



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)

ANNOUNCEMENT

FINANCIAL AND BUSINESS REVIEW FOR THE THIRD QUARTER OF 2008

THIS ANNOUNCEMENT IS MADE BY THE COMPANY PURSUANT TO RULE 13.09 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

The following description provides certain financial data relating to the performance of the Company in the third quarter of 2008.

Financial Performance

In the nine months ended 30 September 2008, the Group's⁽¹⁾ operating profit before impairment allowances was HK\$13,278 million, compared to HK\$13,303 million for the same period last year. Net operating income before impairment allowances was HK\$19,547 million and operating expenses were HK\$6,269 million, compared to HK\$18,598 million and HK\$5,295 million respectively for the same period last year.

First nine months of 2008 compared with first nine months of 2007

The Group's financial performance in the period under review was subject to the negative impact of the global economic slowdown and greater volatility in major financial markets. The Group recorded a slight decrease in operating profit before impairment allowances versus the same period last year. There was growth in both net interest income and net trading income of the banking operation year-on-year. However, these increases were offset by the marked-to-market loss in its investment assets recorded by the Group's insurance segment, lower net fees and commission income as well as higher operating expenses. The rise in operating expenses outpaced that of net operating income, thus resulting in a higher cost-to-income ratio. The Group also recorded an increase in impairment allowances on both securities investments and loans.

The growth in net interest income was driven mainly by the expansion of average interest-earning assets as the Group's average customer deposits increased. The increase in net interest spread was offset by the decrease in contribution of net free fund under the low-interest rate environment, thus resulting in the narrowing of net interest margin. Net trading income of the banking operation increased mainly as a result of the increase in income from foreign exchange businesses, and marked-to-market gain of foreign exchange swap contracts. Owing to the volatility of the global financial markets, the Group's insurance segment recorded an increase in marked-to-market loss in its investment assets. The decline of net fees and commission income was caused largely by the decrease in fee income from stock broking and sales of funds as related business volume declined in a sluggish equity market. These were partly offset by the increase in fee income from the Group's traditional banking services. The increase in operating expenses was mainly due to higher staff costs as a result of pay rise, the recruitment of new staff as well as, higher rentals and continued investment in IT systems.

2008 Q3 compared with 2008 Q2

The Group's operating profit before impairment allowances in the third quarter declined from the previous quarter. This was attributable mainly to the following factors. Firstly, there was a decrease in net fees and commission income from investment-related agency businesses. Secondly, net trading income of the banking operation also decreased due to lower foreign exchange income versus a marked-to-market gain of interest rate swap contracts recorded in the previous quarter. Finally, the Group registered an increase in net operating loss of the insurance segment mainly caused by a weak performance of its investment assets amidst turbulent market sentiment. Meanwhile, net interest income and net interest margin declined from the last quarter. The cost-to-income ratio was higher, mainly due to lower operating income.

Financial Position

The Group's balance sheet remains healthy. Total assets as of 30 September 2008 decreased only marginally from end-June 2008. Customer deposits continued to increase while advances to customers registered a modest growth. Meanwhile, debt securities investments decreased. Classified or impaired loan ratio rose marginally but the Group's overall loan quality remained sound. The Group continues to exercise rigorous risk management and take precautionary measures where necessary amidst the global economic slowdown. The capital adequacy ratio of the banking group decreased from end-June 2008 but remained at a comfortable level.

Business Review

The Group strove to sustain business growth and development in its **Personal Banking** business in spite of the general slowdown of the local economy. Continuous effort was made to revamp the existing i-Free Integrated Account service to provide customers with a hassle-free and multi-dimensional banking service covering different personal banking services under one roof. The expansion of dual currency (HKD and RMB) ATM cash withdrawal services in the third quarter has also brought added convenience to customers who frequent the Mainland. The services have been extended to all of the Group's ATMs in MTR stations. In celebration of the Beijing 2008 Olympic Games, the Group launched the Beijing 2008 Olympic Games Hong Kong Dollar Commemorative Banknotes for public sale which received overwhelming response. This was the first time ever in the history of modern Olympic Games that commemorative banknotes were issued. Despite fierce market competition and the slowdown of transactions in the residential property market, the Group maintained a growth in its residential mortgage business in the third quarter. Card-related fee income increased together with the growth in card receivables and cardholder spending volume. With the strong market demand for RMB-related products, the Group underwrote 3 series of RMB bonds issued in Hong Kong by major Mainland banks, acting as the joint lead manager and joint bookrunner.

The Group's **Corporate Banking** business continued to make good progress in the third quarter of the year. Following the appointment as the principal bank of the Bank of China's Asia-Pacific Loan Syndication Centre in early 2008, the Group further solidified its lead in syndicated loan business. The average pricing of new corporate loan facilities continued to improve. In view of the growth potential for wealth management services, the Group established a specialized team for commercial wealth management in the third quarter to provide professional wealth management services for its corporate customers. As regards the Mainland business, total loans of the Group's Mainland business continued to grow satisfactorily while loan quality remained sound. The Group's network in the Mainland now includes 17 branches and sub-branches after Nanyang Commercial Bank (China)'s Hangzhou Branch commenced operation on 28 September 2008.

In respect of its **Treasury Segment**, the Group continued to strengthen its balance sheet management and risk management with greater prudence amidst the global financial crisis. During the third quarter, the financial turmoil that swept the world led to extreme volatility in nearly all major financial markets, which inevitably had an adverse impact on the Group's securities investments in the United States. At the end of September 2008, the carrying value of the Group's exposures to US subprime mortgage-backed securities, US Alt-A and US non-agency Prime residential mortgage-backed securities amounted to HK\$1.1 billion, HK\$3.0 billion and HK\$20.4 billion respectively. Meanwhile, the carrying value of exposures to senior unsecured debts issued by Lehman Brothers Holdings Inc. and its affiliates ("Lehman Brothers") amounted to HK\$0.08 billion while total exposures to Freddie Mac and Fannie Mae, the US mortgage agencies, totaled HK\$4.6 billion. The Group recorded a net charge of impairment allowances of HK\$3,199 million for the third quarter of 2008 against its investments in securities, comprising HK\$51 million net write-back for the US subprime mortgage-backed securities, a net charge of HK\$671 million for Alt-A, HK\$2,240 million for non-agency Prime residential mortgage-backed securities and HK\$339 million for senior unsecured debts issued by Lehman Brothers. The impairment charges did not include the diminution in value of the Group's investment in The Bank of East Asia, Limited ("BEA"), the share price of which had been adversely affected by recent market developments. The Group will continue to monitor closely the performance of the BEA investment and will consider making provisions, if needed, in accordance with the accounting standards.

The Group's **Insurance Segment** recorded an increase in net operating loss in the third quarter versus the previous quarter. This was mainly due to a weak performance of its investment assets amidst turbulent market sentiments. Net insurance premium income decreased compared to the previous quarter as sales were adversely affected by poor investment sentiment.

Remark:

⁽¹⁾ "The Group" refers to BOC Hong Kong (Holdings) Limited and its subsidiaries.

GENERAL

This announcement may contain forward-looking statements that involve risks and uncertainties. The Company's shareholders and potential investors should not place undue reliance on these forward-looking statements, which reflect our belief only as of the date of these statements. These forward-looking statements are based on the Group's own information and on information from other sources we believe to be reliable. The Group's actual results may be materially less favourable than those expressed or implied by these forward-looking statements, which could depress the market price of the Company's American Depositary Shares and local shares.

The attention of investors is also drawn to the announcement issued by Bank of China Limited ("BOC") (Stock Code: 3988) on 29 October 2008 in which BOC published its unaudited quarterly results. The Company is owned as to approximately 65.7% by BOC, and therefore its financial data has been consolidated into the data announced by BOC. The said announcement can be downloaded from BOC's website at www.boc.cn and from the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. Investors are warned not to make any conclusions about the performance of the Company from the announcement issued by BOC.

The Company's shareholders and potential investors should note that **all the figures contained herein are unaudited. Accordingly, figures and discussions contained in this Announcement should in no way be regarded as to provide any indication or assurance on the financial results of the Group for the period ended 30 September 2008.**

The Company's shareholders and potential investors are urged to exercise caution in dealing in the securities of the Company and are recommended to consult their own professional advisers if they are in doubt as to their investment positions.

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

Hong Kong, 29 October 2008

As at the date hereof, 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*