



**中銀香港(控股)有限公司**

**BOC HONG KONG (HOLDINGS) LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(the “Company”, Stock Code: 2388)**

## **2008 INTERIM RESULTS ANNOUNCEMENT**

The Board of Directors of the Company is pleased to announce the unaudited results of the Company and its subsidiaries for the six months period ended 30 June 2008. This announcement, containing the full text of the 2008 Interim Report of the Company, complies with the relevant requirements of the Listing Rules in relation to information to accompany preliminary announcements of interim results. Printed version of the Company’s 2008 Interim Report will be delivered to the shareholders of the Company and available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and of the Company at [www.bochk.com](http://www.bochk.com) in mid September 2008.

# FINANCIAL HIGHLIGHTS

|                                                                                                          | Half-year ended<br>30 June<br>2008<br>HK\$'m | Half-year ended<br>30 June<br>2007<br>HK\$'m | Year ended<br>31 December<br>2007<br>HK\$'m |
|----------------------------------------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|---------------------------------------------|
| Net operating income before impairment allowances                                                        | 14,039                                       | 12,060                                       | 27,254                                      |
| Operating profit                                                                                         | 7,724                                        | 8,808                                        | 18,033                                      |
| Profit before taxation                                                                                   | 8,434                                        | 9,227                                        | 19,126                                      |
| Profit for the period/year                                                                               | 7,181                                        | 7,628                                        | 15,817                                      |
| Profit attributable to the equity holders<br>of the Company                                              | 7,088                                        | 7,466                                        | 15,446                                      |
|                                                                                                          | HK\$                                         | HK\$                                         | HK\$                                        |
| Earnings per share                                                                                       | 0.6704                                       | 0.7062                                       | 1.4609                                      |
| Dividend per share                                                                                       | 0.4380                                       | 0.4280                                       | 0.9150                                      |
|                                                                                                          | HK\$'m                                       | HK\$'m                                       | HK\$'m                                      |
| Capital and reserves attributable to<br>the equity holders of the Company                                | 95,047                                       | 87,749                                       | 92,842                                      |
| Issued and fully paid share capital                                                                      | 52,864                                       | 52,864                                       | 52,864                                      |
| Total assets                                                                                             | 1,127,168                                    | 1,047,095                                    | 1,067,637                                   |
| <b>Financial ratios</b>                                                                                  | %                                            | %                                            | %                                           |
| Return on average total assets <sup>1</sup>                                                              | 1.32                                         | 1.57                                         | 1.53                                        |
| Return on average capital and reserves attributable<br>to the equity holders of the Company <sup>2</sup> | 15.09                                        | 17.32                                        | 17.40                                       |
| Cost to income ratio                                                                                     | 29.12                                        | 28.34                                        | 28.52                                       |
| Loan to deposit ratio <sup>3</sup>                                                                       | 57.81                                        | 48.17                                        | 51.66                                       |
| Average liquidity ratio <sup>4</sup>                                                                     | 42.47                                        | 50.08                                        | 50.92                                       |
| Capital adequacy ratio <sup>5</sup>                                                                      | 13.87                                        | 14.29                                        | 13.08                                       |

1. Return on average total assets =  $\frac{\text{Profit for the period/year}}{\text{Daily average balance of total assets}}$

2. Return on average capital and reserves attributable to the equity holders of the Company

=  $\frac{\text{Profit attributable to the equity holders of the Company}}{\text{Average of the beginning and ending balance of capital and reserves attributable to the equity holders of the Company}}$

3. Loan to deposit ratio is calculated as at 30 June 2008, 30 June 2007 and 31 December 2007. Loan represents gross advances to customers. Deposit also includes structured deposits reported as "Financial liabilities at fair value through profit or loss".

4. Average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the corresponding period.

5. Capital adequacy ratio is computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules.

## CHAIRMAN'S STATEMENT

During the first six months of 2008, the Group's core businesses continued to make good progress amid a more challenging environment, riding on the impetus created by the initiatives we launched last year to strengthen our position in key market areas. The Group's net operating income before impairment allowances rose by 16.4% to HK\$14,039 million while operating profit before impairment allowances increased by 15.1% to HK\$9,951 million.

The ongoing turbulence in the global credit markets negatively affected our securities investments. To reflect the weakening credit environment, we wrote down the value of our US asset-backed securities. As a result, despite the strong performance of our core businesses for the first half of 2008, our profit growth was impacted by a total net securities provision of HK\$2.1 billion charged to the P&L account. The Group's profit attributable to shareholders decreased by 5.1% year-on-year to HK\$7,088 million or HK\$0.6704 per share.

As at end June 2008, our financial position remained solid with total assets reaching HK\$1,127.2 billion, up 5.6% from end 2007. The Group outperformed the market in terms of both loan and deposit growth and our loan to deposit ratio improved substantially to 57.81% from 51.66% as at end 2007. We delivered an impressive growth of 15.1% in our loan book compared to end 2007 while loan quality remained sound with the classified or impaired loan ratio further improved to 0.34% from 0.44% as at end 2007. The Group's growth momentum continues with the successful implementation of our 5-year strategic plan since 2006. Taking into account our mid-to-long term expansion plan, we further reinforced our capital base and improved our capital structure with the support of our parent bank, Bank of China Limited ("BOC"), which granted a subordinated loan of

EUR660 million to the Group. Capital adequacy ratio at end-June 2008 was 13.87% and average liquidity ratio remained strong at 42.47%. Balancing the Group's capital need for business expansion and its dividend policy, the Board has declared an interim dividend of HK\$0.4380 per share, an increase of 2.3% year-on-year.

As for our business development, we saw marked progress on the back of our enhanced platform. Amid the poor sentiments in the stock market which affected our investment related fee income, we continued to strive for product innovation in response to customers' needs. We also produced significant growth in the fee income from our traditional banking services, including loan and bills commissions, credit cards, RMB business. This, once again, reflected the strength of our underlying business. We maintained our leading market positions in our core businesses including residential mortgage, loan syndication and Hong Kong RMB banking business.

In addition to building a stronger base in Hong Kong, we also made good progress in growing our business outside Hong Kong. In particular, we fostered closer cooperation with our parent bank, BOC to capture emerging business opportunities for mutual gains. As I mentioned in our 2007 annual report, BOCHK was appointed as the principal bank for BOC Group's Asia-Pacific Loan Syndication Centre. Leveraging our expertise and distribution capability, we arranged a number of loan syndications with great success during the first half of 2008. This not only helped enhance our franchise and market position in the Asia-Pacific region but also generated marked increase in related fee income. We also worked closely with our parent bank, BOC to capture new business opportunities with Mainland Chinese enterprises to provide more comprehensive cross-border banking services for their overseas operations and expansion.

Our restructured Mainland business, incorporated under Nanyang Commercial Bank (China) Limited ("Nanyang (China)"), commenced operation last year-end. To cater for the needs of our customers, we continued to expand our product platform, including forming strategic alliances with insurance companies and launching a variety of structured and QDII products. China expansion will remain one of our top investment priorities despite the Group's tighter expense control amid the inflationary environment. We will continue to invest more resources to expand our branch network and enhance the Nanyang (China) franchise.

Looking forward, we expect the operating environment to become more challenging. We will stay alert and be prepared for the increasing operating risks stemming from the uncertainties in the global credit market, the slowdown of the US economy and the rising inflationary pressure worldwide. In Hong Kong, signs of a slowdown are becoming increasingly apparent as reflected in the more conservative sentiment in the property market, lower export figures, and rising operating costs for local companies. The Group believes that sound risk management is particularly crucial under the current operating environment. Although our loan quality continued to improve in the first half of the year, we have already taken more stringent risk management initiatives to prepare for possible deterioration in corporate earnings. In addition, to counteract inflationary trends, we have implemented a cost management mechanism to allow us more flexibility in aligning the growth of our expenses to our income. Nevertheless, the Group will continue to invest in accordance with its strategic priorities while managing cost increases. Our capital strength and liquidity remain sound, which enables us to withstand potential stress facing the market and to safeguard our ability to serve the needs of our customers. Amid the more challenging operating environment, we will focus on quality growth by capitalising on our enhanced business platform and

adopting more proactive risk management. As articulated in our 5-year strategy, we remain committed to building a stronger and more comprehensive business platform for the Group's long-term growth and profitability.

I would like to take this opportunity to thank our customers, members of general public and our employees for their quick response and generosity in joining the Bank's fund raising activity that enabled us to deliver timely assistance to the earthquake victims in the wake of the earthquake which struck Sichuan in May.

I wish to thank our customers and shareholders for their continuous support and the Board for their wisdom and counsel. I would also like to extend on behalf of the Board a hearty welcome to Mr. Wong David See Hong, who joined us as Deputy Chief Executive on 1 July this year with overall responsibility for overseeing our financial market business lines. Mr. Wong will bring broad experience and expertise to the role. Through the dedicated leadership of our Management team and the wholehearted commitments and efforts of our associates, I am confident that we will further strengthen the BOCHK franchise and create better value for our shareholders.



**XIAO Gang**

*Chairman*

28 August 2008

# CHIEF EXECUTIVE'S REPORT

The operating environment for the banking sector has been challenging this year. The turbulence in the global financial market originating from the US subprime debacle has dealt a severe blow to the US economy with pervasive ramifications for economies worldwide. Back home, various macroeconomic measures taken by the Mainland authorities to cool the overheated Chinese economy have, as targeted, softened its growth pace. Although domestic consumption and external trade remained robust in the first few months of the year, investment sentiments were far less bullish. As the IPO boom subsided, the volume of stock trading activities plunged. The property market also slowed down after an active first quarter. Meanwhile, cost management has become an increasingly thorny issue for the business sector because of mounting inflationary pressure.

Notwithstanding the above challenges, the Group succeeded in growing most of its core businesses and delivered satisfactory operating results in the first half of 2008 versus the same period last year. Our business development and income-generating capabilities have remained sound. With the continued implementation of our Relationship-Product-Channel (RPC) business model, we have been able to forge ahead with the growth strategies under the Group's current strategic plan, grow our operating income, maintain our market lead in key areas, expand into new areas and build up a stronger presence in the Mainland market.

## Business Highlights

The following summary highlights our key business results in the interim period:

- Our core businesses recorded satisfactory growth year-on-year. Total operating income rose by a healthy margin, driven by the rise in net interest income, net fees and commission income as well as net trading income.
- We achieved broad-based and strong growth in our core lending business which covers corporate loans, consumer loans and residential property mortgage.

- Further progress was made in high-margin segments such as trade finance, SME loans and Mainland lending while our credit card business continued to expand.
- We maintained our leading positions in loan syndication, residential property mortgage and RMB-related banking in the Hong Kong market.
- Wealth management business continued to grow as our high net-worth customer base expanded.
- Through the implementation of our dualistic business model in China, the Group's Mainland business recorded solid growth in operating income and further expanded its branch network.
- As BOC Group's Asia-Pacific Syndicated Loan Centre, the Group has been making substantial contribution to the whole BOC Group's loan syndication business while reinforcing the Group's market leadership in Hong Kong, Macau and the Mainland.
- The Group's total asset base continued to expand while loan quality further improved.

## Financial Performance

In the first half of 2008, the Group's net operating income before impairment allowances went up by 16.4% year-on-year to HK\$14,039 million, which was driven by the growth of net interest income, net fees and commission income as well as net trading income. Operating profit before impairment allowances grew by a healthy 15.1% year-on-year to HK\$9,951 million.

After a relatively strong 2007, profit attributable to shareholders dropped by 5.1% to HK\$7,088 million. This decline was caused mainly by a higher level of impairment allowances provided for this period. Owing to the prevailing uncertainties and gloomy sentiments in the capital market that have a negative impact on the value of its investment in the US asset-backed securities, the Group provided for a net charge of HK\$2,149 million of impairment allowances for our US asset-backed securities

in the investment portfolio. This factor inevitably eroded our net profit for this period.

Return on average total assets (ROA) and return on average shareholders' funds (ROE) were 1.32% and 15.09% respectively, versus 1.57% and 17.32% respectively for the same period in 2007. ROA and ROE before impairment allowances improved by 0.05 percentage point and 1.13 percentage points respectively to 1.83% and 21.18% respectively.

Net interest income grew by 12.6% to HK\$10,029 million because of a corresponding growth in interest-earning assets. The growth of interest-earning assets was primarily driven by the expansion of the Group's lending business and increased customer deposits. Net interest margin stayed flat at 2.03%, but this was after taking into consideration BOCHK's role as the local RMB clearing bank. As RMB deposits taken by the participating banks in Hong Kong recorded a substantial rise, their impact on our net interest margin became more material. Should this factor be discounted, the Group's net interest margin would have increased to 2.10%, up 3 basis points versus the same period last year.

We recorded an encouraging growth of 15.1% in loans and advances to both corporate and personal customers. Corporate loans increased by 19.1% while residential mortgage loans were up 9.0%. Other consumer lending, including personal loans, also recorded double-digit growth. We have remained the market leader in loan syndication and residential property mortgage. More importantly, benefiting from our enhanced business platform and extensive branch network, we have continued to grow the high-margin loan segments. Trade finance surged by a strong 30.5%. SME loans increased by 16.1%. Loans extended through our Mainland operation increased by 17.2%. The Group's loan-to-deposit ratio was up by 6.15 percentage points during the interim period to 57.81% as the growth of loans outpaced that of deposits.

Despite the sluggish market environment, we continued to pursue the growth of fee-based income with success.

The Group's net fees and commission income increased by 10.1% year-on-year to HK\$2,899 million. Fee income from our loan business more than doubled to HK\$263 million as our loan portfolio expanded substantially during the period under review. Fee income from our card business, RMB-related business, currency exchange, trust services and bills service all grew strongly. The inception of our custody business and the Group's appointment as the BOC Group's Asia-Pacific Syndicated Loan Centre earlier this year also contributed to the growth of our fee income.

After an exceptionally bullish 2007, stock trading fee income experienced a decline of 2.6% versus the first half of 2007 and 42.4% versus the second half of 2007 as the investment market was prevailed over by widespread pessimistic sentiments. At the same time, income from sales of funds plunged by 54.1% as business volume contracted. However, we still managed to grow our fee income from the distribution of bonds by a phenomenal 238.5% year-on-year.

We recorded very impressive growth in our net trading income, which surged by 196.6% year-on-year to HK\$1,237 million mainly because of the nearly 5-fold increase in net trading income from foreign exchange and related products. This phenomenal growth was attributable to the increase in business volume as well as the reduction of marked-to-market loss of foreign exchange swap contracts.

Through product innovation and effective marketing, net insurance premium income grew strongly by 53.5% to HK\$4,501 million. The growth of premium income from single-premium products was particularly impressive.

On the expenditure front, we have continued to manage our operating costs prudently and maintained our cost-to-income ratio at an optimal level. During the period under review, total operating expenses went up by 19.6% to HK\$4,088 million. This increase was caused mainly by pay rise as well as the addition of manpower needed for business growth and development in both our local and Mainland operations. Other contributing factors were

increases in operating expenses for business expansion and higher depreciation arising from our continued investment in infrastructure and equipment for service enhancement. However, the Group's cost-to-income ratio still stood at the low level of 29.12% during the interim period.

As at end-June 2008, the Group's total assets reached HK\$1,127.2 billion, up 7.6% year-on-year and 5.6% versus end-December 2007. With rigorous risk management and effective internal control, our asset quality remained excellent. The Group's classified or impaired loan ratio at end-June 2008 was 0.34%, down from 0.44% as at end-2007.

Our capital and liquidity positions remained strong. Consolidated capital adequacy ratio as at end-June 2008 was 13.87%, up from 13.08% as at end-2007, owing to the enlargement of our total capital base, which grew by 13.0% after a subordinated loan of Euro 660 million granted by BOC in June 2008. The Group's average liquidity ratio remained healthy at 42.47%, compared to 50.08% in the first half of 2007. The drop was caused mainly by the decline in average liquefiable assets, due to decreased marketable debt securities, and the increase in average qualifying liabilities as a result of the growth of deposits from customers.

### **Business Review**

Our business performance in the first six months speaks for the strength of the Group's current business model and reinforced business platform in driving growth at a steady pace even in a less favourable market environment.

#### ***Personal banking***

The performance of the Group's Personal Banking business was mixed in the interim period. It registered a drop of 5.0% in its operating income in the first half of this year after an exceptionally strong 2007. Net interest income decreased by 13.3% to HK\$3,330 million mainly due to narrower deposit spread. Other operating income, however, increased by 8.6% to HK\$2,532 million. Although income from stock brokerage and sales of funds declined in a gloomy market, the Group's net fees and commission income rose by 5.1% because of the growth in the sales of bonds, RMB-related business, card business and currency exchange business. Foreign exchange

income, in particular, surged significantly because of a robust growth in business volume. Profit before taxation decreased by 16.2% to HK\$2,965 million.

Despite fierce competition in the market, we have maintained the growth of our residential mortgage business, which increased by 9.0% in the interim period with the introduction of a number of innovative mortgage products. Meanwhile, four new Mortgage Advice Centres have been set up in selected locations to support business growth by offering professional consultancy. All these efforts ensured that we outperformed the industry in the underwriting of new mortgages and maintained our lead in the market. As a result, the Group received due recognition from the market for its outstanding mortgage service.

Although the stock-related agency business was adversely affected by the stock market's virtual slump, we managed to maintain the growth of fee income through product innovation and business platform enhancement. In fact, we have been able to expand and reinforce our bond and life insurance agency businesses considerably in the past few months. The Group continued to expand its range of structured products and at the same time enhanced its private placement services, leading to a remarkable growth in the sales of structured notes by 200.2%.

The Group's insurance agency business witnessed robust growth in the first six months this year. Supported by product innovation, strengthened marketing, upgraded service quality and enhanced operational efficiency, the sales of life insurance products and related commission income rose by 64.7% and 70.0% respectively versus the same period last year.

The Group has been proactive in driving the growth of its wealth management business. Competitive marketing campaigns and incentive programmes were staged to grow its high net-worth customer base. As a result, the number of wealth management customers grew by a hefty 14.4% in the first half of the year.

The expansion of the Group's credit card business was on track as private consumption remained active in Hong Kong. Card issuance grew by 5.4% while cardholder

spending and merchant acquiring volume increased by 17.2% and 23.2% respectively. Such encouraging performance of our card business was the fruit of our credit card unit's creative product development and marketing efforts to seize business opportunities arising from the Beijing Olympics and other avenues. Concurrently, our card business in the Mainland continued to grow through product enhancement. We also benefited from the support available from BOC Services Company Limited, a joint-venture formed between BOC-CC and BOC in November 2007.

We have remained the market leader in the RMB-related banking business in Hong Kong. New services were launched in the interim period to cater to the rapid growth in demand for RMB deposits, which more than doubled during these six months and we have continued to enjoy the largest market share in RMB deposit-taking. Our RMB credit card also recorded solid growth with card issuance increasing by 22.4% from end-2007 while cardholder spending and merchant acquiring volume surging by 66.0% and 73.2% respectively year-on-year.

We have further enhanced our e-banking channels, particularly those serving investment functions, to support business growth. In the first six months of this year, the number of e-banking customers grew by 6.2% while stock trading transactions carried out through e-banking accounted for 77.5% of the total transaction.

### **Corporate Banking**

The Group's Corporate Banking business recorded a solid growth of 11.9% to HK\$4,104 million in operating income in the first half of 2008. Operating profit before impairment increased by 9.3% to HK\$3,023 million. Profit before taxation stood at HK\$2,963 million due to the reduction in loan recoveries and the increase in loan impairment allowances.

Net interest income increased by 6.0% to HK\$2,972 million versus the same period last year. This was attributable mainly to the strong growth in loans and advances, although deposit spread narrowed with the decline in interest rates. In view of the worsening of the market condition, we have adjusted our loan pricing strategy accordingly. Other operating income rose by 31.2% to

HK\$1,132 million, thanks to the strong growth in fee income from the lending business and bills business.

We continued to drive the growth of our loan syndication business during this period and maintained our leading position in the Hong Kong-Macau and the Mainland-Hong Kong-Macau markets respectively. Having been appointed as the BOC Group's Asia-Pacific Syndicated Loan Centre in January this year, we have been in a better position to explore and capture cross-border as well as regional business opportunities, which contributed to the rise in loan fee income so far this year.

We also succeeded in further growing the high-margin segments. Through service enhancement and product innovation, we grew our loans to SME customers by a very solid 16.1% compared to end-2007. We also received awards from the SME sector and the media respectively for our quality services to SMEs. At the same time, by making stronger effort in marketing and improving our operational efficiency, we expanded our trade finance business substantially with the outstanding balance up by 30.5% from end-2007. The volume of trade bills settlement went up by 44% year-on-year.

In the first half of 2008, we strengthened our cash management business through product refinement and innovation and continued to tailor-make cross-border cash management projects for Mainland enterprises seeking global expansion. Meanwhile, by actively exploring business opportunities both local and overseas, our newly established custody business has been making encouraging progress. For example, in the first half of this year, we became the custodian for a local investment fund as well as the foreign custodian for a major joint-venture investment bank for its first QDII product. We also successfully implemented several QDII mandates.

### **Mainland Business**

The Group's Mainland operation continued to record strong business growth and development under the dualistic model. Total operating income increased by a healthy 15.4% to HK\$405 million, which was driven by the growth in net interest income and net fees and commission income. Operating profit before impairment allowances fell by 7.6% primarily due to the foreign

exchange loss arising from the revaluation of Nanyang (China)'s HKD capital funds against the appreciated RMB during the period under review. Should this loss be excluded, operating profit before impairment allowances would have increased by 40.3%.

Our lending business in the Mainland registered sturdy growth in the first six months. Total advances to customers increased by 17.2% to the equivalent of HK\$35.1 billion, of which RMB loans surged by 26.0%. Loan quality remained excellent, with the classified loan ratio standing at 0.78%. Customer deposits rose sharply by 119.7% to HK\$12.7 billion.

Nanyang (China) obtained the official approval in July this year to operate RMB retail banking business in the Mainland. Approval has already been given for the opening of four new branches and sub-branches, of which one has been opened and the remaining three will follow in the coming months. In the interim period, we also rolled out new products systematically to spur the growth of our wealth management business in China while enhancing our cross-border services.

It should be noted that our cooperation with our parent, the BOC Group, has been making significant progress. To capture emerging market opportunities for mutual benefits, we worked closely with BOC on all major business fronts in product development, customer referral, establishment of joint service platform, market exploitation, as well as back-office support. Apart from the aforementioned positive results arising from our appointment as the principal bank for BOC Group's Asia-Pacific Syndicated Loan Centre, we have also been making headway in the development of wealth management and offshore banking services for Mainland customers, and the expansion of our credit card services. With the advantage of BOC's Asia-Pacific network, we have been able to extend the distribution of the Group's products in the region.

### **Treasury**

The Group's Treasury business recorded a very strong growth in operating income of 75.4% year-on-year to HK\$4,389 million. Operating profit before impairment allowances grew by an equally strong 76.4% to

HK\$3,958 million. Profit before taxation fell by 19.4% primarily because of a net charge of HK\$2,149 million of impairment allowances on the investment in US asset-backed securities.

Riding on its growth momentum and business development capabilities built up recently, the Group's Treasury unit continued to diversify its investment portfolio and strengthen its portfolio management this year, thus improving the return on investment in spite of the deteriorating operating environment. We also took advantage of our enhanced product development capabilities by offering a more diverse range of treasury products to satisfy customers' investment needs. In collaboration with Corporate Banking, currency-linked structured deposits were made available to corporate customers, thus boosting the sales of structured products substantially. Our own brand of equity-linked investment products was launched in January 2008.

### **Insurance**

The growth momentum of the Group's insurance segment has remained strong so far this year. Operating income was up 25.3% to HK\$3,493 million due to the hefty rise of 55.5% in net interest income and 21.1% growth in other operating income, of which net insurance premium income surged by 53.4%. On the other hand, net insurance benefits and claims went up substantially by 36.9% as a result of generation of new business. Owing to that and the 43.8% increase in operating expenses, a loss before taxation of HK\$178 million was recorded in the period under review.

The strong sales growth of the Group's insurance business was driven primarily by product innovation and an enhanced service platform. A series of single-premium products and a more diverse range of regular-pay products were rolled out in the first half of this year. Such product innovation efforts were supported by a series of marketing initiatives with impressive results. At the same time, the Group's and BOC Life's sales and distribution platform has been substantially reinforced after a team of insurance specialists was set up and stationed at the branches. We have also continued to enhance the BOC Life brand through promotional and incentive programmes.

## Outlook

Looking ahead, as increasing uncertainty looms over the US economy and the global financial market while competition and inflationary pressure intensify, we would expect the operating environment to remain challenging in the foreseeable future for the banking sector. There are already signs that the local economy is slowing down after sustaining a long period of robust growth, which might affect investment and demand. Moreover, the movement of interest rates, is likely to be volatile in the coming months.

Under such an environment, it will be important for us to adopt a more prudent approach in our business development and investment strategies. We will also exercise more rigorous risk management and control, especially in ensuring that our loan quality is healthy. At the same time, cost management remains one of our top priorities in running our business.

We will continue to ride on the Group's solid foundations and strive to grow our businesses. We will strengthen our product innovation capabilities and expand our service/product offerings to meet customers' diverse needs in the prevailing investment climate. Concurrently we will make the most of our customer relationship platform and reinforced distribution channels to drive sales.

The development of wealth management remains one of our priorities. By growing our high net-worth client base and enhancing our services, we will further expand our wealth management business in both Hong Kong and the Mainland. We will exploit the growth potential of different groups of customers through segmentation and cross-selling efforts. For instance, we have recently launched the new i-Free Integrated Account Service to offer comprehensive banking services and investment solutions to a wide spectrum of customers.

On the back of the good performance of the Corporate Banking unit in the first six months, we will drive further growth by enhancing our service to satisfy the diverse banking and financial needs of large- and medium-sized corporate customers under a "total solution" approach. We will also take advantage of our unique position to collaborate with our parent BOC to offer comprehensive services to corporate customers across the border and in the Asia-Pacific region.

In response to the changes in the market, we will enrich our portfolio of treasury products to create new demand and growth. Our progress in building the custody business and expanding our cash management service has convinced us that we are moving in the right direction. We will double our effort in growing these businesses and continue to explore other new growth areas.

In the Mainland, we will deepen our market presence by exploiting to the full the growth potential arising from our dualistic business model. Nanyang (China)'s RMB retail banking business in the Mainland is scheduled for commencement later this year. To support its long-term development, we are expanding our Mainland branch network. We will also drive the growth of our lending business and enhance our cross-border services.

The further development of our insurance will remain a key focus. We will drive the growth of sales and market share through product innovation, service enhancement and manpower development.

We will continue to optimise our distribution channels to ensure their operational efficiency and productivity can reach higher standards. We will also reinforce and expand the automated channels, including ATMs and internet banking, to cater to customers' needs and support business growth.

In concluding, I wish to emphasise that, regardless of the challenges that lie ahead in the foreseeable future, I am confident that we can count on the Group's inherent strengths and capabilities, the guidance of the Board of Directors as well as the ongoing support of our shareholders, customers and staff to move forward at a steady pace.



**HE Guangbei**

*Vice Chairman & Chief Executive*

Hong Kong, 28 August 2008

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following sections provide metrics and analytics of the Group's performance, financial position, and risk management. These should be read in conjunction with the interim financial information included in this Interim Report.

## CONSOLIDATED FINANCIAL REVIEW

In the first six months of 2008, the Group made good progress in executing its strategies and achieved solid growth in its core earnings in a challenging environment. Driven by the growth in net interest income, net fees and commission income as well as net trading income, operating profit before impairment allowances

increased by HK\$1,309 million, or 15.1%, year-on-year to HK\$9,951 million. However, owing to an impairment charge on securities investments and a net charge of loan impairment allowances, the Group's profit attributable to shareholders decreased by HK\$378 million, or 5.1%, to HK\$7,088 million. Earnings per share were HK\$0.6704, down HK\$0.0358. Return on average total assets ("ROA") and return on average shareholders' funds ("ROE") were 1.32% and 15.09% respectively. ROA and ROE before impairment allowances improved by 0.05 percentage point and 1.13 percentage points to 1.83% and 21.18% respectively.

## Financial Highlights

|                                                                     | Half-year ended<br>30 June<br>2008 | Half-year ended<br>31 December<br>2007 | Half-year ended<br>30 June<br>2007 |
|---------------------------------------------------------------------|------------------------------------|----------------------------------------|------------------------------------|
| HK\$m, except percentage amounts                                    |                                    |                                        |                                    |
| Operating income                                                    | 14,039                             | 15,194                                 | 12,060                             |
| Operating expenses                                                  | (4,088)                            | (4,355)                                | (3,418)                            |
| Operating profit before impairment allowances                       | 9,951                              | 10,839                                 | 8,642                              |
| Net (charge)/reversal of impairment allowances                      | (2,227)                            | (1,614)                                | 166                                |
| Others                                                              | 710                                | 674                                    | 419                                |
| Profit before taxation                                              | 8,434                              | 9,899                                  | 9,227                              |
| Profit attributable to equity holders of the Company                | 7,088                              | 7,980                                  | 7,466                              |
| Earnings per share (HK\$)                                           | 0.6704                             | 0.7547                                 | 0.7062                             |
| Return on average total assets                                      | 1.32%                              | 1.50%                                  | 1.57%                              |
| Return on average shareholders' funds*                              | 15.09%                             | 17.68%                                 | 17.32%                             |
| Return on average total assets before impairment allowances         | 1.83%                              | 1.98%                                  | 1.78%                              |
| Return on average shareholders' funds before impairment allowances* | 21.18%                             | 24.01%                                 | 20.05%                             |
| Net interest margin (NIM)                                           | 2.03%                              | 2.10%                                  | 2.03%                              |
| Adjusted NIM**                                                      | 2.10%                              | 2.12%                                  | 2.07%                              |
| Non-interest income ratio                                           | 28.56%                             | 30.95%                                 | 26.18%                             |
| Cost-to-income ratio                                                | 29.12%                             | 28.66%                                 | 28.34%                             |

\* Shareholders' funds represent capital and reserves attributable to the equity holders of the Company.

\*\* Adjusting for the estimated impact of BOCHK's RMB clearing function.

Since December 2003, the Bank has been the clearing bank to provide RMB clearing services for banks in Hong Kong that operate RMB business. Acting as the clearing bank, the Bank deposits with the People's Bank of China ("PBOC") those RMB deposits taken in Hong Kong by the participating banks. At the same time, the Group earns an interest spread between the RMB funds taken from participating banks and those placed with the PBOC. As RMB deposits grow, the impact on the Group's average interest-earning assets and net interest

margin ("NIM") becomes more material. It is, therefore, considered necessary to also provide information on NIM before incorporating the estimated impact of RMB clearing services (hereafter called "Adjusted net interest margin"). Adjusted net interest margin was 2.10% in the first half of 2008.

Analyses of the Group's financial performance and business operations are set out in the following sections.

### Net Interest Income and Margin

|                                                                        | Half-year ended<br>30 June<br>2008 | Half-year ended<br>31 December<br>2007 | Half-year ended<br>30 June<br>2007 |
|------------------------------------------------------------------------|------------------------------------|----------------------------------------|------------------------------------|
| HK\$m, except percentage amounts                                       |                                    |                                        |                                    |
| Interest income                                                        | 18,105                             | 24,572                                 | 21,484                             |
| Interest expense                                                       | (8,076)                            | (14,080)                               | (12,581)                           |
| Net interest income                                                    | 10,029                             | 10,492                                 | 8,903                              |
| Average interest-earning assets                                        | 988,746                            | 992,821                                | 883,030                            |
| Net interest spread                                                    | 1.79%                              | 1.68%                                  | 1.61%                              |
| Net interest margin                                                    | 2.03%                              | 2.10%                                  | 2.03%                              |
| Adjusting for the estimated impact of BOCHK's<br>RMB clearing function |                                    |                                        |                                    |
| Adjusted net interest margin                                           | 2.10%                              | 2.12%                                  | 2.07%                              |

Net interest income increased by HK\$1,126 million or 12.6% year-on-year to HK\$10,029 million. Net interest margin remained flat at 2.03% as the rise in net interest spread was offset by the decline of the contribution from net free fund due to the fall in market interest rates. The increase in RMB deposits from participating banks also contributed to the flat net interest margin. Should the estimated impact of BOCHK's RMB clearing function in Hong Kong be excluded, adjusted net interest margin, however, would have increased by 3 basis points to 2.10%.

Market interest rates in the first half of 2008 were lower than those in the same period in 2007. Compared to the first half of 2007, average one-month HIBOR fell by 226 basis points to 1.98% while average one-month LIBOR declined by 237 basis points to 2.95%. The Group's average HKD Prime rate decreased by 213 basis points

year-on-year to 5.62%, thus widening the HKD Prime-to-one-month HIBOR spread (hereafter called "Prime-HIBOR spread") by 13 basis points to 3.64%.

The improvement in net interest income was mainly driven by the growth in average interest-earning assets of HK\$105,716 million, or 12.0%, which was primarily driven by the increase in average customer deposits. The widening of net interest spread underpinned by improved securities spread also contributed to the growth in net interest income; however, it was held back by the decline in the contribution from net free fund. Loan spread was compressed although the average pricing of new corporate loan facilities during this period had improved with the tightened credit environment. Meanwhile, higher yielding loans, including Mainland lending, trade finance and SME loans continued to grow. Total deposit spread decreased amid lower market rates.

The summary below shows the average balances and average interest rates of individual assets and liabilities:

|                                                                              | Half-year ended<br>30 June 2008 |                       | Half-year ended<br>31 December 2007 |                       | Half-year ended<br>30 June 2007 |                       |
|------------------------------------------------------------------------------|---------------------------------|-----------------------|-------------------------------------|-----------------------|---------------------------------|-----------------------|
|                                                                              | Average<br>balance<br>HK\$'m    | Average<br>yield<br>% | Average<br>balance<br>HK\$'m        | Average<br>yield<br>% | Average<br>balance<br>HK\$'m    | Average<br>yield<br>% |
| <b>ASSETS</b>                                                                |                                 |                       |                                     |                       |                                 |                       |
| Cash, balances and placements with banks<br>and other financial institutions | 213,538                         | 2.53                  | 242,913                             | 4.15                  | 171,408                         | 3.80                  |
| Debt securities investments                                                  | 312,522                         | 4.49                  | 332,810                             | 4.99                  | 330,010                         | 4.84                  |
| Loans and advances to customers                                              | 447,133                         | 3.68                  | 400,028                             | 5.39                  | 363,753                         | 5.51                  |
| Other interest-earning assets                                                | 15,553                          | 2.82                  | 17,070                              | 2.90                  | 17,859                          | 4.53                  |
| Total interest-earning assets                                                | 988,746                         | 3.67                  | 992,821                             | 4.91                  | 883,030                         | 4.91                  |
| Non interest-earning assets                                                  | 101,572                         |                       | 100,579                             |                       | 87,716                          |                       |
| Total assets                                                                 | 1,090,318                       | 3.33                  | 1,093,400                           | 4.46                  | 970,746                         | 4.46                  |
|                                                                              |                                 |                       |                                     |                       |                                 |                       |
|                                                                              | Half-year ended<br>30 June 2008 |                       | Half-year ended<br>31 December 2007 |                       | Half-year ended<br>30 June 2007 |                       |
|                                                                              | Average<br>balance<br>HK\$'m    | Average<br>rate<br>%  | Average<br>balance<br>HK\$'m        | Average<br>rate<br>%  | Average<br>balance<br>HK\$'m    | Average<br>rate<br>%  |
| <b>LIABILITIES</b>                                                           |                                 |                       |                                     |                       |                                 |                       |
| Deposits and balances of banks and<br>other financial institutions           | 70,561                          | 2.04                  | 48,224                              | 3.45                  | 43,374                          | 3.31                  |
| Current, savings and fixed deposits                                          | 758,195                         | 1.85                  | 787,418                             | 3.24                  | 696,136                         | 3.30                  |
| Certificates of deposit issued                                               | 1,905                           | 2.81                  | 2,062                               | 3.62                  | 2,473                           | 3.54                  |
| Other interest-bearing liabilities                                           | 30,112                          | 2.23                  | 27,627                              | 2.54                  | 26,743                          | 3.31                  |
| Total interest-bearing liabilities                                           | 860,773                         | 1.88                  | 865,331                             | 3.23                  | 768,726                         | 3.30                  |
| Non interest-bearing deposits                                                | 41,542                          |                       | 40,495                              |                       | 33,178                          |                       |
| Shareholders' funds* and<br>non interest-bearing liabilities                 | 188,003                         |                       | 187,574                             |                       | 168,842                         |                       |
| Total liabilities                                                            | 1,090,318                       | 1.49                  | 1,093,400                           | 2.55                  | 970,746                         | 2.61                  |

\* Shareholders' funds represent capital and reserves attributable to the equity holders of the Company.

Compared to the second half of 2007, net interest income fell by HK\$463 million, or 4.4%. Average interest-earning assets decreased by HK\$4,075 million, or 0.4%, mainly due to the decline in funds from IPO subscription as IPO activities subsided in the first half of 2008. Net interest margin fell by 7 basis points as the increase of 11 basis points in net interest spread was offset by the decline of

18 basis points in contribution from net free funds. The increase in RMB deposits from participating banks also contributed to the decline in net interest margin. Should the estimated impact of BOCHK's RMB clearing function in Hong Kong be excluded, adjusted net interest margin would have decreased by only 2 basis points to 2.10%.

Compared to the second half of 2007, average one-month LIBOR fell by 223 basis points to 2.95% while average 1-month HIBOR decreased by 235 basis points to 1.98%. The Group's average HKD Prime rate decreased by 182 basis points, thus widening the Prime-HIBOR spread by 53 basis points. The decrease in net interest income was mainly attributable to the decline in contribution of net free funds due to fall in market interest rates. Meanwhile,

securities spread improved as the funding cost declined. Higher yielding loans, including Mainland lending, trade finance and SME loans, continued to grow. Loan spread also rose as Prime-HIBOR spread widened. Total deposit spread was compressed, mainly due to the decrease in market rates outpaced the drop in the Group's average deposit rate.

### Net Fees and Commission Income

| HK\$'m                              | Half-year ended<br>30 June<br>2008 | Half-year ended<br>31 December<br>2007 | Half-year ended<br>30 June<br>2007 |
|-------------------------------------|------------------------------------|----------------------------------------|------------------------------------|
| Bills commissions                   | 329                                | 315                                    | 273                                |
| Loan commissions                    | 263                                | 218                                    | 129                                |
| Investment and insurance fee income | 1,743                              | 2,747                                  | 1,764                              |
| Securities brokerage (Stockbroking) | 1,289                              | 2,236                                  | 1,324                              |
| Securities brokerage (Bonds)        | 220                                | 146                                    | 65                                 |
| Sale of funds                       | 157                                | 341                                    | 342                                |
| Life insurance*                     | 77                                 | 24                                     | 33                                 |
| General insurance                   | 55                                 | 44                                     | 52                                 |
| Trust services                      | 87                                 | 87                                     | 66                                 |
| Payment services                    | 239                                | 243                                    | 221                                |
| Credit cards                        | 578                                | 556                                    | 471                                |
| Account services                    | 146                                | 137                                    | 153                                |
| Guarantees                          | 26                                 | 8                                      | 24                                 |
| Currency exchange                   | 108                                | 111                                    | 73                                 |
| RMB business                        | 99                                 | 83                                     | 54                                 |
| Correspondent banking               | 21                                 | 20                                     | 17                                 |
| IPO-related business                | 30                                 | 62                                     | 43                                 |
| Others                              | 121                                | 107                                    | 99                                 |
| Fees and commission income          | 3,845                              | 4,738                                  | 3,439                              |
| Fees and commission expenses        | (946)                              | (1,096)                                | (807)                              |
| Net fees and commission income      | 2,899                              | 3,642                                  | 2,632                              |

\* Fee income from life insurance only included that from the Group's insurance business partner after group consolidation elimination.

Net fees and commission income rose by HK\$267 million or 10.1% year-on-year to HK\$2,899 million. Fee income from loan business grew significantly by HK\$134 million or 103.9% as a result of the enlargement of the Group's loan portfolio. This was mainly attributed to the successful implementation of the Group's new business model as well as the increase in business following the appointment of the Group as the "Asia-Pacific Syndicated Loan Centre" of the BOC Group early this year. Fees from the card business also showed satisfactory growth of HK\$107 million or 22.7% as cardholder spending and merchant acquiring volume were up 17.2% and 23.2% respectively. Fee income from RMB-related business, currency exchange, trust services and bills services all recorded double-digit growth of 83.3%, 47.9%, 31.8% and 20.5% respectively. The Group's custody business also contributed to the growth in fees and commission income. The change in investment sentiments in the stock market, however, had a negative impact on the fee income from investment-related agency businesses. Stock broking fee income declined by HK\$35 million or 2.6% while fee income

from sale of funds decreased by HK\$185 million or 54.1%. These were partly offset by the increase in fee income from the distribution of bonds by HK\$155 million or 238.5%. Meanwhile, fees and commission expenses increased by HK\$139 million or 17.2%, which was in line with the growth in transaction volume. Major increases in fees and commission expenses came from credit card service, RMB-related business and currency exchange.

Compared to the second half of 2007, net fees and commission income decreased by HK\$743 million or 20.4% largely because of the decreases in fee income from stock broking of HK\$947 million or 42.4% and sale of funds of HK\$184 million or 54.0% as business volumes declined. Meanwhile, fees and commission income from loan services, general insurance, RMB-related business and card business increased by 20.6%, 25.0%, 19.3% and 4.0% respectively. Fees and commission expenses were down 13.7%, mainly due to the decrease in stock broking expenses.

**Investment and Insurance Business**

| HK\$m                                                                                       | Half-year ended<br>30 June<br>2008 | Half-year ended<br>31 December<br>2007 | Half-year ended<br>30 June<br>2007 |
|---------------------------------------------------------------------------------------------|------------------------------------|----------------------------------------|------------------------------------|
| Investment and insurance fee income                                                         |                                    |                                        |                                    |
| Securities brokerage (Stockbroking)                                                         | 1,289                              | 2,236                                  | 1,324                              |
| Securities brokerage (Bonds)                                                                | 220                                | 146                                    | 65                                 |
| Sale of funds                                                                               | 157                                | 341                                    | 342                                |
| Life insurance*                                                                             | 77                                 | 24                                     | 33                                 |
|                                                                                             | 1,743                              | 2,747                                  | 1,764                              |
| Insurance and investment income of BOC Life                                                 |                                    |                                        |                                    |
| Net insurance premium income                                                                | 4,501                              | 5,493                                  | 2,933                              |
| Interest income                                                                             | 538                                | 442                                    | 346                                |
| Net (loss)/gain on financial instruments<br>designated at fair value through profit or loss | (1,392)                            | 1,282                                  | (389)                              |
| Others                                                                                      | 8                                  | 10                                     | 5                                  |
| Gross insurance and investment income<br>of BOC Life#                                       | 3,655                              | 7,227                                  | 2,895                              |
| Less: net insurance benefits and claims                                                     | (3,602)                            | (6,808)                                | (2,632)                            |
|                                                                                             | 53                                 | 419                                    | 263                                |
| Total investment and insurance income                                                       | 1,796                              | 3,166                                  | 2,027                              |
| Of which: Life insurance fee income*                                                        | 77                                 | 24                                     | 33                                 |
| Insurance income of BOC Life#                                                               | 53                                 | 419                                    | 263                                |
| Total life insurance income                                                                 | 130                                | 443                                    | 296                                |
| Investment fee income                                                                       | 1,666                              | 2,723                                  | 1,731                              |
| Total investment and insurance income                                                       | 1,796                              | 3,166                                  | 2,027                              |

\* Fee income from life insurance only included that from the Group's insurance business partner after group consolidation elimination.

# Before commission expenses.

Total investment and insurance income decreased by HK\$231 million, or 11.4%, year-on-year to HK\$1,796 million. Investment and insurance fee income decreased marginally by HK\$21 million or 1.2% while BOC Life's insurance income was down HK\$210 million, or 79.8%. The decline in investment and insurance fee income was mainly caused by lower contribution from the sales of funds and stock broking, which was, however, substantially offset by the growth in the sales of bonds and life insurance. Income from the sale of funds decreased by HK\$185 million or 54.1% as the sales of open-end funds dropped by 64.8% in the sluggish market. In particular, the sales of China equity funds and certain thematic funds declined substantially as the equity market retreated in

the first half of 2008. Commission from stock broking was down HK\$35 million or 2.6% as retail customers, who make up the majority of the Group's customer portfolio, became less active in trading in a volatile stock market. Meanwhile, commission from the sales of bonds increased significantly by HK\$155 million, or 238.5%, as the Group successfully expanded its offerings of structured products and enhanced its private placement services to meet customer needs, which boosted the sales of structured notes by a hefty 200.2%. Fee income from the Group's insurance business partner also rose strongly by HK\$44 million, or 133.3% on the back of the 83.1% increase in sales volume. As for BOC Life, despite the investment loss due to the decline in market value, BOC

Life recorded robust growth in premium income as net insurance premium income rose by 53.5% while interest income grew by 55.5%. However, insurance income of BOC Life dropped by HK\$210 million or 79.8% to HK\$53 million, mainly due to the increase in net loss on financial instruments designated at fair value through profit or loss caused by the marked-to-market loss of its debt securities and equity investments as well as the new business strain generated. Together with the contribution of the HK\$77 million fee income from the Group's insurance business partner, total life insurance income was HK\$130 million, down HK\$166 million or 56.1%.

Compared to the second half of 2007, total investment and insurance income decreased by HK\$1,370 million, or 43.3%, mainly as a result of the decrease in investment and insurance fee income of HK\$1,004 million or 36.5% as commission income from stock broking and sale of funds declined by 42.4% and 54.0% respectively. The insurance income of BOC Life was down HK\$366 million or 87.4% mainly due to the marked-to-market loss of its investment portfolio in the first half of 2008 whereas a capital gain from its equity investments was recorded in the second half of 2007.

### Net Trading Income

| HK\$'m                                         | Half-year ended<br>30 June<br>2008 | Half-year ended<br>31 December<br>2007 | Half-year ended<br>30 June<br>2007 |
|------------------------------------------------|------------------------------------|----------------------------------------|------------------------------------|
| Foreign exchange and foreign exchange products | 875                                | 645                                    | 155                                |
| Interest rate instruments                      | 206                                | (162)                                  | 192                                |
| Equity instruments                             | 135                                | 111                                    | 70                                 |
| Commodities                                    | 21                                 | 2                                      | –                                  |
| Net trading income                             | 1,237                              | 596                                    | 417                                |

Net trading income was HK\$1,237 million, up HK\$820 million or 196.6% year-on-year mainly due to the surge in net trading income from foreign exchange and foreign exchange products by HK\$720 million or 464.5% as marked-to-market loss on foreign exchange swap contracts\* was significantly lower by HK\$346 million and income from other foreign exchange activities rose by HK\$477 million or 90.7%. The growth of income from other foreign exchange activities was mainly driven by the higher business volume of foreign exchange and structured deposits. The increase were partially offset by a foreign exchange loss arising from the revaluation of Nanyang Commercial Bank (China), Limited's ("Nanyang (China)") Hong Kong Dollar capital funds against the appreciated RMB during the course of approval for conversion into RMB. Net trading income from interest rate instruments

rose by HK\$14 million or 7.3%. Net trading income of equity instruments increased by HK\$65 million or 92.9%, which was mainly attributable to the option premium income from the newly launched "Equity-Linked Investments" as well as the increase in the fair value of equity warrants issued by the Group. Net trading income from commodities increased by HK\$21 million because of higher customer demand for bullion products in the then prevailing investment environment.

Compared to the second half of 2007, net trading income rose by HK\$641 million or 107.6%. The increase was mainly attributable to the increase in the fair value of interest rate swap contracts and the growth in income from foreign exchange transactions and structured deposits.

\* Foreign exchange swap contracts are usually used for the Group's liquidity management and funding activities. Under foreign exchange swap contracts, the Group exchanges one currency (original currency) for another (swapped currency) at the spot exchange rate (spot transaction) and commits to reverse the spot transaction by exchanging the same currency pair at a future maturity at a predetermined rate (forward transaction). In this way, surplus funds in original currency are swapped into another currency for liquidity and funding purposes without any foreign exchange risk. Under HKAS 39, the exchange difference between the spot and forward contracts is recognised as foreign exchange gain or loss (as included in "net trading income"), while the corresponding interest differential between the surplus funds in original currency and swapped currency is reflected in net interest income.

**Net (Loss)/Gain on Financial Instruments Designated at Fair Value through Profit or Loss (FVTPL)**

| HK\$'m                                                                               | Half-year ended<br>30 June<br>2008 | Half-year ended<br>31 December<br>2007 | Half-year ended<br>30 June<br>2007 |
|--------------------------------------------------------------------------------------|------------------------------------|----------------------------------------|------------------------------------|
| Net (loss)/gain on financial instruments designated at FVTPL of the banking business | (92)                               | (20)                                   | (5)                                |
| Net (loss)/gain on financial instruments designated at FVTPL of BOC Life             | (1,392)                            | 1,282                                  | (389)                              |
| Net (loss)/gain on financial instruments designated at FVTPL                         | (1,484)                            | 1,262                                  | (394)                              |

Net loss on financial instruments designated at fair value through profit or loss rose by HK\$1,090 million or 276.6% year-on-year. This was mainly due to the increase in marked-to-market loss on both debt securities and equity investments held by BOC Life.

Compared to the net gain of HK\$1,262 million recorded in the second half of 2007, net loss on financial instruments

designated at fair value through profit or loss in the first half of 2008 was HK\$1,484 million. The decline of HK\$2,746 million was mainly due to the marked-to-market loss of debt securities investments of BOC Life recorded in the first half of 2008 whereas a capital gain from the equity investments and a marked-to-market gain of debt securities investments of BOC life were recorded in the second half of last year.

**Net Insurance Premium Income**

| HK\$'m                                     | Half-year ended<br>30 June<br>2008 | Half-year ended<br>31 December<br>2007 | Half-year ended<br>30 June<br>2007 |
|--------------------------------------------|------------------------------------|----------------------------------------|------------------------------------|
| Life and Annuity                           | 4,195                              | 4,237                                  | 2,358                              |
| Linked Long Term Retirement Scheme         | 316                                | 1,262                                  | 578                                |
|                                            | –                                  | –                                      | –                                  |
| Reinsurers' share of gross earned premiums | 4,511<br>(10)                      | 5,499<br>(6)                           | 2,936<br>(3)                       |
| Net insurance premium income               | 4,501                              | 5,493                                  | 2,933                              |

Net insurance premium income surged by HK\$1,568 million, or 53.5%, to HK\$4,501 million, mainly driven by the increase in premium income from single premium products. In the first half of the year, the Group stepped up its marketing efforts by introducing a host of promotional activities and improving its multi-channel marketing platform. As a result, net insurance premium income from single and regular premium products were up 56.5% and 31.7% respectively.

Compared to the second half of 2007, net insurance premium income dropped by HK\$992 million or 18.1%. The decrease was mainly attributable to the decline in premium income from investment-linked products as the market became less active in the first half of 2008. On the other hand, net insurance premium income from regular premium products was up 6.8%.

**Net Insurance Benefits and Claims**

| HK\$'m                                                    | Half-year ended<br>30 June<br>2008 | Half-year ended<br>31 December<br>2007 | Half-year ended<br>30 June<br>2007 |
|-----------------------------------------------------------|------------------------------------|----------------------------------------|------------------------------------|
| Life and Annuity                                          | 3,601                              | 5,443                                  | 2,084                              |
| Linked Long Term                                          | 1                                  | 1,364                                  | 551                                |
| Retirement Scheme                                         | 1                                  | 4                                      | (2)                                |
|                                                           | 3,603                              | 6,811                                  | 2,633                              |
| Reinsurers' share of claims, benefits and surrenders paid | (1)                                | (3)                                    | (1)                                |
| Net insurance benefits and claims                         | 3,602                              | 6,808                                  | 2,632                              |

Net insurance benefits and claims increased by HK\$970 million, or 36.9%, to HK\$3,602 million, primarily due to the growth of net insurance premium income. Prospective liabilities were recognised on the basis of the assumptions made as to mortality, investment income and fair value changes in the underlying investments.

Compared to the second half of 2007, net insurance benefits and claims dropped by HK\$3,206 million or 47.1%, resulting mainly from the decrease in business volume and change in market interest rates.

**Operating Expenses**

| HK\$'m, except percentage amounts                           | Half-year ended<br>30 June<br>2008 | Half-year ended<br>31 December<br>2007 | Half-year ended<br>30 June<br>2007 |
|-------------------------------------------------------------|------------------------------------|----------------------------------------|------------------------------------|
| Staff costs                                                 | 2,482                              | 2,547                                  | 2,109                              |
| Premises and equipment expenses<br>(excluding depreciation) | 495                                | 541                                    | 417                                |
| Depreciation on owned fixed assets                          | 480                                | 414                                    | 373                                |
| Other operating expenses                                    | 631                                | 853                                    | 519                                |
| Operating expenses                                          | 4,088                              | 4,355                                  | 3,418                              |
| Cost-to-income ratio                                        | 29.12%                             | 28.66%                                 | 28.34%                             |

Total operating expenses were up HK\$670 million, or 19.6%, year-on-year to HK\$4,088 million, which was broadly in line with overall business growth. Staff costs rose by HK\$373 million primarily due to pay rise and the recruitment of new staff for business expansion. Compared to end-June 2007, headcount measured in full-time equivalents rose by 750 to 13,616 at end-June 2008.

Premises and equipment expenses increased by HK\$78 million or 18.7% mainly because of higher rental and IT costs.

Depreciation on owned fixed assets rose by HK\$107 million, or 28.7%, to HK\$480 million due to the increase

of computer equipment as the Group continued with infrastructure improvement coupled with the appreciation of the value of bank premises.

Other operating expenses were up HK\$112 million, or 21.6%, mainly due to the rise in operating expenses as business volume increased, higher business tax due to increased businesses in the Mainland as well as the rise in promotional expenses and donations.

Compared to the second half of 2007, total operating expenses fell by HK\$267 million, or 6.1%, mainly due to the decline in promotional expenses and certain business expenses following the drop in business volume.

**Net (Charge)/Reversal of Loan Impairment Allowances**

| HK\$'m                                              | Half-year ended<br>30 June<br>2008 | Half-year ended<br>31 December<br>2007 | Half-year ended<br>30 June<br>2007 |
|-----------------------------------------------------|------------------------------------|----------------------------------------|------------------------------------|
| Net (Charge)/Reversal of loan impairment allowances |                                    |                                        |                                    |
| Individual assessment                               |                                    |                                        |                                    |
| – new allowances                                    | (142)                              | (224)                                  | (106)                              |
| – releases                                          | 62                                 | 190                                    | 109                                |
| – recoveries                                        | 187                                | 971                                    | 340                                |
| Collective assessment                               |                                    |                                        |                                    |
| – new allowances                                    | (199)                              | (433)                                  | (192)                              |
| – releases                                          | 7                                  | –                                      | –                                  |
| – recoveries                                        | 14                                 | 15                                     | 15                                 |
| Net (charge)/credit to Income Statement             | (71)                               | 519                                    | 166                                |

In the first half of 2008, the Group recorded a net charge of loan impairment allowances of HK\$71 million. Compared to a net credit of HK\$166 million in the first half of 2007, the increase in net charge of loan impairment allowances was mainly due to the decline in loan recoveries and the increase in net charge of allowances (before recoveries) from individual assessment.

Net loan impairment charge from individual assessment (before recoveries) was HK\$80 million, compared to the net release of HK\$3 million recorded in the first half of 2007. The increase in net impairment charge (before recoveries) was caused by the increase in new allowances as they were made to cover the formation of new impaired loans and further deterioration of existing impaired accounts. Reduction of release of allowances due to significant improvement in loan quality during past years also contributed to the increase in the net impairment charge.

Net charge of collective impairment allowances (before recoveries) remained flat year-on-year at HK\$192 million. New impairment allowances were made as the Group's loan portfolio further expanded.

The Group continued to make recoveries of loans that were previously written off. Total recoveries in individual and collective assessment amounted to HK\$201 million, down HK\$154 million compared to the first half of 2007.

Compared to a net release of loan impairment allowances recorded in the second half of last year which was mainly attributable to the recoveries of certain large accounts, the Group registered a net charge of loan impairment allowances in the first half of 2008.

**Net Charge of Impairment Allowances on Securities Investments**

| HK\$'m                                                        | Half-year ended<br>30 June<br>2008 | Half-year ended<br>31 December<br>2007 | Half-year ended<br>30 June<br>2007 |
|---------------------------------------------------------------|------------------------------------|----------------------------------------|------------------------------------|
| Held-to-maturity securities                                   | (962)                              | (1,844)                                | –                                  |
| Available-for-sale securities                                 | (1,187)                            | (289)                                  | –                                  |
| Net charge of impairment allowances on securities investments | (2,149)                            | (2,133)                                | –                                  |

In the first half of 2008, further deterioration of the capital market had an impact on the Group's securities investment in the US and hence the related provisions. The Group carried out a comprehensive assessment on its impairment charges, taking into account the relevant criteria and other specific features of the investments, and increased its provisions accordingly. As a result, the Group recorded HK\$2,149 million of net charge of impairment allowances for its portfolio of US mortgage-backed securities, which comprised HK\$420 million net write-back

for the US subprime mortgage-backed securities, a net charge of HK\$655 million for Alt-A and HK\$1,914 million for Prime residential mortgage-backed securities. For details about the composition of the Group's investment securities portfolio, and the impairment and provisioning policies on investment, please refer to Note 24, Note 1 and Note 2 to the Interim Financial Information.

Compared to the second half of 2007, net charge of impairment allowances rose by HK\$16 million or 0.8%.

**Property Revaluation**

| HK\$'m                                                                 | Half-year ended<br>30 June<br>2008 | Half-year ended<br>31 December<br>2007 | Half-year ended<br>30 June<br>2007 |
|------------------------------------------------------------------------|------------------------------------|----------------------------------------|------------------------------------|
| Net (loss)/gain on revaluation of premises                             | (8)                                | 12                                     | 7                                  |
| Net gain on fair value adjustments on investment properties            | 701                                | 642                                    | 414                                |
| Deferred tax                                                           | (53)                               | (84)                                   | (59)                               |
| Net gain on fair value adjustments on investment properties, after tax | 648                                | 558                                    | 355                                |

The aggregate impact of property revaluation before tax on the income statement for the first half of 2008 was HK\$693 million, of which a net gain of HK\$701 million came from the revaluation of investment properties, partially offset by a net loss of HK\$8 million from the revaluation of premises. The related deferred tax charge on revaluation of investment properties amounted to HK\$53 million. As a result, the net impact of fair value

adjustments on investment properties after tax in the first half of 2008 was HK\$648 million. The net gain on property revaluation was in line with the increase in property prices in the first half of 2008.

Compared to the second half of 2007, net gain from revaluation of investment properties after tax increased by HK\$90 million or 16.1%.

**Financial Position**

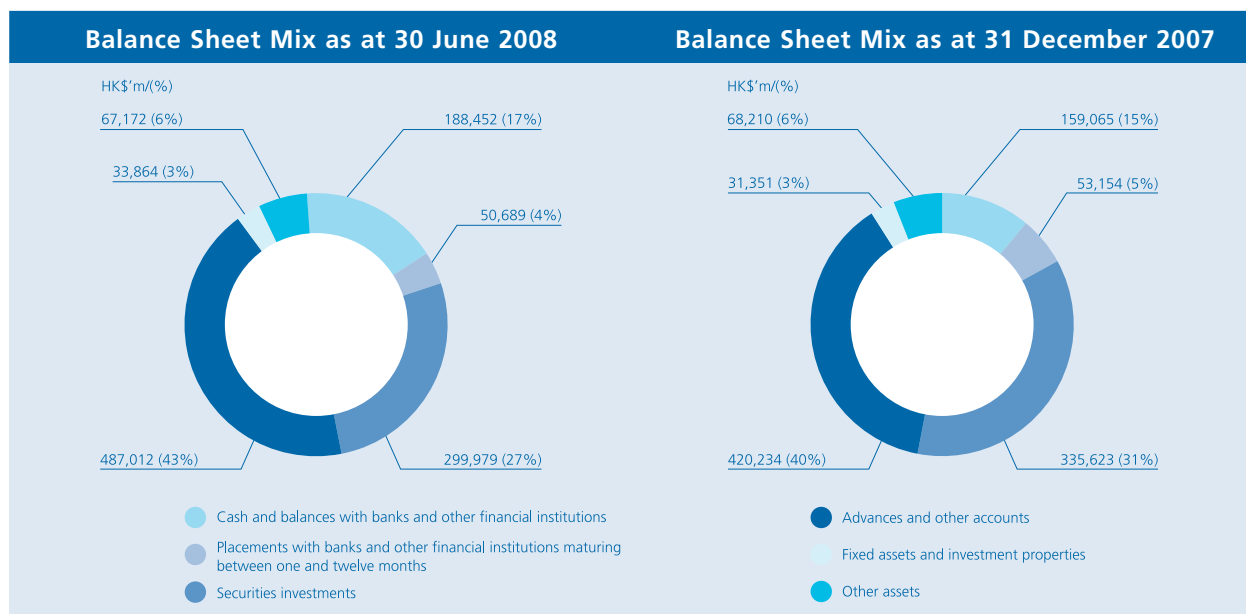
| HK\$'m, except percentage amounts                                                                | At 30 June<br>2008 | At 31 December<br>2007 |
|--------------------------------------------------------------------------------------------------|--------------------|------------------------|
| Cash and balances with banks and other financial institutions                                    | 188,452            | 159,065                |
| Placements with banks and other financial institutions maturing<br>between one and twelve months | 50,689             | 53,154                 |
| Hong Kong SAR Government certificates of indebtedness                                            | 32,430             | 32,770                 |
| Securities investments <sup>1</sup>                                                              | 299,979            | 335,623                |
| Advances and other accounts                                                                      | 487,012            | 420,234                |
| Fixed assets and investment properties                                                           | 33,864             | 31,351                 |
| Other assets <sup>2</sup>                                                                        | 34,742             | 35,440                 |
| Total assets                                                                                     | 1,127,168          | 1,067,637              |
| Hong Kong SAR currency notes in circulation                                                      | 32,430             | 32,770                 |
| Deposits and balances of banks and other financial institutions                                  | 81,625             | 60,599                 |
| Deposits from customers                                                                          | 819,110            | 793,606                |
| Debt securities in issue at amortised cost <sup>3</sup>                                          | 2,756              | 2,089                  |
| Insurance contract liabilities                                                                   | 25,070             | 22,497                 |
| Other accounts and provisions                                                                    | 60,508             | 61,018                 |
| Subordinated liabilities <sup>4</sup>                                                            | 8,150              | –                      |
| Total liabilities                                                                                | 1,029,649          | 972,579                |
| Minority interests                                                                               | 2,472              | 2,216                  |
| Capital and reserves attributable to the equity holders of the Company                           | 95,047             | 92,842                 |
| Total liabilities and equity                                                                     | 1,127,168          | 1,067,637              |
| Loan-to-deposit ratio                                                                            | 57.81%             | 51.66%                 |

<sup>1</sup> Securities investments comprise investment in securities and financial assets at fair value through profit or loss.

<sup>2</sup> Interests in associates, deferred tax assets and derivative financial instruments are included in other assets.

<sup>3</sup> Debt securities in issue at amortised cost represents the notes issued under the Group's notes programme.

<sup>4</sup> Subordinated liabilities represents the subordinated loan granted by the Group's parent bank, Bank of China Limited.



The Group's total assets were HK\$1,127,168 million as at 30 June 2008, up HK\$59,531 million or 5.6% from the end of 2007. Key changes include:

- Cash and balances with banks and other financial institutions increased by HK\$29,387 million, or 18.5%, mainly due to the increase in RMB deposits from participating banks placed with the PBOC.
- Advances and other accounts increased by HK\$66,778 million, or 15.9%, primarily due to the growth of advances to customers by HK\$62,525 million or 15.1%.
- Securities investments decreased by HK\$35,644 million or 10.6% as funds were redeployed into advances to customers. As of 30 June 2008, the Group's exposure in US subprime mortgage-backed securities dropped to HK\$1.2 billion from HK\$4.1 billion as of end-2007.

### Advances to Customers

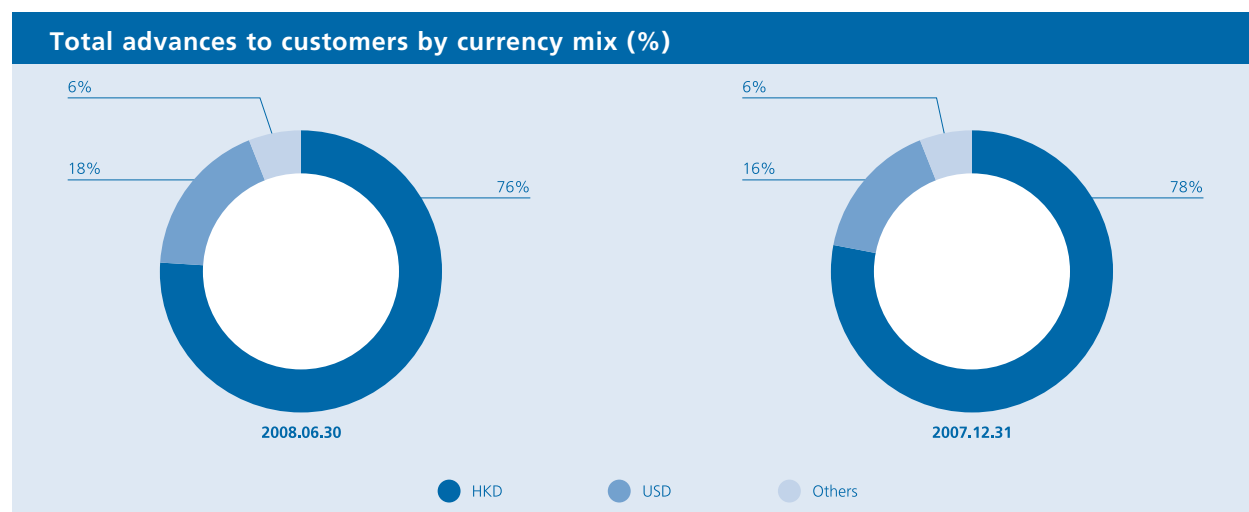
| HK\$m, except percentage amounts     | At 30 June 2008 |       | At 31 December 2007 |       |
|--------------------------------------|-----------------|-------|---------------------|-------|
|                                      |                 | %     |                     | %     |
| Loans for use in Hong Kong           | 342,227         | 72.0  | 305,677             | 74.0  |
| Industrial, commercial and financial | 194,423         | 40.9  | 168,656             | 40.8  |
| Individuals                          | 147,804         | 31.1  | 137,021             | 33.2  |
| Trade finance                        | 31,683          | 6.7   | 24,275              | 5.9   |
| Loans for use outside Hong Kong      | 101,677         | 21.3  | 83,110              | 20.1  |
| Total advances to customers          | 475,587         | 100.0 | 413,062             | 100.0 |

Riding on the growth momentum built up last year, total advances to customers grew strongly by HK\$62,525 million or 15.1% to HK\$475,587 million. The growth was broad-based, covering both corporate and individual loans, and should be attributed to the effective implementation of the Group's business strategies under its new business model. The Bank's appointment as the "Asia-Pacific Syndicated Loan Centre" of the BOC Group early this year also helped grow its syndication lending.

Loans for use in Hong Kong grew by 12.0%.

- Lending to the industrial, commercial and financial sectors increased by HK\$25,767 million, or 15.3%, to HK\$194,423 million, driven by the growth in loans for property investment, property development, information technology, manufacturing as well as the wholesale and retail trade.
- Residential mortgage loans (excluding those under the government-sponsored Home Ownership Scheme) was up HK\$9,565 million, or 9.0%, to HK\$116,148 million as a result of the Group's effective product innovation and marketing efforts.
- Card advances was down HK\$95 million, or 1.6%, to HK\$5,666 million.
- Other consumer lending increased by HK\$1,153 million, or 10.8%, to HK\$11,861 million mainly due to the growth in personal loans.

Trade finance surged by HK\$7,408 million, or 30.5%, as a result of the Group's promotional efforts, improved business model together with the robust import and export trade. Meanwhile, loans for use outside Hong Kong also grew strongly by HK\$18,567 million or 22.3%. The increase was mainly driven by overseas lending and loan growth of the Group's Mainland operation.

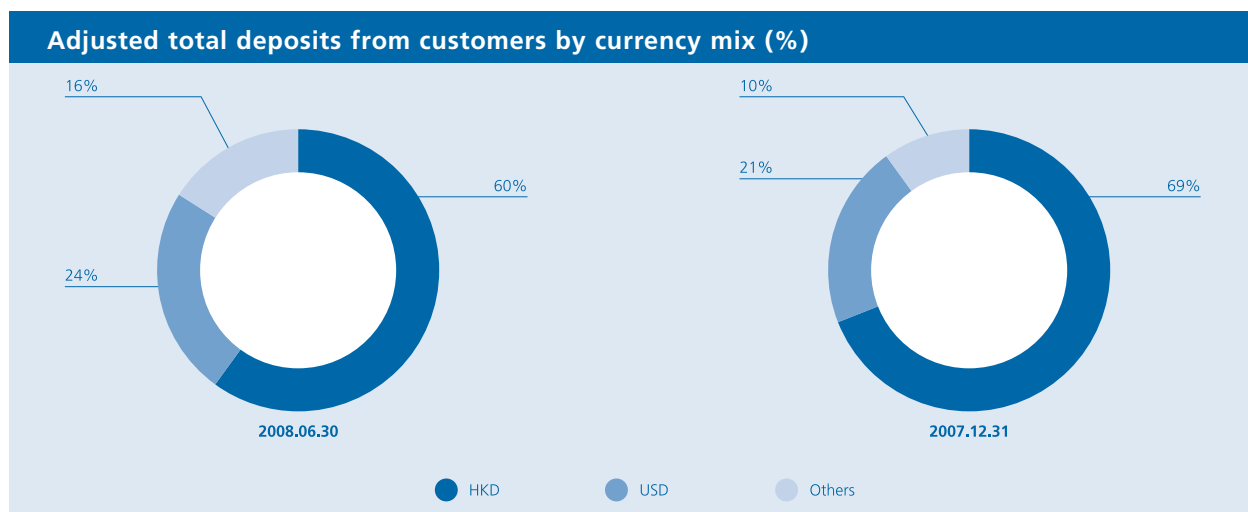


In terms of currency mix, HKD and USD advances to customers accounted for 75.7% and 18.3% respectively of the total at the end of June 2008 while advances to customers in RMB and other currencies accounted for 3.6% and 2.4% respectively. The proportion of USD advances to customers rose by 2.7% while HKD advances to customers declined by 2.7%. There was no significant change in other currency mix in the first half of 2008.

**Deposits from Customers**

| HK\$'m, except percentage amounts      | At 30 June |       | At 31 December |       |
|----------------------------------------|------------|-------|----------------|-------|
|                                        | 2008       | %     | 2007           | %     |
| Demand deposits and current accounts   | 40,907     | 5.0   | 40,499         | 5.1   |
| Savings deposits                       | 295,502    | 35.9  | 286,653        | 35.9  |
| Time, call and notice deposits         | 482,701    | 58.7  | 466,454        | 58.3  |
| Total deposits from customers          | 819,110    | 99.6  | 793,606        | 99.3  |
| Structured deposits                    | 3,601      | 0.4   | 5,959          | 0.7   |
| Adjusted total deposits from customers | 822,711    | 100.0 | 799,565        | 100.0 |

Total deposits from customers increased by HK\$25,504 million, or 3.2%, to HK\$819,110 million. Demand deposits and current accounts rose by HK\$408 million or 1.0%. Savings deposits increased by HK\$8,849 million or 3.1%. Time, call and notice deposits were up HK\$16,247 million or 3.5%. Structured deposits, a hybrid of retail deposit and derivatives offering a higher nominal interest rate, decreased by HK\$2,358 million, or 39.6% as customers chose to switch their funds to other investment instruments under the volatile investment environment. The Group's loan-to-deposit ratio was up 6.15 percentage points to 57.81% at the end of June 2008 as total loan growth outpaced deposits growth.



In terms of currency mix, HKD and USD deposits accounted for 60.3% and 23.8% respectively at the end of June 2008, while deposits in RMB and other currencies accounted for 5.1% and 10.8% respectively. The proportion of HKD deposits dropped by 8.8 percentage points while that of RMB and other currency deposits rose by 2.9 percentage points and 3.1 percentage points respectively from the end of 2007, reflecting customers' preferences for shifting their funds into RMB deposits in anticipation of the appreciation in the value of RMB and into other foreign currency deposits for higher returns. The proportion of USD deposits also rose by 2.8%. The Group's HKD loan-to-deposit ratio was 72.6%, up from 58.7% at end-2007 as HKD loans increased while HKD deposits decreased.

**Loan Quality**

|                                                                                    | <b>At 30 June<br/>2008</b> | At 31 December<br>2007 |
|------------------------------------------------------------------------------------|----------------------------|------------------------|
| HK\$m, except percentage amounts                                                   |                            |                        |
| Advances to customers                                                              | <b>475,587</b>             | 413,062                |
| Classified or impaired loan ratio <sup>*</sup>                                     | <b>0.34%</b>               | 0.44%                  |
| Impairment allowances                                                              | <b>1,524</b>               | 1,385                  |
| Regulatory reserve for general banking risks                                       | <b>4,620</b>               | 4,130                  |
| Total allowances and regulatory reserve                                            | <b>6,144</b>               | 5,515                  |
| Total allowances as a percentage of advances to customers                          | <b>0.32%</b>               | 0.34%                  |
| Total allowances and regulatory reserve as a percentage of advances to customers   | <b>1.29%</b>               | 1.34%                  |
| Impairment allowances on classified or impaired loan ratio <sup>**</sup>           | <b>27.50%</b>              | 22.52%                 |
| Residential mortgage loans* – delinquency and rescheduled loan ratio <sup>**</sup> | <b>0.08%</b>               | 0.15%                  |
| Card advances – delinquency ratio <sup>**</sup>                                    | <b>0.30%</b>               | 0.28%                  |

|                                               | <b>Half-year ended<br/>30 June<br/>2008</b> | Half-year ended<br>30 June<br>2007 |
|-----------------------------------------------|---------------------------------------------|------------------------------------|
| Card advances – charge-off ratio <sup>#</sup> | <b>2.14%</b>                                | 2.59%                              |

<sup>\*</sup> Classified or impaired loans represent advances which have been classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired. Repossessed assets are initially recognised at the lower of their fair value less costs to sell or the amortised cost of the related outstanding loans on the date of repossession. The related loans and advances are deducted from loans and advances.

<sup>\*</sup> Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.

<sup>\*\*</sup> Delinquency ratio is measured by a ratio of total amount of overdue loans (more than three months) to total outstanding loans.

<sup>#</sup> Excluding Great Wall cards and computed according to the HKMA's definition.

<sup>\*\*</sup> Including impairment allowances on loans classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

The Group's loan quality continued to improve with the classified or impaired loan ratio falling to a historical low of 0.34%, against 0.44% at end-2007. Classified loans decreased by approximately HK\$0.2 billion or 10.8% to HK\$1.6 billion. New classified loans remained at a low level, representing less than 0.1% of total loans outstanding.

Total impairment allowances, including both individual assessment and collective assessment, amounted to HK\$1,524 million. Impairment allowances on classified or impaired loan ratio were 27.50%. The Group's regulatory reserve rose by HK\$490 million to HK\$4,620 million as advances to customers increased.

The quality of the Group's residential mortgage loans continued to improve with the combined delinquency and rescheduled loan ratio falling by 0.07 percentage point to 0.08% at the end of June 2008. The quality of card advances remained sound, with the charge-off ratio standing at 2.14% in the first half of 2008. Both ratios were well below the market average.

**Capital and Liquidity Ratios**

| HK\$'m, except percentage amounts             | At 30 June<br>2008 | At 31 December<br>2007 |
|-----------------------------------------------|--------------------|------------------------|
| Core capital                                  | 67,155             | 67,145                 |
| Deductions                                    | (274)              | (483)                  |
| Core capital after deductions                 | 66,881             | 66,662                 |
| Supplementary capital                         | 14,032             | 5,161                  |
| Deductions                                    | (274)              | (483)                  |
| Supplementary capital after deductions        | 13,758             | 4,678                  |
| Total capital base after deductions           | 80,639             | 71,340                 |
| Risk-weighted assets                          |                    |                        |
| Credit risk                                   | 547,432            | 510,970                |
| Market risk                                   | 6,299              | 7,998                  |
| Operational risk                              | 42,631             | 39,139                 |
| Deductions                                    | (15,085)           | (12,875)               |
| Total risk-weighted assets                    | 581,277            | 545,232                |
| Capital adequacy ratios (banking group level) |                    |                        |
| Core capital ratio                            | 11.51%             | 12.23%                 |
| Capital adequacy ratio                        | 13.87%             | 13.08%                 |

|                         | Half-year ended<br>30 June<br>2008 | Half-year ended<br>30 June<br>2007 |
|-------------------------|------------------------------------|------------------------------------|
| Average liquidity ratio | 42.47%                             | 50.08%                             |

In accordance with the Banking (Capital) Rules effective from 1 January 2007, the Group adopted the Standardised Approach in calculating capital adequacy ratios.

Consolidated capital adequacy ratio of the banking group at 30 June 2008 was 13.87%, up 0.79 percentage point from end-2007 due to the increase in total capital base. Total capital base rose by 13.0% to HK\$80,639 million mainly due to a subordinated loan of EURO 660 million (approximately HK\$8.15 billion) obtained by the Group from its parent bank, Bank of China Limited, on 27 June 2008. This subordinated loan meets the conditions laid down in the Banking (Capital) Rules

and has been included as supplementary capital for the purpose of determining the capital base of the banking group. Meanwhile, risk-weighted assets rose by 6.6% to HK\$581,277 million, mainly driven by significant growth in advances to customers.

Average liquidity ratio remained strong at 42.47%, versus 50.08% in the first half of 2007. The fall in average liquidity ratio was caused by the decline of average liquefiable assets with decreased marketable debt securities, coupled with the growth of average qualifying liabilities resulting from the increase in customer deposits.

## BUSINESS REVIEW

This section covers the review of the Group's business lines together with their respective financial results.

### Personal Banking

| HK\$m, except percentage amounts              | Half-year ended<br>30 June<br>2008 | Restated<br>Half-year ended<br>30 June<br>2007 | Increase/<br>(decrease) |
|-----------------------------------------------|------------------------------------|------------------------------------------------|-------------------------|
| Net interest income                           | 3,330                              | 3,841                                          | -13.3%                  |
| Other operating income                        | 2,532                              | 2,332                                          | +8.6%                   |
| Operating income                              | 5,862                              | 6,173                                          | -5.0%                   |
| Operating expenses                            | (2,879)                            | (2,581)                                        | +11.5%                  |
| Operating profit before impairment allowances | 2,983                              | 3,592                                          | -17.0%                  |
| Net charge of loan impairment allowances      | (14)                               | (54)                                           | -74.1%                  |
| Others                                        | (4)                                | –                                              | N/A                     |
| Profit before taxation                        | 2,965                              | 3,538                                          | -16.2%                  |

|                     | At 30 June<br>2008 | At 31 December<br>2007 | Increase/<br>(decrease) |
|---------------------|--------------------|------------------------|-------------------------|
| Segment assets      | 165,005            | 162,634                | +1.5%                   |
| Segment liabilities | 524,774            | 545,397                | -3.8%                   |

Note: For additional segmental information, see Note 41 to the Interim Financial Information.

### Results

Personal Banking recorded a profit before taxation of HK\$2,965 million in the first half of 2008. Operating profit before impairment allowances declined by 17.0% to HK\$2,983 million because of lower net interest income and increased operating expenses, which was partly offset by the increase in other operating income.

Net interest income fell by 13.3% to HK\$3,330 million, mainly due to narrower deposit spread as average market interest rates were lower. Other operating income rose by 8.6% to HK\$2,532 million. Net fees and commission income increased by 5.1%, primarily attributable to the growth of income from the sales of bonds and structured products, RMB-related business, card business and currency exchange. Commission income from both stock broking and sale of funds dropped. However, income from foreign exchange activities grew strongly as business volume increased.

Operating expenses rose by 11.5% to HK\$2,879 million mainly because of higher staff costs after headcount increase and pay rise. Higher promotional expenses and IT costs also contributed to the increase in operating expenses.

Net charge of loan impairment allowances fell by 74.1% to HK\$14 million. This reflects an improvement in asset quality due to lower bad debt migration rate and rise in collateral values as well as an increase in recoveries.

Advances and other accounts, including mortgage loans and card advances, increased by 7.8% to HK\$153,205 million. Customer deposits fell by 2.3% to HK\$501,081 million as customers switched their funds to other higher yielding investments under the low interest rate environment.

### Ensuring growth and market recognition in residential property mortgage

In spite of fierce market competition, the Group grew its residential mortgage business by 9.0% through effective marketing and the introduction of a number of new mortgage products such as "8 Privilege Offers for the 2008 Olympics Mortgage Scheme" and "Olympic Decathlon Mortgage Scheme". The Group also set up four new Mortgage Advice Centres in selected areas to provide professional consultancy services to customers. All these innovative efforts, together with the Group's intrinsic strengths and track record, ensured that the Group could maintain its leading position in the residential mortgage market with the underwriting of new mortgages increasing by 65.4% year-on-year, outperforming the market average of 61.7%. Meanwhile, the credit quality of residential mortgages continued to improve as the delinquency and rescheduled loan ratio fell further to 0.08%. In recognition of its outstanding mortgage services, the Group was awarded the "Sing Tao Excellent Services Brand Award 2007 – Mortgage and Loan Services" and the "Capital Weekly Service Awards 2008 – Mortgage" by *Sing Tao Daily* and *Capital Weekly* respectively.

### Maintaining the competitiveness of investment and insurance businesses

In the first half of 2008, given the increasing concern over the global credit crisis and loss of confidence in the investment environment, stock markets throughout the world experienced a slump in general. Naturally, this had an adverse impact on the Group's investment-related agency businesses. Nevertheless, the Group made good progress in product innovation and further enhanced its business platform to meet customers' needs. Moreover, the Group expanded its bond and life insurance agency businesses considerably during the period. The Group continued to promote its stock brokerage business and improve its trading platforms and services such as the "Closing Auction Session for Securities Trading" and "Online Securities Margin Trading" services. In anticipation of a more volatile market in 2008, the Group launched the "Balanced Investment Funds Series" (the "Series") in December 2007 to raise customers' awareness of portfolio risk management while offering a wide array of investment products. As a result, the total number of funds available

for selection in the Series increased and its contribution to the total fund sales significantly improved. The Group continued to expand its range of structured products and enhance its private placement services, leading to a strong growth of 200.2% in the sales of structured notes.

Regarding the life insurance agency business, with effective marketing, extensive staff training, optimised operation procedures and product innovation, the sales of life insurance products and related commission income surged by 64.7% and 70.0% respectively year-on-year\*. In terms of product innovation, the Group introduced a range of tailor-made products such as the "Fortuitous Saving Protection Plan" and "Pleasure 5-Year Saving Protection Plan" during the period to meet the diverse needs of customers.

To cope with customer's demand for all-encompassing protection products, the Group pioneered a first-of-its-kind bundled protection product in the market known as the "BOC Family Comprehensive Protection Plan". This product offers customers with extensive protection covering home content, annual travel, personal accident, golfer and domestic helper. Not surprisingly, customers' feedback on this product has been highly positive.

### Continuous expansion of high net worth customer base

The Group is committed to providing premium services to its high net worth customers. In the first half of 2008, the Group enhanced its private placement service which helped boost the sales volume of structured notes by 200.2%. To expand its high net worth customer base, the Group launched marketing campaigns such as the "Olympic Five Rings Rewards", offering a range of exclusive privileges on designated transactions in foreign currency fixed deposits, RMB services, fund subscription and securities trading. The Group also introduced the "Customer-Get-Customer Programme" by rewarding existing wealth management customers with privileges for new customers referred. As at the end of June 2008, the total number of wealth management customers\*\* grew by 14.4% versus end-2007. Meanwhile, assets of wealth management customers maintained with the Group declined by 1.8% amidst a volatile stock market.

\* Before inter-segment elimination

\*\* Including wealth management VIP and wealth management Prime customers

### Steady growth of credit card business

The Group's card business continued to expand due to active private consumption with the number of cards in issue increasing by 5.4% from the end of last year. At the same time, cardholder spending volume and merchant acquiring volume registered growths of 17.2% and 23.2% respectively.

To grasp business opportunities arising from the 2008 Beijing Olympics, the Group issued the "VISA BOC Olympic Games Platinum Card" in May 2008. In the same month, a new co-branded card, "BOC Esso MasterCard", was launched providing exclusive privileges to cardholders. These new cards not only enriched the Group's product range but also enhanced its product differentiation among the competitors. Meanwhile, the Group's card business in the Mainland continued to grow and the "EMV Titanium Card" was introduced during the period. The Group has also been benefiting from the bank card-related service and support in the Mainland market made available by BOC Services Company, Limited, a joint venture formed between BOC Credit Card (International) Ltd. and BOC in November 2007.

### Growing and leading RMB banking business in Hong Kong

The Group has maintained its leading position in RMB banking business in Hong Kong. To satisfy the surge in demand for RMB deposits in the first half of 2008, the Group launched "RMB Exchange Express" to provide customers with a more convenient service in their RMB exchange transactions. At the same time, the Group launched the "RMB Remittance Express" service in April 2008, providing customers with RMB remittance service to bank accounts in the Mainland with preferential handling charges. The Group has continued to enjoy the largest market share in its local RMB deposits-taking business

with the amount of deposits more than doubled in the first half of 2008. In respect of the RMB credit card business, the Group has also maintained its leading position as the number of RMB credit cards issued grew by 22.4% from the end of 2007 while the RMB card acquiring volume and RMB cardholder spending volume surged by 73.2% and 66.0% respectively year-on-year. At the end of June 2008, the number of ATMs providing RMB withdrawal service reached 326. Taking advantage of the Group's leading position in RMB business, the total number of RMB withdrawals in our ATM network in the first half of 2008 recorded a significant increase of 81.5% compared with the same period of 2007.

### Channel rationalisation and e-channel development

The Group continued to optimise its distribution channels. In the first half of 2008, the Group opened 1 new branch, renovated 12 existing branches and added 6 Wealth Management Centres and 4 Mortgage Advice Centres to its network in Hong Kong. As at the end of June 2008, the Group's service network in Hong Kong comprised of 289 branches.

Customers' satisfaction regarding the Group's service quality is of utmost importance to the Group. In the first half of 2008, the Group launched a comprehensive transaction survey programme in branches for obtaining customers' feedback on the Group's service improvement programmes. At the same time, the Group continued to enhance its e-banking channels, especially for investment functions, in order to strengthen its competitive edge in providing internet investment services. In the first half of 2008, the number of e-banking customers increased by 6.2% and the stock trading transactions carried out through e-channels accounted for 77.5% of total number of transaction.

**Corporate Banking**

| HK\$'m, except percentage amounts                  | Half-year ended<br>30 June<br>2008 | Restated<br>Half-year ended<br>30 June<br>2007 | Increase/<br>(decrease) |
|----------------------------------------------------|------------------------------------|------------------------------------------------|-------------------------|
| Net interest income                                | 2,972                              | 2,803                                          | +6.0%                   |
| Other operating income                             | 1,132                              | 863                                            | +31.2%                  |
| Operating income                                   | 4,104                              | 3,666                                          | +11.9%                  |
| Operating expenses                                 | (1,081)                            | (899)                                          | +20.2%                  |
| Operating profit before impairment allowances      | 3,023                              | 2,767                                          | +9.3%                   |
| Net (charge)/release of loan impairment allowances | (57)                               | 220                                            | N/A                     |
| Others                                             | (3)                                | –                                              | N/A                     |
| Profit before taxation                             | 2,963                              | 2,987                                          | -0.8%                   |

|                     | At 30 June<br>2008 | At 31 December<br>2007 | Increase/<br>(decrease) |
|---------------------|--------------------|------------------------|-------------------------|
| Segment assets      | 339,456            | 281,680                | +20.5%                  |
| Segment liabilities | 324,447            | 284,353                | +14.1%                  |

Note: For additional segmental information, see Note 41 to the Interim Financial Information.

**Results**

Corporate Banking achieved good results in the first half of 2008. Operating income increased by 11.9% to HK\$4,104 million, which was driven by the growth in both net interest income and other operating income. After accounting for the 20.2% increase in operating expenses, operating profit before impairment allowances rose by 9.3% to HK\$3,023 million. Profit before taxation fell by 0.8% to HK\$2,963 million, mainly due to the decline in loan recoveries and increase in loan impairment allowances.

Net interest income increased by 6.0% to HK\$2,972 million mainly due to the growth in loans and advances, which was partly offset by narrower deposit spread as average market interest rates dropped. Other operating income rose by 31.2% to HK\$1,132 million, thanks to the growth in fees income from loan and bills services.

Operating expenses were up 20.2% to HK\$1,081 million, mainly due to higher staff costs after headcount increase

and pay rise. Higher business tax for increased Mainland business and depreciation charges on computer equipment also contributed to the increase in operating expenses.

Net charge of loan impairment allowances was HK\$57 million, compared to the net release of HK\$220 million in the first half of 2007. The net charge reflected the reduction of loan recoveries and the increase in the loan impairment allowances made to cover the formation of new impaired loans and further deterioration of existing impaired accounts. In view of the unfavorable outlook of the macro economics and signs of deterioration of the US economy, precautionary measures have been implemented such as by tightening up the underwriting standards of credit approval and the monitoring of SME loans, revising the lending and pricing strategies on new credits of the segments concerned.

Advances and other accounts increased significantly by 20.3% to HK\$337,568 million. Customer deposits grew by 13.9% to HK\$320,692 million.

### **Spearheading the growth of loan syndication**

The Group has maintained its leading position in loan syndication. According to *Basis Point*, the Group remained the top mandated arranger in the markets of syndicated loans for both Hong Kong-Macau and the Mainland-Hong Kong-Macau in the first half of 2008. In January 2008, the Group was appointed as the "Asia-Pacific Syndicated Loan Centre" of the BOC Group with the responsibilities of initiating, coordinating and managing the syndicated loan business in the Asia-Pacific region. This appointment not only signifies the recognition of the Group's expertise and extensive experience in the syndicated loan market, but also helps it in exploring cross-border business opportunities in the wider region. It helps boost the Group's loan fee income as well as its syndicated lending. The Group established the first phase of the "Loan Syndication Information Management System" in the first half of 2008. This new system links up similar networks of the BOC Group's major branches, thus optimising the sharing of supporting information among group members and enhancing overall operational efficiency.

### **Making good progress in expanding SME business**

The high-yielding SME business remains one of the Group's strategic focuses. In the first half of 2008, loans to the SME segment recorded a solid growth. The Group further strengthened its relationship with SME customers by launching a number of thematic marketing programmes and sponsoring a series of marketing activities. At the same time, the Group continued to enhance its product offerings and refine its products. In January 2008, the Group and the Hong Kong Productivity Council jointly launched the "Green Equipment Financing Scheme", a preferential lending package for corporate customers to acquire environment-friendly equipment. In addition, the Group introduced the "Corporate Privilege" services at selected branches to tailor-make services for targeted customers. These initiatives helped sustain the growth momentum of the SME business and resulted in a double-digit growth of SME loans in the first half of 2008. In recognition of its success in the SME business, the Group was awarded the "SME's Best Partner Award 2008" by the Hong Kong Chamber of Small and Medium Business

Limited and the "Capital Weekly Service Awards 2008 – SME Banking" by *Capital Weekly* during the period.

### **Solid growth of trade finance**

The Group continued to step up its marketing efforts to stimulate the growth of the trade finance business. In the first half of 2008, the Group repositioned part of its operations to further improve its operational efficiency. In addition, the Group initiated the "Trade Facilities Reform Programme" in March 2008 to streamline the credit approval process and raise the utilisation rate of credit limit. With these initiatives, the outstanding balance of trade finance grew strongly by 30.5% compared to end-2007. The volume of trade bills settlement likewise grew significantly by 44% year-on-year.

### **Robust expansion of cash management**

In the first half of 2008, the Group continued to design and consolidate cross-border cash management projects for large Mainland enterprises seeking global expansion. At the same time, the Group strove to maintain its competitive edge in the local cash management business by making continuous refinement on existing products such as "Integrated Receivables and Payment Solutions" and developing new products to meet the diverse needs of customers. Through effective marketing campaigns, the number of CBS Online customers increased by 23.0% while that of BOC Wealth Master customers grew by 6.6%.

### **Vigorous development of custody services**

Custody business continued to grow in the first half of 2008. The Group has been actively exploring business opportunities in both local and overseas markets. During the period, the Group succeeded in becoming the custodian for a locally listed investment fund. In January 2008, the Group was appointed by one of the largest joint venture investment banks in the Mainland as the foreign custodian for its first QDII product, which was also the first broker-type QDII ever approved in the Mainland. The Group also successfully implemented several QDII mandates in the first half of 2008. At the end of June 2008, total assets under custody was HK\$295 billion.

## **Mainland Business**

### **Strong growth of Mainland business**

Mainland business continued to be one of the high-growth segments of the Group. Following the implementation of a dualistic approach in the Mainland business with the local incorporation of Nanyang (China) in December last year, the Group's Mainland operation made good progress in business development. Total advances to customers grew by 17.2% to HK\$35.1 billion, with RMB loans surging by 26.0%. Customer deposits increased by 119.7% to HK\$12.7 billion. Total operating income recorded a satisfactory year-on-year growth of 15.4%, driven by strong growth in both net interest income and net fees and commission income which was, however, partially offset by the foreign exchange loss arising from the revaluation of Nanyang (China)'s Hong Kong Dollar capital funds against the appreciated RMB. Operating profit before impairment allowances fell by 7.6% year-on-year. Should the estimated impact of the exchange revaluation of the Mainland operation's capital funds be excluded\*, operating profit before impairment allowances

would have increased by 40.3%. Loan quality remained sound, with the classified loan ratio standing at 0.78%, an increase of 0.10 percentage point from end-2007 mainly due to the downgrade of an individual account.

By the end of June 2008, the Group's network in the Mainland consisted of 15 branches and sub-branches (including those of Nanyang (China)). 13 branches and sub-branches had already been permitted to conduct RMB business\*\*. On 24 July 2008, the head office of Nanyang (China) was approved to start its domestic retail RMB business. In the first half of 2008, the China Banking Regulatory Commission ("CBRC") had approved Nanyang (China)'s application to establish its Hangzhou branch, Nanning branch and Shanghai Xuhui sub-branch, while Guangzhou Panyu sub-branch commenced business on 23 July 2008. Meanwhile, the Group has launched a series of structured products as well as QDII products to expand its wealth management business in the Mainland and at the same time to enhance its cross-border financial services to better serve both personal and corporate customers.

\* The estimated impact of the exchange revaluation of the Mainland operation's capital funds included the exchange revaluation loss of Nanyang (China)'s HKD capital funds and the revaluation gain of the RMB operating funds of the Group's other mainland branches.

\*\* Except for Mainland residents

**Treasury**

|                                                               | <b>Half-year ended<br/>30 June<br/>2008</b> | Restated<br>Half-year ended<br>30 June<br>2007 | Increase/<br>(decrease) |
|---------------------------------------------------------------|---------------------------------------------|------------------------------------------------|-------------------------|
| HK\$m, except percentage amounts                              |                                             |                                                |                         |
| Net interest income                                           | <b>3,456</b>                                | 2,451                                          | +41.0%                  |
| Other operating income                                        | <b>933</b>                                  | 51                                             | +1,729.4%               |
| Operating income                                              | <b>4,389</b>                                | 2,502                                          | +75.4%                  |
| Operating expenses                                            | <b>(431)</b>                                | (258)                                          | +67.1%                  |
| Operating profit before impairment allowances                 | <b>3,958</b>                                | 2,244                                          | +76.4%                  |
| Net charge of impairment allowances on securities investments | <b>(2,149)</b>                              | –                                              | N/A                     |
| Profit before taxation                                        | <b>1,809</b>                                | 2,244                                          | -19.4%                  |

|                     | <b>At 30 June<br/>2008</b> | At 31 December<br>2007 | Increase/<br>(decrease) |
|---------------------|----------------------------|------------------------|-------------------------|
| Segment assets      | <b>563,506</b>             | 566,661                | -0.6%                   |
| Segment liabilities | <b>154,217</b>             | 116,095                | +32.8%                  |

Note: For additional segmental information, see Note 41 to the Interim Financial Information.

**Results**

The Treasury segment grew its operating income by 75.4% to HK\$4,389 million year-on-year owing mainly to the growth in both net interest income and other operating income. Operating profit before impairment allowances increased by 76.4% to HK\$3,958 million after accounting for the 67.1% growth in operating expenses. Profit before taxation declined by 19.4% owing to a net charge of HK\$2,149 million of impairment allowances on securities investments.

The 41.0% rise in the net interest income was made possible by higher interest spread on the debt securities portfolio with lower funding cost as interest rate declined.

Other operating income also rose significantly by HK\$882 million to HK\$933 million. This was mainly attributable to lower marked-to-market loss on foreign exchange swap contracts and higher income from other foreign exchange activities driven by increased business volume of foreign exchange and structured deposits. Income from equity

instrument and commodities also increased, mainly driven by the newly launched "Equity-Linked Investments" and higher customer demand for bullion products. A gain on disposal of securities was recorded for the sale of Visa Inc. shares.

Operating expenses rose by 67.1% to HK\$431 million, mainly due to higher staff costs after headcount increase and pay rise as well as increased IT costs and depreciation charge on computer equipment.

In the first half of 2008, further deterioration of the capital market had an impact on the Group's securities investments in the US and hence the related provisions. The Group carried out a comprehensive assessment on its impairment charges, taking into account the relevant criteria and other specific features of the investments, and increased its provisions accordingly. As a result, a net charge of impairment allowances on securities investments of HK\$2,149 million was made for the Group's portfolio of US mortgage-backed securities. Following the reporting period end, the market continues to weaken which may

further impact the Group's securities investments. The Group will closely monitor future market development and proactively manage its investment portfolio.

At the end of June 2008, the Group's debt securities investments amounted to HK\$258.9 billion. 98% of the portfolio was rated A or better\*. The Group's exposures to US subprime mortgage-backed securities, US Alt-A and US Prime residential mortgage-backed securities amounted to HK\$1.2 billion, HK\$5.2 billion and HK\$24.4 billion respectively. Exposures to Freddie Mac and Fannie Mae, the US mortgage agencies, totalled HK\$5.5 billion.

\* The ratings were based on Moody's ratings or their equivalent to the respective issues of the debt securities. For those with no issue rating, their issuer ratings were used.

#### Diversifying investment portfolio and enhancing portfolio management

The sentiment of the capital market further deteriorated in the first half of 2008 due to the worsening credit crunch and liquidity concerns which meant that the operating environment for treasury business was very challenging. Against this backdrop, credit spread increased to the widest level in recent years. While the Group conducted detailed analyses and closely monitored its treasury portfolio to ensure the overall credit risk was maintained at an acceptable level, it also adopted appropriate investment strategies to take advantage of the wider

credit spread under the low interest rate environment. By expanding investments in certain high-quality debt securities of money centre banks, the Group not only diversified its investment portfolio, but also improved its investment return. Meanwhile, under the operation of three specialised investment teams each focusing on different markets and with the implementation of the Asset Liability Management System last year, the Group's investment decision-making process and portfolio management were further enhanced. More advanced analytical models and systems are now in place to help maximise the return on surplus funds in the volatile market.

#### Enhancing product manufacturing capabilities and improving product cross-selling efforts

The Group continued to develop treasury products to meet customers' needs. In response to a volatile equity and foreign exchange market, the Group enhanced the varieties of its product offerings. After the launch of its first structured notes and equity warrants last year, the Group further expanded its product offerings by introducing its first equity-linked investment products under its own brand in January 2008. At the same time, by cross-selling with the Corporate Banking unit, currency-linked structured deposits were offered to major corporate customers which helped boost the sales of structured products significantly.

#### Insurance

|                                   | Half-year ended<br>30 June<br>2008 | Half-year ended<br>30 June<br>2007 | Increase/<br>(decrease) |
|-----------------------------------|------------------------------------|------------------------------------|-------------------------|
| HK\$m, except percentage amounts  |                                    |                                    |                         |
| Net interest income               | 538                                | 346                                | +55.5%                  |
| Other operating income            | 2,955                              | 2,441                              | +21.1%                  |
| Operating income                  | 3,493                              | 2,787                              | +25.3%                  |
| Net insurance benefits and claims | (3,602)                            | (2,632)                            | +36.9%                  |
| Net operating income              | (109)                              | 155                                | N/A                     |
| Operating expenses                | (69)                               | (48)                               | +43.8%                  |
| (Loss)/Profit before taxation     | (178)                              | 107                                | N/A                     |

|                     | At 30 June<br>2008 | At 31 December<br>2007 | Increase/<br>(decrease) |
|---------------------|--------------------|------------------------|-------------------------|
| Segment assets      | 27,738             | 24,545                 | +13.0%                  |
| Segment liabilities | 25,982             | 23,182                 | +12.1%                  |

Note: For additional segmental information, see Note 41 to the Interim Financial Information.

## Results

The Group's Insurance segment registered a growth of 25.3% in operating income, driven by increases in net interest income and other operating income. However, after accounting for the increases in net insurance benefits and claims by 36.9% and operating expenses by 43.8%, the segment recorded a loss before taxation of HK\$178 million in the first half of 2008.

Net interest income rose by 55.5% to HK\$538 million primarily because of an increase in investments in debt securities made by the significant growth of premium income. Other operating income increased by 21.1% to HK\$2,955 million which was driven by the 53.4% growth of net insurance premium income but partially offset by the marked-to-market loss of its debt securities and equity investments. At the same time, net insurance benefits and claims rose by 36.9% mainly due to the growth of new business. During the period, the segment achieved significant growth of single premium endowment products which created the new business strain on its current year profitability. It was caused by the initial outlay such as commission and reserves charged when a new policy was written. However, the future income stream from the related investments would gradually repay the initial outlay and be reflected in future profit.

Assets in the Insurance segment grew by 13.0% because of the increase in debt securities investments. Liabilities rose by 12.1% with an increase in insurance contract liabilities.

### Driving sales by product innovation

By offering a wide range of products, the Group continued to expand its insurance business. In the first half of 2008, new single premium products such as the "Fortuitous Saving Protection Plan" and "Pleasure 5-Year Saving Protection Plan" were introduced and received good response from customers. A new life product targeting SME businesses was also launched. At the same time, a series of promotional and marketing activities were rolled out to drive the sales of regular pay products such as the "Companion Insurance Plan" and "Get-Free Insurance

Plan". As a result, premium income of single and regular pay products\* were up 56.5% and 31.2% respectively year-on-year. BOC Life ranked number one in the market in terms of total new business premium in the first quarter of 2008 and its market share as of the first quarter of 2008 was increased from end-2007.

### Developing multi-channel platform

Following the establishment of BOC Life's telemarketing call centre in late 2007, a direct insurance specialist team was set up in the first half of 2008 and stationed at the Group's branches for providing customers with financial needs analysis and cross selling life insurance products.

## RISK MANAGEMENT

### Banking Group

#### Overview

The Group believes that sound risk management is crucial to the success of any organisation. In its daily operation, the Group attaches a high degree of importance to risk management and emphasises that a balance must be struck between risk control and business growth and development. The principal types of risk inherent in the Group's businesses are reputation risk, legal and compliance risk, strategic risk, credit risk, market risk, interest rate risk, liquidity risk and operational risk. The Group's risk management objective is to enhance shareholder value by maintaining risk exposures within acceptable limits.

### Risk Management Governance Structure

The Group's risk management governance structure is designed to cover the whole process of all businesses and ensure various risks are properly managed and controlled in the course of conducting business. The Group has a sound risk management organisational structure. It implements a comprehensive set of policies and procedures to identify, measure, monitor and control various risks that may arise. These risk management policies and procedures are regularly reviewed and modified to reflect changes in markets and business strategies. Various groups of risk takers assume their respective responsibilities for risk management.

\* Before group elimination

The Board of Directors, representing the interests of shareholders, is the highest decision-making authority of the Group and has the ultimate responsibility for risk management. The Board, with the assistance of its committees, has the primary responsibility for the formulation of risk management strategies and for ensuring that the Group has an effective risk management system to implement these strategies. The Risk Committee ("RC"), a standing committee established by the Board of Directors, is responsible for overseeing the Group's various types of risks, reviewing and approving high-level risk-related policies and overseeing their implementation, reviewing significant or high risk exposures or transactions and exercising its power of veto if it considers that any transaction should not proceed. The Audit Committee ("AC") assists the Board in fulfilling its role in overseeing the internal control system.

The Chief Executive ("CE") is responsible for managing the Group's various types of risks, approving detailed risk management policies, and approving material risk exposures or transactions within his authority delegated by the Board of Directors. The Chief Risk Officer ("CRO") assists the CE in fulfilling his responsibilities for the day-to-day management of risks. The CRO is responsible for initiating new risk management strategies, projects and measures that will enable the Group to better monitor and manage new risk issues or areas that may arise from time to time from new businesses, products and changes in the operating environment. He may also take appropriate initiatives in response to regulatory changes. The CRO is also responsible for reviewing material risk exposures or transactions within his delegated authority and exercising his power of veto if he believes that any transaction should not proceed.

Various units of the Group have their respective risk management responsibilities. Business units act as the first line of defence while risk management units, which are independent from the business units, are responsible for the day-to-day management of different kinds of risks. Risk management units have the primary responsibilities for drafting, reviewing and updating various risk management policies and procedures.

The Group's principal banking subsidiaries, Nanyang and Chiyu, are subject to risk policies that are consistent with those of the Group. These subsidiaries execute their risk management strategies independently and report to the Group's management on a regular basis.

### **Credit Risk Management**

Credit risk is the risk that a customer or counterparty will be unable to or unwilling to meet a commitment it has entered into with the Group and will cause a financial loss. The Chief Credit Officer ("CCO") reports directly to the CRO and is responsible for the management of credit risk and for the formulation of all credit policies and procedures. Different credit approval and control procedures are adopted according to the level of risk associated with the customer, counterparty or transaction. Corporate and financial institution credit applications are independently reviewed and objectively assessed by risk management units. A small business credit scorecard is used to assist the credit assessment of small enterprise credit facilities. A credit scoring system is used to process retail credit transactions, including residential mortgage loans, personal loans and credit cards. The Credit Risk Assessment Committee comprising experts from the Group's credit and other functions is responsible for making an independent assessment of all credit facilities which require the approval of Deputy Chief Executives or above.

The Group's internal loan grading system divides loans into 5 categories with reference to HKMA's guidelines. The Risk Management Department ("RMD") provides regular credit management information reports and ad hoc reports to the Management Committee, RC and Board of Directors to facilitate their continuous monitoring of credit risk.

For investments on debt securities and securitisation assets, the external credit rating and assessment on credit quality of the underlying assets are used for managing the credit risk involved. Credit limits are established on a customer and security issuer basis. For derivatives, the Group sets customer limits to manage the credit risk involved and follows the same approval and control processes as loans and advances. Ongoing monitoring and stop-loss procedures are established.

The Group adopted a comprehensive methodology in determining whether a particular asset/mortgage-backed security ("ABS/MBS") was impaired. Under the methodology, the Group would not only take into consideration the mark-to-market (MTM) price of the issue and its external credit rating, but also other factors including its FICO score, vintage, collateral location, adjustable rate mortgage ("ARM") status, delinquencies, level of collateral protection, loan to value ratio and

prepayment speed. Having considered these factors, the ABS/MBS issue had to further pass the required credit enhancement coverage ratio set by the Group. This ratio was determined by applying assumptions regarding the default rates based on the available delinquency, foreclosure and real estate owned ("REO") data of the ABS/MBS issue.

### Interest Rate Risk Management

The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are:

- Repricing risk – mismatches in the maturity or repricing periods of assets and liabilities
- Basis risk – different pricing basis for different transactions so that the yield on assets and cost of liabilities may change by different amounts within the same repricing period
- Yield curve risk – non-parallel shifts in the yield curve, e.g. steepening or flattening of the yield curves that may have an adverse impact on net interest income or economic value
- Option risk – exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cashflows of assets and liabilities

The Group's Asset and Liability Management Committee ("ALCO") exercises its oversight of interest rate risk and RC sanctions the interest rate risk management policies formulated by ALCO. The interest rate risk is identified and measured on a daily basis. The Treasury Department ("TD") manages the interest rate risk according to the established policies. The Finance Department ("FD") closely monitors the related risks and the results are reported to ALCO regularly. RMD reviews the policies, guidelines and limits proposed by the TD.

Gap analysis is one of the tools used to measure the Group's exposure to repricing risk. This provides the Group with a static view of the maturity and repricing characteristics of its balance sheet positions. The Group uses interest rate derivatives to hedge its interest rate exposures and in most cases, plain vanilla interest rate swaps are used.

Sensitivities of earnings and economic value to interest rate changes (Earnings at Risk and Economic Value at Risk) are assessed through a hypothetical interest rate shock of 200 basis points across the yield curve on both sides. Earnings at Risk and Economic Value at Risk are controlled respectively within an approved percentage of the projected net interest income for the year and the latest capital base as sanctioned by RC. The results are reported to ALCO and RC on a regular basis.

The impact of basis risk is gauged by the projected change in net interest income under scenarios of imperfect correlation in the adjustment of the rates earned and paid on different instruments. Ratios of assets to liabilities with similar pricing basis are established to monitor such risk.

Stress test on yield curve risk is performed to assess the impact on earnings and economic value due to the steepening or flattening of the yield curve. The impact of optionality of demand and savings deposits and prepayment of mortgage loans is also assessed under different stress test scenarios. The prepayment risk of ABS/MBS is assessed by the impact on earnings and economic value using the sensitivity of extended/contracted weighted average life.

### Market Risk Management

Market risk is the risk of loss that results from movements in market rates and prices. The Group's market risk arises from customer-related business and proprietary trading. Trading positions are subject to daily marked-to-market valuation. The risk includes potential losses arising from changes in foreign exchange and interest rates as well as equities and commodities prices.

#### *Market risk management framework*

Market risk is managed within various major risk limits approved by the RC, including risk positions and/or risk factor sensitivities. Since April 2007, BOCHK has also formally applied Value-at-Risk (VAR) limit as a daily risk management tool. These overall risk limits are divided into sub-limits by reference to different risk products, including interest rates, foreign exchange rates, commodity prices and equity products. Transactions are classified into different risk product categories according to the prominent type of risk inherent in the transactions.

As aforesaid, the Group's risk management objective is to enhance shareholder value by maintaining risk exposures within acceptable limits. The Group's market risk management framework comprises three levels. The Board of Directors and its Risk Committee are the ultimate decision making authorities. The formulation of risk management procedures and the implementation mechanism, and the monitoring of compliance are mainly the responsibility of the Group's senior management (including CE and CRO). RMD is responsible for the oversight of the Group's market risk to ensure that overall and individual market risks are within the Group's risk tolerance. Risk exposures are monitored on a day-to-day basis to ensure that they are within established risk limits and are regularly reported to the senior management. Nanyang and Chiyu have their own independent risk monitoring units to monitor limit compliance on a daily basis.

The Group's control of market risk is based on restricting individual operations to trading within various market

risk limits approved by the RC, and a list of permissible instruments authorised by senior management, as well as enforcing rigorous new product approval procedures to ensure that all risks that arise are thoroughly identified, properly measured and adequately controlled.

The Group also uses VAR technique to measure potential losses and market risks of its trading book for reporting to the RC and senior management on a periodic basis. VAR is a statistical technique which estimates the potential losses that could occur on risk positions taken over a specified time horizon within a given level of confidence.

The Group has changed its VAR calculation from a variance/co-variance basis to historical simulation basis with effect from April 2007. The Group uses historical movements in market rates and prices, a 99% confidence level and a 1-day holding period to calculate portfolio and individual VAR. Movements in market prices are calculated by reference to market data from the last two years.

The following table sets out the VAR for all trading market risk exposure<sup>1</sup> of BOCHK.

| HK\$'m                                 | At 30 June<br>2008 | Minimum for<br>the first half<br>of 2008 | Maximum for<br>the first half<br>of 2008 | Average for<br>the first half<br>of 2008 |
|----------------------------------------|--------------------|------------------------------------------|------------------------------------------|------------------------------------------|
| VAR for all market risk                | 6.3                | 3.0                                      | 7.8                                      | 5.2                                      |
| VAR for foreign exchange risk products | 5.7                | 2.8                                      | 7.3                                      | 4.6                                      |
| VAR for interest rate risk products    | 3.3                | 1.0                                      | 3.8                                      | 2.1                                      |
| VAR for equity risk products           | 0.2                | 0.2                                      | 2.8                                      | 0.6                                      |
| VAR for commodity risk products        | 0.0                | 0.0                                      | 0.5                                      | 0.1                                      |

| HK\$'m                                 | At 30 June<br>2007 | Minimum for<br>the first half<br>of 2007 | Maximum for<br>the first half<br>of 2007 | Average for<br>the first half<br>of 2007 |
|----------------------------------------|--------------------|------------------------------------------|------------------------------------------|------------------------------------------|
| VAR for all market risk                | 2.8                | 1.4                                      | 4.8                                      | 3.1                                      |
| VAR for foreign exchange risk products | 3.5                | 1.0                                      | 5.2                                      | 3.4                                      |
| VAR for interest rate risk products    | 1.3                | 0.7                                      | 3.1                                      | 1.8                                      |
| VAR for equity risk products           | 0.3                | 0.1                                      | 0.6                                      | 0.3                                      |
| VAR for commodity risk products        | 0.0                | 0.0                                      | 0.4                                      | 0.1                                      |

1 Structural FX positions have been excluded.

2 Revenues from structural FX positions and back to back transactions have been excluded.

In the first half of 2008, the average daily revenue<sup>2</sup> of BOCHK earned from market risk-related trading activities was HK\$6.0 million (first half of 2007: HK\$2.6 million).

Although a valuable guide to risk, VAR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Group recognises these limitations by augmenting its VAR limits with other position and sensitivity limit structures. Additionally, the Group applies a wide range of stress testing, both on individual portfolios and on the Group's consolidated positions. Stress testing programme of the trading book includes sensitivity testing on changes in risk factors with various degrees of severity, as well as scenario analysis on historical events including the 1997 Asian Crisis and the 11 September event in the United States in 2001. The Group's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on the market risk exposures of the Group.

### Liquidity Risk Management

The aim of liquidity management is to enable the Group to meet, even under adverse market conditions, all its maturing repayment obligations on time, and to fund all its asset growth and strategic opportunities without forced liquidation of its assets at short notice.

The Group funds its operations principally by accepting deposits from retail and corporate depositors. In addition, the Group may issue certificates of deposit to secure long-term funds. Funding may also be secured through adjusting the asset mix in the Group's investment portfolio. The Group uses the majority of funds raised to extend loans, to purchase debt securities or to conduct interbank placements.

The Group monitors the liquidity risks using cash flow analysis (under normal condition and stress conditions respectively) and by examining deposit stability, concentration risk, mismatch ratios, loan-to-deposit ratio and liquidity profile of the investment portfolio. The primary objective of the Group's asset and liability management strategy is to achieve optimal returns while ensuring adequate levels of liquidity and capital within an effective risk control framework and ALCO is responsible for establishing these policy directives (including the liquidity contingency plan), and RC sanctions the liquidity management policies. TD manages the liquidity risk according to the established policies. FD monitors the Group's liquidity risks and reports to ALCO regularly. RMD reviews the policies, guidelines and limits proposed by the TD.

### 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 Group has put in place an effective internal control process which requires the establishment of detailed policies and control procedures for all the key activities. Proper segregation of duties and authorisation is the fundamental principle followed by the Group. RMD formulates corporate-level policies and procedures concerning operational risk management which are approved by RC. The management of respective business lines is responsible for managing and reporting operational risks specific to their business units by applying the respective tools such as key risk indicators, self assessment and operational risk events reporting mechanism to identify, assess and control the risks inherent in their business processes, activities and products. These are followed by periodic monitoring and ongoing review of changes by RMD. Besides the current operational risk status, trends derived from historical data are served as

alert on potential risks. RMD evaluates the operational risk profile, records operational risk data and reports operational risk issues to RC and senior management. The Group also takes out insurance to mitigate unforeseeable operational risks.

Business continuity plans are in place to support business operations in the event of emergency or disaster. Adequate backup facilities are maintained and periodic drills are conducted.

### **Reputation Risk Management**

Reputation risk is the risk that negative publicity regarding the Group's business practices, whether genuine or not, will cause a potential decline in the customer base or lead to costly litigation or revenue erosion. Reputation risk is inherent in every aspect of business operation and covers a wide spectrum of issues.

In order to mitigate reputation risk, the Group has formulated its Reputation Risk Management Policy that is diligently implemented. This policy provides guidance to prevent and manage reputation risk proactively at an early stage. It requires constant monitoring of external reputation risk incidents and published failures of risk incidents in the financial industry.

### **Legal and Compliance Risk Management**

Legal risk is the risk that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operation or financial condition of the Group. Compliance risk is the risk of legal or regulatory sanctions, financial loss, or loss to reputation a bank may suffer as a result of its any failure to comply with all applicable laws and regulations. By establishing and maintaining appropriate policies and guidelines, the CRO, working through the Legal and Compliance Department, is responsible for proactively identifying and managing these risks.

### **Strategic Risk Management**

Strategic risk generally refers to the risks that may induce immediate or future negative impact on the financial and market positions of the Group because of poor strategic decisions, improper implementation of strategies and lack of response to the market.

The Board of Directors reviews and approves the policy for the management of strategic risks. Key strategic issues have to be fully evaluated and properly endorsed by the senior management and the Board.

### **Capital Management**

The major objective of capital management is to maximise total shareholders' return while maintaining a capital adequacy position commensurate with the Group's overall risk profile. The Group periodically reviews its capital structure and adjusts the capital mix where appropriate to achieve the targeted weighted average cost of capital. ALCO monitors the Group's capital adequacy. The Group has complied with all the statutory capital standards for all the periods.

To comply with HKMA's requirements as stated in the Supervisory Policy Manual "Supervisory Review Process", the Group has implemented its internal capital adequacy assessment process ("ICAAP"). Using the statutory minimum capital adequacy ratio ("CAR"), 8%, as a starting point, extra capital (capital add-on) needed to cover the risks not captured under Pillar I was assessed. Scorecard methodology has been used to evaluate the Group's risk profile in order to assess the capital add-on and determine the minimum CAR. An Operating CAR Range has also been established which incorporates the need for future business growth and efficiency of capital utilisation.

### **Stress Testing**

The Group supplements the analysis of various types of risks with stress testing. Stress testing is a risk management tool for estimating the Group's risk exposures under stressed conditions arising from extreme but plausible market or macroeconomic movements. These tests are conducted on a regular basis and ALCO monitors the results against limits approved by RC. Stress test results are also reported to the Board and RC regularly.

### **BOC Life Insurance**

The principal activity of BOC Life's business is the underwriting of long-term insurance business in life and annuity, linked long-term business and retirement scheme management in Hong Kong. Major types of risks inherent

in the BOC Life's insurance business include insurance risk, investment risk, interest rate risk and credit risk. BOC Life manages these risks independently and reports to RC on a regular basis. The key risks of its insurance business and related risk control process are as follows:

#### **Insurance Risk Management**

BOC Life is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. BOC Life manages these risks through the application of its underwriting policies and reinsurance arrangement.

The underwriting strategy is intended to set premium pricing at an appropriate level that corresponds with the underlying exposure of the risks underwritten. Screening processes, such as the review of health condition and family medical history, are also included in BOC Life's underwriting procedures.

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon BOC Life's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

For the in-force insurance contracts, most of the underlying insurance liabilities are related to endowment and unit-linked insurance products. For most of the insurance policies issued by it, BOC Life has a retention limit on any single life insured. BOC Life reinsures the excess of the insured benefit over the limit for standard risks (from a medical point of view) under an excess of loss reinsurance arrangement. BOC Life does not have in place any reinsurance for contracts that insure against survival risk.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, BOC Life conducts mortality study and lapse study in order to determine the appropriate assumptions. In these studies, consistent results are reflected in both assumptions with appropriate margins.

#### **Investment Risk Management**

The primary investment objective of BOC Life is to generate returns adequately match its insurance liabilities. Movements in market rates such as an increase in interest rates may result in a depreciation of the value of the bond portfolio. A fall in equity market may impact the value of assets or return on investments. BOC Life has an approved market risk mandate and documented procedures to ensure that exposures remain within the mandate and its investment management process is monitored by its Investment Committee.

#### **Interest Rate Risk Management**

The main risk that BOC Life faces due to the nature of its investment and liabilities is interest rate risk. BOC Life manages these positions within an asset liability management ("ALM") framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance contracts. For each distinct category of liabilities, a separate portfolio of assets is maintained. The principal technique of ALM is to match assets with the liabilities arising from insurance contracts by reference to the types of benefits payable to contracts holders.

#### **Counterparty Risk Management**

BOC Life has exposure to counterparty risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where BOC Life's insurance business is exposed to include:

- counterparty risk with respect to structured products transactions and debt securities
- reinsurers' share of insurance unpaid liabilities
- amounts due from re-insurers in respect of claims already paid
- amount due from insurance contract holders
- amount due from insurance intermediaries

BOC Life manages counterparty risk by placing limits on its exposure to each investment counterparty or group of counterparties. Such limits are subject to annual or more frequent review by the management.

# CONDENSED CONSOLIDATED INCOME STATEMENT

|                                                                                            | Notes | (Unaudited)<br>Half-year ended<br>30 June 2008<br>HK\$'m | (Unaudited)<br>Half-year ended<br>30 June 2007<br>HK\$'m |
|--------------------------------------------------------------------------------------------|-------|----------------------------------------------------------|----------------------------------------------------------|
| Interest income                                                                            |       | 18,105                                                   | 21,484                                                   |
| Interest expense                                                                           |       | (8,076)                                                  | (12,581)                                                 |
| <b>Net interest income</b>                                                                 | 4     | <b>10,029</b>                                            | 8,903                                                    |
| Fees and commission income                                                                 |       | 3,845                                                    | 3,439                                                    |
| Fees and commission expenses                                                               |       | (946)                                                    | (807)                                                    |
| <b>Net fees and commission income</b>                                                      | 5     | <b>2,899</b>                                             | 2,632                                                    |
| Net trading income                                                                         | 6     | 1,237                                                    | 417                                                      |
| Net loss on financial instruments designated at fair value<br>through profit or loss       |       | (1,484)                                                  | (394)                                                    |
| Net gain on investment in securities                                                       | 7     | 128                                                      | 2                                                        |
| Net insurance premium income                                                               | 8     | 4,501                                                    | 2,933                                                    |
| Other operating income                                                                     | 9     | 331                                                      | 199                                                      |
| <b>Total operating income</b>                                                              |       | <b>17,641</b>                                            | 14,692                                                   |
| Net insurance benefits and claims                                                          | 10    | (3,602)                                                  | (2,632)                                                  |
| <b>Net operating income before impairment allowances</b>                                   |       | <b>14,039</b>                                            | 12,060                                                   |
| Net (charge)/reversal of impairment allowances                                             | 11    | (2,227)                                                  | 166                                                      |
| <b>Net operating income</b>                                                                |       | <b>11,812</b>                                            | 12,226                                                   |
| Operating expenses                                                                         | 12    | (4,088)                                                  | (3,418)                                                  |
| <b>Operating profit</b>                                                                    |       | <b>7,724</b>                                             | 8,808                                                    |
| Net gain from disposal of/fair value adjustments on<br>investment properties               | 13    | 710                                                      | 416                                                      |
| Net (loss)/gain from disposal/revaluation of properties,<br>plant and equipment            | 14    | (8)                                                      | 5                                                        |
| Share of profits less losses of associates                                                 |       | 8                                                        | (2)                                                      |
| <b>Profit before taxation</b>                                                              |       | <b>8,434</b>                                             | 9,227                                                    |
| Taxation                                                                                   | 15    | (1,253)                                                  | (1,599)                                                  |
| <b>Profit for the period</b>                                                               |       | <b>7,181</b>                                             | 7,628                                                    |
| <b>Attributable to:</b>                                                                    |       |                                                          |                                                          |
| Equity holders of the Company                                                              |       | 7,088                                                    | 7,466                                                    |
| Minority interests                                                                         |       | 93                                                       | 162                                                      |
|                                                                                            |       | <b>7,181</b>                                             | 7,628                                                    |
| <b>Dividends</b>                                                                           | 16    | <b>4,631</b>                                             | 4,525                                                    |
|                                                                                            |       | HK\$                                                     | HK\$                                                     |
| <b>Earnings per share for profit attributable to the<br/>equity holders of the Company</b> | 17    | <b>0.6704</b>                                            | 0.7062                                                   |

The notes on pages 47 to 114 are an integral part of this interim financial information.

# CONDENSED CONSOLIDATED BALANCE SHEET

|                                                                                               |       | (Unaudited)<br>At 30 June<br>2008<br>HK\$'m | (Audited)<br>At 31 December<br>2007<br>HK\$'m |
|-----------------------------------------------------------------------------------------------|-------|---------------------------------------------|-----------------------------------------------|
|                                                                                               | Notes |                                             |                                               |
| <b>ASSETS</b>                                                                                 |       |                                             |                                               |
| Cash and balances with banks and other financial institutions                                 | 20    | 188,452                                     | 159,065                                       |
| Placements with banks and other financial institutions maturing between one and twelve months |       | 50,689                                      | 53,154                                        |
| Financial assets at fair value through profit or loss                                         | 21    | 37,282                                      | 34,440                                        |
| Derivative financial instruments                                                              | 22    | 21,397                                      | 14,477                                        |
| Hong Kong SAR Government certificates of indebtedness                                         |       | 32,430                                      | 32,770                                        |
| Advances and other accounts                                                                   | 23    | 487,012                                     | 420,234                                       |
| Investment in securities                                                                      | 24    | 262,697                                     | 301,183                                       |
| Interests in associates                                                                       |       | 89                                          | 83                                            |
| Investment properties                                                                         | 25    | 8,634                                       | 8,058                                         |
| Properties, plant and equipment                                                               | 26    | 25,230                                      | 23,293                                        |
| Deferred tax assets                                                                           | 32    | 93                                          | 23                                            |
| Other assets                                                                                  | 27    | 13,163                                      | 20,857                                        |
| Total assets                                                                                  |       | 1,127,168                                   | 1,067,637                                     |
| <b>LIABILITIES</b>                                                                            |       |                                             |                                               |
| Hong Kong SAR currency notes in circulation                                                   |       | 32,430                                      | 32,770                                        |
| Deposits and balances of banks and other financial institutions                               |       | 81,625                                      | 60,599                                        |
| Financial liabilities at fair value through profit or loss                                    | 28    | 12,113                                      | 11,405                                        |
| Derivative financial instruments                                                              | 22    | 17,705                                      | 11,092                                        |
| Deposits from customers                                                                       | 29    | 819,110                                     | 793,606                                       |
| Debt securities in issue at amortised cost                                                    |       | 2,756                                       | 2,089                                         |
| Other accounts and provisions                                                                 | 30    | 24,875                                      | 33,344                                        |
| Current tax liabilities                                                                       |       | 1,862                                       | 1,210                                         |
| Deferred tax liabilities                                                                      | 32    | 3,953                                       | 3,967                                         |
| Insurance contract liabilities                                                                | 33    | 25,070                                      | 22,497                                        |
| Subordinated liability                                                                        | 34    | 8,150                                       | –                                             |
| Total liabilities                                                                             |       | 1,029,649                                   | 972,579                                       |
| <b>EQUITY</b>                                                                                 |       |                                             |                                               |
| Share capital                                                                                 | 35    | 52,864                                      | 52,864                                        |
| Reserves                                                                                      | 36    | 42,183                                      | 39,978                                        |
| Capital and reserves attributable to the equity holders of the Company                        |       | 95,047                                      | 92,842                                        |
| Minority interests                                                                            |       | 2,472                                       | 2,216                                         |
| Total equity                                                                                  |       | 97,519                                      | 95,058                                        |
| Total liabilities and equity                                                                  |       | 1,127,168                                   | 1,067,637                                     |

The notes on pages 47 to 114 are an integral part of this interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|                                                                                                       | (Audited)                                     |                                              |                                                                                        |                                  |                                  |                                |                 |                                 |                           |
|-------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|----------------------------------------------------------------------------------------|----------------------------------|----------------------------------|--------------------------------|-----------------|---------------------------------|---------------------------|
|                                                                                                       | Attributable to equity holders of the Company |                                              |                                                                                        |                                  |                                  |                                |                 |                                 |                           |
|                                                                                                       | Share capital<br>HK\$'m                       | Premises<br>revaluation<br>reserve<br>HK\$'m | Reserve for<br>fair value<br>changes of<br>available-for-<br>sale securities<br>HK\$'m | Regulatory<br>reserve*<br>HK\$'m | Translation<br>reserve<br>HK\$'m | Retained<br>earnings<br>HK\$'m | Total<br>HK\$'m | Minority<br>interests<br>HK\$'m | Total<br>equity<br>HK\$'m |
| At 1 January 2007                                                                                     | 52,864                                        | 6,040                                        | (115)                                                                                  | 3,621                            | –                                | 22,245                         | 84,655          | 1,985                           | 86,640                    |
| Net profit for the first half of 2007                                                                 | –                                             | –                                            | –                                                                                      | –                                | –                                | 7,466                          | 7,466           | 162                             | 7,628                     |
| Currency translation difference                                                                       | –                                             | –                                            | –                                                                                      | –                                | 6                                | –                              | 6               | –                               | 6                         |
| 2006 final dividend paid                                                                              | –                                             | –                                            | –                                                                                      | –                                | –                                | (4,726)                        | (4,726)         | (79)                            | (4,805)                   |
| Revaluation of premises                                                                               | –                                             | 1,168                                        | –                                                                                      | –                                | –                                | –                              | 1,168           | 7                               | 1,175                     |
| Release upon disposal of premises                                                                     | –                                             | (2)                                          | –                                                                                      | –                                | –                                | 2                              | –               | –                               | –                         |
| Change in fair value of available-for-sale securities taken to equity                                 | –                                             | –                                            | (625)                                                                                  | –                                | –                                | –                              | (625)           | –                               | (625)                     |
| Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities | –                                             | –                                            | 10                                                                                     | –                                | –                                | (70)                           | (60)            | –                               | (60)                      |
| Release of reserve upon disposal of available-for-sale securities                                     | –                                             | –                                            | (56)                                                                                   | –                                | –                                | 1                              | (55)            | 3                               | (52)                      |
| Release (to)/from deferred tax liabilities                                                            | –                                             | (194)                                        | 114                                                                                    | –                                | –                                | –                              | (80)            | (2)                             | (82)                      |
| Transfer from retained earnings                                                                       | –                                             | –                                            | –                                                                                      | 351                              | –                                | (351)                          | –               | –                               | –                         |
| At 30 June 2007                                                                                       | 52,864                                        | 7,012                                        | (672)                                                                                  | 3,972                            | 6                                | 24,567                         | 87,749          | 2,076                           | 89,825                    |
| Company and subsidiaries                                                                              | 52,864                                        | 7,012                                        | (672)                                                                                  | 3,972                            | 6                                | 24,526                         | 87,708          |                                 |                           |
| Associates                                                                                            | –                                             | –                                            | –                                                                                      | –                                | –                                | 41                             | 41              |                                 |                           |
|                                                                                                       | 52,864                                        | 7,012                                        | (672)                                                                                  | 3,972                            | 6                                | 24,567                         | 87,749          |                                 |                           |
| At 1 July 2007                                                                                        | 52,864                                        | 7,012                                        | (672)                                                                                  | 3,972                            | 6                                | 24,567                         | 87,749          | 2,076                           | 89,825                    |
| Net profit for the second half of 2007                                                                | –                                             | –                                            | –                                                                                      | –                                | –                                | 7,980                          | 7,980           | 209                             | 8,189                     |
| Currency translation difference                                                                       | –                                             | –                                            | –                                                                                      | –                                | 8                                | –                              | 8               | –                               | 8                         |
| 2007 interim dividend paid                                                                            | –                                             | –                                            | –                                                                                      | –                                | –                                | (4,525)                        | (4,525)         | (78)                            | (4,603)                   |
| Revaluation of premises                                                                               | –                                             | 1,742                                        | –                                                                                      | –                                | –                                | –                              | 1,742           | 10                              | 1,752                     |
| Release upon disposal of premises                                                                     | –                                             | (21)                                         | –                                                                                      | –                                | –                                | 21                             | –               | –                               | –                         |
| Change in fair value of available-for-sale securities taken to equity                                 | –                                             | –                                            | (143)                                                                                  | –                                | –                                | –                              | (143)           | 3                               | (140)                     |
| Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities | –                                             | –                                            | 2                                                                                      | –                                | –                                | (45)                           | (43)            | –                               | (43)                      |
| Net impairment charges transferred to profit or loss                                                  | –                                             | –                                            | 289                                                                                    | –                                | –                                | –                              | 289             | –                               | 289                       |
| Release of reserve upon disposal of available-for-sale securities                                     | –                                             | –                                            | 73                                                                                     | –                                | –                                | (1)                            | 72              | (3)                             | 69                        |
| Release to deferred tax liabilities                                                                   | –                                             | (282)                                        | (5)                                                                                    | –                                | –                                | –                              | (287)           | (1)                             | (288)                     |
| Transfer from retained earnings                                                                       | –                                             | –                                            | –                                                                                      | 158                              | –                                | (158)                          | –               | –                               | –                         |
| At 31 December 2007                                                                                   | 52,864                                        | 8,451                                        | (456)                                                                                  | 4,130                            | 14                               | 27,839                         | 92,842          | 2,216                           | 95,058                    |
| Company and subsidiaries                                                                              | 52,864                                        | 8,451                                        | (456)                                                                                  | 4,130                            | 14                               | 27,794                         | 92,797          |                                 |                           |
| Associates                                                                                            | –                                             | –                                            | –                                                                                      | –                                | –                                | 45                             | 45              |                                 |                           |
|                                                                                                       | 52,864                                        | 8,451                                        | (456)                                                                                  | 4,130                            | 14                               | 27,839                         | 92,842          |                                 |                           |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|                                                                                                       | (Unaudited)                                   |                              |                                                                 |                     |                     |                   |         |                    |              |
|-------------------------------------------------------------------------------------------------------|-----------------------------------------------|------------------------------|-----------------------------------------------------------------|---------------------|---------------------|-------------------|---------|--------------------|--------------|
|                                                                                                       | Attributable to equity holders of the Company |                              |                                                                 |                     |                     |                   |         |                    |              |
|                                                                                                       | Share capital                                 | Premises revaluation reserve | Reserve for fair value changes of available-for-sale securities | Regulatory reserve* | Translation reserve | Retained earnings | Total   | Minority interests | Total equity |
|                                                                                                       | HK\$'m                                        | HK\$'m                       | HK\$'m                                                          | HK\$'m              | HK\$'m              | HK\$'m            | HK\$'m  | HK\$'m             | HK\$'m       |
| At 1 January 2008                                                                                     | 52,864                                        | 8,451                        | (456)                                                           | 4,130               | 14                  | 27,839            | 92,842  | 2,216              | 95,058       |
| Net profit for the first half of 2008                                                                 | -                                             | -                            | -                                                               | -                   | -                   | 7,088             | 7,088   | 93                 | 7,181        |
| Currency translation difference                                                                       | -                                             | -                            | -                                                               | -                   | 198                 | -                 | 198     | 1                  | 199          |
| 2007 final dividend paid                                                                              | -                                             | -                            | -                                                               | -                   | -                   | (5,149)           | (5,149) | (107)              | (5,256)      |
| Revaluation of premises                                                                               | -                                             | 2,148                        | -                                                               | -                   | -                   | -                 | 2,148   | 25                 | 2,173        |
| Release upon disposal of premises                                                                     | -                                             | (23)                         | -                                                               | -                   | -                   | 23                | -       | -                  | -            |
| Change in fair value of available-for-sale securities taken to equity                                 | -                                             | -                            | (3,217)                                                         | -                   | -                   | -                 | (3,217) | 3                  | (3,214)      |
| Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities | -                                             | -                            | -                                                               | -                   | -                   | (44)              | (44)    | -                  | (44)         |
| Net impairment charges transferred to profit or loss                                                  | -                                             | -                            | 1,187                                                           | -                   | -                   | -                 | 1,187   | -                  | 1,187        |
| Release of reserve upon disposal of available-for-sale securities                                     | -                                             | -                            | 17                                                              | -                   | -                   | -                 | 17      | -                  | 17           |
| Release (to)/from deferred tax liabilities                                                            | -                                             | (263)                        | 240                                                             | -                   | -                   | -                 | (23)    | (4)                | (27)         |
| Transfer from retained earnings                                                                       | -                                             | -                            | -                                                               | 490                 | -                   | (490)             | -       | -                  | -            |
| Increase in minority interests arising from capital issuance of a subsidiary                          | -                                             | -                            | -                                                               | -                   | -                   | -                 | -       | 245                | 245          |
| At 30 June 2008                                                                                       | 52,864                                        | 10,313                       | (2,229)                                                         | 4,620               | 212                 | 29,267            | 95,047  | 2,472              | 97,519       |
| Company and subsidiaries                                                                              | 52,864                                        | 10,313                       | (2,229)                                                         | 4,620               | 212                 | 29,216            | 94,996  |                    |              |
| Associates                                                                                            | -                                             | -                            | -                                                               | -                   | -                   | 51                | 51      |                    |              |
|                                                                                                       | 52,864                                        | 10,313                       | (2,229)                                                         | 4,620               | 212                 | 29,267            | 95,047  |                    |              |
| Representing:                                                                                         |                                               |                              |                                                                 |                     |                     |                   |         |                    |              |
| 2008 interim dividend proposed (Note 16)                                                              |                                               |                              |                                                                 |                     |                     | 4,631             |         |                    |              |
| Others                                                                                                |                                               |                              |                                                                 |                     |                     | 24,636            |         |                    |              |
| Retained earnings as at 30 June 2008                                                                  |                                               |                              |                                                                 |                     |                     | 29,267            |         |                    |              |

\* In accordance with the requirements of the HKMA, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under HKAS 39.

The notes on pages 47 to 114 are an integral part of this interim financial information.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

|                                                             | Notes | (Unaudited)<br>Half-year ended<br>30 June 2008<br>HK\$'m | (Unaudited)<br>Half-year ended<br>30 June 2007<br>HK\$'m |
|-------------------------------------------------------------|-------|----------------------------------------------------------|----------------------------------------------------------|
| <b>Cash flows from operating activities</b>                 |       |                                                          |                                                          |
| Operating cash inflow before taxation                       | 37(a) | 44,380                                                   | 11,322                                                   |
| Hong Kong profits tax paid                                  |       | (645)                                                    | (545)                                                    |
| Overseas profits tax paid                                   |       | (67)                                                     | (44)                                                     |
| <b>Net cash inflow from operating activities</b>            |       | <b>43,668</b>                                            | <b>10,733</b>                                            |
| <b>Cash flows from investing activities</b>                 |       |                                                          |                                                          |
| Purchase of properties, plant and equipment                 |       | (217)                                                    | (287)                                                    |
| Proceeds from disposal of properties, plant and equipment   |       | 1                                                        | 16                                                       |
| Proceeds from disposal of investment properties             |       | 98                                                       | 80                                                       |
| Proceeds from dissolution of an associate                   |       | –                                                        | 1                                                        |
| Dividends received from associates                          |       | 2                                                        | 2                                                        |
| <b>Net cash outflow from investing activities</b>           |       | <b>(116)</b>                                             | <b>(188)</b>                                             |
| <b>Cash flows from financing activities</b>                 |       |                                                          |                                                          |
| Dividends paid to equity holders of the Company             |       | (5,149)                                                  | (4,726)                                                  |
| Dividends paid to minority shareholders                     |       | (107)                                                    | (79)                                                     |
| Proceeds from capital issuance of a subsidiary              |       | 245                                                      | –                                                        |
| Proceeds from subordinated liability                        |       | 8,144                                                    | –                                                        |
| <b>Net cash inflow /(outflow) from financing activities</b> |       | <b>3,133</b>                                             | <b>(4,805)</b>                                           |
| Increase in cash and cash equivalents                       |       | 46,685                                                   | 5,740                                                    |
| Cash and cash equivalents at 1 January                      |       | 152,070                                                  | 128,257                                                  |
| <b>Cash and cash equivalents at 30 June</b>                 | 37(b) | <b>198,755</b>                                           | <b>133,997</b>                                           |

The notes on pages 47 to 114 are an integral part of this interim financial information.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 1. Basis of preparation and accounting policies

### *Basis of preparation*

The unaudited interim report has been prepared in accordance with HKAS 34 “Interim Financial Reporting” issued by the HKICPA.

### *Accounting policies*

The accounting policies and methods of computation used in the preparation of the unaudited interim report are consistent with those used in the Group’s financial statements for the year ended 31 December 2007 and should be read in conjunction with the Group’s Annual Report for 2007.

## 2. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that are consistent with those used in the Group’s financial statements for the year ended 31 December 2007.

## 3. Financial risk management

The Group is exposed to financial risks as a result of engaging in a variety of business activities. The principal financial risks are credit risk, market risk (including currency and interest rate risk) and liquidity risk. This note summarises the Group’s exposures to these risks.

### 3.1 Credit risk

#### **Gross loans and advances**

##### (a) *Impaired advances*

A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred and that loss event(s) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If there is objective evidence that an impairment loss on loans has been incurred, the amount of loss is measured as the difference between the carrying amount and the present value of estimated future cash flows generated by the financial asset. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the holder of the asset about the loss events.

**3. Financial risk management (continued)****3.1 Credit risk (continued)****Gross loans and advances (continued)***(a) Impaired advances (continued)*

|                                                                                              | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|----------------------------------------------------------------------------------------------|---------------------------------------|----------------------------------|
| Gross impaired advances to customers                                                         | <b>649</b>                            | 697                              |
| Individually assessed loan impairment allowances made in respect of such advances            | <b>416</b>                            | 381                              |
| Current market value of collateral held against the covered portion of advances to customers | <b>441</b>                            | 559                              |
| Covered portion of advances to customers                                                     | <b>335</b>                            | 410                              |
| Uncovered portion of advances to customers                                                   | <b>314</b>                            | 287                              |
| Gross impaired advances to customers as a percentage of gross advances to customers          | <b>0.14%</b>                          | 0.17%                            |

The loan impairment allowances were made after taking into account the value of collateral in respect of impaired advances.

Classified or impaired advances to customers are analysed as follows:

|                                                                                                   | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|---------------------------------------------------------------------------------------------------|---------------------------------------|----------------------------------|
| Gross classified or impaired advances to customers                                                | <b>1,607</b>                          | 1,803                            |
| Gross classified or impaired advances to customers as a percentage of gross advances to customers | <b>0.34%</b>                          | 0.44%                            |

Classified or impaired advances to customers follow the definitions set out in the Banking (Disclosure) Rules and represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Gross loans and advances (continued)

(b) *Advances overdue for more than 3 months*

Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Advances 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 instruction or when the advances have remained continuously outside the approved limit that was advised to the borrower.

The gross amount of advances overdue for more than 3 months is analysed as follows:

|                                                                                         | At 30 June 2008  |                                        | At 31 December 2007 |                                        |
|-----------------------------------------------------------------------------------------|------------------|----------------------------------------|---------------------|----------------------------------------|
|                                                                                         | Amount<br>HK\$'m | % of gross<br>advances to<br>customers | Amount<br>HK\$'m    | % of gross<br>advances to<br>customers |
| Gross advances to customers<br>which have been overdue for:                             |                  |                                        |                     |                                        |
| – six months or less but over<br>three months                                           | 171              | 0.03%                                  | 242                 | 0.06%                                  |
| – one year or less but over<br>six months                                               | 184              | 0.04%                                  | 163                 | 0.04%                                  |
| – over one year                                                                         | 619              | 0.13%                                  | 652                 | 0.16%                                  |
| Advances overdue for over<br>three months                                               | 974              | 0.20%                                  | 1,057               | 0.26%                                  |
| Individually assessed loan<br>impairment allowances made<br>in respect of such advances | 345              |                                        | 305                 |                                        |

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Gross loans and advances (continued)

##### (b) Advances overdue for more than 3 months (continued)

|                                                                                              | At 30 June<br>2008<br>HK\$'m | At 31 December<br>2007<br>HK\$'m |
|----------------------------------------------------------------------------------------------|------------------------------|----------------------------------|
| Current market value of collateral held against the covered portion of advances to customers | 1,922                        | 1,970                            |
| Covered portion of advances to customers                                                     | 723                          | 847                              |
| Uncovered portion of advances to customers                                                   | 251                          | 210                              |

Collateral held against overdue or impaired loans is principally represented by charges over business assets such as commercial and residential premises for corporate loans and mortgages over residential properties for personal loans.

As at 30 June 2008 and 31 December 2007, there were no advances to banks and other financial institutions that were overdue for more than three months.

##### (c) Rescheduled advances

|                                                                                                      | At 30 June 2008  |                                        | At 31 December 2007 |                                        |
|------------------------------------------------------------------------------------------------------|------------------|----------------------------------------|---------------------|----------------------------------------|
|                                                                                                      | Amount<br>HK\$'m | % of gross<br>advances to<br>customers | Amount<br>HK\$'m    | % of gross<br>advances to<br>customers |
| Rescheduled advances to customers net of amounts included in advances overdue for more than 3 months | 116              | 0.02%                                  | 186                 | 0.05%                                  |

As at 30 June 2008 and 31 December 2007, there were no rescheduled advances to banks and other financial institutions.

Rescheduled advances are those advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or of repayment period, are non-commercial. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in overdue advances.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Gross loans and advances (continued)

##### (d) Concentration of advances to customers

##### (i) Sectoral analysis of gross advances to customers

The information concerning gross advances to customers has been analysed into loans used inside or outside Hong Kong by industry sectors of the borrowers as follows:

|                                                                                                                                      | At 30 June 2008          |                                                 |                                     |                    |                                                                |                                                                |
|--------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-------------------------------------------------|-------------------------------------|--------------------|----------------------------------------------------------------|----------------------------------------------------------------|
|                                                                                                                                      | Gross advances<br>HK\$'m | % Covered by<br>collateral or<br>other security | Classified or<br>impaired<br>HK\$'m | Overdue*<br>HK\$'m | Individually<br>assessed<br>impairment<br>allowances<br>HK\$'m | Collectively<br>assessed<br>impairment<br>allowances<br>HK\$'m |
| Loans for use in Hong Kong                                                                                                           |                          |                                                 |                                     |                    |                                                                |                                                                |
| Industrial, commercial and financial                                                                                                 |                          |                                                 |                                     |                    |                                                                |                                                                |
| – Property development                                                                                                               | 19,195                   | 37.78%                                          | 6                                   | 32                 | 3                                                              | 52                                                             |
| – Property investment                                                                                                                | 72,249                   | 87.85%                                          | 229                                 | 645                | 17                                                             | 200                                                            |
| – Financial concerns                                                                                                                 | 13,500                   | 7.00%                                           | –                                   | 8                  | –                                                              | 41                                                             |
| – Stockbrokers                                                                                                                       | 177                      | 14.66%                                          | –                                   | –                  | –                                                              | –                                                              |
| – Wholesale and retail trade                                                                                                         | 16,273                   | 60.16%                                          | 217                                 | 352                | 94                                                             | 44                                                             |
| – Manufacturing                                                                                                                      | 16,313                   | 57.88%                                          | 131                                 | 259                | 42                                                             | 52                                                             |
| – Transport and transport<br>equipment                                                                                               | 22,289                   | 20.60%                                          | 2                                   | 10                 | 1                                                              | 62                                                             |
| – Recreational activities                                                                                                            | 25                       | 92.16%                                          | –                                   | –                  | –                                                              | –                                                              |
| – Information technology                                                                                                             | 8,244                    | 22.29%                                          | –                                   | 79                 | –                                                              | 22                                                             |
| – Others                                                                                                                             | 26,158                   | 36.58%                                          | 84                                  | 450                | 17                                                             | 72                                                             |
| Individuals                                                                                                                          |                          |                                                 |                                     |                    |                                                                |                                                                |
| – Loans for the purchase of flats<br>in Home Ownership Scheme,<br>Private Sector Participation Scheme<br>and Tenants Purchase Scheme | 14,129                   | 99.90%                                          | 111                                 | 501                | 6                                                              | 12                                                             |
| – Loans for purchase of other<br>residential properties                                                                              | 116,148                  | 99.96%                                          | 193                                 | 1,547              | 6                                                              | 77                                                             |
| – Credit card advances                                                                                                               | 5,666                    | –                                               | 25                                  | 1,267              | –                                                              | 62                                                             |
| – Others                                                                                                                             | 11,861                   | 79.61%                                          | 94                                  | 548                | 42                                                             | 15                                                             |
| Total loans for use in Hong Kong                                                                                                     | 342,227                  | 72.06%                                          | 1,092                               | 5,698              | 228                                                            | 711                                                            |
| Trade finance                                                                                                                        | 31,683                   | 32.44%                                          | 146                                 | 441                | 111                                                            | 95                                                             |
| Loans for use outside Hong Kong                                                                                                      | 101,677                  | 34.54%                                          | 369                                 | 472                | 77                                                             | 302                                                            |
| Gross advances to customers                                                                                                          | 475,587                  | 61.40%                                          | 1,607                               | 6,611              | 416                                                            | 1,108                                                          |

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

(i) Sectoral analysis of gross advances to customers (continued)

|                                                                                                                             | At 31 December 2007      |                                           |                                  |          |                                                       |                                                       |
|-----------------------------------------------------------------------------------------------------------------------------|--------------------------|-------------------------------------------|----------------------------------|----------|-------------------------------------------------------|-------------------------------------------------------|
|                                                                                                                             | Gross advances<br>HK\$'m | % Covered by collateral or other security | Classified or impaired<br>HK\$'m | Overdue* | Individually assessed impairment allowances<br>HK\$'m | Collectively assessed impairment allowances<br>HK\$'m |
| Loans for use in Hong Kong                                                                                                  |                          |                                           |                                  |          |                                                       |                                                       |
| Industrial, commercial and financial                                                                                        |                          |                                           |                                  |          |                                                       |                                                       |
| – Property development                                                                                                      | 17,979                   | 33.97%                                    | 16                               | 18       | 3                                                     | 52                                                    |
| – Property investment                                                                                                       | 65,963                   | 86.50%                                    | 343                              | 961      | 14                                                    | 187                                                   |
| – Financial concerns                                                                                                        | 12,346                   | 6.05%                                     | –                                | 14       | –                                                     | 43                                                    |
| – Stockbrokers                                                                                                              | 242                      | 12.10%                                    | –                                | –        | –                                                     | –                                                     |
| – Wholesale and retail trade                                                                                                | 13,572                   | 65.05%                                    | 238                              | 382      | 85                                                    | 41                                                    |
| – Manufacturing                                                                                                             | 14,468                   | 58.08%                                    | 138                              | 550      | 37                                                    | 48                                                    |
| – Transport and transport equipment                                                                                         | 21,001                   | 21.11%                                    | 3                                | 25       | 1                                                     | 60                                                    |
| – Recreational activities                                                                                                   | 30                       | 93.53%                                    | –                                | –        | –                                                     | –                                                     |
| – Information technology                                                                                                    | 2,009                    | 37.39%                                    | –                                | 2        | –                                                     | 6                                                     |
| – Others                                                                                                                    | 21,046                   | 41.70%                                    | 90                               | 584      | 16                                                    | 65                                                    |
| Individuals                                                                                                                 |                          |                                           |                                  |          |                                                       |                                                       |
| – Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 13,969                   | 99.78%                                    | 129                              | 599      | 8                                                     | 13                                                    |
| – Loans for purchase of other residential properties                                                                        | 106,583                  | 99.87%                                    | 284                              | 2,078    | 18                                                    | 81                                                    |
| – Credit card advances                                                                                                      | 5,761                    | –                                         | 23                               | 245      | –                                                     | 63                                                    |
| – Others                                                                                                                    | 10,708                   | 79.61%                                    | 119                              | 314      | 50                                                    | 14                                                    |
| Total loans for use in Hong Kong                                                                                            | 305,677                  | 73.31%                                    | 1,383                            | 5,772    | 232                                                   | 673                                                   |
| Trade finance                                                                                                               | 24,275                   | 40.71%                                    | 105                              | 399      | 73                                                    | 77                                                    |
| Loans for use outside Hong Kong                                                                                             | 83,110                   | 39.76%                                    | 315                              | 375      | 76                                                    | 254                                                   |
| Gross advances to customers                                                                                                 | 413,062                  | 64.64%                                    | 1,803                            | 6,546    | 381                                                   | 1,004                                                 |

\* Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Gross loans and advances (continued)

##### (d) Concentration of advances to customers (continued)

##### (ii) Geographical analysis of gross advances to customers and overdue advances

The following geographical analysis of gross advances to customers and overdue advances is based on the location of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

##### Gross advances to customers

|                                                                                                       | At 30 June<br>2008<br>HK\$'m | At 31 December<br>2007<br>HK\$'m |
|-------------------------------------------------------------------------------------------------------|------------------------------|----------------------------------|
| Hong Kong                                                                                             | 391,429                      | 351,102                          |
| Mainland China                                                                                        | 57,858                       | 39,050                           |
| Others                                                                                                | 26,300                       | 22,910                           |
|                                                                                                       | <b>475,587</b>               | <b>413,062</b>                   |
| <b>Collectively assessed loan impairment allowances in respect of the gross advances to customers</b> |                              |                                  |
| Hong Kong                                                                                             | 895                          | 827                              |
| Mainland China                                                                                        | 155                          | 124                              |
| Others                                                                                                | 58                           | 53                               |
|                                                                                                       | <b>1,108</b>                 | <b>1,004</b>                     |

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers and overdue advances (continued)

##### Overdue advances

|                                                                                            | At 30 June<br>2008<br>HK\$'m | At 31 December<br>2007<br>HK\$'m |
|--------------------------------------------------------------------------------------------|------------------------------|----------------------------------|
| Hong Kong                                                                                  | 6,050                        | 6,221                            |
| Mainland China                                                                             | 415                          | 278                              |
| Others                                                                                     | 146                          | 47                               |
|                                                                                            | <b>6,611</b>                 | <b>6,546</b>                     |
| <b>Individually assessed loan impairment allowances in respect of the overdue advances</b> |                              |                                  |
| Hong Kong                                                                                  | 319                          | 284                              |
| Mainland China                                                                             | 56                           | 46                               |
| Others                                                                                     | 10                           | 2                                |
|                                                                                            | <b>385</b>                   | <b>332</b>                       |
| <b>Collectively assessed loan impairment allowances in respect of the overdue advances</b> |                              |                                  |
| Hong Kong                                                                                  | 59                           | 60                               |
| Mainland China                                                                             | 7                            | 10                               |
| Others                                                                                     | 1                            | –                                |
|                                                                                            | <b>67</b>                    | <b>70</b>                        |

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers and overdue advances (continued)

##### Classified or impaired advances

|                                                                                                           | At 30 June<br>2008<br>HK\$'m | At 31 December<br>2007<br>HK\$'m |
|-----------------------------------------------------------------------------------------------------------|------------------------------|----------------------------------|
| Hong Kong                                                                                                 | 1,373                        | 1,572                            |
| Mainland China                                                                                            | 234                          | 223                              |
| Others                                                                                                    | –                            | 8                                |
|                                                                                                           | 1,607                        | 1,803                            |
| <b>Individually assessed loan impairment allowances in respect of the classified or impaired advances</b> |                              |                                  |
| Hong Kong                                                                                                 | 355                          | 333                              |
| Mainland China                                                                                            | 61                           | 46                               |
| Others                                                                                                    | –                            | 2                                |
|                                                                                                           | 416                          | 381                              |
| <b>Collectively assessed loan impairment allowances in respect of the classified or impaired advances</b> |                              |                                  |
| Hong Kong                                                                                                 | 22                           | 19                               |
| Mainland China                                                                                            | 4                            | 6                                |
|                                                                                                           | 26                           | 25                               |

##### Reposessed assets

The estimated market value of reposessed assets held by the Group as at 30 June 2008 amounted to HK\$223 million (31 December 2007: HK\$116 million). They comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the borrowers concerned) for release in full or in part of the obligations of the borrowers.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Debt securities

The table below represents an analysis of the carrying value of investment in securities by credit rating and credit risk characteristic, based on Moody's ratings or their equivalent to the respective issues of the debt securities.

|               | At 30 June 2008      |                 |                 |                    |                 |
|---------------|----------------------|-----------------|-----------------|--------------------|-----------------|
|               | US mortgage related* |                 |                 |                    | Total<br>HK\$'m |
|               | Subprime<br>HK\$'m   | Alt-A<br>HK\$'m | Prime<br>HK\$'m | Others**<br>HK\$'m |                 |
| Aaa           | 1,213                | 5,110           | 24,297          | 50,369             | 80,989          |
| Aa1 to Aa3    | –                    | 101             | –               | 96,857             | 96,958          |
| A1 to A3      | 30                   | –               | 53              | 26,055             | 26,138          |
| Lower than A3 | –                    | –               | –               | 2,771              | 2,771           |
| Unrated       | –                    | –               | –               | 52,028             | 52,028          |
|               | 1,243                | 5,211           | 24,350          | 228,080            | 258,884         |

|               | At 31 December 2007  |                 |                 |                    |                 |
|---------------|----------------------|-----------------|-----------------|--------------------|-----------------|
|               | US mortgage related* |                 |                 |                    | Total<br>HK\$'m |
|               | Subprime<br>HK\$'m   | Alt-A<br>HK\$'m | Prime<br>HK\$'m | Others**<br>HK\$'m |                 |
| Aaa           | 4,118                | 6,567           | 29,014          | 54,673             | 94,372          |
| Aa1 to Aa3    | –                    | –               | –               | 88,952             | 88,952          |
| A1 to A3      | –                    | –               | –               | 27,062             | 27,062          |
| Lower than A3 | –                    | –               | –               | 2,772              | 2,772           |
| Unrated       | –                    | –               | –               | 83,445             | 83,445          |
|               | 4,118                | 6,567           | 29,014          | 256,904            | 296,603         |

\* Representing those securities relating to residential mortgage.

\*\* Including exposures to Freddie Mac and Fannie Mae.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Debt securities (continued)

For the above investment in debt securities with no issue rating, their issuer ratings are analysed as follows:

|               | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|---------------|---------------------------------------|----------------------------------|
| Aaa           | <b>8,355</b>                          | 16,917                           |
| Aa1 to Aa3    | <b>32,313</b>                         | 47,998                           |
| A1 to A3      | <b>9,058</b>                          | 7,663                            |
| Lower than A3 | <b>448</b>                            | 490                              |
| Unrated       | <b>1,854</b>                          | 10,377                           |
|               | <b>52,028</b>                         | 83,445                           |

The Group defines US subprime mortgage related debt securities as those that are supported by US residential subprime mortgage loans to borrowers. As at 30 June 2008, the Group's exposure to the US subprime mortgage market was limited to investments in the US subprime mortgage related debt securities.

With regard to risk management of the debt securities, the Group analyses important factors of its US mortgage asset-backed securities such as different vintages, delinquency rates, credit ratings and underlying mortgage pools.

The Group's impairment allowances on available-for-sale and held-to-maturity debt securities held at 30 June 2008 amounted to HK\$1,308 million and HK\$2,281 million respectively (31 December 2007: HK\$190 million and HK\$1,682 million). The carrying values of the available-for-sale and held-to-maturity debt securities considered impaired as at 30 June 2008 were HK\$4,785 million and HK\$5,947 million respectively (31 December 2007: HK\$556 million and HK\$3,738 million).

Included in the above were impairment allowances on US subprime mortgage related debt securities held at 30 June 2008 amounting to HK\$450 million (31 December 2007: HK\$1,253 million) and the carrying value of these impaired securities as at 30 June 2008 amounted to HK\$894 million (31 December 2007: HK\$2,856 million).

The Group's impairment allowances on US Alt-A mortgage backed securities held at 30 June 2008 amounted to HK\$1,229 million (31 December 2007: HK\$573 million). The carrying value of these impaired securities as at 30 June 2008 was HK\$3,215 million (31 December 2007: HK\$1,380 million).

The Group's impairment allowances on US prime mortgage backed securities held at 30 June 2008 amounted to HK\$1,910 million (31 December 2007: HK\$46 million). The carrying value of these impaired securities as at 30 June 2008 was HK\$6,623 million (31 December 2007: HK\$58 million).

As at 30 June 2008 and 31 December 2007, there were no overdue debt securities.

### 3. Financial risk management (continued)

#### 3.2 Market risk

##### VAR

The following table sets out the VAR for all trading market risk exposure<sup>1</sup> of BOCHK.

| HK\$m                               |        | At 30 June | Minimum for<br>the first half<br>of year | Maximum for<br>the first half<br>of year | Average for<br>the first half<br>of year |
|-------------------------------------|--------|------------|------------------------------------------|------------------------------------------|------------------------------------------|
| VAR for all market risk             | – 2008 | 6.3        | 3.0                                      | 7.8                                      | 5.2                                      |
|                                     | – 2007 | 2.8        | 1.4                                      | 4.8                                      | 3.1                                      |
| VAR for foreign exchange            | – 2008 | 5.7        | 2.8                                      | 7.3                                      | 4.6                                      |
| risk products                       | – 2007 | 3.5        | 1.0                                      | 5.2                                      | 3.4                                      |
| VAR for interest rate risk products | – 2008 | 3.3        | 1.0                                      | 3.8                                      | 2.1                                      |
|                                     | – 2007 | 1.3        | 0.7                                      | 3.1                                      | 1.8                                      |
| VAR for equity risk products        | – 2008 | 0.2        | 0.2                                      | 2.8                                      | 0.6                                      |
|                                     | – 2007 | 0.3        | 0.1                                      | 0.6                                      | 0.3                                      |
| VAR for commodity risk products     | – 2008 | 0.0        | 0.0                                      | 0.5                                      | 0.1                                      |
|                                     | – 2007 | 0.0        | 0.0                                      | 0.4                                      | 0.1                                      |

In the first half of 2008, the average daily revenue<sup>2</sup> of BOCHK earned from market risk-related trading activities was HK\$6.0 million (first half of 2007: HK\$2.6 million).

<sup>1</sup> Structural FX positions have been excluded.

<sup>2</sup> Revenues from structural FX positions and back to back transactions have been excluded.

### 3. Financial risk management (continued)

#### 3.2 Market risk (continued)

##### Currency risk

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2008 and 31 December 2007. Included in the tables are the Group's assets and liabilities at carrying amounts in HK\$ equivalent, categorised by the original currency.

|                                                                                               | At 30 June 2008    |                      |                      |                |                           |                             |                  |                  |
|-----------------------------------------------------------------------------------------------|--------------------|----------------------|----------------------|----------------|---------------------------|-----------------------------|------------------|------------------|
|                                                                                               | Renminbi<br>HK\$'m | US Dollars<br>HK\$'m | HK Dollars<br>HK\$'m | EURO<br>HK\$'m | Japanese<br>Yen<br>HK\$'m | Pound<br>Sterling<br>HK\$'m | Others<br>HK\$'m | Total<br>HK\$'m  |
| <b>Assets</b>                                                                                 |                    |                      |                      |                |                           |                             |                  |                  |
| Cash and balances with banks and other financial institutions                                 | 85,278             | 40,984               | 48,131               | 1,037          | 127                       | 9,090                       | 3,805            | 188,452          |
| Placements with banks and other financial institutions maturing between one and twelve months | 615                | 17,166               | 32,277               | 182            | 11                        | –                           | 438              | 50,689           |
| Financial assets at fair value through profit or loss                                         | 707                | 8,714                | 27,787               | –              | –                         | –                           | 74               | 37,282           |
| Derivative financial instruments                                                              | –                  | 892                  | 20,505               | –              | –                         | –                           | –                | 21,397           |
| Hong Kong SAR Government certificates of indebtedness                                         | –                  | –                    | 32,430               | –              | –                         | –                           | –                | 32,430           |
| Advances and other accounts                                                                   | 16,810             | 98,693               | 359,174              | 3,833          | 1,728                     | 1,372                       | 5,402            | 487,012          |
| Investment in securities                                                                      |                    |                      |                      |                |                           |                             |                  |                  |
| – Available-for-sale securities                                                               | 145                | 63,630               | 24,826               | 15,916         | 533                       | 2,172                       | 11,895           | 119,117          |
| – Held-to-maturity securities                                                                 | 920                | 67,226               | 36,740               | 5,613          | 1,425                     | 1,210                       | 20,371           | 133,505          |
| – Loans and receivables                                                                       | –                  | 612                  | 7,996                | 120            | –                         | 148                         | 1,199            | 10,075           |
| Interests in associates                                                                       | –                  | –                    | 89                   | –              | –                         | –                           | –                | 89               |
| Investment properties                                                                         | –                  | –                    | 8,634                | –              | –                         | –                           | –                | 8,634            |
| Properties, plant and equipment                                                               | 78                 | 1                    | 25,151               | –              | –                         | –                           | –                | 25,230           |
| Other assets (including deferred tax assets)                                                  | 57                 | 2,327                | 10,706               | 16             | 25                        | 24                          | 101              | 13,256           |
| <b>Total assets</b>                                                                           | <b>104,610</b>     | <b>300,245</b>       | <b>634,446</b>       | <b>26,717</b>  | <b>3,849</b>              | <b>14,016</b>               | <b>43,285</b>    | <b>1,127,168</b> |
| <b>Liabilities</b>                                                                            |                    |                      |                      |                |                           |                             |                  |                  |
| Hong Kong SAR currency notes in circulation                                                   | –                  | –                    | 32,430               | –              | –                         | –                           | –                | 32,430           |
| Deposits and balances of banks and other financial institutions                               | 58,416             | 13,837               | 7,043                | 226            | 249                       | 580                         | 1,274            | 81,625           |
| Financial liabilities at fair value through profit or loss                                    | –                  | 1,250                | 10,812               | –              | –                         | –                           | 51               | 12,113           |
| Derivative financial instruments                                                              | –                  | 1,747                | 15,958               | –              | –                         | –                           | –                | 17,705           |
| Deposits from customers                                                                       | 42,273             | 195,317              | 492,689              | 9,805          | 2,625                     | 22,699                      | 53,702           | 819,110          |
| Debt securities in issue at amortised cost                                                    | –                  | 693                  | 2,003                | –              | –                         | –                           | 60               | 2,756            |
| Other accounts and provisions (including current and deferred tax liabilities)                | 1,454              | 7,737                | 19,734               | 336            | 49                        | 276                         | 1,104            | 30,690           |
| Insurance contract liabilities                                                                | –                  | 4,591                | 20,479               | –              | –                         | –                           | –                | 25,070           |
| Subordinated liability                                                                        | –                  | –                    | –                    | 8,150          | –                         | –                           | –                | 8,150            |
| <b>Total liabilities</b>                                                                      | <b>102,143</b>     | <b>225,172</b>       | <b>601,148</b>       | <b>18,517</b>  | <b>2,923</b>              | <b>23,555</b>               | <b>56,191</b>    | <b>1,029,649</b> |
| Net on-balance sheet position                                                                 | 2,467              | 75,073               | 33,298               | 8,200          | 926                       | (9,539)                     | (12,906)         | 97,519           |
| Off-balance sheet net notional position*                                                      | 390                | (71,924)             | 66,440               | (8,779)        | (1,194)                   | 9,549                       | 12,308           | 6,790            |
| Contingent liabilities and commitments                                                        | 9,453              | 62,162               | 159,177              | 4,045          | 816                       | 411                         | 1,793            | 237,857          |

\* Off-balance sheet net notional position represents the net notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements.

## 3. Financial risk management (continued)

## 3.2 Market risk (continued)

## Currency risk (continued)

|                                                                                               | At 31 December 2007 |                      |                      |                |                           |                             |                  |                  |
|-----------------------------------------------------------------------------------------------|---------------------|----------------------|----------------------|----------------|---------------------------|-----------------------------|------------------|------------------|
|                                                                                               | Renminbi<br>HK\$'m  | US Dollars<br>HK\$'m | HK Dollars<br>HK\$'m | EURO<br>HK\$'m | Japanese<br>Yen<br>HK\$'m | Pound<br>Sterling<br>HK\$'m | Others<br>HK\$'m | Total<br>HK\$'m  |
| <b>Assets</b>                                                                                 |                     |                      |                      |                |                           |                             |                  |                  |
| Cash and balances with banks and other financial institutions                                 | 30,849              | 49,833               | 71,731               | 1,147          | 160                       | 1,815                       | 3,530            | 159,065          |
| Placements with banks and other financial institutions maturing between one and twelve months | 375                 | 23,854               | 28,750               | –              | –                         | –                           | 175              | 53,154           |
| Financial assets at fair value through profit or loss                                         | 917                 | 8,997                | 24,286               | –              | –                         | –                           | 240              | 34,440           |
| Derivative financial instruments                                                              | –                   | 773                  | 13,703               | –              | –                         | –                           | 1                | 14,477           |
| Hong Kong SAR Government certificates of indebtedness                                         | –                   | –                    | 32,770               | –              | –                         | –                           | –                | 32,770           |
| Advances and other accounts                                                                   | 13,335              | 71,309               | 323,495              | 4,202          | 1,667                     | 1,006                       | 5,220            | 420,234          |
| Investment in securities                                                                      |                     |                      |                      |                |                           |                             |                  |                  |
| – Available-for-sale securities                                                               | 90                  | 62,612               | 26,697               | 7,005          | 28                        | 1,321                       | 6,900            | 104,653          |
| – Held-to-maturity securities                                                                 | 864                 | 84,686               | 59,565               | 2,486          | –                         | 1,554                       | 16,273           | 165,428          |
| – Loans and receivables                                                                       | –                   | 3,594                | 26,511               | 428            | –                         | –                           | 569              | 31,102           |
| Interests in associates                                                                       | –                   | –                    | 83                   | –              | –                         | –                           | –                | 83               |
| Investment properties                                                                         | –                   | –                    | 8,058                | –              | –                         | –                           | –                | 8,058            |
| Properties, plant and equipment                                                               | 72                  | 1                    | 23,220               | –              | –                         | –                           | –                | 23,293           |
| Other assets (including deferred tax assets)                                                  | 69                  | 947                  | 19,361               | 161            | 61                        | 145                         | 136              | 20,880           |
| <b>Total assets</b>                                                                           | <b>46,571</b>       | <b>306,606</b>       | <b>658,230</b>       | <b>15,429</b>  | <b>1,916</b>              | <b>5,841</b>                | <b>33,044</b>    | <b>1,067,637</b> |
| <b>Liabilities</b>                                                                            |                     |                      |                      |                |                           |                             |                  |                  |
| Hong Kong SAR currency notes in circulation                                                   | –                   | –                    | 32,770               | –              | –                         | –                           | –                | 32,770           |
| Deposits and balances of banks and other financial institutions                               | 27,173              | 19,422               | 9,090                | 147            | 2,141                     | 92                          | 2,534            | 60,599           |
| Financial liabilities at fair value through profit or loss                                    | –                   | 2,717                | 8,688                | –              | –                         | –                           | –                | 11,405           |
| Derivative financial instruments                                                              | –                   | 1,257                | 9,824                | –              | –                         | –                           | 11               | 11,092           |
| Deposits from customers                                                                       | 17,360              | 166,416              | 548,223              | 8,432          | 2,492                     | 12,284                      | 38,399           | 793,606          |
| Debt securities in issue at amortised cost                                                    | –                   | 667                  | 1,422                | –              | –                         | –                           | –                | 2,089            |
| Other accounts and provisions (including current and deferred tax liabilities)                | 574                 | 9,751                | 26,706               | 311            | 31                        | 387                         | 761              | 38,521           |
| Insurance contract liabilities                                                                | –                   | 4,284                | 18,213               | –              | –                         | –                           | –                | 22,497           |
| <b>Total liabilities</b>                                                                      | <b>45,107</b>       | <b>204,514</b>       | <b>654,936</b>       | <b>8,890</b>   | <b>4,664</b>              | <b>12,763</b>               | <b>41,705</b>    | <b>972,579</b>   |
| Net on-balance sheet position                                                                 | 1,464               | 102,092              | 3,294                | 6,539          | (2,748)                   | (6,922)                     | (8,661)          | 95,058           |
| Off-balance sheet net notional position*                                                      | 394                 | (97,215)             | 89,481               | (6,478)        | 2,436                     | 7,050                       | 8,975            | 4,643            |
| Contingent liabilities and commitments                                                        | 4,873               | 55,183               | 163,697              | 4,693          | 1,017                     | 259                         | 1,581            | 231,303          |

### 3. Financial risk management (continued)

#### 3.2 Market risk (continued)

##### Interest rate risk

The tables below summarise the Group's exposure to interest rate risk as at 30 June 2008 and 31 December 2007. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Derivative financial instruments are principally used to reduce the Group's exposure to interest rate movements. Their carrying amounts are presented under the column captioned "Non-interest bearing".

|                                                                                               | At 30 June 2008            |                         |                          |                        |                           |                                   |                  |
|-----------------------------------------------------------------------------------------------|----------------------------|-------------------------|--------------------------|------------------------|---------------------------|-----------------------------------|------------------|
|                                                                                               | Up to<br>1 month<br>HK\$'m | 1-3<br>months<br>HK\$'m | 3-12<br>months<br>HK\$'m | 1-5<br>years<br>HK\$'m | Over<br>5 years<br>HK\$'m | Non-interest<br>bearing<br>HK\$'m | Total<br>HK\$'m  |
| <b>Assets</b>                                                                                 |                            |                         |                          |                        |                           |                                   |                  |
| Cash and balances with banks and other financial institutions                                 | 181,649                    | –                       | –                        | –                      | –                         | 6,803                             | 188,452          |
| Placements with banks and other financial institutions maturing between one and twelve months | –                          | 37,480                  | 13,209                   | –                      | –                         | –                                 | 50,689           |
| Financial assets at fair value through profit or loss                                         | 4,659                      | 3,116                   | 1,571                    | 7,953                  | 16,883                    | 3,100                             | 37,282           |
| Derivative financial instruments                                                              | –                          | –                       | –                        | –                      | –                         | 21,397                            | 21,397           |
| Hong Kong SAR Government certificates of indebtedness                                         | –                          | –                       | –                        | –                      | –                         | 32,430                            | 32,430           |
| Advances and other accounts                                                                   | 374,303                    | 68,631                  | 30,732                   | 9,326                  | 947                       | 3,073                             | 487,012          |
| Investment in securities                                                                      |                            |                         |                          |                        |                           |                                   |                  |
| – Available-for-sale securities                                                               | 21,084                     | 22,980                  | 5,523                    | 37,188                 | 28,529                    | 3,813                             | 119,117          |
| – Held-to-maturity securities                                                                 | 33,961                     | 39,380                  | 14,992                   | 25,075                 | 20,097                    | –                                 | 133,505          |
| – Loans and receivables                                                                       | 4,203                      | 2,560                   | 3,312                    | –                      | –                         | –                                 | 10,075           |
| Interests in associates                                                                       | –                          | –                       | –                        | –                      | –                         | 89                                | 89               |
| Investment properties                                                                         | –                          | –                       | –                        | –                      | –                         | 8,634                             | 8,634            |
| Properties, plant and equipment                                                               | –                          | –                       | –                        | –                      | –                         | 25,230                            | 25,230           |
| Other assets (including deferred tax assets)                                                  | –                          | –                       | –                        | –                      | –                         | 13,256                            | 13,256           |
| <b>Total assets</b>                                                                           | <b>619,859</b>             | <b>174,147</b>          | <b>69,339</b>            | <b>79,542</b>          | <b>66,456</b>             | <b>117,825</b>                    | <b>1,127,168</b> |
| <b>Liabilities</b>                                                                            |                            |                         |                          |                        |                           |                                   |                  |
| Hong Kong SAR currency notes in circulation                                                   | –                          | –                       | –                        | –                      | –                         | 32,430                            | 32,430           |
| Deposits and balances of banks and other financial institutions                               | 68,346                     | 3,123                   | 5,378                    | –                      | –                         | 4,778                             | 81,625           |
| Financial liabilities at fair value through profit or loss                                    | 5,508                      | 5,457                   | 289                      | 859                    | –                         | –                                 | 12,113           |
| Derivative financial instruments                                                              | –                          | –                       | –                        | –                      | –                         | 17,705                            | 17,705           |
| Deposits from customers                                                                       | 639,630                    | 112,674                 | 31,574                   | 483                    | –                         | 34,749                            | 819,110          |
| Debt securities in issue at amortised cost                                                    | –                          | –                       | 2,756                    | –                      | –                         | –                                 | 2,756            |
| Other accounts and provisions (including current and deferred tax liabilities)                | 8,592                      | –                       | 569                      | 138                    | –                         | 21,391                            | 30,690           |
| Insurance contract liabilities                                                                | –                          | –                       | –                        | –                      | –                         | 25,070                            | 25,070           |
| Subordinated liability                                                                        | –                          | –                       | 8,150                    | –                      | –                         | –                                 | 8,150            |
| <b>Total liabilities</b>                                                                      | <b>722,076</b>             | <b>121,254</b>          | <b>48,716</b>            | <b>1,480</b>           | <b>–</b>                  | <b>136,123</b>                    | <b>1,029,649</b> |
| Interest sensitivity gap                                                                      | (102,217)                  | 52,893                  | 20,623                   | 78,062                 | 66,456                    | (18,298)                          | 97,519           |

## 3. Financial risk management (continued)

## 3.2 Market risk (continued)

## Interest rate risk (continued)

|                                                                                               | At 31 December 2007        |                         |                          |                        |                           |                                   |                  |
|-----------------------------------------------------------------------------------------------|----------------------------|-------------------------|--------------------------|------------------------|---------------------------|-----------------------------------|------------------|
|                                                                                               | Up to<br>1 month<br>HK\$'m | 1-3<br>months<br>HK\$'m | 3-12<br>months<br>HK\$'m | 1-5<br>years<br>HK\$'m | Over<br>5 years<br>HK\$'m | Non-interest<br>bearing<br>HK\$'m | Total<br>HK\$'m  |
| <b>Assets</b>                                                                                 |                            |                         |                          |                        |                           |                                   |                  |
| Cash and balances with banks and other financial institutions                                 | 152,746                    | –                       | –                        | –                      | –                         | 6,319                             | 159,065          |
| Placements with banks and other financial institutions maturing between one and twelve months | –                          | 42,230                  | 10,924                   | –                      | –                         | –                                 | 53,154           |
| Financial assets at fair value through profit or loss                                         | 3,562                      | 1,839                   | 2,164                    | 5,894                  | 17,397                    | 3,584                             | 34,440           |
| Derivative financial instruments                                                              | –                          | –                       | –                        | –                      | –                         | 14,477                            | 14,477           |
| Hong Kong SAR Government certificates of indebtedness                                         | –                          | –                       | –                        | –                      | –                         | 32,770                            | 32,770           |
| Advances and other accounts                                                                   | 328,750                    | 58,396                  | 19,372                   | 9,487                  | 643                       | 3,586                             | 420,234          |
| Investment in securities                                                                      |                            |                         |                          |                        |                           |                                   |                  |
| – Available-for-sale securities                                                               | 11,668                     | 21,320                  | 6,257                    | 19,959                 | 40,869                    | 4,580                             | 104,653          |
| – Held-to-maturity securities                                                                 | 25,562                     | 43,920                  | 18,534                   | 43,022                 | 34,390                    | –                                 | 165,428          |
| – Loans and receivables                                                                       | 7,459                      | 11,444                  | 12,199                   | –                      | –                         | –                                 | 31,102           |
| Interests in associates                                                                       | –                          | –                       | –                        | –                      | –                         | 83                                | 83               |
| Investment properties                                                                         | –                          | –                       | –                        | –                      | –                         | 8,058                             | 8,058            |
| Properties, plant and equipment                                                               | –                          | –                       | –                        | –                      | –                         | 23,293                            | 23,293           |
| Other assets (including deferred tax assets)                                                  | –                          | –                       | –                        | –                      | –                         | 20,880                            | 20,880           |
| <b>Total assets</b>                                                                           | <b>529,747</b>             | <b>179,149</b>          | <b>69,450</b>            | <b>78,362</b>          | <b>93,299</b>             | <b>117,630</b>                    | <b>1,067,637</b> |
| <b>Liabilities</b>                                                                            |                            |                         |                          |                        |                           |                                   |                  |
| Hong Kong SAR currency notes in circulation                                                   | –                          | –                       | –                        | –                      | –                         | 32,770                            | 32,770           |
| Deposits and balances of banks and other financial institutions                               | 45,728                     | 3,428                   | 6,897                    | –                      | –                         | 4,546                             | 60,599           |
| Financial liabilities at fair value through profit or loss                                    | 6,600                      | 2,355                   | 1,531                    | 919                    | –                         | –                                 | 11,405           |
| Derivative financial instruments                                                              | –                          | –                       | –                        | –                      | –                         | 11,092                            | 11,092           |
| Deposits from customers                                                                       | 623,009                    | 98,440                  | 35,157                   | 547                    | –                         | 36,453                            | 793,606          |
| Debt securities in issue at amortised cost                                                    | –                          | –                       | 1,977                    | 112                    | –                         | –                                 | 2,089            |
| Other accounts and provisions (including current and deferred tax liabilities)                | 7,624                      | 107                     | –                        | 128                    | –                         | 30,662                            | 38,521           |
| Insurance contract liabilities                                                                | –                          | –                       | –                        | –                      | –                         | 22,497                            | 22,497           |
| <b>Total liabilities</b>                                                                      | <b>682,961</b>             | <b>104,330</b>          | <b>45,562</b>            | <b>1,706</b>           | <b>–</b>                  | <b>138,020</b>                    | <b>972,579</b>   |
| Interest sensitivity gap                                                                      | (153,214)                  | 74,819                  | 23,888                   | 76,656                 | 93,299                    | (20,390)                          | 95,058           |

### 3. Financial risk management (continued)

#### 3.3 Liquidity risk

Tables below analyse assets and liabilities of the Group as at 30 June 2008 and 31 December 2007 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

|                                                                                               | At 30 June 2008     |                         |                      |                       |                     |                        |                      |                  |
|-----------------------------------------------------------------------------------------------|---------------------|-------------------------|----------------------|-----------------------|---------------------|------------------------|----------------------|------------------|
|                                                                                               | On demand<br>HK\$'m | Up to 1 month<br>HK\$'m | 1-3 months<br>HK\$'m | 3-12 months<br>HK\$'m | 1-5 years<br>HK\$'m | Over 5 years<br>HK\$'m | Indefinite<br>HK\$'m | Total<br>HK\$'m  |
| <b>Assets</b>                                                                                 |                     |                         |                      |                       |                     |                        |                      |                  |
| Cash and balances with banks and other financial institutions                                 | 92,602              | 95,850                  | -                    | -                     | -                   | -                      | -                    | 188,452          |
| Placements with banks and other financial institutions maturing between one and twelve months | -                   | -                       | 37,480               | 13,209                | -                   | -                      | -                    | 50,689           |
| Financial assets at fair value through profit or loss                                         |                     |                         |                      |                       |                     |                        |                      |                  |
| – debt securities held for trading                                                            | -                   | 3,442                   | 2,482                | 1,734                 | 725                 | 3                      | -                    | 8,386            |
| – debt securities designated at fair value through profit or loss                             |                     |                         |                      |                       |                     |                        |                      |                  |
| – certificates of deposit held                                                                | -                   | -                       | -                    | 25                    | 1,127               | 1,359                  | -                    | 2,511            |
| – others                                                                                      | -                   | -                       | 101                  | 742                   | 6,576               | 15,866                 | -                    | 23,285           |
| – equity securities                                                                           | -                   | -                       | -                    | -                     | -                   | -                      | 3,100                | 3,100            |
| Derivative financial instruments                                                              | 17,845              | 474                     | 297                  | 1,746                 | 844                 | 191                    | -                    | 21,397           |
| Hong Kong SAR Government certificates of indebtedness                                         | 32,430              | -                       | -                    | -                     | -                   | -                      | -                    | 32,430           |
| Advances and other accounts                                                                   |                     |                         |                      |                       |                     |                        |                      |                  |
| – advances to customers                                                                       | 29,007              | 15,649                  | 29,278               | 57,561                | 201,189             | 140,361                | 1,018                | 474,063          |
| – trade bills                                                                                 | 18                  | 4,349                   | 3,920                | 981                   | -                   | -                      | -                    | 9,268            |
| – advances to banks and other financial institutions                                          | 28                  | 80                      | 309                  | 189                   | 3,075               | -                      | -                    | 3,681            |
| Investment in securities                                                                      |                     |                         |                      |                       |                     |                        |                      |                  |
| – debt securities held for available-for-sale                                                 | -                   | 1,072                   | 383                  | 1,290                 | 3,831               | -                      | -                    | 6,576            |
| – certificates of deposit held                                                                | -                   | 4,228                   | 6,188                | 5,775                 | 50,671              | 37,081                 | 4,785                | 108,728          |
| – debt securities held for held-to-maturity                                                   |                     |                         |                      |                       |                     |                        |                      |                  |
| – certificates of deposit held                                                                | -                   | 1,387                   | 1,132                | 3,826                 | 7,198               | -                      | -                    | 13,543           |
| – others                                                                                      | -                   | 635                     | 2,452                | 19,703                | 64,018              | 27,207                 | 5,947                | 119,962          |
| – debt securities held for loans and receivables                                              | -                   | 4,203                   | 2,560                | 3,312                 | -                   | -                      | -                    | 10,075           |
| – equity securities                                                                           | -                   | -                       | -                    | -                     | -                   | -                      | 3,813                | 3,813            |
| Interests in associates                                                                       | -                   | -                       | -                    | -                     | -                   | -                      | 89                   | 89               |
| Investment properties                                                                         | -                   | -                       | -                    | -                     | -                   | -                      | 8,634                | 8,634            |
| Properties, plant and equipment                                                               | -                   | -                       | -                    | -                     | -                   | -                      | 25,230               | 25,230           |
| Other assets (including deferred tax assets)                                                  | 5,212               | 7,618                   | 8                    | 169                   | 87                  | -                      | 162                  | 13,256           |
| <b>Total assets</b>                                                                           | <b>177,142</b>      | <b>138,987</b>          | <b>86,590</b>        | <b>110,262</b>        | <b>339,341</b>      | <b>222,068</b>         | <b>52,778</b>        | <b>1,127,168</b> |

## 3. Financial risk management (continued)

## 3.3 Liquidity risk (continued)

|                                                                                | At 30 June 2008     |                         |                      |                       |                     |                        |                      |                  |
|--------------------------------------------------------------------------------|---------------------|-------------------------|----------------------|-----------------------|---------------------|------------------------|----------------------|------------------|
|                                                                                | On demand<br>HK\$'m | Up to 1 month<br>HK\$'m | 1-3 months<br>HK\$'m | 3-12 months<br>HK\$'m | 1-5 years<br>HK\$'m | Over 5 years<br>HK\$'m | Indefinite<br>HK\$'m | Total<br>HK\$'m  |
| <b>Liabilities</b>                                                             |                     |                         |                      |                       |                     |                        |                      |                  |
| Hong Kong SAR currency notes in circulation                                    | 32,430              | –                       | –                    | –                     | –                   | –                      | –                    | 32,430           |
| Deposits and balances of banks and other financial institutions                | 59,374              | 13,750                  | 3,123                | 5,378                 | –                   | –                      | –                    | 81,625           |
| Financial liabilities at fair value through profit or loss                     |                     |                         |                      |                       |                     |                        |                      |                  |
| – certificates of deposit issued                                               | –                   | –                       | 962                  | –                     | 861                 | –                      | –                    | 1,823            |
| – others                                                                       | –                   | 3,669                   | 3,347                | 2,513                 | 478                 | 283                    | –                    | 10,290           |
| Derivative financial instruments                                               | 13,710              | 642                     | 306                  | 1,799                 | 981                 | 267                    | –                    | 17,705           |
| Deposits from customers                                                        | 338,799             | 335,080                 | 111,325              | 32,266                | 1,640               | –                      | –                    | 819,110          |
| Debt securities in issue at amortised cost                                     | –                   | –                       | –                    | 2,756                 | –                   | –                      | –                    | 2,756            |
| Other accounts and provisions (including current and deferred tax liabilities) | 14,879              | 7,821                   | 12                   | 2,909                 | 4,096               | 19                     | 954                  | 30,690           |
| Insurance contract liabilities                                                 | 1,955               | 4                       | 1                    | 815                   | 16,280              | 6,015                  | –                    | 25,070           |
| Subordinated liability                                                         | –                   | –                       | –                    | –                     | –                   | 8,150                  | –                    | 8,150            |
| <b>Total liabilities</b>                                                       | <b>461,147</b>      | <b>360,966</b>          | <b>119,076</b>       | <b>48,436</b>         | <b>24,336</b>       | <b>14,734</b>          | <b>954</b>           | <b>1,029,649</b> |
| Net liquidity gap                                                              | (284,005)           | (221,979)               | (32,486)             | 61,826                | 315,005             | 207,334                | 51,824               | 97,519           |

### 3. Financial risk management (continued)

#### 3.3 Liquidity risk (continued)

|                                                                                               | At 31 December 2007 |                         |                      |                       |                     |                        |                      |                  |
|-----------------------------------------------------------------------------------------------|---------------------|-------------------------|----------------------|-----------------------|---------------------|------------------------|----------------------|------------------|
|                                                                                               | On demand<br>HK\$'m | Up to 1 month<br>HK\$'m | 1-3 months<br>HK\$'m | 3-12 months<br>HK\$'m | 1-5 years<br>HK\$'m | Over 5 years<br>HK\$'m | Indefinite<br>HK\$'m | Total<br>HK\$'m  |
| <b>Assets</b>                                                                                 |                     |                         |                      |                       |                     |                        |                      |                  |
| Cash and balances with banks and other financial institutions                                 | 40,100              | 118,965                 | –                    | –                     | –                   | –                      | –                    | 159,065          |
| Placements with banks and other financial institutions maturing between one and twelve months | –                   | –                       | 42,230               | 10,924                | –                   | –                      | –                    | 53,154           |
| Financial assets at fair value through profit or loss                                         |                     |                         |                      |                       |                     |                        |                      |                  |
| – debt securities held for trading                                                            |                     |                         |                      |                       |                     |                        |                      |                  |
| – certificates of deposit held                                                                | –                   | –                       | –                    | 80                    | –                   | –                      | –                    | 80               |
| – others                                                                                      | –                   | 1,697                   | 779                  | 2,342                 | 1,307               | 32                     | –                    | 6,157            |
| – debt securities designated at fair value through profit or loss                             |                     |                         |                      |                       |                     |                        |                      |                  |
| – certificates of deposit held                                                                | –                   | –                       | –                    | 415                   | 393                 | 2,316                  | –                    | 3,124            |
| – others                                                                                      | –                   | 36                      | 343                  | 272                   | 5,376               | 15,468                 | –                    | 21,495           |
| – equity securities                                                                           | –                   | –                       | –                    | –                     | –                   | –                      | 3,584                | 3,584            |
| Derivative financial instruments                                                              | 12,686              | 228                     | 129                  | 929                   | 459                 | 46                     | –                    | 14,477           |
| Hong Kong SAR Government certificates of indebtedness                                         | 32,770              | –                       | –                    | –                     | –                   | –                      | –                    | 32,770           |
| Advances and other accounts                                                                   |                     |                         |                      |                       |                     |                        |                      |                  |
| – advances to customers                                                                       | 21,196              | 16,345                  | 25,968               | 43,608                | 173,120             | 130,067                | 1,373                | 411,677          |
| – trade bills                                                                                 | 12                  | 2,815                   | 2,227                | 280                   | –                   | –                      | –                    | 5,334            |
| – advances to banks and other financial institutions                                          | 27                  | –                       | 600                  | 440                   | 2,156               | –                      | –                    | 3,223            |
| Investment in securities                                                                      |                     |                         |                      |                       |                     |                        |                      |                  |
| – debt securities held for available-for-sale                                                 |                     |                         |                      |                       |                     |                        |                      |                  |
| – certificates of deposit held                                                                | –                   | 701                     | 462                  | 2,614                 | 3,689               | –                      | –                    | 7,466            |
| – others                                                                                      | –                   | 5,886                   | 3,776                | 7,515                 | 30,790              | 44,084                 | 556                  | 92,607           |
| – debt securities held for held-to-maturity                                                   |                     |                         |                      |                       |                     |                        |                      |                  |
| – certificates of deposit held                                                                | –                   | 1,097                   | 1,490                | 2,426                 | 6,351               | 624                    | –                    | 11,988           |
| – others                                                                                      | –                   | 4,278                   | 12,309               | 17,166                | 81,918              | 34,031                 | 3,738                | 153,440          |
| – debt securities held for loans and receivables                                              | –                   | 7,459                   | 11,444               | 12,199                | –                   | –                      | –                    | 31,102           |
| – equity securities                                                                           | –                   | –                       | –                    | –                     | –                   | –                      | 4,580                | 4,580            |
| Interests in associates                                                                       | –                   | –                       | –                    | –                     | –                   | –                      | 83                   | 83               |
| Investment properties                                                                         | –                   | –                       | –                    | –                     | –                   | –                      | 8,058                | 8,058            |
| Properties, plant and equipment                                                               | –                   | –                       | –                    | –                     | –                   | –                      | 23,293               | 23,293           |
| Other assets (including deferred tax assets)                                                  | 3,360               | 16,219                  | 24                   | 174                   | 202                 | –                      | 901                  | 20,880           |
| <b>Total assets</b>                                                                           | <b>110,151</b>      | <b>175,726</b>          | <b>101,781</b>       | <b>101,384</b>        | <b>305,761</b>      | <b>226,668</b>         | <b>46,166</b>        | <b>1,067,637</b> |

### 3. Financial risk management (continued)

#### 3.3 Liquidity risk (continued)

|                                                                                | At 31 December 2007 |                         |                      |                       |                     |                        |                      |                 |
|--------------------------------------------------------------------------------|---------------------|-------------------------|----------------------|-----------------------|---------------------|------------------------|----------------------|-----------------|
|                                                                                | On demand<br>HK\$'m | Up to 1 month<br>HK\$'m | 1-3 months<br>HK\$'m | 3-12 months<br>HK\$'m | 1-5 years<br>HK\$'m | Over 5 years<br>HK\$'m | Indefinite<br>HK\$'m | Total<br>HK\$'m |
| <b>Liabilities</b>                                                             |                     |                         |                      |                       |                     |                        |                      |                 |
| Hong Kong SAR currency notes in circulation                                    | 32,770              | –                       | –                    | –                     | –                   | –                      | –                    | 32,770          |
| Deposits and balances of banks and other financial institutions                | 28,200              | 22,074                  | 3,428                | 6,897                 | –                   | –                      | –                    | 60,599          |
| Financial liabilities at fair value through profit or loss                     |                     |                         |                      |                       |                     |                        |                      |                 |
| – certificates of deposit issued                                               | –                   | –                       | –                    | 1,086                 | 868                 | –                      | –                    | 1,954           |
| – others                                                                       | –                   | 2,554                   | 1,925                | 3,680                 | 983                 | 309                    | –                    | 9,451           |
| Derivative financial instruments                                               | 8,320               | 418                     | 355                  | 954                   | 831                 | 214                    | –                    | 11,092          |
| Deposits from customers                                                        | 329,544             | 329,918                 | 98,440               | 35,157                | 547                 | –                      | –                    | 793,606         |
| Debt securities in issue at amortised cost                                     | –                   | –                       | –                    | 1,977                 | 112                 | –                      | –                    | 2,089           |
| Other accounts and provisions (including current and deferred tax liabilities) | 15,446              | 15,543                  | 1,071                | 1,660                 | 4,100               | –                      | 701                  | 38,521          |
| Insurance contract liabilities                                                 | 2,054               | –                       | –                    | 535                   | 13,786              | 6,122                  | –                    | 22,497          |
| <b>Total liabilities</b>                                                       | <b>416,334</b>      | <b>370,507</b>          | <b>105,219</b>       | <b>51,946</b>         | <b>21,227</b>       | <b>6,645</b>           | <b>701</b>           | <b>972,579</b>  |
| Net liquidity gap                                                              | (306,183)           | (194,781)               | (3,438)              | 49,438                | 284,534             | 220,023                | 45,465               | 95,058          |

The above maturity classifications have been prepared in accordance with relevant provisions under the Banking (Disclosure) Rules. The Group has reported assets such as advances and debt securities which have been overdue for not more than one month as “Repayable on demand”. In the case of an asset that is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as “Indefinite”. The above assets are stated after deduction of provisions, if any.

The analysis of debt securities by remaining period to maturity is disclosed in order to comply with relevant provisions under the Banking (Disclosure) Rules. The disclosure does not imply that the securities will be held to maturity.

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet as at 30 June 2008 and 31 December 2007.

#### 3.4 Insurance risk

The Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. The Group manages these risks through the application of its underwriting policies and reinsurance arrangement.

The underwriting strategy is intended to set premium pricing at an appropriate level that corresponds with the underlying exposure of the risks underwritten. Screening processes, such as the review of health condition and family medical history, are also included in the Group’s underwriting procedures.

### 3. Financial risk management (continued)

#### 3.4 Insurance risk (continued)

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

For the in-force insurance contracts, most of the underlying insurance liabilities are related to endowment and unit-linked insurance products. For most of the insurance policies issued by it, the Group has a retention limit on any single life insured. The Group reinsures the excess of the insured benefit over the limit for standard risks (from a medical point of view) under an excess of loss reinsurance arrangement. The Group does not have in place any reinsurance for contracts that insure against survival risk.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducts mortality study and lapse study in order to determine the appropriate assumptions. In these studies, consistent results are reflected in both assumptions with appropriate margins.

#### 3.5 Capital management

##### (a) Capital adequacy ratio

|                        | At 30 June<br>2008 | At 31 December<br>2007 |
|------------------------|--------------------|------------------------|
| Capital adequacy ratio | 13.87%             | 13.08%                 |
| Core capital ratio     | 11.51%             | 12.23%                 |

The capital ratios are computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules.

The differences between the basis of consolidation for accounting and regulatory purposes are described in "Appendix – Subsidiaries of the Company" on page 123.

### 3. Financial risk management (continued)

#### 3.5 Capital management (continued)

##### (b) Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratio as at 30 June 2008 and 31 December 2007 and reported to the HKMA is analysed as follows:

|                                                                                                         | At 30 June<br>2008<br>HK\$'m | At 31 December<br>2007<br>HK\$'m |
|---------------------------------------------------------------------------------------------------------|------------------------------|----------------------------------|
| Core capital:                                                                                           |                              |                                  |
| Paid up ordinary share capital                                                                          | 43,043                       | 43,043                           |
| Reserves                                                                                                | 19,572                       | 22,611                           |
| Profit and loss account                                                                                 | 3,310                        | 207                              |
| Minority interests                                                                                      | 1,230                        | 1,284                            |
|                                                                                                         | 67,155                       | 67,145                           |
| Deductions from core capital                                                                            | (274)                        | (483)                            |
| Core capital                                                                                            | 66,881                       | 66,662                           |
| Supplementary capital:                                                                                  |                              |                                  |
| Fair value gains arising from holdings of<br>available-for-sale securities                              | 157                          | 18                               |
| Fair value gains arising from holdings of securities<br>designated at fair value through profit or loss | 3                            | 9                                |
| Collective loan impairment allowances                                                                   | 1,108                        | 1,004                            |
| Regulatory reserve                                                                                      | 4,620                        | 4,130                            |
| Term subordinated debt                                                                                  | 8,144                        | –                                |
|                                                                                                         | 14,032                       | 5,161                            |
| Deductions from supplementary capital                                                                   | (274)                        | (483)                            |
| Supplementary capital                                                                                   | 13,758                       | 4,678                            |
| Total capital base after deductions                                                                     | 80,639                       | 71,340                           |

Subsidiaries which are not included in the consolidation group for the calculation of capital adequacy ratios are denoted in "Appendix – Subsidiaries of the Company" on page 123. Investment costs in such subsidiaries are deducted from the capital base.

#### 4. Net interest income

|                                                          | Half-year ended<br>30 June 2008<br>HK\$'m | Half-year ended<br>30 June 2007<br>HK\$'m |
|----------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| <b>Interest income</b>                                   |                                           |                                           |
| Cash and due from banks and other financial institutions | 2,694                                     | 3,229                                     |
| Advances to customers                                    | 8,197                                     | 9,940                                     |
| Listed investments                                       | 1,369                                     | 1,239                                     |
| Unlisted investments                                     | 5,626                                     | 6,675                                     |
| Others                                                   | 219                                       | 401                                       |
|                                                          | <b>18,105</b>                             | <b>21,484</b>                             |
| <b>Interest expense</b>                                  |                                           |                                           |
| Due to banks, customers and other financial institutions | (7,710)                                   | (12,098)                                  |
| Debt securities in issue                                 | (58)                                      | (49)                                      |
| Subordinated liability                                   | (6)                                       | –                                         |
| Others                                                   | (302)                                     | (434)                                     |
|                                                          | <b>(8,076)</b>                            | <b>(12,581)</b>                           |
| <b>Net interest income</b>                               | <b>10,029</b>                             | <b>8,903</b>                              |

Included within interest income is HK\$21 million (first half of 2007: HK\$14 million) of interest income recognised on advances classified as impaired for the first half of 2008. Interest accrued on impaired investment securities amounted to HK\$13 million (first half of 2007: Nil).

Included within interest income and interest expense are HK\$17,416 million (first half of 2007: HK\$20,882 million) and HK\$7,670 million (first half of 2007: HK\$12,192 million) for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

## 5. Net fees and commission income

|                                                                                         | Half-year ended<br>30 June 2008<br>HK\$'m | Half-year ended<br>30 June 2007<br>HK\$'m |
|-----------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| <b>Fees and commission income</b>                                                       |                                           |                                           |
| Securities brokerage                                                                    |                                           |                                           |
| – Stockbroking                                                                          | 1,289                                     | 1,324                                     |
| – Bonds                                                                                 | 220                                       | 65                                        |
| Credit cards                                                                            | 578                                       | 471                                       |
| Bills commissions                                                                       | 329                                       | 273                                       |
| Loan commissions                                                                        | 263                                       | 129                                       |
| Payment services                                                                        | 239                                       | 221                                       |
| Asset management                                                                        | 157                                       | 342                                       |
| Insurance                                                                               | 132                                       | 85                                        |
| Trust services                                                                          | 87                                        | 66                                        |
| Guarantees                                                                              | 26                                        | 24                                        |
| Others                                                                                  |                                           |                                           |
| – currency exchange                                                                     | 108                                       | 73                                        |
| – RMB business                                                                          | 99                                        | 54                                        |
| – safe deposit box                                                                      | 96                                        | 99                                        |
| – information search                                                                    | 25                                        | 23                                        |
| – correspondent banking                                                                 | 21                                        | 17                                        |
| – low deposit balance accounts                                                          | 15                                        | 17                                        |
| – BOC cards                                                                             | 13                                        | 14                                        |
| – postage and telegrams                                                                 | 13                                        | 12                                        |
| – agency services                                                                       | 11                                        | 8                                         |
| – dormant accounts                                                                      | 9                                         | 11                                        |
| – sundries                                                                              | 115                                       | 111                                       |
|                                                                                         | <b>3,845</b>                              | <b>3,439</b>                              |
| <b>Fees and commission expenses</b>                                                     | <b>(946)</b>                              | <b>(807)</b>                              |
| <b>Net fees and commission income</b>                                                   | <b>2,899</b>                              | <b>2,632</b>                              |
| Of which arise from                                                                     |                                           |                                           |
| – financial assets or financial liabilities not at fair value<br>through profit or loss |                                           |                                           |
| – Fees and commission income                                                            | 288                                       | 158                                       |
| – Fees and commission expenses                                                          | (14)                                      | (36)                                      |
|                                                                                         | <b>274</b>                                | <b>122</b>                                |
| – trust and other fiduciary activities                                                  |                                           |                                           |
| – Fees and commission income                                                            | 169                                       | 66                                        |
| – Fees and commission expenses                                                          | (3)                                       | –                                         |
|                                                                                         | <b>166</b>                                | <b>66</b>                                 |

**6. Net trading income**

|                                                  | <b>Half-year ended<br/>30 June 2008<br/>HK\$'m</b> | Half-year ended<br>30 June 2007<br>HK\$'m |
|--------------------------------------------------|----------------------------------------------------|-------------------------------------------|
| Net gain from:                                   |                                                    |                                           |
| – foreign exchange and foreign exchange products | <b>875</b>                                         | 155                                       |
| – interest rate instruments                      | <b>206</b>                                         | 192                                       |
| – equity instruments                             | <b>135</b>                                         | 70                                        |
| – commodities                                    | <b>21</b>                                          | –                                         |
|                                                  | <b>1,237</b>                                       | 417                                       |

**7. Net gain on investment in securities**

|                                                                | <b>Half-year ended<br/>30 June 2008<br/>HK\$'m</b> | Half-year ended<br>30 June 2007<br>HK\$'m |
|----------------------------------------------------------------|----------------------------------------------------|-------------------------------------------|
| Net gain from disposal of available-for-sale securities        | <b>129</b>                                         | 1                                         |
| Net (loss)/gain from redemption of held-to-maturity securities | <b>(1)</b>                                         | 1                                         |
|                                                                | <b>128</b>                                         | 2                                         |

**8. Net insurance premium income**

|                                                  | <b>Half-year ended<br/>30 June 2008<br/>HK\$'m</b> | Half-year ended<br>30 June 2007<br>HK\$'m |
|--------------------------------------------------|----------------------------------------------------|-------------------------------------------|
| Gross written premiums                           | <b>4,511</b>                                       | 2,936                                     |
| Less: Gross written premiums ceded to reinsurers | <b>(10)</b>                                        | (3)                                       |
| Net insurance premium income                     | <b>4,501</b>                                       | 2,933                                     |

**9. Other operating income**

|                                                     | <b>Half-year ended<br/>30 June 2008<br/>HK\$'m</b> | Half-year ended<br>30 June 2007<br>HK\$'m |
|-----------------------------------------------------|----------------------------------------------------|-------------------------------------------|
| Dividend income from investment in securities       |                                                    |                                           |
| – listed investments                                | <b>91</b>                                          | –                                         |
| – unlisted investments                              | <b>9</b>                                           | 9                                         |
| Gross rental income from investment properties      | <b>151</b>                                         | 123                                       |
| Less: Outgoings in respect of investment properties | <b>(24)</b>                                        | (22)                                      |
| Net gain on disposal of subsidiaries                | <b>–</b>                                           | 1                                         |
| Others                                              | <b>104</b>                                         | 88                                        |
|                                                     | <b>331</b>                                         | 199                                       |

Included in the “Outgoings in respect of investment properties” is HK\$1 million (first half of 2007: HK\$2 million) of direct operating expenses related to investment properties that were not let during the period.

**10. Net insurance benefits and claims**

|                                                                                             | <b>Half-year ended<br/>30 June 2008<br/>HK\$'m</b> | Half-year ended<br>30 June 2007<br>HK\$'m |
|---------------------------------------------------------------------------------------------|----------------------------------------------------|-------------------------------------------|
| Claims, benefits and surrenders paid                                                        | <b>741</b>                                         | 440                                       |
| Movement in liabilities                                                                     | <b>2,862</b>                                       | 2,193                                     |
| Gross claims, benefits and surrenders paid and movement in liabilities                      | <b>3,603</b>                                       | 2,633                                     |
| Less: Reinsurers' share of claims, benefits and surrenders paid and movement in liabilities | <b>(1)</b>                                         | (1)                                       |
| Net insurance claims, benefits and surrenders paid and movement in liabilities              | <b>3,602</b>                                       | 2,632                                     |

**11. Net (charge)/reversal of impairment allowances**

|                                                                    | Half-year ended<br>30 June 2008<br>HK\$'m | Half-year ended<br>30 June 2007<br>HK\$'m |
|--------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| <b>Advances to customers</b>                                       |                                           |                                           |
| Individually assessed                                              |                                           |                                           |
| – new allowances                                                   | (142)                                     | (106)                                     |
| – releases                                                         | 62                                        | 109                                       |
| – recoveries                                                       | 187                                       | 340                                       |
| Net reversal of individually assessed loan impairment allowances   | 107                                       | 343                                       |
| Collectively assessed                                              |                                           |                                           |
| – new allowances                                                   | (199)                                     | (192)                                     |
| – releases                                                         | 7                                         | –                                         |
| – recoveries                                                       | 14                                        | 15                                        |
| Net charge of collectively assessed loan impairment allowances     | (178)                                     | (177)                                     |
| Net (charge)/reversal of loan impairment allowances                | (71)                                      | 166                                       |
| <b>Available-for-sale securities</b>                               |                                           |                                           |
| Net charge of impairment losses on available-for-sale securities   |                                           |                                           |
| – Individually assessed                                            | (1,187)                                   | –                                         |
| <b>Held-to-maturity securities</b>                                 |                                           |                                           |
| Net charge of impairment allowances on held-to-maturity securities |                                           |                                           |
| – Individually assessed                                            | (962)                                     | –                                         |
| <b>Others</b>                                                      | (7)                                       | –                                         |
| <b>Net (charge)/reversal of impairment allowances</b>              | <b>(2,227)</b>                            | <b>166</b>                                |

**12. Operating expenses**

|                                                          | Half-year ended<br>30 June 2008<br>HK\$'m | Half-year ended<br>30 June 2007<br>HK\$'m |
|----------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Staff costs (including directors' emoluments)            |                                           |                                           |
| – salaries and other costs                               | 2,302                                     | 1,957                                     |
| – termination benefit                                    | 2                                         | 6                                         |
| – pension cost                                           | 178                                       | 146                                       |
|                                                          | 2,482                                     | 2,109                                     |
| Premises and equipment expenses (excluding depreciation) |                                           |                                           |
| – rental of premises                                     | 193                                       | 168                                       |
| – information technology                                 | 184                                       | 143                                       |
| – others                                                 | 118                                       | 106                                       |
|                                                          | 495                                       | 417                                       |
| Depreciation                                             | 480                                       | 373                                       |
| Auditors' remuneration                                   |                                           |                                           |
| – audit services                                         | 5                                         | 4                                         |
| – non-audit services                                     | 1                                         | 1                                         |
| Other operating expenses                                 | 625                                       | 514                                       |
|                                                          | 4,088                                     | 3,418                                     |

**13. Net gain from disposal of/fair value adjustments on investment properties**

|                                                             | Half-year ended<br>30 June 2008<br>HK\$'m | Half-year ended<br>30 June 2007<br>HK\$'m |
|-------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Net gain on disposal of investment properties               | 9                                         | 2                                         |
| Net gain on fair value adjustments on investment properties | 701                                       | 414                                       |
|                                                             | 710                                       | 416                                       |

**14. Net (loss)/gain from disposal/revaluation of properties, plant and equipment**

|                                            | Half-year ended<br>30 June 2008<br>HK\$'m | Half-year ended<br>30 June 2007<br>HK\$'m |
|--------------------------------------------|-------------------------------------------|-------------------------------------------|
| Net loss on disposal of other fixed assets | –                                         | (2)                                       |
| Net (loss)/gain on revaluation of premises | (8)                                       | 7                                         |
|                                            | (8)                                       | 5                                         |

## 15. Taxation

Taxation in the condensed consolidated income statement represents:

|                                | Half-year ended<br>30 June 2008<br>HK\$'m | Half-year ended<br>30 June 2007<br>HK\$'m |
|--------------------------------|-------------------------------------------|-------------------------------------------|
| Hong Kong profits tax          |                                           |                                           |
| – current period taxation      | 1,286                                     | 1,508                                     |
| Deferred tax (reversal)/charge | (111)                                     | 44                                        |
| Hong Kong profits tax          | 1,175                                     | 1,552                                     |
| Overseas taxation              | 78                                        | 47                                        |
|                                | 1,253                                     | 1,599                                     |

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2008. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2008 at the rates of taxation prevailing in the countries in which the Group operates.

The taxation on the Group's profit before taxation that differs from the theoretical amount that would arise using the taxation rate of Hong Kong is as follows:

|                                                       | Half-year ended<br>30 June 2008<br>HK\$'m | Half-year ended<br>30 June 2007<br>HK\$'m |
|-------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Profit before taxation                                | 8,434                                     | 9,227                                     |
| Calculated at a taxation rate of 16.5% (2007: 17.5%)  | 1,392                                     | 1,615                                     |
| Effect of different taxation rates in other countries | 32                                        | (11)                                      |
| Income not subject to taxation                        | (225)                                     | (52)                                      |
| Expenses not deductible for taxation purposes         | 54                                        | 54                                        |
| Utilisation of previously unrecognised tax losses     | –                                         | (7)                                       |
| Taxation charge                                       | 1,253                                     | 1,599                                     |
| Effective tax rate                                    | 14.9%                                     | 17.3%                                     |

**16. Dividends**

|                  | Half-year ended<br>30 June 2008 |                | Half-year ended<br>30 June 2007 |                |
|------------------|---------------------------------|----------------|---------------------------------|----------------|
|                  | Per share<br>HK\$               | Total<br>HK\$m | Per share<br>HK\$               | Total<br>HK\$m |
| Interim dividend | 0.438                           | 4,631          | 0.428                           | 4,525          |

At a meeting held on 28 August 2008, the Board declared an interim dividend of HK\$0.438 per ordinary share for the first half of 2008 amounting to approximately HK\$4,631 million. This declared dividend is not reflected as a dividend payable in this interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

**17. Earnings per share for profit attributable to the equity holders of the Company**

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the first half of 2008 of approximately HK\$7,088 million (first half of 2007: HK\$7,466 million) and on the ordinary shares in issue of 10,572,780,266 shares (2007: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the first half of 2008 (first half of 2007: Nil).

**18. Retirement benefit costs**

The principal defined contribution schemes for the Group's employees are ORSO schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon termination of employment after completing 20 years of service, or at a scale ranging from 20% to 95% for employees who have completed between 3 to 20 years of service, on conditions of retirement, early retirement, permanent incapacity and ill-health or termination of employment other than summary dismissal.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also participates in the BOC-Prudential Easy Choice MPF Scheme, of which the trustee is BOCI-Prudential Trustee and the investment manager is BOCI-Prudential Manager, which are related parties of the Company.

The Group's total contributions made to the ORSO schemes for the first half of 2008 amounted to approximately HK\$149 million (first half of 2007: approximately HK\$129 million), after a deduction of forfeited contributions of approximately HK\$7 million (first half of 2007: approximately HK\$7 million). For the MPF Scheme, the Group contributed approximately HK\$19 million (first half of 2007: approximately HK\$13 million) for the first half of 2008.

**19. Share option schemes****(a) *Share Option Scheme and Sharesave Plan***

The principal terms of the Share Option Scheme and the Sharesave Plan were approved and adopted by written resolutions of all the shareholders of the Company dated 10 July 2002.

The purpose of the Share Option Scheme is to provide the participants with the opportunity to acquire proprietary interests in the Company. The Board may, in its absolute discretion, offer to grant options under the Share Option Scheme to any person as the Board may select. The subscription price for the shares shall be determined on the date of grant by the Board as an amount per share calculated on the basis of established rules. An option may be exercised in whole or in part at any time after the date prescribed by the Board and from time to time as specified in the offer and on or before the termination date prescribed by the Board.

The purpose of the Sharesave Plan is to encourage broad-based employee ownership of the shares of the Company. The amount of the monthly contribution under the savings contract to be made in connection with an option shall be the amount which the relevant eligible employee is willing to contribute, which amount shall not be less than 1% and not more than 10% of the eligible employee's monthly salary as at the date of application or such other maximum or minimum amounts as permitted by the Board. When an option is exercised during an exercise period, it may be exercised in whole or in part.

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the first half of 2008 (first half of 2007: Nil).

**19. Share option schemes (continued)****(b) Pre-Listing Share Option Scheme**

On 5 July 2002, several directors together with approximately 60 senior management personnel of the Group and employees of BOC were granted options by BOC (BVI), the immediate holding company of the Company, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) an aggregate of 31,132,600 existing issued shares of the Company. The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to all options granted to employees on or before 7 November 2002.

Details of the share options outstanding as at 30 June 2008 are disclosed as follows:

|                                                 | Directors   | Senior management | Others*     | Total number of share options | Average exercise price (HK\$ per share) |
|-------------------------------------------------|-------------|-------------------|-------------|-------------------------------|-----------------------------------------|
| At 1 January 2008                               | 6,651,600   | 2,253,100         | 1,446,000   | 10,350,700                    | 8.5                                     |
| Less: Share options exercised during the period | (361,500)   | (587,500)         | (1,446,000) | (2,395,000)                   | 8.5                                     |
| At 30 June 2008                                 | 6,290,100   | 1,665,600         | –           | 7,955,700                     | 8.5                                     |
| Exercisable at 30 June 2008                     | 6,290,100   | 1,665,600         | –           | 7,955,700                     | 8.5                                     |
| At 1 January 2007                               | 8,459,100   | 3,980,450         | 1,446,000   | 13,885,550                    | 8.5                                     |
| Transfer                                        | (1,446,000) | –                 | 1,446,000   | –                             | 8.5                                     |
| Less: Share options exercised during the year   | (361,500)   | (1,727,350)       | (1,446,000) | (3,534,850)                   | 8.5                                     |
| At 31 December 2007                             | 6,651,600   | 2,253,100         | 1,446,000   | 10,350,700                    | 8.5                                     |
| Exercisable at 31 December 2007                 | 6,651,600   | 2,253,100         | 1,446,000   | 10,350,700                    | 8.5                                     |

\* Represented share options held by ex-directors of the Group.

Share options were exercised on a regular basis throughout the period, the weighted average share price during the period was HK\$19.23 (31 December 2007: HK\$19.38).

The options granted under this scheme can be exercised at HK\$8.50 per share in respect of the option price of HK\$1.00. These options have a vesting period of four years from the date on which dealings in the shares commenced on the Stock Exchange with a valid exercise period of ten years. No offer to grant any options under the Pre-Listing Share Option Scheme will be made on or after the date on which dealings in the shares commenced on the Stock Exchange.

**20. Cash and balances with banks and other financial institutions**

|                                                                                     | <b>At 30 June<br/>2008<br/>HK\$'m</b> | <b>At 31 December<br/>2007<br/>HK\$'m</b> |
|-------------------------------------------------------------------------------------|---------------------------------------|-------------------------------------------|
| Cash                                                                                | <b>4,089</b>                          | 3,334                                     |
| Balances with central banks                                                         | <b>83,826</b>                         | 30,627                                    |
| Balances with banks and other financial institutions                                | <b>4,687</b>                          | 6,139                                     |
| Placements with banks and other financial institutions<br>maturing within one month | <b>95,850</b>                         | 118,965                                   |
|                                                                                     | <b>188,452</b>                        | 159,065                                   |

**21. Financial assets at fair value through profit or loss**

|                            | <b>Financial assets<br/>designated at fair value<br/>through profit or loss</b> |                                               |                                           |                                               |                                           |                                               |
|----------------------------|---------------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|-----------------------------------------------|-------------------------------------------|-----------------------------------------------|
|                            | <b>Trading securities</b>                                                       |                                               | <b>through profit or loss</b>             |                                               | <b>Total</b>                              |                                               |
|                            | <b>At 30<br/>June<br/>2008<br/>HK\$'m</b>                                       | <b>At 31<br/>December<br/>2007<br/>HK\$'m</b> | <b>At 30<br/>June<br/>2008<br/>HK\$'m</b> | <b>At 31<br/>December<br/>2007<br/>HK\$'m</b> | <b>At 30<br/>June<br/>2008<br/>HK\$'m</b> | <b>At 31<br/>December<br/>2007<br/>HK\$'m</b> |
| At fair value              |                                                                                 |                                               |                                           |                                               |                                           |                                               |
| Debt securities            |                                                                                 |                                               |                                           |                                               |                                           |                                               |
| – Listed in Hong Kong      | <b>476</b>                                                                      | 190                                           | <b>330</b>                                | 895                                           | <b>806</b>                                | 1,085                                         |
| – Listed outside Hong Kong | <b>168</b>                                                                      | 537                                           | <b>3,266</b>                              | 2,687                                         | <b>3,434</b>                              | 3,224                                         |
|                            | <b>644</b>                                                                      | 727                                           | <b>3,596</b>                              | 3,582                                         | <b>4,240</b>                              | 4,309                                         |
| – Unlisted                 | <b>7,742</b>                                                                    | 5,510                                         | <b>22,200</b>                             | 21,037                                        | <b>29,942</b>                             | 26,547                                        |
|                            | <b>8,386</b>                                                                    | 6,237                                         | <b>25,796</b>                             | 24,619                                        | <b>34,182</b>                             | 30,856                                        |
| Equity securities          |                                                                                 |                                               |                                           |                                               |                                           |                                               |
| – Listed in Hong Kong      | <b>72</b>                                                                       | 327                                           | <b>304</b>                                | 349                                           | <b>376</b>                                | 676                                           |
| – Unlisted                 | <b>115</b>                                                                      | 94                                            | <b>2,609</b>                              | 2,814                                         | <b>2,724</b>                              | 2,908                                         |
|                            | <b>187</b>                                                                      | 421                                           | <b>2,913</b>                              | 3,163                                         | <b>3,100</b>                              | 3,584                                         |
| Total                      | <b>8,573</b>                                                                    | 6,658                                         | <b>28,709</b>                             | 27,782                                        | <b>37,282</b>                             | 34,440                                        |

**21. Financial assets at fair value through profit or loss (continued)**

Financial assets at fair value through profit or loss are analysed by type of issuer as follows:

|                                        | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|----------------------------------------|---------------------------------------|----------------------------------|
| Sovereigns                             | <b>7,294</b>                          | 4,197                            |
| Public sector entities                 | <b>1,719</b>                          | 1,333                            |
| Banks and other financial institutions | <b>24,576</b>                         | 24,820                           |
| Corporate entities                     | <b>3,693</b>                          | 4,090                            |
|                                        | <b>37,282</b>                         | 34,440                           |

Financial assets at fair value through profit or loss are analysed as follows:

|                                                             | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|-------------------------------------------------------------|---------------------------------------|----------------------------------|
| Treasury bills                                              | <b>6,586</b>                          | 3,517                            |
| Certificates of deposit held                                | <b>2,511</b>                          | 3,204                            |
| Other financial assets at fair value through profit or loss | <b>28,185</b>                         | 27,719                           |
|                                                             | <b>37,282</b>                         | 34,440                           |

## 22. Derivative financial instruments

The Group enters into the following equity, foreign exchange, interest rate and precious metal related derivative financial instruments for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currency on a future date. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates or buy or sell interest rate financial instruments on a future date at an agreed price in the financial market under the administration of the stock exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency, interest rate and precious metal swaps are commitments to exchange one set of cash flows or commodity for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or precious metals (for example, silver swaps) or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate, equity and precious metal options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated over-the-counter (“OTC”) between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock option).

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the condensed consolidated balance sheet. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group’s exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or equity and metal prices relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

**22. Derivative financial instruments (continued)**

The following tables summarise the contract/notional amounts of each significant type of derivative financial instrument as at 30 June 2008 and 31 December 2007:

|                                   | At 30 June 2008   |                   |                                                     |                 |
|-----------------------------------|-------------------|-------------------|-----------------------------------------------------|-----------------|
|                                   | Trading<br>HK\$'m | Hedging<br>HK\$'m | Not qualified<br>for hedge<br>accounting*<br>HK\$'m | Total<br>HK\$'m |
| Exchange rate contracts           |                   |                   |                                                     |                 |
| Spot and forwards                 | 288,861           | –                 | –                                                   | 288,861         |
| Swaps                             | 192,702           | –                 | 68                                                  | 192,770         |
| Foreign currency option contracts |                   |                   |                                                     |                 |
| – Options purchased               | 5,137             | –                 | –                                                   | 5,137           |
| – Options written                 | 5,181             | –                 | –                                                   | 5,181           |
|                                   | 491,881           | –                 | 68                                                  | 491,949         |
| Interest rate contracts           |                   |                   |                                                     |                 |
| Futures                           | 4,821             | –                 | –                                                   | 4,821           |
| Swaps                             | 48,826            | 22,917            | 5,184                                               | 76,927          |
| Interest rate option contracts    |                   |                   |                                                     |                 |
| – Swaptions written               | 702               | –                 | –                                                   | 702             |
| – Bond options written            | 468               | –                 | –                                                   | 468             |
|                                   | 54,817            | 22,917            | 5,184                                               | 82,918          |
| Bullion contracts                 | 16,769            | –                 | –                                                   | 16,769          |
| Equity contracts                  | 8,931             | –                 | –                                                   | 8,931           |
| Other contracts                   | 157               | –                 | –                                                   | 157             |
| Total                             | 572,555           | 22,917            | 5,252                                               | 600,724         |

\* Derivative transactions which do not qualify as hedges for accounting purposes but are managed in conjunction with the financial instruments designated at fair value through profit or loss are separately disclosed in compliance with the requirements set out in the Banking (Disclosure) Rules.

## 22. Derivative financial instruments (continued)

|                                   | At 31 December 2007 |                   |                                                    |                 |
|-----------------------------------|---------------------|-------------------|----------------------------------------------------|-----------------|
|                                   | Trading<br>HK\$'m   | Hedging<br>HK\$'m | Not qualified<br>for hedge<br>accounting<br>HK\$'m | Total<br>HK\$'m |
| Exchange rate contracts           |                     |                   |                                                    |                 |
| Spot and forwards                 | 258,556             | –                 | 1,495                                              | 260,051         |
| Swaps                             | 156,554             | –                 | –                                                  | 156,554         |
| Foreign currency option contracts |                     |                   |                                                    |                 |
| – Options purchased               | 5,607               | –                 | –                                                  | 5,607           |
| – Options written                 | 5,875               | –                 | –                                                  | 5,875           |
|                                   | 426,592             | –                 | 1,495                                              | 428,087         |
| Interest rate contracts           |                     |                   |                                                    |                 |
| Futures                           | 226                 | –                 | –                                                  | 226             |
| Swaps                             | 36,714              | 6,708             | 3,253                                              | 46,675          |
| Interest rate option contracts    |                     |                   |                                                    |                 |
| – Swaptions written               | 780                 | –                 | –                                                  | 780             |
| – Bond options written            | 780                 | –                 | –                                                  | 780             |
|                                   | 38,500              | 6,708             | 3,253                                              | 48,461          |
| Bullion contracts                 | 12,950              | –                 | –                                                  | 12,950          |
| Equity contracts                  | 5,378               | –                 | –                                                  | 5,378           |
| Other contracts                   | 172                 | –                 | –                                                  | 172             |
| Total                             | 483,592             | 6,708             | 4,748                                              | 495,048         |

**22. Derivative financial instruments (continued)**

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2008 and 31 December 2007:

|                                   | At 30 June 2008         |                   |                      |                 |                         |                   |                      |                 |
|-----------------------------------|-------------------------|-------------------|----------------------|-----------------|-------------------------|-------------------|----------------------|-----------------|
|                                   | Fair value assets       |                   |                      |                 | Fair value liabilities  |                   |                      |                 |
|                                   | Not qualified for hedge |                   |                      |                 | Not qualified for hedge |                   |                      |                 |
|                                   | Trading<br>HK\$'m       | Hedging<br>HK\$'m | accounting<br>HK\$'m | Total<br>HK\$'m | Trading<br>HK\$'m       | Hedging<br>HK\$'m | accounting<br>HK\$'m | Total<br>HK\$'m |
| Exchange rate contracts           |                         |                   |                      |                 |                         |                   |                      |                 |
| Spot and forwards                 | 17,649                  | -                 | -                    | 17,649          | (12,681)                | -                 | -                    | (12,681)        |
| Swaps                             | 613                     | -                 | 1                    | 614             | (727)                   | -                 | (1)                  | (728)           |
| Foreign currency option contracts |                         |                   |                      |                 |                         |                   |                      |                 |
| – Options purchased               | 27                      | -                 | -                    | 27              | -                       | -                 | -                    | -               |
| – Options written                 | -                       | -                 | -                    | -               | (26)                    | -                 | -                    | (26)            |
|                                   | 18,289                  | -                 | 1                    | 18,290          | (13,434)                | -                 | (1)                  | (13,435)        |
| Interest rate contracts           |                         |                   |                      |                 |                         |                   |                      |                 |
| Futures                           | 1                       | -                 | -                    | 1               | (9)                     | -                 | -                    | (9)             |
| Swaps                             | 700                     | 379               | 8                    | 1,087           | (1,153)                 | (153)             | (78)                 | (1,384)         |
| Interest rate option contracts    |                         |                   |                      |                 |                         |                   |                      |                 |
| – Swaptions written               | -                       | -                 | -                    | -               | (5)                     | -                 | -                    | (5)             |
| – Bond options written            | -                       | -                 | -                    | -               | (7)                     | -                 | -                    | (7)             |
|                                   | 701                     | 379               | 8                    | 1,088           | (1,174)                 | (153)             | (78)                 | (1,405)         |
| Bullion contracts                 | 890                     | -                 | -                    | 890             | (1,728)                 | -                 | -                    | (1,728)         |
| Equity contracts                  | 1,129                   | -                 | -                    | 1,129           | (1,137)                 | -                 | -                    | (1,137)         |
| Total                             | 21,009                  | 379               | 9                    | 21,397          | (17,473)                | (153)             | (79)                 | (17,705)        |

## 22. Derivative financial instruments (continued)

|                                   | At 31 December 2007                |                   |                      |                 |                                    |                   |                      |                 |
|-----------------------------------|------------------------------------|-------------------|----------------------|-----------------|------------------------------------|-------------------|----------------------|-----------------|
|                                   | Fair value assets                  |                   |                      |                 | Fair value liabilities             |                   |                      |                 |
|                                   | Not qualified for hedge accounting |                   |                      |                 | Not qualified for hedge accounting |                   |                      |                 |
|                                   | Trading<br>HK\$'m                  | Hedging<br>HK\$'m | accounting<br>HK\$'m | Total<br>HK\$'m | Trading<br>HK\$'m                  | Hedging<br>HK\$'m | accounting<br>HK\$'m | Total<br>HK\$'m |
| Exchange rate contracts           |                                    |                   |                      |                 |                                    |                   |                      |                 |
| Spot and forwards                 | 12,588                             | –                 | –                    | 12,588          | (7,822)                            | –                 | (10)                 | (7,832)         |
| Swaps                             | 269                                | –                 | –                    | 269             | (634)                              | –                 | –                    | (634)           |
| Foreign currency option contracts |                                    |                   |                      |                 |                                    |                   |                      |                 |
| – Options purchased               | 48                                 | –                 | –                    | 48              | –                                  | –                 | –                    | –               |
| – Options written                 | –                                  | –                 | –                    | –               | (51)                               | –                 | –                    | (51)            |
|                                   | 12,905                             | –                 | –                    | 12,905          | (8,507)                            | –                 | (10)                 | (8,517)         |
| Interest rate contracts           |                                    |                   |                      |                 |                                    |                   |                      |                 |
| Swaps                             | 492                                | 10                | 23                   | 525             | (885)                              | (124)             | (90)                 | (1,099)         |
| Interest rate option contracts    |                                    |                   |                      |                 |                                    |                   |                      |                 |
| – Swaptions written               | –                                  | –                 | –                    | –               | (17)                               | –                 | –                    | (17)            |
| – Bond options written            | –                                  | –                 | –                    | –               | (23)                               | –                 | –                    | (23)            |
|                                   | 492                                | 10                | 23                   | 525             | (925)                              | (124)             | (90)                 | (1,139)         |
| Bullion contracts                 | 774                                | –                 | –                    | 774             | (1,110)                            | –                 | –                    | (1,110)         |
| Equity contracts                  | 273                                | –                 | –                    | 273             | (326)                              | –                 | –                    | (326)           |
| Total                             | 14,444                             | 10                | 23                   | 14,477          | (10,868)                           | (124)             | (100)                | (11,092)        |

**22. Derivative financial instruments (continued)**

The credit risk weighted amounts of the above derivative financial instruments are as follows:

|                                   | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|-----------------------------------|---------------------------------------|----------------------------------|
| Exchange rate contracts           |                                       |                                  |
| Forwards                          | <b>659</b>                            | 1,017                            |
| Swaps                             | <b>660</b>                            | 492                              |
| Foreign currency option contracts |                                       |                                  |
| – Options purchased               | <b>6</b>                              | 19                               |
| Interest rate contracts           |                                       |                                  |
| Swaps                             | <b>265</b>                            | 104                              |
| Bullion contracts                 | <b>50</b>                             | 63                               |
| Equity contracts                  | <b>79</b>                             | 49                               |
|                                   | <b>1,719</b>                          | 1,744                            |

The credit risk weighted amounts are the amounts that have been calculated in accordance with the Banking (Capital) Rules. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

There is no effect of bilateral netting agreement on the fair values or the credit risk-weighted amounts of the derivative financial instruments.

Approximately 56% (31 December 2007: 52%) of the Group's transactions in derivative contracts are conducted with other financial institutions.

**23. Advances and other accounts**

|                                                    | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|----------------------------------------------------|---------------------------------------|----------------------------------|
| Personal loans and advances                        | <b>152,491</b>                        | 141,708                          |
| Corporate loans and advances                       | <b>323,096</b>                        | 271,354                          |
| Advances to customers                              | <b>475,587</b>                        | 413,062                          |
| Loan impairment allowances                         |                                       |                                  |
| – Individually assessed                            | <b>(416)</b>                          | (381)                            |
| – Collectively assessed                            | <b>(1,108)</b>                        | (1,004)                          |
|                                                    | <b>474,063</b>                        | 411,677                          |
| Trade bills                                        | <b>9,268</b>                          | 5,334                            |
| Advances to banks and other financial institutions | <b>3,681</b>                          | 3,223                            |
| Total                                              | <b>487,012</b>                        | 420,234                          |

As at 30 June 2008, advances to customers included accrued interest on gross advances of HK\$1,147 million (31 December 2007: HK\$1,454 million).

As at 30 June 2008 and 31 December 2007, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

**24. Investment in securities**

|                                                    | At 30 June<br>2008<br>HK\$'m | At 31 December<br>2007<br>HK\$'m |
|----------------------------------------------------|------------------------------|----------------------------------|
| <b>(a) Available-for-sale securities</b>           |                              |                                  |
| Debt securities, at fair value                     |                              |                                  |
| – Listed in Hong Kong                              | 2,794                        | 3,659                            |
| – Listed outside Hong Kong                         | 33,415                       | 18,455                           |
|                                                    | 36,209                       | 22,114                           |
| – Unlisted                                         | 79,095                       | 77,959                           |
|                                                    | 115,304                      | 100,073                          |
| Equity securities, at fair value                   |                              |                                  |
| – Listed in Hong Kong                              | 3,282                        | 4,135                            |
| – Listed outside Hong Kong                         | 453                          | –                                |
|                                                    | 3,735                        | 4,135                            |
| – Unlisted                                         | 78                           | 445                              |
|                                                    | 3,813                        | 4,580                            |
|                                                    | 119,117                      | 104,653                          |
| <b>(b) Held-to-maturity securities</b>             |                              |                                  |
| Listed, at amortised cost                          |                              |                                  |
| – in Hong Kong                                     | 4,078                        | 4,107                            |
| – outside Hong Kong                                | 23,165                       | 21,078                           |
|                                                    | 27,243                       | 25,185                           |
| Unlisted, at amortised cost                        | 108,543                      | 141,925                          |
|                                                    | 135,786                      | 167,110                          |
| Impairment allowances                              | (2,281)                      | (1,682)                          |
|                                                    | 133,505                      | 165,428                          |
| <b>(c) Loans and receivables</b>                   |                              |                                  |
| Unlisted, at amortised cost                        | 10,075                       | 31,102                           |
| <b>Total</b>                                       | <b>262,697</b>               | <b>301,183</b>                   |
| Market value of listed held-to-maturity securities | 26,708                       | 24,776                           |

**24. Investment in securities (continued)**

Investment in securities is analysed by type of issuer as follows:

|                                        | At 30 June 2008                      |                                    |                          |                |
|----------------------------------------|--------------------------------------|------------------------------------|--------------------------|----------------|
|                                        | Available-<br>for-sale<br>securities | Held-to-<br>maturity<br>securities | Loans and<br>receivables | Total          |
|                                        | HK\$'m                               | HK\$'m                             | HK\$'m                   | HK\$'m         |
| Sovereigns                             | 15,474                               | 1,463                              | –                        | 16,937         |
| Public sector entities                 | 7,697                                | 18,341                             | –                        | 26,038         |
| Banks and other financial institutions | 64,948                               | 84,932                             | 10,075                   | 159,955        |
| Corporate entities                     | 30,998                               | 28,769                             | –                        | 59,767         |
|                                        | <b>119,117</b>                       | <b>133,505</b>                     | <b>10,075</b>            | <b>262,697</b> |

|                                        | At 31 December 2007                  |                                    |                          |                |
|----------------------------------------|--------------------------------------|------------------------------------|--------------------------|----------------|
|                                        | Available-<br>for-sale<br>securities | Held-to-<br>maturity<br>securities | Loans and<br>receivables | Total          |
|                                        | HK\$'m                               | HK\$'m                             | HK\$'m                   | HK\$'m         |
| Sovereigns                             | 13,402                               | 1,814                              | –                        | 15,216         |
| Public sector entities                 | 9,673                                | 20,530                             | –                        | 30,203         |
| Banks and other financial institutions | 47,989                               | 108,547                            | 31,102                   | 187,638        |
| Corporate entities                     | 33,589                               | 34,537                             | –                        | 68,126         |
|                                        | <b>104,653</b>                       | <b>165,428</b>                     | <b>31,102</b>            | <b>301,183</b> |

Available-for-sale and held-to-maturity securities are analysed as follows:

|                              | Available-for-sale securities |                                  | Held-to-maturity securities  |                                  |
|------------------------------|-------------------------------|----------------------------------|------------------------------|----------------------------------|
|                              | At 30 June<br>2008<br>HK\$'m  | At 31 December<br>2007<br>HK\$'m | At 30 June<br>2008<br>HK\$'m | At 31 December<br>2007<br>HK\$'m |
| Treasury bills               | 9,425                         | 9,396                            | 100                          | 200                              |
| Certificates of deposit held | 6,576                         | 7,466                            | 13,543                       | 11,988                           |
| Others                       | 103,116                       | 87,791                           | 119,862                      | 153,240                          |
|                              | <b>119,117</b>                | <b>104,653</b>                   | <b>133,505</b>               | <b>165,428</b>                   |

**25. Investment properties**

|                                                               | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|---------------------------------------------------------------|---------------------------------------|----------------------------------|
| At 1 January                                                  | <b>8,058</b>                          | 7,481                            |
| Disposals                                                     | <b>(89)</b>                           | (200)                            |
| Fair value gains (Note 13)                                    | <b>701</b>                            | 1,056                            |
| Reclassification to properties, plant and equipment (Note 26) | <b>(36)</b>                           | (279)                            |
| At period/year end                                            | <b>8,634</b>                          | 8,058                            |

**26. Properties, plant and equipment**

|                                                       | <b>Premises<br/>HK\$'m</b> | <b>Equipment,<br/>fixtures and<br/>fittings<br/>HK\$'m</b> | <b>Total<br/>HK\$'m</b> |
|-------------------------------------------------------|----------------------------|------------------------------------------------------------|-------------------------|
| Net book value at 1 January 2008                      | <b>20,783</b>              | <b>2,510</b>                                               | <b>23,293</b>           |
| Additions                                             | <b>13</b>                  | <b>204</b>                                                 | <b>217</b>              |
| Disposals                                             | <b>–</b>                   | <b>(1)</b>                                                 | <b>(1)</b>              |
| Revaluation                                           | <b>2,165</b>               | <b>–</b>                                                   | <b>2,165</b>            |
| Depreciation for the period (Note 12)                 | <b>(191)</b>               | <b>(289)</b>                                               | <b>(480)</b>            |
| Reclassification from investment properties (Note 25) | <b>36</b>                  | <b>–</b>                                                   | <b>36</b>               |
| Net book value at 30 June 2008                        | <b>22,806</b>              | <b>2,424</b>                                               | <b>25,230</b>           |
| At 30 June 2008                                       |                            |                                                            |                         |
| Cost or valuation                                     | <b>22,806</b>              | <b>5,795</b>                                               | <b>28,601</b>           |
| Accumulated depreciation and impairment               | <b>–</b>                   | <b>(3,371)</b>                                             | <b>(3,371)</b>          |
| Net book value at 30 June 2008                        | <b>22,806</b>              | <b>2,424</b>                                               | <b>25,230</b>           |
| Net book value at 1 January 2007                      | 17,906                     | 1,834                                                      | 19,740                  |
| Additions                                             | –                          | 1,147                                                      | 1,147                   |
| Disposals                                             | (16)                       | (17)                                                       | (33)                    |
| Revaluation                                           | 2,946                      | –                                                          | 2,946                   |
| Depreciation for the year                             | (332)                      | (455)                                                      | (787)                   |
| Reclassification from investment properties (Note 25) | 279                        | –                                                          | 279                     |
| Exchange adjustments                                  | –                          | 1                                                          | 1                       |
| Net book value at 31 December 2007                    | 20,783                     | 2,510                                                      | 23,293                  |
| At 31 December 2007                                   |                            |                                                            |                         |
| Cost or valuation                                     | 20,783                     | 5,642                                                      | 26,425                  |
| Accumulated depreciation and impairment               | –                          | (3,132)                                                    | (3,132)                 |
| Net book value at 31 December 2007                    | 20,783                     | 2,510                                                      | 23,293                  |

**26. Properties, plant and equipment (continued)**

The analysis of cost or valuation of the above assets is as follows:

|                     | Premises<br>HK\$'m | Equipment,<br>fixtures and<br>fittings<br>HK\$'m | Total<br>HK\$'m |
|---------------------|--------------------|--------------------------------------------------|-----------------|
| At 30 June 2008     |                    |                                                  |                 |
| At cost             | –                  | 5,795                                            | 5,795           |
| At valuation        | 22,806             | –                                                | 22,806          |
|                     | <b>22,806</b>      | <b>5,795</b>                                     | <b>28,601</b>   |
| At 31 December 2007 |                    |                                                  |                 |
| At cost             | –                  | 5,642                                            | 5,642           |
| At valuation        | 20,783             | –                                                | 20,783          |
|                     | <b>20,783</b>      | <b>5,642</b>                                     | <b>26,425</b>   |

**27. Other assets**

|                                     | At 30 June<br>2008<br>HK\$'m | At 31 December<br>2007<br>HK\$'m |
|-------------------------------------|------------------------------|----------------------------------|
| Reposessed assets                   | 136                          | 76                               |
| Precious metals                     | 1,843                        | 1,741                            |
| Accounts receivable and prepayments | 11,184                       | 19,040                           |
|                                     | <b>13,163</b>                | <b>20,857</b>                    |

**28. Financial liabilities at fair value through profit or loss**

|                                                                       | At 30 June<br>2008<br>HK\$'m | At 31 December<br>2007<br>HK\$'m |
|-----------------------------------------------------------------------|------------------------------|----------------------------------|
| Trading liabilities                                                   |                              |                                  |
| – Short positions in Exchange Fund Bills (Note 31)                    | 6,689                        | 3,492                            |
| Financial liabilities designated at fair value through profit or loss |                              |                                  |
| – Structured deposits (Note 29)                                       | 3,601                        | 5,959                            |
| – Certificates of deposit issued                                      | 1,823                        | 1,954                            |
|                                                                       | <b>5,424</b>                 | <b>7,913</b>                     |
|                                                                       | <b>12,113</b>                | <b>11,405</b>                    |

**28. Financial liabilities at fair value through profit or loss (continued)**

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2008 is more than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$33 million, and it was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$44 million as at 31 December 2007. The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the period and cumulatively, attributable to changes in credit risk is insignificant.

**29. Deposits from customers**

|                                                                                                         | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|---------------------------------------------------------------------------------------------------------|---------------------------------------|----------------------------------|
| Current, savings and other deposit accounts<br>(per condensed consolidated balance sheet)               | <b>819,110</b>                        | 793,606                          |
| Structured deposits reported as financial liabilities<br>at fair value through profit or loss (Note 28) | <b>3,601</b>                          | 5,959                            |
|                                                                                                         | <b>822,711</b>                        | 799,565                          |
| Analysed by:                                                                                            |                                       |                                  |
| Demand deposits and current accounts                                                                    |                                       |                                  |
| – corporate customers                                                                                   | <b>32,682</b>                         | 32,645                           |
| – individual customers                                                                                  | <b>8,225</b>                          | 7,854                            |
|                                                                                                         | <b>40,907</b>                         | 40,499                           |
| Savings deposits                                                                                        |                                       |                                  |
| – corporate customers                                                                                   | <b>74,292</b>                         | 76,668                           |
| – individual customers                                                                                  | <b>221,210</b>                        | 209,985                          |
|                                                                                                         | <b>295,502</b>                        | 286,653                          |
| Time, call and notice deposits                                                                          |                                       |                                  |
| – corporate customers                                                                                   | <b>212,440</b>                        | 172,342                          |
| – individual customers                                                                                  | <b>273,862</b>                        | 300,071                          |
|                                                                                                         | <b>486,302</b>                        | 472,413                          |
|                                                                                                         | <b>822,711</b>                        | 799,565                          |

**30. Other accounts and provisions**

|                        | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|------------------------|---------------------------------------|----------------------------------|
| Other accounts payable | <b>24,864</b>                         | 33,335                           |
| Provisions             | <b>11</b>                             | 9                                |
|                        | <b>24,875</b>                         | 33,344                           |

**31. Assets pledged as security**

As at 30 June 2008, liabilities of the Group amounting to HK\$6,689 million (31 December 2007: HK\$3,492 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$3,675 million (31 December 2007: Nil) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK\$11,629 million (31 December 2007: HK\$3,836 million) included in "Trading securities" and "Available-for-sale securities".

**32. Deferred taxation**

Deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in this interim financial information in accordance with HKAS 12 "Income Taxes".

The major components of deferred tax assets and liabilities recorded in the condensed consolidated balance sheet, and the movements during the first half of 2008 and the year ended 31 December 2007 are as follows:

|                                                        | <b>At 30 June 2008</b>                                 |                                         |                                  |                              |                                                       |                         |
|--------------------------------------------------------|--------------------------------------------------------|-----------------------------------------|----------------------------------|------------------------------|-------------------------------------------------------|-------------------------|
|                                                        | <b>Accelerated<br/>tax<br/>depreciation<br/>HK\$'m</b> | <b>Asset<br/>revaluation<br/>HK\$'m</b> | <b>Tax<br/>losses<br/>HK\$'m</b> | <b>Provisions<br/>HK\$'m</b> | <b>Other<br/>temporary<br/>differences<br/>HK\$'m</b> | <b>Total<br/>HK\$'m</b> |
| At 1 January 2008                                      | 533                                                    | 3,777                                   | (15)                             | (169)                        | (182)                                                 | 3,944                   |
| (Credited)/charged to income<br>statement (Note 15)    | (43)                                                   | (26)                                    | (73)                             | 8                            | 23                                                    | (111)                   |
| Charged/(credited) to equity<br>and minority interests | –                                                      | 262                                     | –                                | –                            | (235)                                                 | 27                      |
| At 30 June 2008                                        | 490                                                    | 4,013                                   | (88)                             | (161)                        | (394)                                                 | 3,860                   |

**32. Deferred taxation (continued)**

|                                                        | At 31 December 2007                |                      |               |            |                                   |        |
|--------------------------------------------------------|------------------------------------|----------------------|---------------|------------|-----------------------------------|--------|
|                                                        | Accelerated<br>tax<br>depreciation | Asset<br>revaluation | Tax<br>losses | Provisions | Other<br>temporary<br>differences | Total  |
|                                                        | HK\$'m                             | HK\$'m               | HK\$'m        | HK\$'m     | HK\$'m                            | HK\$'m |
| At 1 January 2007                                      | 401                                | 3,155                | (71)          | (89)       | (74)                              | 3,322  |
| Charged/(credited) to income statement                 | 132                                | 143                  | 56            | (80)       | 1                                 | 252    |
| Charged/(credited) to equity and<br>minority interests | –                                  | 479                  | –             | –          | (109)                             | 370    |
| At 31 December 2007                                    | 533                                | 3,777                | (15)          | (169)      | (182)                             | 3,944  |

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the condensed consolidated balance sheet:

|                          | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|--------------------------|---------------------------------------|----------------------------------|
| Deferred tax assets      | <b>(93)</b>                           | (23)                             |
| Deferred tax liabilities | <b>3,953</b>                          | 3,967                            |
|                          | <b>3,860</b>                          | 3,944                            |

|                                                                      | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|----------------------------------------------------------------------|---------------------------------------|----------------------------------|
| Deferred tax assets to be recovered after more than twelve months    | <b>(93)</b>                           | (23)                             |
| Deferred tax liabilities to be settled after more than twelve months | <b>4,334</b>                          | 4,115                            |
|                                                                      | <b>4,241</b>                          | 4,092                            |

**32. Deferred taxation (continued)**

The deferred tax charged/(credited) to equity during the first half of 2008 and the year ended 31 December 2007 is as follows:

|                                              | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|----------------------------------------------|---------------------------------------|----------------------------------|
| Fair value reserves in shareholders' equity: |                                       |                                  |
| – premises                                   | <b>263</b>                            | 476                              |
| – available-for-sale securities              | <b>(240)</b>                          | (109)                            |
| – minority interests                         | <b>4</b>                              | 3                                |
|                                              | <b>27</b>                             | 370                              |

**33. Insurance contract liabilities**

|                                             | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|---------------------------------------------|---------------------------------------|----------------------------------|
| Gross and net                               |                                       |                                  |
| At 1 January                                | <b>22,497</b>                         | 14,239                           |
| Benefits paid                               | <b>(737)</b>                          | (881)                            |
| Claims incurred and movement in liabilities | <b>3,310</b>                          | 9,139                            |
| At period/year end                          | <b>25,070</b>                         | 22,497                           |

**34. Subordinated liability**

|                   | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|-------------------|---------------------------------------|----------------------------------|
| Subordinated loan | <b>8,150</b>                          | –                                |

In June 2008, BOCHK obtained a floating-rate subordinated loan with a principal amount of EUR660 million from BOC, the intermediate holding company. The loan will be due and repayable in June 2018. Interest is charged at 6-month EURIBOR plus 0.85% per annum for the first five years of the loan term, and at 6-month EURIBOR plus 1.35% per annum for the remaining tenure, payable semi-annually.

**35. Share capital**

|                                                                        | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|------------------------------------------------------------------------|---------------------------------------|----------------------------------|
| Authorised:<br>20,000,000,000 ordinary shares of HK\$5 each            | <b>100,000</b>                        | 100,000                          |
| Issued and fully paid:<br>10,572,780,266 ordinary shares of HK\$5 each | <b>52,864</b>                         | 52,864                           |

**36. Reserves**

The Group's reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity on pages 44 to 45.

**37. Notes to condensed consolidated cash flow statement****(a) Reconciliation of operating profit to operating cash inflow before taxation**

|                                                                                                                  | <b>Half-year ended<br/>30 June 2008<br/>HK\$'m</b> | Half-year ended<br>30 June 2007<br>HK\$'m |
|------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|-------------------------------------------|
| Operating profit                                                                                                 | <b>7,724</b>                                       | 8,808                                     |
| Depreciation                                                                                                     | <b>480</b>                                         | 373                                       |
| Net charge/(reversal) of impairment allowances                                                                   | <b>2,227</b>                                       | (166)                                     |
| Unwind of discount on impairment                                                                                 | <b>(21)</b>                                        | (14)                                      |
| Advances written off net of recoveries                                                                           | <b>86</b>                                          | 214                                       |
| Interest expense on subordinated liability                                                                       | <b>6</b>                                           | –                                         |
| Change in cash and balances with banks and other financial institutions with original maturity over three months | <b>17,866</b>                                      | (6,883)                                   |
| Change in placements with banks and other financial institutions with original maturity over three months        | <b>(627)</b>                                       | (9,863)                                   |
| Change in financial assets at fair value through profit or loss                                                  | <b>565</b>                                         | 2,360                                     |
| Change in derivative financial instruments                                                                       | <b>(307)</b>                                       | (615)                                     |
| Change in advances and other accounts                                                                            | <b>(66,914)</b>                                    | (46,767)                                  |
| Change in investment in securities                                                                               | <b>33,400</b>                                      | (1,751)                                   |
| Change in other assets                                                                                           | <b>7,689</b>                                       | (46,795)                                  |
| Change in deposits and balances of banks and other financial institutions                                        | <b>21,026</b>                                      | (2,316)                                   |
| Change in financial liabilities at fair value through profit or loss                                             | <b>708</b>                                         | 3,077                                     |
| Change in deposits from customers                                                                                | <b>25,504</b>                                      | 109,223                                   |
| Change in debt securities in issue at amortised cost                                                             | <b>667</b>                                         | 283                                       |
| Change in other accounts and provisions                                                                          | <b>(8,471)</b>                                     | (48)                                      |
| Change in insurance contract liabilities                                                                         | <b>2,573</b>                                       | 2,196                                     |
| Exchange difference                                                                                              | <b>199</b>                                         | 6                                         |
| Operating cash inflow before taxation                                                                            | <b>44,380</b>                                      | 11,322                                    |
| Cash flows from operating activities included:                                                                   |                                                    |                                           |
| – Interest received                                                                                              | <b>19,220</b>                                      | 21,158                                    |
| – Interest paid                                                                                                  | <b>7,254</b>                                       | 12,427                                    |
| – Dividend received                                                                                              | <b>100</b>                                         | 9                                         |

**37. Notes to condensed consolidated cash flow statement (continued)****(b) Analysis of the balances of cash and cash equivalents**

|                                                                                                          | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 30 June<br>2007<br>HK\$'m |
|----------------------------------------------------------------------------------------------------------|---------------------------------------|------------------------------|
| Cash and balances with banks and other financial institutions with original maturity within three months | <b>173,272</b>                        | 110,712                      |
| Placements with banks and other financial institutions with original maturity within three months        | <b>10,847</b>                         | 14,339                       |
| Treasury bills with original maturity within three months                                                | <b>12,820</b>                         | 8,244                        |
| Certificates of deposit held with original maturity within three months                                  | <b>1,816</b>                          | 702                          |
|                                                                                                          | <b>198,755</b>                        | 133,997                      |

**38. Contingent liabilities and commitments**

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the corresponding aggregate credit risk weighted amount:

|                                                                       | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|-----------------------------------------------------------------------|---------------------------------------|----------------------------------|
| Direct credit substitutes                                             | <b>1,511</b>                          | 2,120                            |
| Transaction-related contingencies                                     | <b>8,186</b>                          | 7,075                            |
| Trade-related contingencies                                           | <b>33,231</b>                         | 29,081                           |
| Commitments that are unconditionally cancellable without prior notice | <b>53,169</b>                         | 50,034                           |
| Other commitments with an original maturity of                        |                                       |                                  |
| – up to one year                                                      | <b>93,133</b>                         | 84,804                           |
| – over one year                                                       | <b>48,627</b>                         | 58,189                           |
|                                                                       | <b>237,857</b>                        | 231,303                          |
| Credit risk weighted amount                                           | <b>45,867</b>                         | 47,356                           |

The calculation basis of the credit risk weighted amount has been set out in Note 22.

**39. Capital commitments**

The Group has the following outstanding capital commitments not provided for in this interim financial information:

|                                                    | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|----------------------------------------------------|---------------------------------------|----------------------------------|
| Authorised and contracted for but not provided for | <b>318</b>                            | 165                              |
| Authorised but not contracted for                  | <b>54</b>                             | 1                                |
|                                                    | <b>372</b>                            | 166                              |

The above capital commitments mainly relate to commitments to purchase computer equipment and software, and to renovate the Group's premises.

**40. Operating lease commitments****(a) The Group as lessee**

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

|                                                     | <b>At 30 June<br/>2008<br/>HK\$'m</b> | At 31 December<br>2007<br>HK\$'m |
|-----------------------------------------------------|---------------------------------------|----------------------------------|
| Land and buildings                                  |                                       |                                  |
| – not later than one year                           | <b>357</b>                            | 321                              |
| – later than one year but not later than five years | <b>378</b>                            | 297                              |
| – later than five years                             | <b>5</b>                              | –                                |
|                                                     | <b>740</b>                            | 618                              |

Certain non-cancellable operating leases included in the tables above were subject to renegotiation and rent adjustment with reference to market rates prevailing at specified agreed dates.

**40. Operating lease commitments (continued)****(b) The Group as lessor**

The Group has contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

|                                                     | <b>At 30 June<br/>2008<br/>HK\$'m</b> | <b>At 31 December<br/>2007<br/>HK\$'m</b> |
|-----------------------------------------------------|---------------------------------------|-------------------------------------------|
| Land and buildings                                  |                                       |                                           |
| – not later than one year                           | <b>276</b>                            | 251                                       |
| – later than one year but not later than five years | <b>272</b>                            | 215                                       |
|                                                     | <b>548</b>                            | 466                                       |

The Group leases its investment properties (Note 25) under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions. None of the leases include contingent rentals.

**41. Segmental reporting**

The Group engages in many businesses in several regions. For segmental reporting purposes, information is solely provided in respect of business segments. Geographical segment information is not presented because over 90% of the Group's revenues and profits before tax are derived from the assets located in Hong Kong.

Information about the four business segments is provided in segmental reporting. They are Personal Banking, Corporate Banking, Treasury and Insurance.

Both Personal Banking and Corporate Banking segments provide general banking services. Personal Banking serves individual customers while Corporate Banking deals with non individual customers. The Treasury segment is responsible for managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. The Insurance segment shows business relating to the Group's long-term life insurance products, including traditional and linked individual life insurance and group life insurance products. "Others" refers to those items related to the Group as a whole but independent of the other four business segments, including the Group's holdings of premises, investment properties and interests in associates.

Revenues, expenses, assets and liabilities of any business segment mainly include items directly attributable to the segment. In relation to occupation of the Group's premises, rentals are internally charged based on market rates according to the areas occupied. For management overheads, allocations are made on reasonable bases. During the second half of 2007, the Group has revised the allocation bases and comparative amounts have been reclassified to conform with the current year's presentation. There is no impact on the Group's income statement and balance sheet. Inter-segment funding is charged according to the internal funds transfer pricing mechanism of the Group. The charge on any such funding is mainly made by reference to the corresponding money market rate.

## 41. Segmental reporting (continued)

|                                                                                         | Half-year ended 30 June 2008 |                    |                   |                    |                 |                   |                       |                       |
|-----------------------------------------------------------------------------------------|------------------------------|--------------------|-------------------|--------------------|-----------------|-------------------|-----------------------|-----------------------|
|                                                                                         | Personal<br>HK\$m            | Corporate<br>HK\$m | Treasury<br>HK\$m | Insurance<br>HK\$m | Others<br>HK\$m | Subtotal<br>HK\$m | Eliminations<br>HK\$m | Consolidated<br>HK\$m |
| Net interest (expenses)/income                                                          |                              |                    |                   |                    |                 |                   |                       |                       |
| – external                                                                              | (1,950)                      | 3,092              | 8,319             | 538                | 30              | 10,029            | –                     | 10,029                |
| – inter-segment                                                                         | 5,280                        | (120)              | (4,863)           | –                  | (297)           | –                 | –                     | –                     |
|                                                                                         | 3,330                        | 2,972              | 3,456             | 538                | (267)           | 10,029            | –                     | 10,029                |
| Net fees and commission income/<br>(expenses)                                           | 2,141                        | 1,012              | (2)               | (164)              | (22)            | 2,965             | (66)                  | 2,899                 |
| Net trading income/(expenses)                                                           | 370                          | 90                 | 898               | –                  | (121)           | 1,237             | –                     | 1,237                 |
| Net loss on financial instruments<br>designated at fair value through<br>profit or loss | –                            | –                  | (92)              | (1,392)            | –               | (1,484)           | –                     | (1,484)               |
| Net gain on investment in securities                                                    | –                            | –                  | 128               | –                  | –               | 128               | –                     | 128                   |
| Net insurance premium income                                                            | –                            | –                  | –                 | 4,503              | –               | 4,503             | (2)                   | 4,501                 |
| Other operating income                                                                  | 21                           | 30                 | 1                 | 8                  | 977             | 1,037             | (706)                 | 331                   |
| <b>Total operating income</b>                                                           | <b>5,862</b>                 | <b>4,104</b>       | <b>4,389</b>      | <b>3,493</b>       | <b>567</b>      | <b>18,415</b>     | <b>(774)</b>          | <b>17,641</b>         |
| Net insurance benefits and claims                                                       | –                            | –                  | –                 | (3,602)            | –               | (3,602)           | –                     | (3,602)               |
| <b>Net operating income before<br/>impairment allowances</b>                            | <b>5,862</b>                 | <b>4,104</b>       | <b>4,389</b>      | <b>(109)</b>       | <b>567</b>      | <b>14,813</b>     | <b>(774)</b>          | <b>14,039</b>         |
| Net charge of impairment allowances                                                     | (18)                         | (60)               | (2,149)           | –                  | –               | (2,227)           | –                     | (2,227)               |
| <b>Net operating income/(expenses)</b>                                                  | <b>5,844</b>                 | <b>4,044</b>       | <b>2,240</b>      | <b>(109)</b>       | <b>567</b>      | <b>12,586</b>     | <b>(774)</b>          | <b>11,812</b>         |
| Operating expenses                                                                      | (2,879)                      | (1,081)            | (431)             | (69)               | (402)           | (4,862)           | 774                   | (4,088)               |
| <b>Operating profit/(loss)</b>                                                          | <b>2,965</b>                 | <b>2,963</b>       | <b>1,809</b>      | <b>(178)</b>       | <b>165</b>      | <b>7,724</b>      | <b>–</b>              | <b>7,724</b>          |
| Net gain from disposal of/fair value<br>adjustments on investment<br>properties         | –                            | –                  | –                 | –                  | 710             | 710               | –                     | 710                   |
| Net loss from disposal/revaluation of<br>properties, plant and equipment                | –                            | –                  | –                 | –                  | (8)             | (8)               | –                     | (8)                   |
| Share of profits less losses of<br>associates                                           | –                            | –                  | –                 | –                  | 8               | 8                 | –                     | 8                     |
| <b>Profit/(loss) before taxation</b>                                                    | <b>2,965</b>                 | <b>2,963</b>       | <b>1,809</b>      | <b>(178)</b>       | <b>875</b>      | <b>8,434</b>      | <b>–</b>              | <b>8,434</b>          |
| <b>At 30 June 2008</b>                                                                  |                              |                    |                   |                    |                 |                   |                       |                       |
| <b>Assets</b>                                                                           |                              |                    |                   |                    |                 |                   |                       |                       |
| Segment assets                                                                          | 165,005                      | 339,456            | 563,506           | 27,738             | 41,196          | 1,136,901         | (10,370)              | 1,126,531             |
| Interests in associates                                                                 | –                            | –                  | –                 | –                  | 89              | 89                | –                     | 89                    |
| Unallocated corporate assets                                                            | –                            | –                  | –                 | –                  | 548             | 548               | –                     | 548                   |
|                                                                                         | 165,005                      | 339,456            | 563,506           | 27,738             | 41,833          | 1,137,538         | (10,370)              | 1,127,168             |
| <b>Liabilities</b>                                                                      |                              |                    |                   |                    |                 |                   |                       |                       |
| Segment liabilities                                                                     | 524,774                      | 324,447            | 154,217           | 25,982             | 282             | 1,029,702         | (10,370)              | 1,019,332             |
| Unallocated corporate liabilities                                                       | –                            | –                  | –                 | –                  | 10,317          | 10,317            | –                     | 10,317                |
|                                                                                         | 524,774                      | 324,447            | 154,217           | 25,982             | 10,599          | 1,040,019         | (10,370)              | 1,029,649             |
| <b>Half-year ended 30 June 2008</b>                                                     |                              |                    |                   |                    |                 |                   |                       |                       |
| <b>Other information</b>                                                                |                              |                    |                   |                    |                 |                   |                       |                       |
| Additions of properties,<br>plant and equipment                                         | 4                            | 1                  | –                 | 1                  | 211             | 217               | –                     | 217                   |
| Depreciation                                                                            | 133                          | 65                 | 52                | 2                  | 228             | 480               | –                     | 480                   |
| Amortisation of securities                                                              | –                            | –                  | (73)              | –                  | –               | (73)              | –                     | (73)                  |

## 41. Segmental reporting (continued)

|                                                                                         | Half-year ended 30 June 2007 |                     |                    |                     |                  |                    |                        |                        |
|-----------------------------------------------------------------------------------------|------------------------------|---------------------|--------------------|---------------------|------------------|--------------------|------------------------|------------------------|
|                                                                                         | Personal<br>HK\$'m           | Corporate<br>HK\$'m | Treasury<br>HK\$'m | Insurance<br>HK\$'m | Others<br>HK\$'m | Subtotal<br>HK\$'m | Eliminations<br>HK\$'m | Consolidated<br>HK\$'m |
| Net interest (expenses)/income                                                          |                              |                     |                    |                     |                  |                    |                        |                        |
| – external                                                                              | (4,198)                      | 2,746               | 9,956              | 346                 | 53               | 8,903              | –                      | 8,903                  |
| – inter-segment                                                                         | 8,039                        | 57                  | (7,505)            | –                   | (591)            | –                  | –                      | –                      |
|                                                                                         | 3,841                        | 2,803               | 2,451              | 346                 | (538)            | 8,903              | –                      | 8,903                  |
| Net fees and commission income/<br>(expenses)                                           | 2,037                        | 781                 | 7                  | (111)               | (33)             | 2,681              | (49)                   | 2,632                  |
| Net trading income                                                                      | 268                          | 81                  | 46                 | –                   | 22               | 417                | –                      | 417                    |
| Net loss on financial instruments<br>designated at fair value through<br>profit or loss | –                            | –                   | (5)                | (389)               | –                | (394)              | –                      | (394)                  |
| Net gain on investment in securities                                                    | –                            | –                   | 2                  | –                   | –                | 2                  | –                      | 2                      |
| Net insurance premium income                                                            | –                            | –                   | –                  | 2,936               | –                | 2,936              | (3)                    | 2,933                  |
| Other operating income                                                                  | 27                           | 1                   | 1                  | 5                   | 804              | 838                | (639)                  | 199                    |
| <b>Total operating income</b>                                                           | 6,173                        | 3,666               | 2,502              | 2,787               | 255              | 15,383             | (691)                  | 14,692                 |
| Net insurance benefits and claims                                                       | –                            | –                   | –                  | (2,632)             | –                | (2,632)            | –                      | (2,632)                |
| <b>Net operating income before<br/>impairment allowances</b>                            | 6,173                        | 3,666               | 2,502              | 155                 | 255              | 12,751             | (691)                  | 12,060                 |
| Net (charge)/reversal of impairment<br>allowances                                       | (54)                         | 220                 | –                  | –                   | –                | 166                | –                      | 166                    |
| <b>Net operating income</b>                                                             | 6,119                        | 3,886               | 2,502              | 155                 | 255              | 12,917             | (691)                  | 12,226                 |
| Operating expenses                                                                      | (2,581)                      | (899)               | (258)              | (48)                | (323)            | (4,109)            | 691                    | (3,418)                |
| <b>Operating profit/(loss)</b>                                                          | 3,538                        | 2,987               | 2,244              | 107                 | (68)             | 8,808              | –                      | 8,808                  |
| Net gain from disposal of/fair value<br>adjustments on investment<br>properties         | –                            | –                   | –                  | –                   | 416              | 416                | –                      | 416                    |
| Net gain from disposal/revaluation of<br>properties, plant and equipment                | –                            | –                   | –                  | –                   | 5                | 5                  | –                      | 5                      |
| Share of profits less losses of<br>associates                                           | –                            | –                   | –                  | –                   | (2)              | (2)                | –                      | (2)                    |
| <b>Profit before taxation</b>                                                           | 3,538                        | 2,987               | 2,244              | 107                 | 351              | 9,227              | –                      | 9,227                  |
| <b>At 31 December 2007</b>                                                              |                              |                     |                    |                     |                  |                    |                        |                        |
| <b>Assets</b>                                                                           |                              |                     |                    |                     |                  |                    |                        |                        |
| Segment assets                                                                          | 162,634                      | 281,680             | 566,661            | 24,545              | 37,567           | 1,073,087          | (5,771)                | 1,067,316              |
| Interests in associates                                                                 | –                            | –                   | –                  | –                   | 83               | 83                 | –                      | 83                     |
| Unallocated corporate assets                                                            | –                            | –                   | –                  | –                   | 238              | 238                | –                      | 238                    |
|                                                                                         | 162,634                      | 281,680             | 566,661            | 24,545              | 37,888           | 1,073,408          | (5,771)                | 1,067,637              |
| <b>Liabilities</b>                                                                      |                              |                     |                    |                     |                  |                    |                        |                        |
| Segment liabilities                                                                     | 545,397                      | 284,353             | 116,095            | 23,182              | 2,539            | 971,566            | (5,771)                | 965,795                |
| Unallocated corporate liabilities                                                       | –                            | –                   | –                  | –                   | 6,784            | 6,784              | –                      | 6,784                  |
|                                                                                         | 545,397                      | 284,353             | 116,095            | 23,182              | 9,323            | 978,350            | (5,771)                | 972,579                |
| <b>Half-year ended 30 June 2007</b>                                                     |                              |                     |                    |                     |                  |                    |                        |                        |
| <b>Other information</b>                                                                |                              |                     |                    |                     |                  |                    |                        |                        |
| Additions of properties, plant and<br>equipment                                         | 2                            | –                   | –                  | –                   | 285              | 287                | –                      | 287                    |
| Depreciation                                                                            | 104                          | 47                  | 23                 | 1                   | 198              | 373                | –                      | 373                    |
| Amortisation of securities                                                              | –                            | –                   | 919                | –                   | –                | 919                | –                      | 919                    |

## 42. Significant related party transactions

Related parties are those parties that have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or other entities.

The Group provides loans and credit facilities to related parties in the normal course of business. Such transactions are conducted with terms that are no more favourable than those contracted with third party customers of the Group.

Transactions with related parties, which the Group entered into during the period are summarised as follows:

### (a) *Advances to third parties guaranteed by BOC Group companies*

As at 30 June 2008, BOC, the intermediate holding company, provided guarantees for loans in favour of the Group amounting to HK\$7,450 million (31 December 2007: HK\$3,693 million) to certain third parties. BOC held equity interests of not more than 20% in these third parties.

### (b) *Advances acquired from BOC*

During the first half of 2008, the Group has entered into an agreement with BOC to acquire advances amounting to USD300 million arising from trade finance facilities granted to customers. The outstanding amount of such advances at balance sheet date has been included as “advances to customers” in this interim financial information.

**42. Significant related party transactions (continued)****(c) Summary of transactions entered into during the ordinary course of business with BOC Group companies**

The aggregate income and expenses arising from related party transactions with the immediate holding company, the intermediate holding companies, associates of the Company as well as subsidiaries and associates of BOC are summarised as follows:

|                                                                  | Half-year ended 30 June 2008 |                                                        |                      |                                              |
|------------------------------------------------------------------|------------------------------|--------------------------------------------------------|----------------------|----------------------------------------------|
|                                                                  | Notes                        | Immediate and intermediate holding companies<br>HK\$'m | Associates<br>HK\$'m | Other related parties <sup>1</sup><br>HK\$'m |
| Income statement items:                                          |                              |                                                        |                      |                                              |
| Interest income                                                  | (i)                          | 574                                                    | –                    | 7                                            |
| Interest expense                                                 | (ii)                         | (235)                                                  | (1)                  | (63)                                         |
| Insurance premium paid (net)                                     | (iii)                        | –                                                      | –                    | (14)                                         |
| Administrative services fees received/receivable                 | (iv)                         | 15                                                     | –                    | 12                                           |
| Rental fees received/receivable                                  | (iv)                         | 1                                                      | –                    | 27                                           |
| Credit card commission paid/payable (net)                        | (v)                          | (43)                                                   | –                    | (1)                                          |
| Securities brokerage commission paid/payable (net)               | (v)                          | –                                                      | –                    | (188)                                        |
| Rental, property management and letting agency fees paid/payable | (v)                          | –                                                      | –                    | (48)                                         |
| Funds selling commission received                                | (vi)                         | –                                                      | –                    | 40                                           |
| Correspondent banking fee received                               | (vii)                        | 7                                                      | –                    | –                                            |
| Net trading losses                                               |                              | (7)                                                    | –                    | (76)                                         |

**42. Significant related party transactions (continued)****(c) Summary of transactions entered into during the ordinary course of business with BOC Group companies (continued)**

|                                                                  | Half-year ended 30 June 2007 |                                                        |                      |                                              |
|------------------------------------------------------------------|------------------------------|--------------------------------------------------------|----------------------|----------------------------------------------|
|                                                                  | Notes                        | Immediate and intermediate holding companies<br>HK\$'m | Associates<br>HK\$'m | Other related parties <sup>1</sup><br>HK\$'m |
| Income statement items:                                          |                              |                                                        |                      |                                              |
| Interest income                                                  | (i)                          | 205                                                    | –                    | 9                                            |
| Interest expense                                                 | (ii)                         | (232)                                                  | (2)                  | (168)                                        |
| Insurance premium paid (net)                                     | (iii)                        | –                                                      | –                    | (20)                                         |
| Administrative services fees received/receivable                 | (iv)                         | 16                                                     | –                    | 16                                           |
| Rental fees received/receivable                                  | (iv)                         | –                                                      | –                    | 11                                           |
| Credit card commission paid/payable (net)                        | (v)                          | (42)                                                   | –                    | (1)                                          |
| Securities brokerage commission paid/payable (net)               | (v)                          | –                                                      | –                    | (178)                                        |
| Rental, property management and letting agency fees paid/payable | (v)                          | –                                                      | –                    | (40)                                         |
| Funds selling commission received                                | (vi)                         | –                                                      | –                    | 71                                           |
| Correspondent banking fee received                               | (vii)                        | 7                                                      | –                    | –                                            |
| Loans services fees received                                     |                              | –                                                      | –                    | 1                                            |
| Net trading gains                                                |                              | 11                                                     | –                    | 54                                           |

**42. Significant related party transactions (continued)****(c) Summary of transactions entered into during the ordinary course of business with BOC Group companies (continued)**

|                                                                                               | At 30 June 2008 |                                                        |                      |                                              |
|-----------------------------------------------------------------------------------------------|-----------------|--------------------------------------------------------|----------------------|----------------------------------------------|
|                                                                                               | Notes           | Immediate and intermediate holding companies<br>HK\$'m | Associates<br>HK\$'m | Other related parties <sup>1</sup><br>HK\$'m |
| Balance sheet items:                                                                          |                 |                                                        |                      |                                              |
| Cash and balances with banks and other financial institutions                                 | (i)             | 21,056                                                 | –                    | 21                                           |
| Placements with banks and other financial institutions maturing between one and twelve months | (i)             | 14,013                                                 | –                    | –                                            |
| Financial assets at fair value through profit or loss                                         |                 | 297                                                    | –                    | 2,030                                        |
| Derivative financial instruments assets                                                       | (viii)          | 38                                                     | –                    | 3                                            |
| Advances and other accounts                                                                   | (i)             | 45                                                     | –                    | 860                                          |
| Investment in securities                                                                      | (i)             | 367                                                    | –                    | –                                            |
| Other assets                                                                                  | (ix)            | 52                                                     | –                    | 1,351                                        |
| Deposits and balances of banks and other financial institutions                               | (ii)            | 11,473                                                 | –                    | 617                                          |
| Deposits from customers                                                                       | (ii)            | 84                                                     | 75                   | 4,473                                        |
| Derivative financial instruments liabilities                                                  | (viii)          | 25                                                     | –                    | 89                                           |
| Other accounts and provisions                                                                 | (ix)            | 54                                                     | –                    | 2,306                                        |
| Subordinated liability                                                                        | (x)             | 8,150                                                  | –                    | –                                            |
| Off-balance sheet items:                                                                      |                 |                                                        |                      |                                              |
| Contingent liabilities and commitments                                                        | (xi)            | 7,422                                                  | –                    | 722                                          |

**42. Significant related party transactions (continued)****(c) Summary of transactions entered into during the ordinary course of business with BOC Group companies (continued)**

|                                                                                               | At 31 December 2007 |                                                        |                      |                                              |
|-----------------------------------------------------------------------------------------------|---------------------|--------------------------------------------------------|----------------------|----------------------------------------------|
|                                                                                               | Notes               | Immediate and intermediate holding companies<br>HK\$'m | Associates<br>HK\$'m | Other related parties <sup>1</sup><br>HK\$'m |
| Balance sheet items:                                                                          |                     |                                                        |                      |                                              |
| Cash and balances with banks and other financial institutions                                 | (i)                 | 22,854                                                 | –                    | 30                                           |
| Placements with banks and other financial institutions maturing between one and twelve months | (i)                 | 8,917                                                  | –                    | –                                            |
| Financial assets at fair value through profit or loss                                         |                     | 438                                                    | –                    | 2,097                                        |
| Derivative financial instruments assets                                                       | (viii)              | 30                                                     | –                    | 3                                            |
| Advances and other accounts                                                                   | (i)                 | 21                                                     | –                    | –                                            |
| Investment in securities                                                                      | (i)                 | 347                                                    | –                    | –                                            |
| Other assets                                                                                  | (ix)                | 64                                                     | –                    | 5,154                                        |
| Deposits and balances of banks and other financial institutions                               | (ii)                | 15,478                                                 | –                    | 680                                          |
| Deposits from customers                                                                       | (ii)                | 74                                                     | 85                   | 7,158                                        |
| Derivative financial instruments liabilities                                                  | (viii)              | 14                                                     | –                    | 23                                           |
| Other accounts and provisions                                                                 | (ix)                | 100                                                    | –                    | 5,538                                        |
| Off-balance sheet items:                                                                      |                     |                                                        |                      |                                              |
| Contingent liabilities and commitments                                                        | (xi)                | 2,248                                                  | –                    | 3,722                                        |

1 Subsidiaries and associates of BOC and post-employment benefit plans for the benefit of employees of the Company are collectively disclosed as other related parties and certain of which are state-controlled entities.

Notes:

**(i) Interest income**

In the ordinary course of business, the Group enters into various transactions with BOC Group companies including deposit of cash and balances with banks and other financial institutions, placement of interbank deposits, investment in securities and provision of loans and credit facilities. The transactions were conducted at prices and terms that are no more favourable than those charged to and contracted with other third party customers of the Group.

**42. Significant related party transactions (continued)****(c) Summary of transactions entered into during the ordinary course of business with BOC Group companies (continued)**

Notes: (continued)

**(ii) Interest expense**

In the ordinary course of business, the Group accepts interbank deposits and current, fixed, savings and other deposits from BOC Group companies at the relevant market rates at the time of the transactions. Interest on a subordinated loan is charged at the contracted rate as denoted in Note 34.

**(iii) Insurance premium paid/insurance commission received (net)**

In the ordinary course of business, the Group provides insurance agency services to and purchases general insurance policies from BOC Group companies at the relevant market rates at the time of the transactions.

**(iv) Administrative services fees and rental fees received/receivable**

In the ordinary course of business, the Group receives administrative services fees for the provision of various administrative services including internal audit, technology, human resources support and training to BOC Group companies mainly on the basis of cost plus a margin of 5%, and receives office premises rental fees from BOC Group companies at the relevant market rates at the time of the transactions.

**(v) Commission, property management, letting agency fees and rental fees paid/payable**

In the ordinary course of business, the Group pays commission fees for credit card administrative and promotional services, securities brokerage services, property management and letting agency fees to BOC Group companies. The Group also pays rental fees to BOC Group companies. These transactions have been entered into in the ordinary course of business and were priced at the relevant market rates at the time of the transactions.

**(vi) Funds selling commission received**

In the ordinary course of business, the Group receives commission for engaging in promotion and sale of fund products of a BOC Group company to customers of the Group at the relevant market rates at the time of the transactions.

**(vii) Correspondent banking fee received**

In the ordinary course of business, BOC provides services to the Group's customers including remittance services and advising on and collecting letters of credit issued by the Group. The Group shares the fees paid by its customers with BOC on the basis agreed between the parties from time to time.

**(viii) Derivative financial instruments assets/liabilities**

In the ordinary course of business, the Group enters into foreign exchange contracts and interest rate contracts with BOC Group companies. As at 30 June 2008 the aggregate notional amount of such derivative transactions amounted to HK\$23,270 million (31 December 2007: HK\$13,219 million) whilst the corresponding derivative financial instruments assets and liabilities amounted to HK\$41 million (31 December 2007: HK\$33 million) and HK\$114 million (31 December 2007: HK\$37 million) respectively. These transactions are executed at the relevant market rates at the time of the transactions.

**42. Significant related party transactions (continued)****(c) Summary of transactions entered into during the ordinary course of business with BOC Group companies (continued)**

Notes: (continued)

**(ix) Other assets and other accounts and provisions**

Included within "Other assets" and "Other accounts and provisions" are receivables from and payables to BOC Group companies. The amounts mainly represent the account receivables from and payables to a subsidiary of BOC in relation to dealing in securities trading transactions on behalf of the Group's customers. The receivables and payables arose from transactions carried out in the normal course of business.

**(x) Subordinated liability**

BOCHK entered into a subordinated credit facility agreement with BOC for the purposes of capital management. Major commercial terms of the loan are stated in Note 34.

**(xi) Contingent liabilities and commitments**

In the ordinary course of business, the Group provides loan facilities and trade finance services to, and guarantees for the obligations of BOC and its subsidiaries and associates on normal commercial terms.

**(d) Key management personnel**

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and senior management. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior periods, no material transaction was conducted with key management personnel of BOCHK, its holding companies and parties related to them.

The key management compensation for the six months ended 30 June 2008 and 2007 is detailed as follows:

|                                                 | Half-year ended<br>30 June 2008<br>HK\$m | Half-year ended<br>30 June 2007<br>HK\$m |
|-------------------------------------------------|------------------------------------------|------------------------------------------|
| Salaries and other short-term employee benefits | 31                                       | 27                                       |
| Post-employment benefits                        | 1                                        | 1                                        |
|                                                 | <b>32</b>                                | <b>28</b>                                |

**42. Significant related party transactions (continued)****(e) Transactions with Central SAFE and other companies controlled by Central SAFE**

Central SAFE is the controlling entity of BOC. Central SAFE is approved by the State Council of the PRC to assume the rights and obligations of the equity owner on behalf of the State. Accordingly, Central SAFE, acting on behalf of the State, has become the ultimate holding company of the Company by virtue of its interest in BOC.

The Group did not have any balances or enter into any transactions with Central SAFE for the six months ended 30 June 2008 and 2007 (31 December 2007: Nil).

Central SAFE has controlling equity interests in certain other entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business. These include loans, investment securities and money market transactions. The outstanding balances at the period/year end, and the related income and expenses for the period are as follows:

|                                                              | 2008                                                               |                                       | 2007                                                               |                                           |
|--------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------|--------------------------------------------------------------------|-------------------------------------------|
|                                                              | Interest income/ (expense) for the six months ended 30 June HK\$'m | Outstanding balance at 30 June HK\$'m | Interest income/ (expense) for the six months ended 30 June HK\$'m | Outstanding balance at 31 December HK\$'m |
| Advances to customers/banks and other financial institutions | –                                                                  | –                                     | –                                                                  | 23                                        |
| Investment in securities                                     | 50                                                                 | 3,989                                 | 36                                                                 | 2,433                                     |
| Financial assets at fair value through profit or loss        | 9                                                                  | 15                                    | –                                                                  | 9                                         |
| Due from banks and other financial institutions              | 28                                                                 | 501                                   | 35                                                                 | 1,443                                     |
| Due to banks and other financial institutions                | (16)                                                               | 1,286                                 | (1)                                                                | 2,417                                     |

**42. Significant related party transactions (continued)**

**(f) *Transactions with the Ministry of Finance and the People's Bank of China and other state-controlled entities***

The Group enters into banking transactions with the Ministry of Finance and the People's Bank of China in the normal course of business. These include purchases and redemption of treasury bonds and money market transactions.

The state-controlled entities are those, other than BOC (the intermediate holding company and its subsidiaries) and Central SAFE and its controlled companies, over which the PRC government directly or indirectly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies through its government authorities, agencies and affiliates. The Group has extensive transactions with other state controlled entities. These transactions, conducted in the ordinary course of business, may include, but are not limited to, the following:

- lending, provision of credits and guarantees and deposit taking;
- inter-bank balance taking and placing;
- sale, purchase, underwriting and redemption of bonds issued by other state-controlled entities;
- rendering of foreign exchange, remittance and investment related services;
- provision of fiduciary activities; and
- purchase of utilities, transport, telecommunication and postal services.

**43. Liquidity ratio**

|                         | Half-year ended<br>30 June 2008 | Half-year ended<br>30 June 2007 |
|-------------------------|---------------------------------|---------------------------------|
| Average liquidity ratio | <b>42.47%</b>                   | 50.08%                          |

The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the period.

The liquidity ratio is computed on the solo basis (the Hong Kong offices only) and is in accordance with the Fourth Schedule of the Banking Ordinance.

**44. Currency concentrations**

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions. The net options position is calculated based on the basis of delta-weighted positions of all foreign exchange options contracts.

|                           | At 30 June 2008               |                 |                    |                  |                   |                  |              |              |
|---------------------------|-------------------------------|-----------------|--------------------|------------------|-------------------|------------------|--------------|--------------|
|                           | Equivalent in million of HK\$ |                 |                    |                  |                   |                  |              |              |
|                           | US<br>Dollars                 | Japanese<br>Yen | Australian<br>Euro | Pound<br>Dollars | Pound<br>Sterling | Renminbi<br>Yuan | Others       | Total        |
| Spot assets               | 326,686                       | 3,956           | 27,299             | 33,774           | 14,207            | 102,775          | 11,345       | 520,042      |
| Spot liabilities          | (253,254)                     | (3,029)         | (19,165)           | (30,888)         | (23,735)          | (101,853)        | (27,127)     | (459,051)    |
| Forward purchases         | 211,449                       | 28,741          | 29,660             | 33,092           | 28,738            | 28,235           | 49,473       | 409,388      |
| Forward sales             | (284,037)                     | (29,936)        | (38,151)           | (36,246)         | (19,217)          | (27,835)         | (33,835)     | (469,257)    |
| Net options position      | 470                           | 4               | (7)                | (40)             | 18                | –                | (69)         | 376          |
| Net long/(short) position | <b>1,314</b>                  | <b>(264)</b>    | <b>(364)</b>       | <b>(308)</b>     | <b>11</b>         | <b>1,322</b>     | <b>(213)</b> | <b>1,498</b> |
| Net structural position   | <b>235</b>                    | <b>–</b>        | <b>–</b>           | <b>–</b>         | <b>–</b>          | <b>1,378</b>     | <b>–</b>     | <b>1,613</b> |

|                           | At 31 December 2007           |                 |                    |                  |                   |                  |           |              |
|---------------------------|-------------------------------|-----------------|--------------------|------------------|-------------------|------------------|-----------|--------------|
|                           | Equivalent in million of HK\$ |                 |                    |                  |                   |                  |           |              |
|                           | US<br>Dollars                 | Japanese<br>Yen | Australian<br>Euro | Pound<br>Dollars | Pound<br>Sterling | Renminbi<br>Yuan | Others    | Total        |
| Spot assets               | 327,003                       | 2,019           | 15,739             | 27,376           | 6,028             | 44,929           | 7,364     | 430,458      |
| Spot liabilities          | (224,622)                     | (4,764)         | (9,215)            | (24,055)         | (12,951)          | (44,055)         | (19,615)  | (339,277)    |
| Forward purchases         | 159,983                       | 22,718          | 25,775             | 22,051           | 25,907            | 26,760           | 43,162    | 326,356      |
| Forward sales             | (257,677)                     | (20,215)        | (32,238)           | (25,426)         | (18,858)          | (26,322)         | (30,823)  | (411,559)    |
| Net options position      | 107                           | (16)            | (17)               | 22               | (5)               | –                | (9)       | 82           |
| Net long/(short) position | <b>4,794</b>                  | <b>(258)</b>    | <b>44</b>          | <b>(32)</b>      | <b>121</b>        | <b>1,312</b>     | <b>79</b> | <b>6,060</b> |
| Net structural position   | <b>84</b>                     | <b>–</b>        | <b>–</b>           | <b>–</b>         | <b>–</b>          | <b>459</b>       | <b>–</b>  | <b>543</b>   |

**45. Cross-border claims**

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country, which is different from that of the counterparty, or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are analysed by geographical areas and disclosed as follows:

|                            | <b>Banks</b><br>HK\$'m | <b>Public<br/>sector<br/>entities</b><br>HK\$'m | <b>Others</b><br>HK\$'m | <b>Total</b><br>HK\$'m |
|----------------------------|------------------------|-------------------------------------------------|-------------------------|------------------------|
| <b>At 30 June 2008</b>     |                        |                                                 |                         |                        |
| Asia, other than Hong Kong |                        |                                                 |                         |                        |
| – Mainland China           | 65,516                 | 83,408                                          | 47,413                  | 196,337                |
| – Others                   | 67,896                 | 117                                             | 20,696                  | 88,709                 |
|                            | 133,412                | 83,525                                          | 68,109                  | 285,046                |
| North America              |                        |                                                 |                         |                        |
| – United States            | 11,630                 | 19,891                                          | 71,554                  | 103,075                |
| – Others                   | 12,075                 | 323                                             | 152                     | 12,550                 |
|                            | 23,705                 | 20,214                                          | 71,706                  | 115,625                |
| Western Europe             |                        |                                                 |                         |                        |
| – Germany                  | 35,499                 | 990                                             | 1,361                   | 37,850                 |
| – Others                   | 116,501                | 265                                             | 8,484                   | 125,250                |
|                            | 152,000                | 1,255                                           | 9,845                   | 163,100                |
| Total                      | 309,117                | 104,994                                         | 149,660                 | 563,771                |

**45. Cross-border claims (continued)**

|                            | Banks<br>HK\$'m | Public<br>sector<br>entities<br>HK\$'m | Others<br>HK\$'m | Total<br>HK\$'m |
|----------------------------|-----------------|----------------------------------------|------------------|-----------------|
| At 31 December 2007        |                 |                                        |                  |                 |
| Asia, other than Hong Kong |                 |                                        |                  |                 |
| – Mainland China           | 56,017          | 30,926                                 | 29,699           | 116,642         |
| – Others                   | 75,767          | 469                                    | 19,585           | 95,821          |
|                            | 131,784         | 31,395                                 | 49,284           | 212,463         |
| North America              |                 |                                        |                  |                 |
| – United States            | 9,726           | 27,179                                 | 78,144           | 115,049         |
| – Others                   | 18,081          | 95                                     | 68               | 18,244          |
|                            | 27,807          | 27,274                                 | 78,212           | 133,293         |
| Western Europe             |                 |                                        |                  |                 |
| – Germany                  | 42,651          | –                                      | 2,331            | 44,982          |
| – Others                   | 155,136         | 3                                      | 11,827           | 166,966         |
|                            | 197,787         | 3                                      | 14,158           | 211,948         |
| Total                      | 357,378         | 58,672                                 | 141,654          | 557,704         |

**46. Non-bank Mainland China exposures**

Non-bank counterparties are identified in accordance with the definitions set out in the prudential return “Quarterly Analysis of Loans and Advances and Provisions” issued by the HKMA. Exposures to Mainland China arising from non-bank counterparties are summarised as follows:

|                                                                                                              | At 30 June 2008                           |                                            |                             |                                                                |
|--------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------|-----------------------------|----------------------------------------------------------------|
|                                                                                                              | On-balance<br>sheet<br>exposure<br>HK\$'m | Off-balance<br>sheet<br>exposure<br>HK\$'m | Total<br>exposure<br>HK\$'m | Individually<br>assessed<br>impairment<br>allowances<br>HK\$'m |
| Mainland China entities                                                                                      | 85,387                                    | 37,231                                     | 122,618                     | 30                                                             |
| Companies and individuals outside<br>Mainland China where the credit is<br>granted for use in Mainland China | 28,811                                    | 17,364                                     | 46,175                      | 36                                                             |
| Other non-bank Mainland China<br>exposures                                                                   | 12,419                                    | 5,322                                      | 17,741                      | 9                                                              |
|                                                                                                              | 126,617                                   | 59,917                                     | 186,534                     | 75                                                             |

**46. Non-bank Mainland China exposures (continued)**

|                                                                                                              | At 31 December 2007                       |                                            |                             |                                                                |
|--------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------|-----------------------------|----------------------------------------------------------------|
|                                                                                                              | On-balance<br>sheet<br>exposure<br>HK\$'m | Off-balance<br>sheet<br>exposure<br>HK\$'m | Total<br>exposure<br>HK\$'m | Individually<br>assessed<br>impairment<br>allowances<br>HK\$'m |
| Mainland China entities                                                                                      | 60,275                                    | 44,693                                     | 104,968                     | 23                                                             |
| Companies and individuals outside<br>Mainland China where the credit is<br>granted for use in Mainland China | 23,142                                    | 17,535                                     | 40,677                      | 13                                                             |
| Other non-bank Mainland China<br>exposures                                                                   | 10,133                                    | 8,261                                      | 18,394                      | 8                                                              |
|                                                                                                              | 93,550                                    | 70,489                                     | 164,039                     | 44                                                             |

**47. Ultimate holding company**

Central SAFE, acting on behalf of the State, is the ultimate holding company of the Company whilst BOC is the Company's intermediate holding company.

**48. Compliance with HKAS 34**

The interim report for the first half of 2008 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

**49. Statutory accounts**

The information in the interim report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2007 have been delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 25 March 2008.

## ADDITIONAL INFORMATION

### 1. Corporate information

#### **Board of Directors**

|                      |                                                                                                                                                                                                                                                      |
|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Chairman</b>      | XIAO Gang <sup>#</sup>                                                                                                                                                                                                                               |
| <b>Vice Chairmen</b> | SUN Changji <sup>#</sup><br>HE Guangbei                                                                                                                                                                                                              |
| <b>Directors</b>     | LI Zaohang <sup>#</sup><br>ZHOU Zaiqun <sup>#</sup><br>ZHANG Yanling <sup>#</sup><br>LEE Raymond Wing Hung<br>GAO Yingxin<br>FUNG Victor Kwok King*<br>KOH Beng Seng*<br>SHAN Weijian*<br>TUNG Chee Chen*<br>TUNG Savio Wai-Hok*<br>YANG Linda Tsao* |

<sup>#</sup> Non-executive Directors

\* Independent Non-executive Directors

#### **Senior Management**

|                                |                       |
|--------------------------------|-----------------------|
| <b>Chief Executive</b>         | HE Guangbei           |
| <b>Deputy Chief Executive</b>  | LAM Yim Nam           |
| <b>Chief Financial Officer</b> | LEE Raymond Wing Hung |
| <b>Deputy Chief Executive</b>  | GAO Yingxin           |
| <b>Chief Risk Officer</b>      | CHEUNG Yau Shing      |
| <b>Deputy Chief Executive</b>  | WONG David See Hong   |
| <b>Company Secretary</b>       | YEUNG Jason Chi Wai   |

#### **Registered Office**

52nd Floor  
Bank of China Tower  
1 Garden Road  
Hong Kong

#### **Auditors**

PricewaterhouseCoopers

#### **Share Registrar**

Computershare Hong Kong Investor Services Limited  
Rooms 1712-1716  
17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

#### **ADS Depositary Bank**

Citibank, N.A.  
388 Greenwich Street  
14th Floor  
New York, NY 10013  
United States of America

#### **Credit Ratings (Long Term)**

|                            |     |
|----------------------------|-----|
| Standard & Poor's:         | A-  |
| Moody's Investors Service: | Aa3 |
| Fitch Ratings:             | A   |

#### **Index Constituent**

The Company is a constituent of the following indices:  
Hang Seng Index  
Hang Seng London Reference Index  
MSCI Index  
FTSE All-World Hong Kong Index  
Xinhua/FTSE China 25 Index

#### **Stock Codes**

Ordinary shares:  
The Stock Exchange of  
Hong Kong Limited: 2388  
Reuters: 2388.HK  
Bloomberg: 2388 HK

Level 1 ADR Programme:  
CUSIP No.: 096813209  
OTC Symbol: BHKLY

#### **Website**

www.bochk.com

## 2. Dividend and closure of register of members

The Board declared an interim dividend of HK\$0.438 per share (2007: HK\$0.428), payable on Thursday, 25 September 2008 to shareholders whose names appear on the Register of Members of the Company on Thursday, 18 September 2008.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Tuesday, 16 September 2008 to Thursday, 18 September 2008 (both days inclusive), during which period no transfer of shares will be registered. In order to rank for the interim dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 12 September 2008. Shares of the Company will be traded ex-dividend as from Thursday, 11 September 2008.

## 3. Substantial interests in share capital

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2008, the following corporations had the following interests (as defined in the SFO) in the Company set opposite their respective names:

| Name of Corporation | No. of shares of HK\$5 each in the Company |          |
|---------------------|--------------------------------------------|----------|
|                     | (% of total issued shares)                 |          |
| Central SAFE        | 6,953,617,435                              | (65.77%) |
| BOC                 | 6,953,617,435                              | (65.77%) |
| BOCHKG              | 6,949,330,256                              | (65.73%) |
| BOC (BVI)           | 6,949,330,256                              | (65.73%) |

Notes:

- Following the reorganisation of BOC in August 2004, Central SAFE holds the controlling equity capital of BOC on behalf of the State. Accordingly, for the purpose of the SFO, Central SAFE is deemed to have the same interests in the Company as BOC.
- BOC holds the entire issued share capital of BOCHKG, which in turn holds the entire issued share capital of BOC (BVI). Accordingly, BOC and BOCHKG are deemed to have the same interests in the Company as BOC (BVI) for the purpose of the SFO. BOC (BVI) beneficially holds 6,949,330,256 shares of the Company.
- The interest in the Company held by BOC included 4,000,000 shares held by BOC Insurance, a wholly-owned subsidiary of BOC, which had been disposed of by BOC Insurance during the reporting period.
- BOC holds the entire issued share capital of BOCI, which in turn holds the entire issued share capital of BOCI Asia Limited and BOCI Financial Products Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCI Asia Limited and BOCI Financial Products Limited for the purpose of the SFO. BOCI Asia Limited had an interest in 91,500 shares of the Company and an interest in 117,000 shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 78,679 shares of the Company.

All the interests stated above represented long positions. Save as disclosed above, as at 30 June 2008, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO.

#### 4. Directors' rights to acquire shares

On 5 July 2002, the following Directors were granted options by BOC (BVI), the immediate holding company of the Company, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) existing issued shares of the Company at a price of HK\$8.50 per share. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years.

Particulars of the outstanding options granted to the Directors under the Pre-Listing Share Option Scheme as at 30 June 2008 are set out below:

| Name of Director | Date of grant | Exercise price (HK\$) | Exercisable period          | Number of share options |                               |                             |                               |                          |                             |
|------------------|---------------|-----------------------|-----------------------------|-------------------------|-------------------------------|-----------------------------|-------------------------------|--------------------------|-----------------------------|
|                  |               |                       |                             | Granted on 5 July 2002  | Balances as at 1 January 2008 | Exercised during the period | Surrendered during the period | Lapsed during the period | Balances as at 30 June 2008 |
| SUN Changji      | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,590,600               | 1,590,600                     | –                           | –                             | –                        | 1,590,600                   |
| HE Guangbei      | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,446,000               | 723,000                       | –                           | –                             | –                        | 723,000                     |
| LI Zaohang       | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,446,000               | 1,446,000                     | –                           | –                             | –                        | 1,446,000                   |
| ZHOU Zaiqun      | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,446,000               | 1,446,000                     | 361,500                     | –                             | –                        | 1,084,500                   |
| ZHANG Yanling    | 5 July 2002   | 8.50                  | 25 July 2003 to 4 July 2012 | 1,446,000               | 1,446,000                     | –                           | –                             | –                        | 1,446,000                   |
| Total            |               |                       |                             | 7,374,600               | 6,651,600                     | 361,500                     | –                             | –                        | 6,290,100                   |

Save as disclosed above, at no time during the period was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## 5. Directors' and Chief Executive's interests in shares, underlying shares and debentures

As at 30 June 2008, the Directors, the Chief Executive and their respective associates had the following interests in the shares and underlying shares of the Company, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers:

| Name of Director | Number of shares/underlying shares held |                  |                     |                 | % of the  |                      |
|------------------|-----------------------------------------|------------------|---------------------|-----------------|-----------|----------------------|
|                  | Personal interests                      | Family interests | Corporate interests | Other interests | Total     | issued share capital |
| SUN Changji      | 1,590,600 <sup>1</sup>                  | –                | –                   | –               | 1,590,600 | 0.015%               |
| HE Guangbei      | 723,000 <sup>1</sup>                    | –                | –                   | –               | 723,000   | 0.007%               |
| LI Zaohang       | 1,446,000 <sup>1</sup>                  | –                | –                   | –               | 1,446,000 | 0.014%               |
| ZHOU Zaiqun      | 1,085,000 <sup>2</sup>                  | –                | –                   | –               | 1,085,000 | 0.010%               |
| ZHANG Yanling    | 1,446,000 <sup>1</sup>                  | –                | –                   | –               | 1,446,000 | 0.014%               |
| Total            | 6,290,600                               | –                | –                   | –               | 6,290,600 | 0.060%               |

Notes:

- Such interests represented the respective Directors' interests in underlying shares in respect of the share options granted to him/her pursuant to the Pre-Listing Share Option Scheme, details of which are set out in the section titled "Directors' rights to acquire shares" above.
- Such interests included Mr. Zhou's interests in 500 shares and interests in 1,084,500 underlying shares in respect of the share options granted to him pursuant to the Pre-Listing Share Option Scheme, details of which are set out in the section titled "Directors' rights to acquire shares" above.

Save as disclosed above, as at 30 June 2008, none of the Directors or the Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## 6. Purchase, sale or redemption of the Company's shares

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## 7. Audit Committee

The Audit Committee consists only of Non-executive Directors, the majority of whom are Independent Non-executive Directors. It is chaired by Independent Non-executive Director Mr. Shan Weijian. Other members include Mr. Zhou Zaiqun, Dr. Fung Victor Kwok King, Mr. Tung Chee Chen, Madam Yang Linda Tsao, Mr. Tung Savio Wai-Hok and Mr. Koh Beng Seng.

Based on the principle of independence, the Audit Committee assists the Board in monitoring the financial reports, internal control, internal audit and external audit of the Group.

## 7. **Audit Committee (continued)**

At the request of the Audit Committee of the Company, the Group's external auditors have carried out a review of the interim financial information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial reports.

## 8. **Compliance with the Code on Corporate Governance Practices of the Listing Rules**

In pursuit of the Company's stated objective to embrace good corporate governance principles and practices, the Company has been continuously enhancing its corporate governance practices in order to attain even higher standards. In conjunction with the implementation of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules issued by the Stock Exchange of Hong Kong on 1 January 2005, the Company has further strengthened its corporate governance practices by reference to the requirements of the CG Code and international best practices. The Company is pleased to announce that it has been in full compliance with all the code provisions of the CG Code and that it has also complied with nearly all the recommended best practices set out in the CG Code throughout the period under review. For further details, please refer to the section titled "Corporate Governance" contained in the Annual Report 2007 of the Company.

## 9. **Compliance with the Codes for Securities Transactions by Directors**

The Company has adopted the "Code for Securities Transactions by Directors" (the "Company's Code") to govern securities transactions by Directors. The terms of the Company's Code are more stringent than the mandatory standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 of the Listing Rules (the "Model Code"). Apart from the securities of the Company, the Company's Code applies equally to the Director's dealings in the securities of our parent bank, BOC which was listed on the Stock Exchange of Hong Kong in June 2006. In this connection, the Company had made specific enquiry of all Directors, who confirmed that they had complied with the standards set out in both the Company's Code and the Model Code throughout the period under review.

## 10. **Compliance with the Banking (Disclosure) Rules and the Listing Rules**

The unaudited interim report complies with the requirements set out in the Banking (Disclosure) Rules and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## 11. **Interim Report**

This Interim Report is available in both English and Chinese. The Chinese version of this Interim Report is available by writing to the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. This Interim Report is also available (in both English and Chinese) on the Company's website at [www.bochk.com](http://www.bochk.com) and the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk).

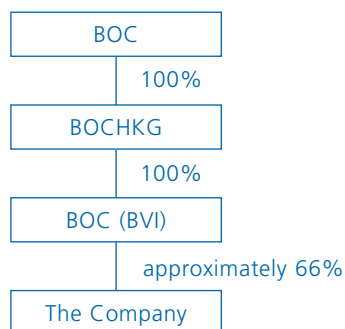
If you have any queries about how to obtain copies of this Interim Report or how to access those documents on the Company's website, please call the Company's hotline at (852) 2846 2700.

## 12. Reconciliation between HKFRSs vs IFRS/CAS

The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRS and CAS for which the Company and its subsidiaries will form part of the interim financial information. CAS is the new set of PRC accounting standards that has been effective for annual periods beginning on or after 1 January 2007 for companies publicly listed in PRC. The requirements of CAS have substantially converged with IFRS and HKFRSs.

The consolidated financial information of “BOC Hong Kong Group” for the periods disclosed by BOC in its interim financial information is not the same as the consolidated financial information of the Group for the periods published by the Company pursuant to applicable laws and regulations in Hong Kong. There are two reasons for this.

First, the definitions of “BOC Hong Kong Group” (as adopted by BOC for the purpose of its own financial disclosure) and “Group” (as adopted by the Company in preparing and presenting its consolidated financial information) are different: “BOC Hong Kong Group” refers to BOCHKG and its subsidiaries, whereas “Group” refers to the Company and its subsidiaries (see the below organisation chart). Though there is a difference in definitions between “BOC Hong Kong Group” and “Group”, their financial results for the periods presented are substantially the same. This is because BOCHKG and BOC (BVI) are holding companies only and have no substantive operations of their own.



Second, the Group has prepared its interim financial information in accordance with HK GAAP prior to 1 January 2005 and as from 1 January 2005 onwards in accordance with HKFRSs; whereas the consolidated financial information reported to BOC is prepared in accordance with IFRS and CAS respectively. Despite the fact that HKFRSs have converged with IFRS, there is a timing difference in the initial adoption of HKFRSs and IFRS by the Group and by BOC respectively.

The Board considers that the best way to ensure that shareholders and the investing public understand the material differences between the consolidated financial information of the Group published by the Company on the one hand, and the consolidated financial information of BOC Hong Kong Group disclosed by BOC in its interim financial information on the other hand, is to present reconciliations of the profit after tax/net assets of the Group prepared under HKFRSs to the profit after tax/net assets of the Group prepared under IFRS and CAS respectively for the periods presented.

The major differences between HKFRSs and IFRS/CAS, which arise from the difference in measurement basis in IFRS or CAS and the timing difference in the initial adoption of HKFRSs and IFRS relate to the following:

- re-measurement of carrying value of treasury products;
- restatement of carrying value of bank premises; and
- deferred taxation impact arising from the above different measurement basis.

**12. Reconciliation between HKFRSs vs IFRS/CAS (continued)****(a) Re-measurement of carrying value of treasury products**

Due to the difference in the timing of first adoption of HKFRSs and IFRS, classification and measurement of certain investment securities under HK GAAP/HKFRSs and IFRS were different. Therefore, investment securities were reclassified and re-measured to align with the accounting policies of BOC for the relevant periods. Classification and measurement under IFRS and CAS is basically the same.

**(b) Restatement of carrying value of bank premises**

The Company has elected for a revaluation basis rather than cost basis to account for bank premises and investment properties under HKFRSs. On the contrary, BOC has elected for the cost convention for bank premises and revaluation basis for investment properties under IFRS and CAS. Therefore, adjustments have been made to the carrying value of bank premises as well as to re-calculate the depreciation charge and disposal gain/loss under IFRS and CAS.

**(c) Deferred tax adjustments**

These represent the deferred tax effect of the aforesaid adjustments.

Going forward, the differences relating to the restatement of carrying value of bank premises as a result of the election of the different measurement basis allowed under HKFRSs, IFRS and CAS will be recurring in the future, while the timing difference related to the measurement of investment securities will be reversed gradually and eliminated in future years.

**Profit after tax/Net assets reconciliation**  
**HKFRSs Vs IFRS/CAS**

|                                                                                                | Profit after tax |                 | Net assets                   |                                  |
|------------------------------------------------------------------------------------------------|------------------|-----------------|------------------------------|----------------------------------|
|                                                                                                | Half-year ended  | Half-year ended | At 30 June<br>2008<br>HK\$'m | At 31 December<br>2007<br>HK\$'m |
|                                                                                                | 30 June          | 30 June         |                              |                                  |
|                                                                                                | 2008             | 2007            |                              |                                  |
|                                                                                                | HK\$'m           | HK\$'m          | HK\$'m                       | HK\$'m                           |
| <b>Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs</b>   | <b>7,181</b>     | 7,628           | <b>97,519</b>                | 95,058                           |
| Add: IFRS/CAS adjustments                                                                      |                  |                 |                              |                                  |
| Re-measurement of carrying value of treasury products                                          | (51)             | (66)            | (7)                          | 1                                |
| Restatement of carrying value of bank premises                                                 | 101              | 106             | (12,050)                     | (9,990)                          |
| Deferred tax adjustments                                                                       | (18)             | (21)            | 1,943                        | 1,692                            |
| <b>Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRS/CAS</b> | <b>7,213</b>     | 7,647           | <b>87,405</b>                | 86,761                           |

# INDEPENDENT REVIEW REPORT

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF BOC HONG KONG (HOLDINGS) LIMITED

(incorporated in Hong Kong with limited liability)

### Introduction

We have reviewed the interim financial information set out on pages 42 to 114, which comprises the condensed consolidated balance sheet of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".



**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 28 August 2008

# APPENDIX

## Subsidiaries of the Company

The particulars of our subsidiaries are as follows:

| Name of company                                       | Country/place and date of incorporation/operation | Issued and fully paid up share capital/registered capital | Percentage of attributable equity interest | Principal activities            |
|-------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------|--------------------------------------------|---------------------------------|
| <b>Directly held:</b>                                 |                                                   |                                                           |                                            |                                 |
| Bank of China (Hong Kong) Limited                     | Hong Kong<br>16 October 1964                      | Ordinary shares<br>HK\$43,042,840,858                     | 100.00%                                    | Banking business                |
| BOC Group Life Assurance Company Limited*             | Hong Kong<br>12 March 1997                        | Ordinary shares<br>HK\$868,000,000                        | 51.00%                                     | Life insurance business         |
| <b>Indirectly held:</b>                               |                                                   |                                                           |                                            |                                 |
| Nanyang Commercial Bank, Limited                      | Hong Kong<br>2 February 1948                      | Ordinary shares<br>HK\$600,000,000                        | 100.00%                                    | Banking business                |
| Chiyu Banking Corporation Limited                     | Hong Kong<br>24 April 1947                        | Ordinary shares<br>HK\$300,000,000                        | 70.49%                                     | Banking business                |
| BOC Credit Card (International) Limited               | Hong Kong<br>9 September 1980                     | Ordinary shares<br>HK\$480,000,000                        | 100.00%                                    | Credit card services            |
| Arene Trading Limited                                 | Hong Kong<br>22 August 1978                       | Ordinary shares<br>HK\$500,000                            | 100.00%                                    | Property holding and investment |
| Bank of China (Hong Kong) Nominees Limited*           | Hong Kong<br>1 October 1985                       | Ordinary shares<br>HK\$2                                  | 100.00%                                    | Nominee services                |
| Bank of China (Hong Kong) Trustees Limited*           | Hong Kong<br>6 November 1987                      | Ordinary shares<br>HK\$3,000,000                          | 100.00%                                    | Trustee and agency services     |
| BOC Group Trustee Company Limited*                    | Hong Kong<br>1 December 1997                      | Ordinary shares<br>HK\$200,000,000                        | 64.20%                                     | Trustee services                |
| BOC Travel Services Limited                           | Hong Kong<br>24 August 1982                       | Ordinary shares<br>HK\$2,000,000                          | 100.00%                                    | Travel services                 |
| BOCHK Financial Products (Cayman) Limited             | Cayman<br>10 November 2006                        | Ordinary shares<br>US\$50,000                             | 100.00%                                    | Note issuing                    |
| BOCHK Information Technology (Shenzhen) Co., Ltd.*    | PRC<br>16 April 1990                              | Registered capital<br>HK\$70,000,000                      | 100.00%                                    | Property holding and investment |
| BOCHK Information Technology Services (Shenzhen) Ltd* | PRC<br>26 May 1993                                | Registered capital<br>HK\$40,000,000                      | 100.00%                                    | Information technology services |

## Subsidiaries of the Company (continued)

| Name of company                                    | Country/place and date of incorporation/operation | Issued and fully paid up share capital/registered capital | Percentage of attributable equity interest | Principal activities                    |
|----------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------|--------------------------------------------|-----------------------------------------|
| BOCI-Prudential Trustee Limited*                   | Hong Kong<br>11 October 1999                      | Ordinary shares<br>HK\$300,000,000                        | 41.10%                                     | Trustee services                        |
| Che Hsing (Nominees) Limited*                      | Hong Kong<br>23 April 1980                        | Ordinary shares<br>HK\$10,000                             | 100.00%                                    | Nominee services and investment holding |
| Chiyu Banking Corporation (Nominees) Limited*      | Hong Kong<br>3 November 1981                      | Ordinary shares<br>HK\$100,000                            | 70.49%                                     | Investment holding                      |
| Chung Chiat Company Limited                        | Hong Kong<br>9 April 1980                         | Ordinary shares<br>HK\$200                                | 100.00%                                    | Property holding and investment         |
| Dwell Bay Limited                                  | Hong Kong<br>19 December 1980                     | Ordinary shares<br>HK\$100,000                            | 100.00%                                    | Property holding and investment         |
| Glister Company Limited*                           | Hong Kong<br>26 March 2001                        | Ordinary shares<br>HK\$2                                  | 70.49%                                     | Investment holding                      |
| Glory Cardinal Limited*                            | Hong Kong<br>4 May 2001                           | Ordinary shares<br>HK\$2                                  | 70.49%                                     | Investment holding                      |
| Grace Charter Limited*                             | Hong Kong<br>4 May 2001                           | Ordinary shares<br>HK\$2                                  | 70.49%                                     | Investment holding                      |
| G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd.*  | PRC<br>24 September 1993                          | Registered capital<br>HK\$40,000,000                      | 100.00%                                    | Property holding and investment         |
| Hua Chiao Commercial (Nominees) Limited*           | Hong Kong<br>28 October 1986                      | Ordinary shares<br>HK\$10,000                             | 100.00%                                    | Nominee services                        |
| Kincheng Finance (H.K.) Limited                    | Hong Kong<br>30 March 1979                        | Ordinary shares<br>HK\$225,000,000                        | 100.00%                                    | Loan financing                          |
| Kincheng Investments & Developments (H.K.) Limited | Hong Kong<br>15 May 1981                          | Ordinary shares<br>HK\$6,000                              | 100.00%                                    | Property holding and investment         |
| Kincheng (Nominees) Limited*                       | Hong Kong<br>12 December 1980                     | Ordinary shares<br>HK\$100,000                            | 100.00%                                    | Nominee services                        |
| Kiu Nam Investment Corporation Limited             | Hong Kong<br>9 November 1963                      | Ordinary shares<br>HK\$2,000,000                          | 100.00%                                    | Property holding and investment         |
| Kwong Li Nam Investment Agency Limited*            | Hong Kong<br>25 May 1984                          | Ordinary shares<br>HK\$3,050,000                          | 100.00%                                    | Investment agency                       |

## Subsidiaries of the Company (continued)

| Name of company                                        | Country/place and date of incorporation/operation | Issued and fully paid up share capital/registered capital | Percentage of attributable equity interest | Principal activities                       |
|--------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| Nan Song Company, Limited*                             | Hong Kong<br>13 April 1965                        | Ordinary shares<br>HK\$1,000,000                          | 100.00%                                    | Property investment and investment holding |
| Nanyang Commercial Bank (China) Limited                | PRC<br>14 December 2007                           | Registered capital<br>RMB2,500,000,000                    | 100.00%                                    | Banking business                           |
| Nanyang Commercial Bank (Nominees) Limited*            | Hong Kong<br>22 August 1980                       | Ordinary shares<br>HK\$50,000                             | 100.00%                                    | Nominee services                           |
| Nanyang Commercial Bank Trustee Limited*               | Hong Kong<br>22 October 1976                      | Ordinary shares<br>HK\$3,000,000                          | 100.00%                                    | Trustee services                           |
| Nanyang Finance Company Limited                        | Hong Kong<br>16 March 1979                        | Ordinary shares<br>HK\$50,000,000                         | 100.00%                                    | Financial services                         |
| Pacific Trend Profits Corporation*                     | British Virgin Islands<br>20 April 2001           | Registered shares<br>US\$1                                | 70.49%                                     | Investment holding                         |
| Patson (HK) Limited*                                   | Hong Kong<br>18 August 1970                       | Ordinary shares<br>HK\$1,000,000                          | 100.00%                                    | Property investment                        |
| Perento Limited                                        | Hong Kong<br>27 September 1983                    | Ordinary shares<br>HK\$10,000                             | 100.00%                                    | Property holding and investment            |
| Po Hay Enterprises Limited                             | Hong Kong<br>2 October 1979                       | Ordinary shares<br>HK\$100,000                            | 100.00%                                    | Property holding and investment            |
| Po Sang Financial Investment Services Company Limited* | Hong Kong<br>23 September 1980                    | Ordinary shares<br>HK\$25,000,000                         | 100.00%                                    | Gold trading and investment holding        |
| Po Sang Futures Limited*                               | Hong Kong<br>19 October 1993                      | Ordinary shares<br>HK\$25,000,000                         | 100.00%                                    | Commodities brokerage                      |
| Po Sang (Nominees) Limited*                            | Hong Kong<br>29 April 1993                        | Ordinary shares<br>HK\$10,000                             | 100.00%                                    | Nominee services                           |
| Rams City (Nominees) Limited*                          | Hong Kong<br>2 May 1986                           | Ordinary shares<br>HK\$2,000,000                          | 100.00%                                    | Nominee services and investment holding    |
| Sanicon Investment Limited                             | Hong Kong<br>24 January 2000                      | Ordinary shares<br>HK\$2                                  | 100.00%                                    | Property holding and investment            |

## Subsidiaries of the Company (continued)

| Name of company                                  | Country/place and date of incorporation/operation | Issued and fully paid up share capital/registered capital | Percentage of attributable equity interest | Principal activities                    |
|--------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------|--------------------------------------------|-----------------------------------------|
| Seng Sun Development Company, Limited*           | Hong Kong<br>11 December 1961                     | Ordinary shares<br>HK\$2,800,000                          | 70.49%                                     | Investment holding                      |
| Shenstone Limited                                | Hong Kong<br>4 September 1979                     | Ordinary shares<br>HK\$2                                  | 100.00%                                    | Property holding and investment         |
| Sin Chiao Enterprises Corporation, Limited*      | Hong Kong<br>13 September 1961                    | Ordinary shares<br>HK\$3,000,000                          | 100.00%                                    | Property holding and investment         |
| Sin Hua Trustee Limited*                         | Hong Kong<br>27 October 1978                      | Ordinary shares<br>HK\$3,000,000                          | 100.00%                                    | Trustee services                        |
| Sin Mei (Nominee) Limited*                       | Hong Kong<br>27 April 1982                        | Ordinary shares<br>HK\$100,000                            | 100.00%                                    | Nominee services and investment holding |
| Sin Yeh Shing Company Limited                    | Hong Kong<br>28 November 1980                     | Ordinary shares<br>HK\$100,000                            | 100.00%                                    | Property holding and investment         |
| Sino Information Services Company Limited        | Hong Kong<br>11 February 1993                     | Ordinary shares<br>HK\$7,000,000                          | 100.00%                                    | Information services                    |
| The China-South Sea (Nominees) Services Limited* | Hong Kong<br>13 February 1981                     | Ordinary shares<br>HK\$100,000                            | 100.00%                                    | Nominee services                        |
| The China State (Nominees) Limited*              | Hong Kong<br>14 May 1982                          | Ordinary shares<br>HK\$100,000                            | 100.00%                                    | Nominee services and investment holding |
| The China State Trustee Limited*                 | Hong Kong<br>17 July 1981                         | Ordinary shares<br>HK\$3,000,000                          | 100.00%                                    | Trustee services                        |
| Track Link Investment Limited                    | Hong Kong<br>8 February 1994                      | Ordinary shares<br>HK\$2                                  | 100.00%                                    | Property holding and investment         |
| Yien Yieh (Nominee) Limited*                     | Hong Kong<br>26 June 2001                         | Ordinary shares<br>HK\$2,000                              | 100.00%                                    | Nominee services and investment holding |

Po Sang (Nominees) Limited commenced member's voluntary winding up on 31 July 2008.

## Remarks:

Name of subsidiaries which are not included in the consolidation group for regulatory purposes in respect of capital adequacy is marked with \* in the above table. BOCHK and its subsidiaries specified by the HKMA form the basis of consolidation for its regulatory purposes in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with the accounting standards issued by the HKICPA pursuant to section 18A of the Professional Accountants Ordinance.

## DEFINITIONS

In this Interim Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

| Terms                           | Meanings                                                                                                                                                                                                                                                                                             |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| "AC"                            | The Audit Committee                                                                                                                                                                                                                                                                                  |
| "ADR"                           | American Depositary Receipt                                                                                                                                                                                                                                                                          |
| "ADS(s)"                        | American Depositary Share(s)                                                                                                                                                                                                                                                                         |
| "ALCO"                          | The Asset and Liability Management Committee                                                                                                                                                                                                                                                         |
| "ATM"                           | Automated Teller Machine                                                                                                                                                                                                                                                                             |
| "Board" or "Board of Directors" | the Board of Directors of the Company                                                                                                                                                                                                                                                                |
| "BOC"                           | Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively                                                        |
| "BOC (BVI)"                     | BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly owned subsidiary of BOCHK                                                                                                                                                              |
| "BOC Insurance"                 | Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC                                                                                                                                                               |
| "BOC Life"                      | BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOC Insurance hold equity interests of 51% and 49% respectively                                                                                                                 |
| "BOC-CC"                        | BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCHK                                                                                                                                                                   |
| "BOCHK" or "the Bank"           | Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of the Company                                                                                                                                                                   |
| "BOCHKG"                        | BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC                                                                                                                                                                               |
| "BOCI"                          | BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC                                                                                                                                                                          |
| "BOCI-Prudential Manager"       | BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively |
| "BOCI-Prudential Trustee"       | BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively                                                                        |

## DEFINITIONS

| Terms                          | Meanings                                                                                                                                                                                                                       |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| "CAR"                          | Capital Adequacy Ratio, computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules |
| "CAS"                          | China Accounting Standards                                                                                                                                                                                                     |
| "CBS"                          | Corporate Banking Services                                                                                                                                                                                                     |
| "CCO"                          | Chief Credit Officer                                                                                                                                                                                                           |
| "CE"                           | Chief Executive                                                                                                                                                                                                                |
| "CRO"                          | Chief Risk Officer                                                                                                                                                                                                             |
| "Central SAFE"                 | Central SAFE Investments Limited                                                                                                                                                                                               |
| "Chiyu"                        | Chiyu Banking Corporation Limited, a company incorporated under the laws of Hong Kong, in which BOCHK holds an equity interest of 70.49%                                                                                       |
| "Company"                      | BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong                                                                                                                                           |
| "EURIBOR"                      | Euro Interbank Offered Rate                                                                                                                                                                                                    |
| "Fitch"                        | Fitch Ratings                                                                                                                                                                                                                  |
| "Group"                        | the Company and its subsidiaries collectively referred as the Group                                                                                                                                                            |
| "HIBOR"                        | Hong Kong Interbank Offered Rate                                                                                                                                                                                               |
| "HK GAAP"                      | Generally Accepted Accounting Principles in Hong Kong                                                                                                                                                                          |
| "HKAS(s)"                      | Hong Kong Accounting Standard(s)                                                                                                                                                                                               |
| "HKFRS(s)"                     | Hong Kong Financial Reporting Standard(s)                                                                                                                                                                                      |
| "HKICPA"                       | Hong Kong Institute of Certified Public Accountants                                                                                                                                                                            |
| "HKMA"                         | Hong Kong Monetary Authority                                                                                                                                                                                                   |
| "Hong Kong" or "Hong Kong SAR" | Hong Kong Special Administrative Region                                                                                                                                                                                        |
| "IPO"                          | Initial Public Offering                                                                                                                                                                                                        |
| "IT"                           | Information Technology                                                                                                                                                                                                         |
| "LIBOR"                        | London Interbank Offered Rate                                                                                                                                                                                                  |

| Terms                                                         | Meanings                                                                                                                           |
|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| "Listing Rules"                                               | Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited                                               |
| "The Mainland" or "Mainland China" or "The Mainland of China" | The mainland of the PRC                                                                                                            |
| "MPF"                                                         | Mandatory Provident Fund                                                                                                           |
| "MPF Schemes Ordinance"                                       | the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended                                   |
| "MSCI Index"                                                  | Morgan Stanley Capital International Index                                                                                         |
| "Moody's"                                                     | Moody's Investors Service                                                                                                          |
| "Nanyang"                                                     | Nanyang Commercial Bank, Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCHK        |
| "Nanyang (China)"                                             | Nanyang Commercial Bank (China) Limited, a company incorporated under the laws of the PRC and a wholly owned subsidiary of Nanyang |
| "ORSO schemes"                                                | the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong          |
| "PRC"                                                         | The People's Republic of China                                                                                                     |
| "QDII(s)"                                                     | Qualified Domestic Institutional Investor(s)                                                                                       |
| "RC"                                                          | The Risk Committee                                                                                                                 |
| "RMB" or "Renminbi"                                           | Renminbi, the lawful currency of the PRC                                                                                           |
| "RMD"                                                         | The Risk Management Department                                                                                                     |
| "SFO"                                                         | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong                                                         |
| "SME(s)"                                                      | Small and medium-sized enterprise(s)                                                                                               |
| "Share Option Scheme"                                         | the Share Option Scheme conditionally approved and adopted by the shareholders of the Company on 10 July 2002                      |
| "Sharesave Plan"                                              | the Sharesave Plan conditionally approved and adopted by the shareholders of the Company on 10 July 2002                           |
| "Standard & Poor's"                                           | Standard & Poor's Ratings Services                                                                                                 |
| "Stock Exchange" or "Stock Exchange of Hong Kong"             | The Stock Exchange of Hong Kong Limited                                                                                            |

## DEFINITIONS

| Terms         | Meanings                     |
|---------------|------------------------------|
| "US" or "USA" | the United States of America |
| "VAR"         | Value at Risk                |

By Order of the Board  
**Jason C.W. Yeung**  
*Company Secretary*

Hong Kong, 28 August 2008

*As at the date of this announcement, the Board of Directors of the Company comprises Mr. XIAO Gang\* (Chairman), Mr. SUN Changji\* (Vice-chairman), Mr. HE Guangbei (Vice-chairman and Chief Executive), Mr. LI Zaohang\*, Mr. ZHOU Zaiqun\*, Mdm. ZHANG Yanling\*, Mr. LEE Raymond Wing Hung, Mr. GAO Yingxin, Dr. FUNG Victor Kwok King\*\*, Mr. KOH Beng Seng\*\*, Mr. SHAN Weijian\*\*, Mr. TUNG Chee Chen\*\*, Mr. TUNG Savio Wai-Hok\*\* and Mdm. YANG Linda Tsao\*\*.*

\* *Non-executive Directors*

\*\* *Independent Non-executive Directors*