ratio applicable to D-SIB is 0% for 2015.

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK\$0.38 per share ("2015 Interim Dividend") (2014 Interim Dividend: HK\$0.43 per share) for the six months ended 30th June, 2015. The 2015 Interim Dividend will be paid in cash with an option to receive new, fully paid shares in lieu of cash ("Scrip Dividend Scheme"), to shareholders whose names appear on the Register of Members of the Bank at the close of business on Thursday, 20th August, 2015. The ex-dividend date for the 2015 Interim Dividend will be on Monday, 17th August, 2015. Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or about Thursday, 20th August, 2015. The Scrip Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Friday, 11th September, 2015.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed on Wednesday, 19th August, 2015 and Thursday, 20th August, 2015. In order to qualify for the 2015 Interim Dividend, all transfer documents should be lodged for registration with Tricor Standard Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by 4:00 p.m. on Tuesday, 18th August, 2015.

FINANCIAL REVIEW

Financial Performance

For the first six months of 2015, the Group achieved a profit attributable to owners of the parent of HK\$3,354 million, representing a decrease of HK\$226 million or 6.3%, compared with the HK\$3,580 million earned in the same period last year. Basic earnings per share were HK\$1.28. Annualised return on average equity and return on average assets were 9.2% and 0.8%, respectively.

During the first six months of 2015, the Group's net interest income decreased by HK\$62 million, or 1.0%, to HK\$6,186 million, primarily due to narrowing of net interest margins. Net fee and commission income increased by HK\$45 million, or 2.1%, to HK\$2,186 million, while net trading profits or losses recorded negative growth. As a result, non-interest income decreased by HK\$441 million, or 14.9%. Operating income decreased by 5.5% to HK\$8,699 million.

Total operating expenses fell by 5.6% to HK\$4,620 million. Since the decrease in operating expenses was slightly higher than that of operating income, the cost-to-income ratio dropped from 53.2% in the first half of 2014 to 53.1% in the first half of 2015. If the business tax and surcharges of China operations are excluded from operating expenses, the adjusted cost-to-income ratio would be 49.5%.

Operating profit before impairment losses was HK\$4,079 million, a decrease of HK\$230 million, or 5.4%, when compared with the corresponding period in 2014.

Impairment losses grew by 147.1% to HK\$782 million. Deteriorating credit quality in Mainland China resulted in impairment loss on loans and advances rising by 144.7% to HK\$781 million for the Group.

Operating profit after impairment losses was HK\$3,297 million, a decrease of 17.4% or HK\$696 million.

Valuation gains on investment properties increased to HK\$340 million. Net profit on disposal of fixed assets amounted to HK\$112 million, mainly related to the sale of a property located in Hong Kong. In addition, the Group shared after-tax profits from associates of HK\$254 million.

After accounting for income taxes, profit after taxation fell to HK\$3,415 million, a decrease of 6.0% compared to the HK\$3,632 million recorded in the corresponding period in 2014.

Financial Position

Total consolidated assets of the Group stood at HK\$815,986 million at the end of June 2015, an increase of 2.5% over the HK\$795,891 million reported at the end of 2014. Gross advances to customers rose by 2.2% to HK\$452,889 million. Total equity increased to HK\$82,869 million, up 12.8%, mainly due to the subscription of 222,600,000 new ordinary shares by Sumitomo Mitsui Banking Corporation for HK\$6,576 million.

Total deposits from customers increased by 0.6% to HK\$551,409 million. Demand deposits and current account balances increased by HK\$10,338 million, or 15.4%, compared with the balance at year-end 2014. Savings deposits increased to HK\$107,053 million, a rise of 6.2%, while time deposits decreased by HK\$13,384 million, a decrease of 3.5%, both compared to the year-end positions. Total deposit funds, comprising deposits from customers and all certificates of deposit issued, increased by 0.9% to HK\$597,889 million.

The loan-to-deposit ratio was 75.7% at the end of June 2015, 0.9 percentage point higher than the 74.8% reported at the end of 2014.

ECONOMIC OVERVIEW

The global economy turned in another mixed performance in the first half of 2015. While the US economy strengthened, the Eurozone faced headwinds. Meanwhile, China's economic growth continued to slow. As a result, Hong Kong saw weak external demand with exports growing by a modest 0.1% year-on-year in the first six months of 2015.

Hong Kong's unemployment rate remained low, standing at 3.2% at the end of June. Nevertheless, growth in domestic retail sales slipped to 1.8% year-on-year during the first five months of the year as spending by Mainland tourists slackened.

Activity in Hong Kong's property market recovered in the first half of 2015. During the first five months of the year, the number of residential property transactions rose by 27.1% year-on-year, while property prices grew by 7.2% from the end of 2014.

Overall, Hong Kong's economy expanded at a moderate pace of 2.1% year on year in the first quarter of 2015.

Looking ahead, the outlook for the exports sector is subdued with uncertainty clouding the economies of Europe and China. Moreover, the expected increase in US interest rates and the ongoing economic restructuring in China will adversely affect Hong Kong's economic performance in the second half of 2015. Hong Kong's Gross Domestic Product is forecast to grow at 2.0% for the year, while inflation will average 3.5%.

On the Mainland, the value of exports grew by a modest 1.0% year-on-year in the first half of 2015. Meanwhile, domestic demand weakened, with the inflation rate averaging a mere 1.3% during the period under review. The slowdown prompted the Chinese government to introduce new stimulus measures, with the People's Bank of China cutting interest rates and lowering the deposit reserve requirement ratio.

In the second half of 2015, the Chinese government's expansionary fiscal and monetary policies should help stabilise economic conditions. China's GDP is forecast to grow by 7.0% in 2015, slower than the 7.4% growth in 2014. The inflation rate is expected to average 1.5%, down from 2.0% in 2014.

OPERATIONS REVIEW

Business – Hong Kong

As at 30th June, 2015, the aggregate value of all loans to customers and trade bills of BEA in Hong Kong was 2.9% higher than at 31st December, 2014. Total deposits grew by 3.3%, while debt investments increased by 5.7%.

Retail Banking

BEA's personal banking operations recorded steady growth in the first half of 2015. Net interest income was up by 9.0% year on year, while net fee and commission income rose by 13.9%, driven by respective increases of 30.1% and 45.0% in commission income from sales of investment and insurance products.

The Bank's strategy to secure diversified and stable funding by attracting customer deposits continues to bear fruit. Take-up of the Bank's major all-in-one accounts was strong, with SupremeGold, Supreme, and CorporatePlus accounts increasing by 8.7%, 23.3%, and 7.9% respectively during the first half of the year. As a result, average current and savings account balances in Hong Kong for the period under review rose by 10.0% compared to the average for 2014.

BEA's acquisition of the mortgage loan portfolio of PrimeCredit Limited was completed in May 2015. The transaction not only enlarges the Bank's mortgage portfolio by HK\$5.2 billion, but also provides opportunities to cross-sell other financial services to a large pool of new-to-bank customers.

The Bank's innovative digital branch concept has been well received by customers, and has gained recognition from prestigious media titles including The Asian Banker and Retail Banker International. In March 2015, the Shun Tak Centre Branch was successfully relocated and transformed into a digital branch. Additional branches will be upgraded or fully refurbished to incorporate BEA's internally developed digital devices and straight-through, paperless operations. This will increase efficiency, cut costs, and free up branch staff to engage in marketing and sales activities.

Enhancements have also been made to other channels, including internet, mobile and social media, to ensure customers enjoy an unparalleled experience no matter how they choose to engage with the Bank.

Corporate & Commercial Banking

The Hong Kong business environment has been challenging in the year to date, particularly in the first quarter. Rising RMB funding costs and intensified market competition pressured net interest margin and hurt profitability. Against this backdrop, Corporate Banking recorded a moderate gain in net interest income, while net fee and commission income was flat.

The Bank has retained a prudent approach to lending, being highly selective in the enterprises it has worked with. As a result, the balance of the corporate loan and trade bills portfolio has been stable, despite a drop in cross-border lending. Meanwhile, the impaired loan ratio has been maintained at a very low level.

In Hong Kong, the syndicated loan market was quiet during the first half of the year. However, the Government's aggressive land supply programme has fuelled additional opportunities for construction financing. Furthermore, securities and brokerage firms have been more active, and demand for financing has been high. The Bank has also enjoyed good growth in interest and fee income from securities and IPO margin financing as a result.

Looking ahead, Hong Kong remains a convenient and efficient financial platform for Chinese companies to advance their business objectives. Meanwhile, the establishment of new free trade zones in Mainland China will create further avenues for growth. With good connections and strong cross-border capabilities, the Bank is ideally positioned to benefit from increased investment and trade flows as the Mainland continues to open up.

Wealth Management

Private Banking's performance was positive during the period under review. Operating income increased by 34.7% year-on-year, driven by double digit growth in both net interest income and net fee and commission income. This was achieved despite a drop in the loan book and with assets under management flat compared to the end of 2014, both due to unwinding of offshore RMB leveraged trades.

Increased volatility and continued low-cost funding have seen investors shift focus to equities and related products, broadening out from the bond-based allocations seen in recent years. A diverse range of equity-linked products helped Private Banking record an 84.8% year-on-year increase in related income during the first half of the year. Meanwhile, improved market sentiment during the second quarter contributed to a year-on-year rise of 96.6% in brokerage commission. The Bank will keep abreast of the latest developments arising from Mainland deregulation in areas such as mutual recognition of funds and the Stock Connect schemes to help customers explore emerging investment opportunities.

Going forward, BEA aims to position itself at the forefront of private banking in Greater China. To this end, Wealth Management Division has launched a re-engineering project to digitalise client-facing and back-end processes, as well as a series of initiatives to streamline operations, improve service quality and provide an exceptional customer experience.

Insurance & MPF Services

BEA Life Limited, the Bank's wholly-owned life insurance arm, maintained its impressive growth trajectory in the first half of 2015. New premium income was up by 42.9% compared to the same period in 2014, driven by an overwhelming response to new short-term savings products and the launch of premium financing for high-net-worth customers.

Premium income growth for Blue Cross (Asia-Pacific) Insurance Limited, BEA's wholly-owned general insurance arm, was stable. However, there has been fierce competition in group medical insurance, coupled with a surge in medical costs. To counter this, Blue Cross has put additional focus on the SME segment, where margins are more commensurate with risk. The company is also leveraging its substantial base of existing group medical members to cross-sell individual insurance products.

Blue Cross continues to see good growth in e-channel sales. In particular, travel insurance premiums from online applications grew by 32.6% year-on-year. The company is stepping up efforts to improve its online platform, providing a higher level of customer service and making enrolment even easier.

During the first half of this year, total membership in BEA's MPF schemes grew to 618,970, while AUM increased by 6.0% to HK\$20 billion. The Bank will aim to keep fee levels competitive in order to maximise customers' long-term returns.

Broking Operations

After a lacklustre first quarter, the local market rallied on the back of strong liquidity as China took steps to boost its economy. H shares, which had been trading at deep discounts to their A share counterparts, were the star performer. Benefitting from much higher average daily turnover on the Stock Exchange of Hong Kong, BEA's broking operations staged a strong recovery, with turnover and pre-tax profit rising by 90% and 300%, respectively, compared to the corresponding period in 2014.

The outlook for the second half of 2015 is more challenging, as the reversal of China's stock market fortunes and the Greek debt debacle have depressed investor sentiment. Meanwhile, speculation over the timing of the US Federal Reserve's eventual decision to raise short-term interest rates will continue to dominate global financial markets. Anticipating a sluggish second half of the year, BEA will upgrade its mobile trading platform and rationalise broking outlets, in order to reduce costs and further improve profit margins.

Business – Greater China ex-Hong Kong

China's economy slowed further in the first half of 2015, with GDP growth falling to 7.0% and the consumer price index rising by just 1.4%. China's high overall debt burden leaves the Central Government little margin for error as it carries out its reform and restructuring agenda. These conditions are likely to persist in the medium term, albeit cushioned by selective fiscal and monetary easing.

BEA China responded to these conditions by reducing its loan portfolio 1.3% half on half to HK\$147.1 billion and its deposits by 1.1% to HK\$202.9 billion. BEA China has furthermore emphasised lending to clients with higher credit ratings, albeit at the price of lower yields on loans extended. This, combined with the impact of cuts in the benchmark interest rate, led BEA China's net interest margin lower in the first half of 2015 to 1.95% from 2.18% in the second half of 2014. The recent announcement of a relaxation in the commercial banking loan-to-deposit ratio ceiling may help BEA China improve its net interest margin over time.

Nonetheless, BEA China's loan portfolio has not escaped the impact of the economic downturn and asset quality has been under pressure. As highlighted above, BEA China has tightened its credit policies and will continue to monitor the situation closely. Meanwhile, it has also strengthened its debt recovery operations. While the outlook for asset quality remains challenging, we note that 96.6% of non-performing loans are collateralised and the rate of increase in impairments appears to be stabilising.

While BEA China addresses the challenges posed by the deteriorating economy, reforms in the Mainland's banking industry bode well for the future. Step by step, the elements of a more robust, market-oriented banking system are being laid. The first half of 2015 alone has seen the implementation of a nationwide deposit insurance scheme, further liberalisation of deposit rates, and the launch of China's first online bank. While these changes are putting pressure on the industry's overall cost of funding, they should ultimately create a more stable economy and a fairer playing field on which BEA China can distinguish itself based on the quality and value of its services.

Against this backdrop, BEA China's pre-provision operating profit for the first half of 2015 was HK\$1.4 billion, 15.6% lower than the same period last year. Including HK\$692 million in impairments, net profit after tax declined by 53.7% compared to the same period last year to HK\$541 million. The decrease was partially mitigated by proactive efforts to improve branch productivity, which lowered BEA China's cost-to-income ratio to 54.6% from 55.3% year on year. However, due to the increased cost of regulation and compliance, as well as investments in information technology, costs are expected to be higher in the second half of 2015.

Looking ahead, BEA China continues to identify promising new corporate business opportunities. Working with the business units of BEA in Hong Kong and overseas to issue Standby Letters of Credit has proven to be a strong source of fee income, with the outstanding balance up 10.2% half on half. Furthermore, BEA China is confident that the Central Government's "One Belt, One Road" initiative will provide additional opportunities to make optimum use of its extensive branch network.

In May 2015, BEA China obtained approval to launch its Free Trade Account business in the China (Shanghai) Pilot Free Trade Zone. This business will enable BEA China's sub-branches within the free trade zone to provide customers with one-stop onshore and offshore financing service, and help them to lower their overall cost of funding. Once the model is proven, BEA China plans to expand it to other free trade zones throughout the country.

BEA China is also emphasising the development of its online and mobile retail platforms, including through the strategic agreement with Shenzhen-Qianhai WeBank Co., Ltd. signed in April. In addition, BEA China is developing retail initiatives such as credit card instalment loans and car park loans, and auto financing through its joint venture, Brilliance-BEA Auto Finance Company Limited. In June 2015, BEA China also received approval to accept online applications for fund management products. This opens a new channel for developing wealth management business.

BEA China opened a full branch in Nanning in the Guangxi Zhuang Autonomous Region in January 2015 and will open a branch in Nanchang, Jiangxi Province by the end of the year. With 29 branches and 98 sub-branches in 42 cities across the country, BEA China offers customers one of the most extensive networks of any foreign bank in Mainland China.

Business – International

In the first half of 2015, BEA's international operations saw net profit rise by 40%, on the back of improving net interest margin, control of operating expenses, and impairment write back. Meanwhile, interest-earning assets were flat compared to the end of 2014, as the cross-border bills purchase business from China slowed.

Singapore's economic growth decelerated in the first half of 2015. As the regional hub for syndicated loans, Singapore was impacted by sluggish demand from corporate borrowers in the local market and throughout the Asia Pacific region.

However, careful management of assets and liabilities allowed the Singapore Branch to record an improvement in its net interest margin. In particular, funding sources have been diversified and costs lowered through issuances under the Branch's US\$2 billion multi-currency Medium-Term Note Programme, which was established in 2014. These efforts, coupled with the impairment write back, resulted in a notable increase in net profit for the Branch, year on year. However, market uncertainties weigh on the outlook for the second half of 2015.

Benefiting from sustained demand from foreign investors for prime real estate assets in the United Kingdom, the Bank's operations in the UK continued to post healthy loan and profit growth in the first half of 2015. Going forward, BEA's UK operations will strive to expand lending capability in construction financing, corporate syndication, and cross-border business from China, as well as residential and commercial lending.

In the United States, the market saw gradual economic recovery, low interest rates, and strong appetite among domestic and foreign investors for commercial properties and high-end residential condominiums in gateway cities. The Bank's US operations performed well as a result. Asset quality continued to improve while net profit grew by 16% year on year.

Despite market expectations of an interest rate hike by the US Federal Reserve in the third or fourth quarter of 2015, the commercial and residential real estate markets remain buoyant. BEA's US operations will continue to expand and diversify the Bank's loan portfolio by seeking higher margin bilateral relationship and club deals in the commercial real estate sector.

Meanwhile, BEA's operations in Singapore, the UK, and the US will further expand business collaboration with BEA China, with a view to offering financing to large Chinese corporations.

Other Subsidiaries

Credit Gain Finance Company Limited

Despite strong competition in the first half of 2015, Credit Gain continued to register healthy growth. The sub-prime loan business in Hong Kong remained the Company's major revenue driver. In July, the Company opened a new office in Shenzhen, bringing the total of number of Credit Gain offices on the Mainland to six, with five in Shenzhen and one in Chongqing.

Tricor Holdings Limited

Tricor reported record-high revenue of HK\$600 million for the first half of 2015, thanks to the continued strong demand for the Company's corporate and compliance services as well as investor services in Hong Kong, together with the significant growth in revenue based on local currencies in Tricor's overseas offices in Japan, Malaysia, and Singapore. Tricor's investor services practice secured the share registration work of 57% of all newly listed companies in Hong Kong during the period under review.

This strong performance was tempered by the negative impact of the strong US dollar, to which the Hong Kong dollar is linked, on the earnings of some overseas offices when converted into Hong Kong dollars.

In April 2015, Tricor acquired a 25% interest in MBSL Limited, a reputable outsourced services firm based in Dublin, Ireland. As Ireland is a member of the European Union and the Eurozone, the joint venture with MBSL Limited has enhanced the Company's servicing capabilities in Europe. With the addition of the Irish office, Tricor now operates a network covering 32 cities in 18 markets around the world.

BEA Union Investment Management Limited

BEA Union Investment registered a 7% increase in AUM in the first half of 2015. The improvement is mainly attributable to the Company's success in penetrating both the retail and institutional sectors in Hong Kong and on the Mainland.

A new fund, the BEA Union Investment Asia Pacific Flexi Allocation Fund, was launched in February 2015 for distribution in Hong Kong and Mainland China. In addition, in response to investor demand for greater access to the China A-share market, BEA Union Investment actively increased its exposure for some funds in the China market via the Shanghai-Hong Kong Stock Connect Scheme.

Looking ahead to the second half of 2015, BEA Union Investment aims to broaden its product offering, increase its exposure in the China market via RQFII, and continue to co-operate with BEA China to capture opportunities arising from the Hong Kong-China mutual fund recognition programme.

Our People

As of 30th June, 2015, the BEA Group employed 13,236 people:

Hong Kong	5,801
Greater China ex-Hong Kong	6,165
Overseas	<u>1,270</u>
Total	13,236

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

Future Prospects

In the face of global uncertainties, economic growth is likely to remain moderate and uneven for the remainder of the year. BEA will be particularly vigilant regarding the impact of slowing growth in the Mainland on its business. Meanwhile, the effectiveness of policies introduced by the Central Government aimed at boosting the economy, including lowering of interest rates and the deposit reserve requirement ratio, will be monitored closely.

BEA will continue to focus on building a modern, trusted brand and developing lasting relationships with its customers as well as capitalising on trade and investment flows to and from the Mainland by leveraging its extensive China network to drive business to its branches in key markets around the world.

In Hong Kong, BEA will continue to invest in innovative technology to enhance the customer experience, such as cardless ATM withdrawal service launched in the first half of 2015. Experience to date with BEA's new digital branches has shown that the concept is able to enhance the customer experience, drive efficiency, and reduce operational costs. To further strengthen its business, the Bank will focus on expanding the range of products held by new and existing clients, including mortgage loans, credit cards, and SupremeGold and CorporatePlus accounts. In addition, BEA will continue to develop sources of non-interest income by offering well-diversified wealth management, insurance, investment and securities trading services.

The Mainland will remain a clear strategic investment priority and a principal engine of growth for BEA in the long run although the Chinese economy is experiencing short-term adjustments. BEA will also enhance its product range to meet the demands of high net-worth and corporate clients in China seeking to expand their businesses in Hong Kong and overseas. BEA China will respond to the liberalisation of interest rates by focusing on building its non-interest income to strengthen total revenue. In response to the challenging credit situation in China, BEA China will carefully manage its credit risk control to enhance asset quality.

The Bank will continue to engage in active capital management to better utilise its capital resources. BEA's healthy capital position will enable it to meet the increasingly stringent capital requirements of regulators, and capitalise on investment and expansion opportunities on the Mainland and elsewhere. Furthermore, the Bank will allocate optimal resources to strengthen its risk management culture, compliance control, corporate governance, digital channels, and human capital so as to augment its operating efficiency and productivity.

Looking ahead, the Bank remains well-positioned to benefit from China's long term growth and internationalisation initiatives.

RISK MANAGEMENT

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

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

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

The Group's major risk management policies and control limits are approved by the Board and are monitored and regularly reviewed. The Board has delegated the responsibility for on-going risk management to the Risk Committee, Risk Management Committee and specialised risk management committees. Significant risk management related issues are required to be reported to the Board to assist its oversight of risk management. Moreover, on daily basis, the Group Chief Risk Officer is responsible for overseeing the Bank Group's risk management issues which include, but not limited to, the risk management infrastructure, strategies, appetites, culture, and resources.

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

As required of all Authorised Institutions under the HKMA's Supervisory Policy Manual on "Recovery Planning", the Bank has established a Group Recovery Plan, which has been approved by the Board. The Group Recovery Plan helps ensure that the Bank is able to recover quickly from periods of severe stress and preserve or restore its capital and liquidity levels.

Each new product launch must go through an approval process, which includes business and financial analysis and risk assessment. New products are reviewed and assessed by the New Products Evaluation Working Group (comprising heads of supporting departments), endorsed by the New Products Development Steering Group (chaired by the Bank's Group Chief Risk Officer and comprising the division heads of supporting units), and approved by the Risk Management Committee.

(a) Credit risk management

Credit risk arises from the possibility that a customer or counterparty in a transaction may default. Such risk may arise from counterparty risks from loans and advances, issuer risks from the securities business and counterparty risks from trading activities.

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

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

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

(b) Market risk management

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

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

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

In this connection, the key types of market risk that must be managed are:

(i) *Currency risk*

The Group's foreign currency positions arise from foreign exchange dealing, commercial banking operations, and structural foreign currency exposures. The Group's non-structural foreign currency exposures are mainly denominated in USD, CNY, and SGD. All foreign currency positions are managed within limits approved by the Board or the Asset and Liability Management Committee.

Structural foreign currency positions, which arise mainly from foreign currency investments in the Group's branches, subsidiaries, and associated companies, are excluded from value-at-risk ("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 its foreign currency denominated assets closely with corresponding liabilities in the same currencies.

(ii) *Interest rate risk*

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

(iii) *Equity risk*

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

Market risk control limits have been set at varying levels according to the practical requirements of different units. The Board approves the core control limits and has delegated the authority to set detailed control limits to the Asset and Liability Management Committee. Risk, return, and market conditions are considered when setting limits. Active limit monitoring is carried out.

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

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

The Group estimates VaR for the Group's trading portfolio by employing a parametric approach, where the VaR is derived from the underlying variances and co-variances of the constituents of a portfolio. This methodology uses historical movements in market rates and prices, a 99% confidence level, a one-day holding period, and a one-year historical observation period. An equal or higher weighting scheme is applied to more recent observations under which higher VaR should be used.

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

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

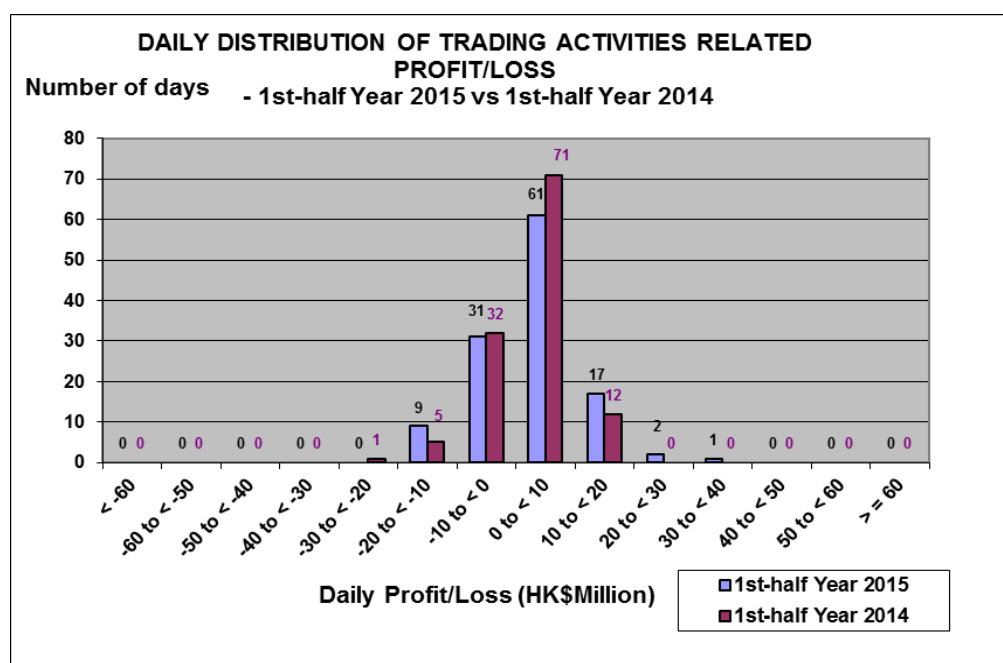
Value-at-risk statistics

	Year 2015 1 st half			
	At 30th June HK\$ Mn	Maximum HK\$ Mn	Minimum HK\$ Mn	Mean HK\$ Mn
VaR for total trading activities	35	45	22	30
VaR for foreign exchange trading positions*	9	14	6	9
VaR for interest rate trading positions	4	8	3	4
VaR for equity trading positions	27	32	14	21

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

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

The average daily profit for all trading activities (including foreign exchange, interest rate, and equity trading activities) in the first six months of 2015 was HK\$2.82 million (average daily profit of HK\$2.10 million in the first six months of 2014). The standard deviation of the daily profit/loss for the period was HK\$9.18 million (standard deviation of HK\$7.45 million for the same period in 2014). The frequency distribution of daily profit/loss is shown below:



(c) Operational risk management

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

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

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

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

(d) Liquidity risk management

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

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

The Asset and Liability Management Committee is delegated by the Board to oversee the Group's liquidity risk management. The Asset and Liability Management Committee sets the strategy, policy, and limits for managing liquidity risk and the means for ensuring that such strategy and policy are implemented. Regular meetings are held to review the compliance status of the monitoring matrix established and the need for any change in strategy and policy. Liquidity is managed daily by the Capital Markets & Liquidity Management Department under the Treasury Markets Division within the set limits. The Asset & Liability Management Department under the Risk Management Division of the Group is responsible for monitoring the activities relating to liquidity risk. The Internal Audit Department performs periodic reviews to ensure that the liquidity risk management functions are carried out effectively.

The LCR, which came into effect on 1st January, 2015, imposes a more stringent regulatory regime for liquidity risk management on the Group. Banking (Liquidity) Rules require the Group to meet the minimum LCR by 2019. During the transitional period, the percentage will increase from 60% in 2015 to 100% in 2019, with 10% added to the regulatory requirement each year from 2016. To ensure compliance with the enhanced regulatory requirement, material changes in the LCR will be reported regularly to the Asset and Liability Management Committee together with any proposed mitigation actions to cope with adverse changes arising from, but not limited to, composition of the deposit and its remaining tenor to maturity, short-term lending activities, and the Group's asset and liability mix strategy. An internal LCR target has been established to maintain the ratio within a suitable range. In planning the asset and liability mix strategy, the Group assesses the impact of asset growth and funding structure on the LCR with support from relevant business units for the Asset and Liability Management Committee's review and decision.

As part of Group efforts to manage the LCR effectively, emphasis is placed on strengthening the deposit base by retaining loyal customers and maintaining customer relationships. The Group balances funding among retail, small business, and wholesale funding to avoid concentration in any one source. Professional markets are accessed through the issuance of certificates of deposit, medium-term notes, subordinated debt, money market placement, and borrowing for the purposes of providing additional funding, maintaining a presence in local money markets, and optimising asset and liability maturities.

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

In addition to observing the statutory LCR, the Group has established different liquidity metrics – including but not limited to the loan-to-deposit ratio, cumulative mismatch ratio, funding concentration ratio, intra-group exposure threshold, and cross currency funding ratio – to measure and analyse the Group's liquidity risks. As a majority of the Group's liquidity risk arises from the maturity mismatch gap between the Group's asset and liability portfolios, the Group manages liquidity risk by conducting cash flow analysis and projections. These are carried out on a regular basis to identify funding needs arising from on and off-balance sheet items in a specific time frame over a set of time horizons. The Group maintains sufficient liquid assets as a liquidity cushion that can be accessed in times of stress. The high quality liquid assets ("HQLAs") for fulfilling the LCR consist of cash, short terms funds, exchange fund bills, and notes. The majority of the HQLAs are denominated in Hong Kong dollars. Contingent funding sources are maintained to provide strategic liquidity to meet unexpected and material cash outflows.

The Group also conducts stress testing regularly to analyse liquidity risk. Both on and off-balance sheet items and their impact on cash flow are considered, together with applicable hypothetical and historical assumptions. The assessment and review of market liquidity risk are included in the various control processes, including investment / trading strategy, market risk monitoring, valuation, and portfolio review. Three stress scenarios – namely an institution-specific crisis, a general market crisis, and a crisis involving a combination of the two – are adopted with minimum survival period defined according to the HKMA's Supervisory Policy Manual "Sound Systems and Controls for Liquidity Risk Management".

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

The Contingency Funding Policy and Contingency Funding Plan are designed to be pro-active and pre-emptive, and stipulate the following three stages:

1. The Group utilises early warning indicators, which cover both qualitative and quantitative measures, and monitors both internal and external factors. Should there be any early signs of significant impact on the Group's liquidity position, Senior Management is informed. The Asset and Liability Management Committee will consider appropriate remedial actions and will consider employing crisis management if the situation warrants.
2. A Crisis Management Committee, which is chaired by the Group's Senior Management, is formed to handle the crisis. Strategy and procedures for obtaining contingency funding, as well as roles and responsibilities of the parties concerned, are clearly stated.
3. In the final stage, a post-crisis review is carried out to recommend necessary improvements to avoid incidents of a similar nature in the future.

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

Certificates of Deposit, Debt Securities Issued, and Loan Capital

In the first half of 2015, BEA issued floating rate certificates of deposit and debt securities with a face value of HK\$1,385 million, US\$125 million and EUR32 million; fixed rate certificates of deposit and debt securities with a face value of HK\$4,332 million, US\$535 million, CNY1,752 million, GBP528 million, SGD175 million, EUR50 million and JPY15,200 million; and zero coupon certificates of deposit and debt securities with a face value of HK\$2,316 million, US\$1,940 million, CNY6,965 million, GBP299 million and EUR161 million. The Group redeemed a quantity of certificates of deposit and debt securities amounting to HK\$56,428 million equivalent upon maturity.

At the end of June 2015, the face value of the outstanding certificates of deposit and debt securities issued was equivalent to HK\$63,236 million, with a carrying amount equivalent to HK\$63,151 million.

Maturity Profile of Certificates of Deposit and Debt Securities Issued

As at 30th June, 2015

(All expressed in millions of dollars)

	Total	Year of Maturity				
	Face Value	2015	2016	2017	2018	2019
Floating Rate						
HKD	2,805	200	2,305	300		
USD	648	358	240	50		
EUR	32		32			
CHF	62	62				
Fixed Rate (Note)						
HKD	9,422	2,859	4,049	1,531	683	300
USD	1,738	595	308	800	35	
CNY	2,172	570	1,502	100		
GBP	359	359				
SGD	225		175	50		
EUR	50	50				
CHF	100		100			
JPY	50,100	34,900	15,200			
Zero Coupon						
HKD	2,163	363	1,800			
USD	1,559	1,160	399			
CNY	2,420	965	1,200	255		
GBP	49	24	25			
EUR	89	89				
CHF	15	15				
JPY	2,000	2,000				
Total Certificates of Deposit and Debt Securities issued in HKD equivalent	63,236	30,570	22,259	9,153	954	300

Note:

Associated interest rate swaps have been arranged in order to manage interest rate risk from long-term certificates of deposit and debt securities issued, if deemed necessary.

At the end of June 2015, the face value of the outstanding loan capital issued was equivalent to HK\$17,015 million, with a carrying amount equivalent to HK\$17,273 million.

Maturity Profile of Loan Capital

As at 30th June, 2015

(All expressed in millions of dollars)

	Total	Year of Maturity		
	<u>Face Value</u>	<u>2020</u>	<u>2022</u>	<u>2024</u>
USD (Notes 1 & 2)	1,600	600	500	500
SGD (Note 3)	800		800	
Total Loan Capital issued in HKD equivalent	17,015	4,652	8,487	3,876

Notes:

1. The US\$500 million loan capital that matures in 2022 will be callable on 4th May, 2017.
2. The US\$500 million loan capital that matures in 2024 will be callable on 20th November, 2019.
3. Callable on 13th September, 2017.

(e) Interest rate risk management

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

The Group manages the interest rate risk on the banking book primarily by focusing on re-pricing mismatches. Gap analysis provides a static view of the maturity and re-pricing characteristics of the Group's assets, liabilities, and off-balance sheet ("OBS") positions. Re-pricing gap limits are set to control the Group's interest rate risk.

Sensitivity analysis in relation to the impact of changes in interest rates on earnings and economic value is assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on the Group's assets, liabilities and OBS positions and is performed on a monthly basis. Sensitivity limits are set to control the Group's interest rate risk exposure under both earnings and economic value perspectives. The results are reported to the Asset and Liability Management Committee on a regular basis.

(f) Strategic risk management

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

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

(g) Legal risk and reputation risk management

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

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

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

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

Corporate Social Responsibility

In June 2015, BEA issued its third standalone Corporate Social Responsibility report, covering the year ended 31st December, 2014. For the second straight year, BEA adopted the fourth generation guidelines (G4) of the Global Reporting Initiative, which will become the standard for all companies worldwide that report on their environmental, social, and governance performance in accordance with the GRI guidelines from 2015 onwards.

To help ensure that the Group's monetary, in-kind, and other support to charitable causes are deployed effectively and in line with its CSR policy, BEA's CSR Task Force developed a set of Guidelines for Community Investment, which were formally adopted by the Group in March 2015. Going forward, Group members will be able to refer to the Guidelines when selecting or evaluating programmes, or evaluating the Group's impact in target areas.

In response to the earthquakes that struck Nepal in April and May 2015, BEA and Tricor made donations to the emergency relief fund of the Hong Kong Committee for UNICEF while the Bank also made donations to the funds of the Hong Kong Red Cross and The Salvation Army Hong Kong and Macau Command. In addition, the Bank made an appeal for donations from all Group members and placed notices on branch counters advising customers how they could assist recovery efforts in Nepal.

BEA continued to support important cultural events in Hong Kong during the period under review, most notably Le French May 2015 organised by the Association Culturelle France-Hong Kong Limited. The Bank has supported this signature cultural event for 12 years. In March 2015, BEA hosted a special talk by Ching W. Tang, IAS Bank of East Asia Professor at the Hong Kong University of Science and Technology, who shared his life and educational experiences with over 320 secondary school students.

In March 2015, the Bank joined the Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme organised by the Labour and Welfare Bureau in collaboration with the Rehabilitation Advisory Committee, The Hong Kong Council of Social Service, and the Hong Kong Joint Council for People with Disabilities. The Scheme is designed to promote social integration through employment and encourages employees from different sectors to hire persons with disabilities and help them realise their career potential.

The BEA Volunteer Team organised an Easter egg hunt with Little Life Warrior Society during the Easter holiday at South Beach for children with cancer and their families. In June 2015, the Volunteer Team organised the delivery of hot meals to elderly singletons living in Sham Shui Po Nam Cheong Estate, to show their care to senior citizens in the community. The Volunteer Team has also provided more opportunities for other Group members to take part in the Team's activities. During the first half of this year, nearly 50% of BEA Union Investment's staff signed up as members of the BEA Volunteer Team.

On 28th May, 2015, members of the BEA Group supported the annual “Earth Hour” organised by the World Wide Fund for Nature by switching off non-essential lighting in offices and branches as well as selected billboards and other displays as a show of support for action against climate change.

On 8th May, 2015, BEA China, the Shanghai Soong Ching Ling Foundation, and “la Caixa” Foundation signed a collaborative agreement to establish the Firefly Centre Development Programme. The Shanghai Soong Ching Ling Foundation – BEA Charity Fund and “la Caixa” Foundation will contribute a total of CNY9.03 million to further improve educational opportunities for underprivileged children in rural areas on the Mainland by setting up 18 Firefly Centres and organising training programmes for principals and teachers from participating schools in the coming three years.

In January and February 2015, BEA China conducted the “Extend Warmth and Happiness in the Year of Goat” campaign in 14 cities nationwide. More than 200 volunteers including staff members, relatives, and journalists distributed food and other daily necessities to over 1,700 senior citizens, orphans, and other vulnerable members of the community in celebration of the Lunar New Year. In March and April, over 370 volunteers including staff members and their families, customers, and representatives of non-governmental organisations participated in the “Protect a Green World • We Do” campaign to promote the importance of environmental protection through various activities including visits to an ecological farm and agricultural technology park, seminars on geaponics and potting, and the planting of more than 540 saplings in 17 cities around the country.

For the second consecutive year, the BEA China Volunteer Team organised a charity bazaar, on 12th May, 2015. The volunteer team sold a wide variety of items, such as toys, jewellery, electronic appliances, clothes, and books that were donated by staff members as part of the “Donate Unused Items for Charity” campaign. All funds raised in the campaign were donated to the Charity Fund to purchase “Firefly 60” backpacks. From late May to early June 2015, BEA China held the “Reading for Children” campaign in 16 cities nationwide in celebration of Children’s Day on 1st June, 2015. Volunteers visited schools and orphanages, and distributed books, stationery and other items, and organised a variety of educational and recreational activities.

During the first half of 2015, BEA’s Macau Branch took part in a number of charitable activities including the “Chinese New Year Gift Transfer” campaign, organised by the Salvation Army and, for a second year, the “Macau Famine”, organised by the World Vision of Macau Association. In addition to making donations and buying souvenir items, staff members from the Macau Branch supported World Vision’s worldwide food security and development projects by sending greetings cards to underprivileged children in Zimbabwe, Africa.

On 11th February, 2015, staff members of BEA’s Rural Bank in Fuping County, Shaanxi Province, together with local government officials visited under-resourced families of Jiantou Village in Gongli, Fuping, providing them with financial assistance and food for the Lunar New Year. The delegation also met with local village officials to learn more about relief work being carried out in the village.

Overseas, 39 staff members of BEA’s Singapore Branch participated in the 2015 JP Morgan Chase Corporate Challenge on 23rd April, 2015. Funds raised from the competition went to The Smile Mission, an international children’s medical charity that helps to improve the lives of children with facial deformities by providing them with free surgery and treatment. In January 2015, BEA’s Labuan Branch visited “My Father’s House” children’s home and made a donation for school supplies and uniforms for the children in the new school term.

In the second quarter of 2015, representatives of BEA’s New York Branch visited two primary schools, one in Manhattan’s Chinatown and one in Brooklyn, and introduced basic banking services to students. For the second straight year, staff members of the Bank’s Los Angeles Branch participated in the Los Angeles 5K Run in March to help raise funds for The Parkinson Alliance’s Team Parkinson. For the fourth consecutive year, Blue Cross sponsored the “Happy Teens, Full of Fun Programme” organised by the Hong Kong PHAB Association. Designed specifically for tertiary students with disabilities, the 2015 programme includes practical training courses, which will help participants adapt more easily to the workplace environment in the future.

Group member Tricor Hong Kong sponsored the “Free Ride Day” organised by the Hong Kong General Chamber of Commerce for a second year. Members of the general public enjoyed free rides on trams and the Star Ferry throughout the day on 29th May, 2015. Meanwhile, BEA Union Investment established a dedicated CSR team to engage more staff members in the development and implementation of the Company's CSR initiatives. During the first of 2015, 10 BEA Union Investment staff members received first aid training from Hong Kong St. John Ambulance to gain occupational health and safety skills in case of need in the workplace.

RECOGNITION

During the first six months of 2015, the Bank received a number of awards in recognition of its achievements. These included:

- "2015 Best SME's Partner Award" (for the eighth consecutive year) from The Hong Kong General Chamber of Small and Medium Business;
- "Quamnet Outstanding Enterprise Award 2014 - Outstanding SME Service Provider (Bank)" (for the second consecutive year) from Quam (H.K.) Limited;
- "Outstanding Corporate Banking Services Award 2014" (for the second consecutive year) and "Outstanding Corporate Banking Renminbi Services Award" (for the second consecutive year) from Wen Wei Po;
- "Best Retail Banking Branch Innovation" in the International Excellence in Retail Financial Services Awards from The Asian Banker;
- "Most Innovative Branch Offering" in the Asia Trailblazer Awards from Retail Banker International;
- "The Best Youth Program Launched In 2014 In Hong Kong – i-Titanium Card" and "The New Contactless Card Launched In 2014 In Hong Kong – i-Titanium Card" and "The Highest Market Share In 2014 Contactless Cardholder Spending In Hong Kong" and "The Highest Number Transaction Tap In Contactless In 2014 In Hong Kong" and "The Highest Growth Rate In 2014 Number of Open Cards In Hong Kong – 2nd Runner Up" and "The Highest Growth Rate In 2014 Cardholder Spending In Hong Kong – 1st Runner Up", and "The Highest Growth Rate In 2014 Outstandings In Hong Kong – 1st Runner Up" from MasterCard Worldwide;
- "Highest Card Volume Growth (Credit Card) – Gold Award" from UnionPay International; and the
- "2014 Global Service Quality Award, the Chargeback to Sale Ratio, Non-Fraud Acquirer" from Visa Inc.

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

- "2014 Best Marketing Financial Institution" from Oriental Morning Post;
- "Best Bank in Trade Finance Products Innovation" in the China Trade Finance Excellence Award from China Banking Association;
- "Best Special Trade Finance Bank" in "The 4th (2014) Most Trusted Financial Service Providers By Foreign Trade & Economic Enterprises in China" from Trade Finance Magazine and www.sinotf.com; and
- "21st Century Touchstone Best Visual-Spatial Experience Award" from 21st Century Business Review and Continuum.

Blue Cross (Asia-Pacific) Insurance Limited received the following awards:

- "Medical and General Insurance Award" in the 15th Capital Outstanding Enterprise Awards Programme organised by *CAPITAL Magazine* (for the fourth consecutive year);
- "Hong Kong Leaders' Choice Award – Excellent Brand of Travel Insurance 2015" from Metro Finance & Metro Finance Digital Radio; and
- "The Most Favourite Travel Insurance Company Award 2014" (for the 10th consecutive year) from Weekend Weekly Magazine.

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

- BEA Wealth Management Services (Taiwan) Limited won “The 12th Golden Torch Awards for the Top Ten Enterprises of the Year” from the Outstanding Enterprise Manager Association, Republic of China;
- Credit Gain Finance Company Limited won the “Finance Service Award” in *Capital Weekly’s* 2015 Service Awards (for the third consecutive year); and
- BEA Union Investment Management Limited was named “One of the Top Investment Houses in Asian Local Currency Bonds” in The Asset Benchmark Research.

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

For the BEA Union Investment Asian Bond and Currency Fund:

- “2015 Gold Winner in Regional Bond” from Fund Selector Asia Hong Kong;
- “Best of the Best Performance Awards 2014 – Asian Bonds” from Asia Asset Management (for its 3-year performance);
- “Best Bond Fund, Asia Pacific – Local Currency” from Lipper Fund Awards Programme 2015 Hong Kong (for its 3-year performance); and
- “FSM Fund Picks 2015/16 – Asian Fixed Income” from Fundsupermart.com.

For the BEA Union Investment Global Resources Fund:

- “FSM Fund Picks 2015/16 – Global Resource Equity” from Fundsupermart.com.

For the BEA China Tracker Fund under BEA (MPF) Master Trust Scheme:

- “The 2015 MPF Awards – Best Hong Kong/China Equity Fund” from Asia Asset Management (for its 1-year performance).

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

- “President’s Award” (for the 16th consecutive year), “Diamond Award” in the Corporate & Employee Contribution Programme 2014/2015 (for the 21st consecutive year), “6th Top Fund Raiser Award” in the Dress Casual Day 2014 programme, and “Outstanding Walk Team Award for the 2014/2015 Walks for Millions” from The Community Chest of Hong Kong;
- “Caring Company” by HKCSS (for the 12th consecutive year). Blue Cross and Credit Gain were named “Caring Company” for the seventh and fifth year, respectively;
- “Caring Company Award” in the Hong Kong Service Award Programme 2015 by East Week;
- “Community Engagement **2 Stars Award” from the Senior Citizen Home Safety Association;
- “Gold Award for Volunteer Service” from the Social Welfare Department’s Central Office for Volunteer Service in 2014;
- “Gold Award” (Website Stream and Mobile Application Stream) in the Web Accessibility Recognition Scheme co-organised by The Office of the Government Chief Information Officer and the Equal Opportunities Commission;
- “Class of Excellence” in the Energywise Label Scheme of the Hong Kong Awards for Environmental Excellence programme (for BEA’s Head Office Building); and
- “Class of Excellence” in the Wastewise Label Scheme of the HKAEE programme (for BEA Tower).

In addition to being named a “Caring Company” by HKCSS, Blue Cross and Credit Gain received the following recognition during the first half of 2015:

Blue Cross

- “Most Caring Award” in the Social Capital Corporate Volunteer Challenge organised by the Community Investment and Inclusion Fund of the Labour and Welfare Bureau.

Credit Gain

- “Caring Agency Award 2014 - One Star Certificate” from the Tsuen Wan and Kwai Tsing District Co-ordinating Committee on Elderly Services of the Social Welfare Department (second consecutive year);
- “Caring Enterprise Award” from the Lok Sin Tong Benevolent Society Kowloon (fourth consecutive year); and
- “Caring Corporation Award” from the Evangelical Lutheran Church Social Service-Hong Kong.

DEALINGS IN LISTED SECURITIES OF THE BANK

On 20th March, 2015, the Bank redeemed a face value of EUR70 million of 1.08% Senior Notes (the “2015 Senior Notes”) upon their maturity. The 2015 Senior Notes were issued on 29th January, 2014 under the Bank’s Medium Term Note Programme and listed on the Singapore Exchange. Save for the redemption of the 2015 Senior Notes, there was no purchase, sale or redemption by the Bank or any of its subsidiaries, of listed securities of the Bank during the six months ended 30th June, 2015.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

The Bank has complied with all the Code Provisions set out in Appendix 14, Corporate Governance Code of the Listing Rules, throughout the accounting period for the six months ended 30th June, 2015, with the exception of Code Provision A.2.1 as explained below.

Throughout the accounting period for the six months ended 30th June, 2015, the Bank has followed the modules on CG-1 and CG-5.

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

Dr. the Hon. Sir David LI Kwok-po is the Chairman & Chief Executive of the Bank. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Bank. The division of responsibilities between the Chairman and the Chief Executive is clearly established and set out in the job mandate of the Chairman and Chief Executive. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and highly qualified individuals. The Board meets regularly at approximately quarterly intervals to discuss issues affecting operations of the Bank. There is a strong independent element in the composition of the Board. Of the 20 Board members, 10 are INEDs. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Bank to make and implement decisions promptly and efficiently. The Board believes that Sir David’s appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects and management of the Bank.

As at 30th June, 2015, the Bank received confirmations from Directors that they have spent sufficient time performing their responsibilities as Directors of the Bank and have given sufficient time and attention to the Bank’s affairs. All Directors acknowledged that they have participated, from time to time, in continuous professional development to develop and refresh their knowledge and skills for carrying out their duties and responsibilities as Directors of the Bank.

The Audit Committee of the Bank has reviewed the results of the Bank for the six months ended 30th June, 2015 and the Bank’s Interim Report 2015.

COMPLIANCE WITH MODEL CODE

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

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

After specific enquiries made, all Directors confirmed that they had complied with the required standard set out in the Model Code and the Bank’s Policy at all the applicable times during the six months ended 30th June, 2015.

By order of the Board

David LI Kwok-po

Chairman & Chief Executive

Hong Kong, 3rd August, 2015

As at the date of this announcement, the Board of Directors of the Bank comprises Dr. the Hon. Sir David LI Kwok-po[#] (Chairman & Chief Executive), Professor Arthur LI Kwok-cheung (Deputy Chairman), Dr. Allan WONG Chi-yun** (Deputy Chairman), Mr. WONG Chung-hin**, Mr. Aubrey LI Kwok-sing*, Mr. Winston LO Yau-lai**, Tan Sri Dr. KHOO Kay-peng**, Mr. Richard LI Tzar-kai**, Mr. Kenneth LO Chin-ming**, Mr. Eric LI Fook-chuen*, Mr. Stephen Charles LI Kwok-sze*, Mr. William DOO Wai-hoi**, Mr. KUOK Khoon-ean**, Mr. Valiant CHEUNG Kin-piu**, Dr. Isidro FAINÉ CASAS*, Dr. Peter LEE Ka-kit*, Mr. Adrian David LI Man-kiu[#] (Deputy Chief Executive), Mr. Brian David LI Man-bun[#] (Deputy Chief Executive), Mr. Daryl NG Win-kong** and Mr. Masayuki Oku*.*

[#] *Executive Director*

* *Non-executive Director*

** *Independent Non-executive Director*

GLOSSARY 詞彙

AUM 「管理資產」	Assets under management 管理資產
Bank Group or BEA Group or Group 「集團」或「本集團」	The Bank and its subsidiaries 東亞銀行及其附屬公司
Bank or BEA 「本行」	The Bank of East Asia, Limited, a limited liability company incorporated in Hong Kong 東亞銀行有限公司，於香港註冊成立的有限公司
Banking Ordinance 《銀行業條例》	Hong Kong Banking Ordinance (Chapter 155 of the Laws of Hong Kong) 香港《銀行業條例》（香港法例第 155 章）
BEA China 「東亞中國」	The Bank of East Asia (China) Limited, a wholly-owned subsidiary of the Bank 東亞銀行（中國）有限公司，本行的全資附屬公司
BEA Union Investment 「東亞聯豐投資」	BEA Union Investment Management Limited, a non-wholly-owned subsidiary of the Bank 東亞聯豐投資管理有限公司，本行的非全資附屬公司
Blue Cross 「藍十字」	Blue Cross (Asia-Pacific) Insurance Limited, a wholly-owned subsidiary of the Bank 藍十字（亞太）保險有限公司，本行的全資附屬公司
Board 「董事會」	Board of Directors of the Bank 本行的董事會
Capital Rules 「《資本規則》」	Banking (Capital) Rules issued by the HKMA 金管局頒布的《銀行業(資本規則)》
CG Code 「《企業管治守則》」	Corporate Governance Code and Corporate Governance Report, Appendix 14 of the Listing Rules 《上市規則》附錄 14 內所載的《企業管治守則》及《企業管治報告》
CG-1 「CG-1」	Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorized Institutions, issued by the HKMA 金管局頒布之監管政策手冊 CG-1 內有關《本地註冊認可機構的企業管治》
CG-5 「CG-5」	Supervisory Policy Manual CG-5 on Guideline on a Sound Remuneration System, issued by the HKMA 金管局頒布之監管政策手冊 CG-5 內有關《穩健的薪酬制度指引》
CHF 「瑞士法郎」	Swiss franc, the lawful currency of Switzerland 瑞士法定貨幣
China, Mainland, Mainland China or PRC 「中國」或「內地」	People's Republic of China 中華人民共和國
CNY or RMB 「人民幣」	Chinese yuan or Renminbi, the lawful currency of the PRC 中國法定貨幣

Companies Ordinance 「《公司條例》」	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) 《公司條例》（香港法例第 622 章）
Credit Gain 「領達財務」	Credit Gain Finance Company Limited, a wholly-owned subsidiary of the Bank 領達財務有限公司，本行的全資附屬公司
Director(s) 「董事」	includes any person who occupies the position of a director, by whatever name called, of the Bank or otherwise as the context may require 包括任何任職本行董事職位的人士（不論其職銜如何），或文義另有所指的人士
EUR 「歐羅」	Euro 歐羅
GBP 「英鎊」	Pound sterling, the lawful currency of the UK 英國法定貨幣
GDP 「本地生產總值」	Gross domestic product 本地生產總值
HK\$ or HKD 「港幣」	Hong Kong dollar, the lawful currency of Hong Kong 香港法定貨幣
HKAS 「香港會計準則」	Hong Kong Accounting Standards 香港會計準則
HKAEE 「香港環保卓越計劃」	Hong Kong Awards for Environmental Excellence 香港環保卓越計劃
HKFRS 「香港財務報告準則」	Hong Kong Financial Reporting Standards 香港財務報告準則
HKICPA 「香港會計師公會」	Hong Kong Institute of Certified Public Accountants 香港會計師公會
HKMA 「金管局」	Hong Kong Monetary Authority 香港金融管理局
HQLAs 「優質流動資產」	High quality liquid assets 優質流動資產
JPY 「日圓」	Japanese yen, the lawful currency of Japan 日本法定貨幣
LCR 「流動性覆蓋比率」	Liquidity coverage ratio 流動性覆蓋比率
Listing Rules 「《上市規則》」	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, modified or otherwise supplemented from time to time) 聯交所《證券上市規則》，經不時修訂、修改或以其他方式補充
Mn 「百萬」	Million 百萬
MPF 「強積金」	Mandatory Provident Fund 強制性公積金

OBS
「資產負債表外」

Off-balance sheet
資產負債表外

RQFII
「人民幣合格境外機構投資者」

Renminbi Qualified Foreign Institutional Investor
人民幣合格境外機構投資者

SGD
「新加坡元」

Singapore dollar, the lawful currency of Singapore
新加坡法定貨幣

SME
「中小企」

Small and medium-sized enterprise
中小型企業

Stock Exchange
「聯交所」

The Stock Exchange of Hong Kong Limited
香港聯合交易所有限公司

Tricor
「卓佳」

Tricor Holdings Limited, a non-wholly-owned subsidiary of the Bank
卓佳集團有限公司，本行的非全資附屬公司

UK
「英國」

United Kingdom
英國

US
「美國」

United States of America
美利堅合眾國

US\$ or USD
「美元」

United States dollar, the lawful currency of the US
美國法定貨幣

VaR
「風險值」

value-at-risk
風險值