

NOTES TO THE FINANCIAL STATEMENTS

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 and should be read in conjunction with the Group’s Annual Report for 2005.

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 2005 except for the adoption of the HKAS 39 (amendments) issued by the HKICPA which is effective for accounting periods beginning on or after 1 January 2006 and the adoption of HKFRS 4 “Insurance Contracts” subsequent to the purchase of the 51% equity interest in a fellow subsidiary BOC Life which is a life insurance company. Merger accounting is used to account for the combination.

Application of merger accounting

The Company purchased a 51% equity interest in BOC Life from BOC Insurance on 1 June 2006 for HK\$900 million in cash. BOC Life and the Company are both under the common control of BOC before and after the combination. The Group has applied the Accounting Guideline No. 5 – “Merger Accounting for Common Control Combination”, using the principles of merger accounting, in accounting for the combination with BOC Life as though the business of BOC Life had always been carried out by the Group. The unaudited consolidated interim financial statements represent the consolidated results, consolidated cash flows and consolidated financial position of the Group as if the combination had occurred from the date when the Company and BOC Life first came under the control of BOC.

A uniform set of accounting policies is adopted by the Group. The Group recognises the assets, liabilities and equity of BOC Life at the carrying amounts in the consolidated financial statements of BOC prior to the purchase of the company. Comparative amounts are presented as if the entities had been combined at the previous balance sheet date. No adjustment has been made to align inconsistent accounting policies between the Group and BOC Life before the combination as the effect on net assets and net profit or loss is not significant.

The excess of consideration over carrying value at the time of combination is treated as a merger reserve in equity. The effects of all transactions between the Group and BOC Life, whether occurring before or after the combination, are eliminated in preparing the consolidated interim financial statements of the Group. The transaction costs for the combination were expensed in the income statement.



1. Basis of preparation and accounting policies (continued)
Application of merger accounting (continued)

The consolidated balance sheet as at 31 December 2005:

	The Group	BOC Life	Adjustments	Consolidated
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Investment in BOC Life	–	–		–
Other assets and liabilities	80,733	980		81,713
Net assets	80,733	980		81,713
Minority interest	1,298	–	480	1,778
Share capital	52,864	868	(868)	52,864
Merger reserve	–	–	443	443
Retained earnings and other reserves	26,571	112	(55)	26,628
	80,733	980		81,713

Adjustment:

The above represents an adjustment to eliminate the share capital of BOC Life against the merger reserve. An adjustment of a HK\$443 million has been made to the reserve in the consolidated financial statements.

Minority interest is adjusted for the share of the carrying value of BOC Life held by minority shareholders.

The consolidated income statement for the year ended 31 December 2005 is:

	The Group	BOC Life	Adjustments	Consolidated
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Profit attributable to the members of the Company	13,494	204	(102)	13,596

Adjustment:

The above adjustment represents the adjustment for the minority interest of BOC Life.

1. Basis of preparation and accounting policies (continued)

Application of merger accounting (continued)

The consolidated balance sheet as at 30 June 2006:

	The Group	BOC Life	Adjustments	Consolidated
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Investment in BOC Life	900	–	(900)	–
Other assets and liabilities	81,893	1,058		82,951
Net assets	82,793	1,058		82,951
Minority interest	1,398	–	519	1,917
Share capital	52,864	868	(868)	52,864
Merger reserve	–	–	(457)	(457)
Retained earnings and other reserves	28,531	190	(94)	28,627
	82,793	1,058		82,951

Adjustment:

The above represents an adjustment to eliminate the share capital and investment cost of BOC Life against the merger reserve. An adjustment of HK\$457 million (debit) has been made to the reserve in the consolidated financial statements.

Minority interest is adjusted for the share of the carrying value of BOC Life held by minority shareholders.

The consolidated income statement for the period ended 30 June 2006 is:

	The Group	BOC Life	Adjustments	Consolidated
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Profit attributable to the members of the Company	7,053	79	(39)	7,093

Adjustment:

The above adjustment represents the adjustment for the minority interest of BOC Life.



1. Basis of preparation and accounting policies (continued)

Newly adopted HKFRS

In 2006, the Group adopted the revised HKFRSs as set out below, which are relevant to its operations.

HKAS 39 (Amendment)	Financial Guarantee Contracts
HKAS 39 (Amendment)	The Fair Value Option

The adoption of the above revised standards did not result in substantial changes to the Group's accounting policies and have no significant impact on its results of operations and financial position. No restatement of comparative figures was made as the amounts were immaterial. In summary:

In prior years, financial guarantee contracts were accounted for under HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as contingent liabilities and were disclosed as off-balance sheet items.

With effect from 1 January 2006 and in accordance with the above amendment, financial guarantee contracts issued are recognised as financial liabilities and reported under "Other accounts and provisions". Financial guarantees are recognised initially at fair value and subsequently measured at the higher of (i) the amount recognised under HKAS 37, and (ii) the amount initially recognised less, where appropriate, cumulative amortization recognised over the life of the guarantee on a straight-line basis.

Financial liabilities related to financial guarantee contracts were recorded under "Other accounts and provisions" at 30 June 2006 amounted to about HK\$12 million. No restatement of comparative figures was made as the amounts were immaterial.

The fair value option refines the condition for which financial instruments can be classified as financial asset or financial liabilities at fair value through profit or loss provided that financial assets and liabilities are managed together for internal risk management and investment strategy purpose or accounting mismatches can be eliminated. It also stipulates the condition for which a hybrid contract embedded with derivatives can be entirely designated as at fair value through profit or loss. There is no difference in the Group's practice when compared with the prior year.

The adoption of HKFRS 4

The standard is adopted due to the purchase of an insurance subsidiary during the year. No revenue, expenses, assets and liabilities related to insurance contracts was recognised in last year's financial statements. As merger accounting is adopted to account for the common control combination, comparative figures are prepared based on the same accounting policies.

(a) Insurance contracts classification, recognition and measurement

The Group's insurance subsidiary issues insurance contracts that transfer significant insurance risk. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefit payable if the insured event did not occur. The Group's insurance subsidiary issues long term business insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised.

1. Basis of preparation and accounting policies (continued)

The adoption of HKFRS 4 (continued)

(a) Insurance contracts classification, recognition and measurement (continued)

For linked long term insurance contracts with embedded derivatives (which are closely related to the host insurance contracts) linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits (non-unitised reserves) that are expected to be incurred in the future which is recorded when the premiums are recognised.

Retirement scheme insurance contracts insure events associated with human life under retirement schemes. The portion of the premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability.

Premiums are recognised as revenue when they become payable by the contract holders. Premiums are recognised before the deduction of commissions. Benefits and claims are recorded as an expense when they are incurred.

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

The financial assets held by the Group for the purpose of meeting liabilities under insurance contracts are classified and accounted for based on their classification under cash and cash equivalents and financial instruments.

(b) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. Any deficiency is immediately charged to the consolidated income statement, with a provision established for losses arising from the liability adequacy test.

The HKICPA has issued a number of revised HKFRSs which are effective for accounting period beginning on or after 1 January 2007. The Group has not early adopted any of the following new/revised standards:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

These new HKFRSs require more detailed qualitative and quantitative disclosures primarily related to capital management, fair value information and risk management. The Group has assessed the impact of these new HKFRSs and our preliminary assessment is that these new HKFRSs would only affect the level of details in the disclosure of the financial statements, and would not have financial impact nor result in a change in the Group's accounting policies.



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 2005 except for new estimates and assumptions that are introduced due to the combination with BOC Life as further explained below.

Estimates and judgements in insurance business are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimate of future benefit payments and premiums arising from long term insurance contracts

In determining the long term business liabilities, the Group follows the Insurance Companies Ordinance (Determination of Long Term Liabilities) Regulation and makes prudent assumptions which include appropriate margins for adverse deviation of the relevant factors. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and HKA01 mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience. For contracts that insure the risk of longevity, appropriate prudent allowances are made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, SARS, avian flu and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

3. Financial risk management

This note presents financial information about the Group's exposure to the use of financial instruments. For further details of the control of risk, please refer to the section "Risk Management" in the Management's Discussion and Analysis on page 29 to page 34.

(A) Currency risk

Tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2006 and 31 December 2005. 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 2006							
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	EURO HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	Total HK\$'m
Assets								
Cash and balances with banks and other financial institutions	22,993	3,146	2,304	128	227	81	150	29,029
Placements with banks and other financial institutions	595	30,286	68,603	170	1,083	1,411	5,207	107,355
Trading securities and other financial instruments at fair value through profit or loss	–	6,811	14,689	1,003	–	–	1,197	23,700
Derivative financial instruments	–	208	5,621	–	–	–	–	5,829
Hong Kong SAR Government certificates of indebtedness	–	–	33,460	–	–	–	–	33,460
Advances and other accounts	2,347	50,420	275,613	3,834	2,428	1,121	1,950	337,713
Available-for-sale securities	–	58,616	26,501	3,661	–	2,372	6,766	97,916
Held-to-maturity securities	–	97,142	48,786	3,451	–	1,279	13,858	164,516
Loans and receivables	–	3,861	19,846	–	–	276	864	24,847
Interests in associates	–	–	57	–	–	–	–	57
Properties, plant and equipment	58	1	19,405	–	–	–	–	19,464
Investment properties	–	–	7,644	–	–	–	–	7,644
Other assets (including deferred tax assets)	41	421	8,186	18	53	4	82	8,805
Total assets	26,034	250,912	530,715	12,265	3,791	6,544	30,074	860,335
Liabilities								
Hong Kong SAR currency notes in circulation	–	–	33,460	–	–	–	–	33,460
Deposits and balances of banks and other financial institutions	14,648	11,617	15,838	110	2,991	66	1,532	46,802
Trading liabilities and other financial instruments at fair value through profit or loss	–	3,198	10,074	–	–	–	–	13,272
Derivative financial instruments	–	336	2,930	–	–	–	–	3,266
Deposits from customers	9,628	136,842	430,700	6,263	2,737	12,693	42,028	640,891
Certificates of deposit issued	–	1,318	2,617	–	–	–	–	3,935
Insurance contract liabilities	–	1,556	9,221	–	–	–	–	10,777
Other accounts and provisions (including deferred tax liabilities)	570	5,823	17,007	224	141	268	948	24,981
Total liabilities	24,846	160,690	521,847	6,597	5,869	13,027	44,508	777,384
Net on-balance sheet position	1,188	90,222	8,868	5,668	(2,078)	(6,483)	(14,434)	82,951
Off-balance sheet net notional position*	1	(85,824)	71,357	(5,741)	2,017	6,390	14,451	2,651
Contingent liabilities and commitments	1,929	38,537	123,551	2,274	616	106	1,490	168,503

* 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)

(A) Currency risk (continued)

	At 31 December 2005							
	Renminbi HK\$m	US Dollars HK\$m	HK Dollars HK\$m	EURO HK\$m	Japanese Yen HK\$m	Pound Sterling HK\$m	Others HK\$m	Total HK\$m
Assets								
Cash and balances with banks and other financial institutions	22,730	4,752	2,697	153	154	103	115	30,704
Placements with banks and other financial institutions	262	35,833	82,389	371	–	3,064	3,943	125,862
Trading securities and other financial instruments at fair value through profit or loss	–	6,549	11,099	1,209	–	–	1,508	20,365
Derivative financial instruments	–	874	4,310	–	–	–	–	5,184
Hong Kong SAR Government certificates of indebtedness	–	–	32,630	–	–	–	–	32,630
Advances and other accounts	1,961	47,896	279,042	3,738	2,423	831	2,512	338,403
Available-for-sale securities	–	26,033	19,283	2,414	–	1,011	3,502	52,243
Held-to-maturity securities	–	101,694	57,640	4,003	243	1,288	13,653	178,521
Loans and receivables	–	1,704	9,778	–	–	–	1,598	13,080
Interests in associates	–	–	61	–	–	–	–	61
Properties, plant and equipment	61	–	18,430	–	–	–	–	18,491
Investment properties	–	–	7,626	–	–	–	–	7,626
Other assets (including deferred tax assets)	19	744	7,025	–	–	9	35	7,832
Total assets	25,033	226,079	532,010	11,888	2,820	6,306	26,866	831,002
Liabilities								
Hong Kong SAR currency notes in circulation	–	–	32,630	–	–	–	–	32,630
Deposits and balances of banks and other financial institutions	14,150	9,245	12,507	247	3,389	63	1,054	40,655
Trading liabilities and other financial instruments at fair value through profit or loss	–	2,746	5,178	–	–	–	–	7,924
Derivative financial instruments	–	840	3,353	–	–	–	–	4,193
Deposits from customers	9,210	132,105	427,160	6,787	2,693	13,199	41,504	632,658
Certificates of deposit issued	–	1,325	2,640	–	–	–	–	3,965
Insurance contract liabilities	–	1,019	6,949	–	–	–	–	7,968
Other accounts and provisions (including deferred tax liabilities)	629	5,879	11,253	222	131	196	986	19,296
Total liabilities	23,989	153,159	501,670	7,256	6,213	13,458	43,544	749,289
Net on-balance sheet position	1,044	72,920	30,340	4,632	(3,393)	(7,152)	(16,678)	81,713
Off-balance sheet net notional position	(5)	(68,875)	48,257	(4,575)	3,392	7,146	16,811	2,151
Contingent liabilities and commitments	1,558	34,600	121,423	1,945	812	50	1,294	161,682

3. Financial risk management (continued)

(B) Liquidity risk

Tables below analyse assets and liabilities of the Group as at 30 June 2006 and 31 December 2005 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2006							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Undated HK\$'m	
Assets								
Cash and balances with banks and other financial institutions	29,029	-	-	-	-	-	-	29,029
Placements with banks and other financial institutions	-	51,362	39,172	16,821	-	-	-	107,355
Trading securities and other financial instruments at fair value through profit or loss								
– debt securities								
– certificates of deposit held	-	9	3	328	912	1,135	-	2,387
– others	-	1,782	1,582	2,699	7,161	7,545	-	20,769
– equity securities	-	-	-	-	-	-	544	544
Derivative financial instruments	5,010	376	106	101	141	95	-	5,829
Hong Kong SAR Government certificates of indebtedness	33,460	-	-	-	-	-	-	33,460
Advances and other accounts								
– advances to customers	27,973	4,380	22,446	33,400	127,779	114,436	1,233	331,647
– trade bills	2	1,333	1,113	247	-	-	-	2,695
– advances to banks and other financial institutions	101	-	-	666	2,604	-	-	3,371
Available-for-sale securities								
– debt securities								
– certificates of deposit held	-	103	1,554	1,881	4,367	200	-	8,105
– others	-	2,946	2,495	3,140	29,637	51,540	-	89,758
– equity securities	-	-	-	-	-	-	53	53
Held-to-maturity securities								
– debt securities								
– certificates of deposit held	-	1,216	2,686	2,818	4,026	-	-	10,746
– others	-	4,520	9,013	28,976	96,591	14,670	-	153,770
Loans and receivables	-	2,290	9,593	12,964	-	-	-	24,847
Interests in associates	-	-	-	-	-	-	57	57
Properties, plant and equipment	-	-	-	-	-	-	19,464	19,464
Investment properties	-	-	-	-	-	-	7,644	7,644
Other assets (including deferred tax assets)	4,610	3,703	2	249	98	-	143	8,805
Total assets	100,185	74,020	89,765	104,290	273,316	189,621	29,138	860,335



3. Financial risk management (continued)
(B) Liquidity risk (continued)

	At 30 June 2006							
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Undated HK\$'m	Total HK\$'m
Liabilities								
Hong Kong SAR currency notes in circulation	33,460	-	-	-	-	-	-	33,460
Deposits and balances of banks and other financial institutions	19,282	26,224	559	737	-	-	-	46,802
Trading liabilities and other financial instruments at fair value through profit or loss	-	2,685	1,782	5,746	2,570	489	-	13,272
Derivative financial instruments	1,928	497	186	181	444	30	-	3,266
Deposits from customers	251,986	277,546	88,214	22,023	1,071	51	-	640,891
Certificates of deposit issued	-	483	1,576	411	1,465	-	-	3,935
Insurance contract liabilities	-	-	-	-	-	-	10,777	10,777
Other accounts and provisions (including deferred tax liabilities)	11,234	7,053	785	4,735	1,133	-	41	24,981
Total liabilities	317,890	314,488	93,102	33,833	6,683	570	10,818	777,384
Net liquidity gap	(217,705)	(240,468)	(3,337)	70,457	266,633	189,051	18,320	82,951

3. Financial risk management (continued)

(B) Liquidity risk (continued)

	At 31 December 2005							
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Undated HK\$'m	Total HK\$'m
Assets								
Cash and balances with banks and other financial institutions	30,704	-	-	-	-	-	-	30,704
Placements with banks and other financial institutions	-	78,251	40,145	7,466	-	-	-	125,862
Trading securities and other financial instruments at fair value through profit or loss								
– debt securities								
– certificates of deposit held	-	-	113	60	964	761	-	1,898
– others	-	140	1,320	2,001	7,502	7,172	-	18,135
– equity securities	-	-	-	-	-	-	332	332
Derivative financial instruments	3,706	1,068	227	54	98	31	-	5,184
Hong Kong SAR Government certificates of indebtedness	32,630	-	-	-	-	-	-	32,630
Advances and other accounts								
– advances to customers	25,368	6,710	16,133	31,534	132,520	118,015	2,029	332,309
– trade bills	101	1,125	1,460	353	-	-	-	3,039
– advances to banks and other financial institutions	102	164	267	376	2,146	-	-	3,055
Available-for-sale securities								
– debt securities								
– certificates of deposit held	-	101	200	356	3,521	-	-	4,178
– others	-	1,609	2,598	1,673	23,680	18,449	-	48,009
– equity securities	-	-	-	-	-	-	56	56
Held-to-maturity securities								
– debt securities								
– certificates of deposit held	-	884	3,846	4,430	5,117	202	-	14,479
– others	-	1,005	6,088	27,278	111,417	18,254	-	164,042
Loans and receivables	-	3,466	3,351	6,263	-	-	-	13,080
Interests in associates	-	-	-	-	-	-	61	61
Properties, plant and equipment	-	-	-	-	-	-	18,491	18,491
Investment properties	-	-	-	-	-	-	7,626	7,626
Other assets (including deferred tax assets)	6,014	1,389	-	239	111	-	79	7,832
Total assets	98,625	95,912	75,748	82,083	287,076	162,884	28,674	831,002



3. Financial risk management (continued)
(B) Liquidity risk (continued)

	At 31 December 2005							
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Undated HK\$'m	Total HK\$'m
Liabilities								
Hong Kong SAR currency notes in circulation	32,630	-	-	-	-	-	-	32,630
Deposits and balances of banks and other financial institutions	21,112	15,479	1,049	3,015	-	-	-	40,655
Trading liabilities and other financial instruments at fair value through profit or loss	-	641	1,411	1,750	3,560	562	-	7,924
Derivative financial instruments	1,767	1,261	146	239	616	164	-	4,193
Deposits from customers	247,534	229,779	131,900	21,939	1,506	-	-	632,658
Certificates of deposit issued	-	-	-	2,336	1,629	-	-	3,965
Insurance contract liabilities	-	-	-	-	-	-	7,968	7,968
Other accounts and provisions (including deferred tax liabilities)	12,034	1,602	1,034	3,971	205	1	449	19,296
Total liabilities	315,077	248,762	135,540	33,250	7,516	727	8,417	749,289
Net liquidity gap	(216,452)	(152,850)	(59,792)	48,833	279,560	162,157	20,257	81,713

The above maturity classifications have been prepared in accordance with the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual issued by the HKMA. In accordance with the guideline, 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 "Undated". 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 the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual issued by the HKMA. The disclosure does not imply that the securities will be held to maturity.

4. Net interest income

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest income		
Cash and due from banks and other financial institutions	3,607	1,411
Advances to customers	9,156	5,034
Listed investments	1,344	966
Unlisted investments	5,078	2,493
Others	218	293
	19,403	10,197
Interest expense		
Due to banks, customers and other financial institutions	(11,365)	(3,878)
Debt securities in issue	(60)	(55)
Others	(405)	(263)
	(11,830)	(4,196)
Net interest income	7,573	6,001

Included within interest income is HK\$51 million (first half of 2005: HK\$57 million) of interest with respect to income recognised on advances classified as impaired for the first half of 2006.



5. Net fees and commission income

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Fees and commission income		
Securities brokerage	673	404
Credit cards	375	372
Bills commissions	259	258
Payment services	200	179
Asset management	167	104
Loan commissions	116	124
Insurance	72	131
Trust services	54	49
Guarantees	25	21
Others		
– safe deposit box	94	85
– currency exchange	51	29
– RMB business	36	17
– low deposit balance accounts	22	23
– information search	22	22
– BOC cards	15	16
– correspondent banking	15	9
– postage and telegrams	14	12
– dormant accounts	12	12
– agency services	8	6
– sundries	122	90
	2,352	1,963
Fees and commission expenses	(591)	(510)
Net fees and commission income	1,761	1,453

6. Net trading income

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Net gain/(loss) from:		
– foreign exchange and foreign exchange products	758	596
– interest rate instruments	(114)	84
– equity instruments	(96)	2
– commodities	58	17
	606	699

Foreign exchange net trading income includes gains and losses from forward and futures contracts, options, swaps and translation of foreign currency assets and liabilities.

7. Net (loss)/gain on investments in securities

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Net loss from early redemption of held-to-maturity securities	(1)	(3)
Net (loss)/gain from disposal of available-for-sale securities	(7)	21
	(8)	18

8. Net insurance premium income

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Gross written premiums	3,478	1,775
Movement in unearned premiums	–	–
Gross earned premiums	3,478	1,775
Less: Gross written premiums ceded to reinsurers	(2)	(1)
Reinsurers' share of movement in unearned premiums	–	–
Reinsurers' share of gross earned premiums	(2)	(1)
Net insurance premium income	3,476	1,774



9. Other operating income

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Dividend income from investments in securities		
– unlisted investments	15	13
Gross rental income from investment properties	97	94
Less: Outgoings in respect of investment properties	(28)	(27)
Reversal of impairment losses on interests in associates	–	4
Others	85	42
	169	126

Included in the “Outgoings in respect of investment properties” were HK\$7 million (first half of 2005: HK\$9 million) of direct operating expenses related to investment properties that were not let during the period.

10. Net insurance benefits and claims

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Claims, benefits and surrenders paid	193	672
Movement in liabilities	2,868	1,088
Gross claims, benefits and surrenders paid and movement in liabilities	3,061	1,760
Less: Reinsurers' share of claims, benefits and surrenders paid	(1)	–
Reinsurers' share of movement in liabilities	–	–
Reinsurers' share of claims, benefits and surrenders paid and movement in liabilities	(1)	–
Net insurance claims, benefits and surrenders paid and movement in liabilities	3,060	1,760

11. Reversal of loan impairment allowances on advances

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Net reversal of loan impairment allowances on advances		
– Individually assessed	409	600
– Collectively assessed	233	835
	642	1,435
Of which		
– new allowances	(368)	(796)
– releases	318	1,123
– recoveries	692	1,108
Net credit to income statement	642	1,435

12. Operating expenses

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	1,682	1,544
– termination benefit	7	1
– pension cost	134	122
	1,823	1,667
Premises and equipment expenses (excluding depreciation)		
– rental of premises	149	120
– information technology	124	108
– others	101	92
	374	320
Depreciation	323	287
Auditors' remuneration		
– audit services	4	4
– non-audit services	5	3
Other operating expenses	442	412
	2,971	2,693



13. Net loss from disposal/revaluation of properties, plant and equipment

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Net gain/(loss) on disposal of properties	4	(2)
Net loss on disposal of other fixed assets	(5)	(7)
Net loss on revaluation of properties	(4)	–
Impairment losses on other fixed assets	(4)	–
	(9)	(9)

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

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Net gain on disposal of investment properties	17	9
Net gain on fair value adjustments on investment properties	477	918
	494	927

15. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Hong Kong profits tax		
– current year taxation	1,275	1,032
– under-provision in prior years	3	–
Deferred tax charge	138	283
Hong Kong profits tax	1,416	1,315
Overseas taxation	28	13
	1,444	1,328

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2006. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2006 at the rates of taxation prevailing in the countries in which the Group operates.

15. Taxation (continued)

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 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Profit before taxation	8,673	7,970
Calculated at a taxation rate of 17.5% (2005: 17.5%)	1,518	1,395
Effect of different taxation rates in other countries	(4)	(11)
Income not subject to taxation	(177)	(398)
Expenses not deductible for taxation purposes	103	334
Tax losses not recognised	1	8
Under-provision in prior years	3	–
Taxation charge	1,444	1,328
Effective tax rate	16.6%	16.7%

16. Dividends

	Half-year ended 30 June 2006		Half-year ended 30 June 2005	
	Per share HK\$	Total HK\$'m	Per share HK\$	Total HK\$'m
Interim dividend	0.401	4,240	0.328	3,468

At a meeting held on 29 August 2006, the Board declared an interim dividend of HK\$0.401 per ordinary share for the first half of 2006 amounting to approximately HK\$4,240 million. This declared dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

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 2006 of approximately HK\$7,093 million (first half of 2005: HK\$6,546 million) and on the ordinary shares in issue of 10,572,780,266 shares (2005: 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 2006 (first half of 2005: 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 2006 amounted to approximately HK\$119 million (first half of 2005: approximately HK\$112 million), after a deduction of forfeited contributions of approximately HK\$9 million (first half of 2005: approximately HK\$12 million). For the MPF Scheme, the Group contributed approximately HK\$10 million and HK\$7 million for the first half of 2006 and 2005 respectively.

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 2006.

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 grants to employees on or before 7 November 2002.

Details of the share options outstanding as at 30 June 2006 are disclosed as follows:

	Directors	Senior management	Others*	Total number of share options	Average exercise price (HK\$ per share)
At 1 January 2006	8,459,100	8,302,650	1,446,000	18,207,750	8.5
Less: Share options exercised during the period	-	(1,994,050)	-	(1,994,050)	8.5
At 30 June 2006	8,459,100	6,308,600	1,446,000	16,213,700	8.5
Exercisable at 30 June 2006	6,253,950	3,077,550	1,084,500	10,416,000	8.5
At 1 January 2005	8,459,100	10,532,700	1,446,000	20,437,800	8.5
Less: Share options exercised during the period	-	(583,700)	-	(583,700)	8.5
At 30 June 2005 and at 1 July 2005	8,459,100	9,949,000	1,446,000	19,854,100	8.5
Less: Share options exercised during the period	-	(1,537,850)	-	(1,537,850)	8.5
Less: Share options lapsed during the period	-	(108,500)	-	(108,500)	8.5
At 31 December 2005	8,459,100	8,302,650	1,446,000	18,207,750	8.5
Exercisable at 31 December 2005	6,253,950	5,071,600	1,084,500	12,410,050	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\$15.88 (31 December 2005: HK\$15.01).

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 (25% of the number of shares subject to such options will vest at the end of each year) 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

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Cash	2,746	3,032
Balances with banks and other financial institutions	26,283	27,672
	29,029	30,704

21. Placements with banks and other financial institutions

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Placements with banks and other financial institutions maturing within one month	51,362	78,251
Placements with banks and other financial institutions maturing between one and twelve months	55,993	47,611
	107,355	125,862

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Cash and balances with banks and other financial institutions (Note 20)	29,029	30,704
Placements with banks and other financial institutions maturing within one month	51,362	78,251
Treasury bills	10,111	6,821
Cash and short-term funds	90,502	115,776

22. Trading securities and other financial instruments at fair value through profit or loss

	Trading securities		Other financial instruments at fair value through profit or loss		Total	
	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
	At fair value					
Debt securities						
– Listed in Hong Kong	252	409	929	775	1,181	1,184
– Listed outside Hong Kong	3,997	4,181	1,308	1,939	5,305	6,120
	4,249	4,590	2,237	2,714	6,486	7,304
– Unlisted	6,760	4,569	9,910	8,160	16,670	12,729
	11,009	9,159	12,147	10,874	23,156	20,033
Equity securities						
– Listed in Hong Kong	23	18	174	311	197	329
– Unlisted	–	–	347	3	347	3
	23	18	521	314	544	332
Total	11,032	9,177	12,668	11,188	23,700	20,365

Trading securities and other financial instruments at fair value through profit or loss are analysed by issuers as follows:

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Central governments and central banks	4,008	2,525
Public sector entities	2,258	2,288
Banks and other financial institutions	15,215	13,118
Corporate entities	2,219	2,434
	23,700	20,365



22. Trading securities and other financial instruments at fair value through profit or loss (continued)

Trading securities and other financial instruments at fair value through profit or loss are classified as follows in:

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Treasury bills	3,323	1,550
Certificates of deposit held	2,387	1,898
Other trading securities and financial instruments at fair value through profit or loss	17,990	16,917
	23,700	20,365

23. 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 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.

23. Derivative financial instruments (continued)

The following is a summary of the contract/notional amounts of each significant type of derivative financial instruments:

	At 30 June 2006			At 31 December 2005		
	Trading HK\$'m	Hedging HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Total HK\$'m
Exchange rate contracts						
Spot and forward	142,897	–	142,897	113,672	–	113,672
Swaps	179,901	–	179,901	177,871	–	177,871
Foreign currency option contracts						
– Options purchased	1,125	–	1,125	2,227	–	2,227
– Options written	2,565	–	2,565	1,315	–	1,315
	326,488	–	326,488	295,085	–	295,085
Interest rate contracts						
Futures	109	–	109	194	–	194
Swaps	32,523	231	32,754	29,310	194	29,504
Interest rate option contracts						
– Swaptions written	803	–	803	1,153	–	1,153
Other contracts						
– Bond options written	854	–	854	465	–	465
	34,289	231	34,520	31,122	194	31,316
Bullion contracts	6,854	–	6,854	17,808	–	17,808
Equity contracts	694	–	694	567	–	567
Total	368,325	231	368,556	344,582	194	344,776

Note: All derivatives held for hedging are designated as fair value hedges.



23. Derivative financial instruments (continued)

The following table summarises the fair values of each class of derivative financial instrument as at 30 June 2006 and 31 December 2005:

	At 30 June 2006			At 31 December 2005		
	Trading HK\$m	Hedging HK\$m	Total HK\$m	Trading HK\$m	Hedging HK\$m	Total HK\$m
Fair value assets						
Exchange rate contracts	5,343	-	5,343	4,167	-	4,167
Interest rate contracts	257	13	270	138	3	141
Bullion contracts	212	-	212	873	-	873
Equity contracts	4	-	4	3	-	3
	5,816	13	5,829	5,181	3	5,184
Fair value liabilities						
Exchange rate contracts	2,332	-	2,332	2,329	-	2,329
Interest rate contracts	619	3	622	1,028	1	1,029
Bullion contracts	310	-	310	833	-	833
Equity contracts	2	-	2	2	-	2
	3,263	3	3,266	4,192	1	4,193

The replacement costs and credit risk weighted amounts of the above derivative financial instruments, which do not take into account the effects of bilateral netting arrangements are as follows:

	At 30 June	At 31 December	At 30 June	At 31 December
	2006	2005	2006	2005
	Credit risk weighted amount		Replacement cost	
	HK\$m	HK\$m	HK\$m	HK\$m
Exchange rate contracts	469	415	392	246
Interest rate contracts	67	49	180	85
Bullion contracts	19	11	212	873
Equity contracts	12	9	4	3
	567	484	788	1,207

The credit risk weighted amounts are the amounts that have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

23. Derivative financial instruments (continued)

Replacement cost is the cost of replacing all contracts that have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet dates and is calculated in accordance with the guidelines issued by the HKMA. Accrued interest has been excluded in the calculation.

The Group undertakes approximately 66% of its transactions in derivative financial instruments contracts with other financial institutions.

24. Advances and other accounts

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Corporate loans and advances	210,215	205,705
Personal loans and advances	122,993	128,318
Advances to customers	333,208	334,023
Loan impairment allowances		
– Individually assessed	(1,059)	(983)
– Collectively assessed	(502)	(731)
	331,647	332,309
Trade bills	2,695	3,039
Advances to banks and other financial institutions	3,371	3,055
Total	337,713	338,403

As at 30 June 2006, advances to customers include accrued interest on gross advances of HK\$1,198 million (31 December 2005: HK\$1,204 million).

Impaired advances to customers are analysed as follows:

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Gross impaired advances to customers (Note)	3,617	4,263
Loan impairment allowances made in respect of such advances	1,194	1,269
Gross impaired advances to customers as a percentage of gross advances to customers	1.09%	1.28%

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



24. Advances and other accounts (continued)

As at 30 June 2006 and 31 December 2005, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

Note:

Impaired advances to customers are those individual advances where full repayment of principal and/or interest is considered unlikely and are classified as such when such a situation becomes apparent. Accordingly, impaired advances represented advances, which have been classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality.

25. Available-for-sale securities

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Debt securities		
– Listed in Hong Kong	4,392	3,540
– Listed outside Hong Kong	12,778	8,361
	17,170	11,901
– Unlisted	80,693	40,286
	97,863	52,187
Equity securities		
– Listed outside Hong Kong	3	6
– Unlisted	50	50
	53	56
Total	97,916	52,243
Available-for-sale securities are analysed by issuers as follows:		
Central governments and central banks	12,754	9,130
Public sector entities	5,001	4,506
Banks and other financial institutions	33,246	22,876
Corporate entities	46,915	15,731
	97,916	52,243
Available-for-sale securities are classified as follows in:		
Treasury bills	6,688	5,271
Certificates of deposit held	8,105	4,178
Other available-for-sale securities	83,123	42,794
	97,916	52,243

26. Held-to-maturity securities

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Listed, at amortised cost		
– in Hong Kong	3,956	4,281
– outside Hong Kong	26,537	29,889
	30,493	34,170
Unlisted, at amortised cost	134,023	144,351
Total	164,516	178,521
Market value of listed securities	29,663	33,637
Held-to-maturity securities are analysed by issuers as follows:		
Central governments and central banks	1,981	2,740
Public sector entities	27,534	30,741
Banks and other financial institutions	111,110	118,851
Corporate entities	23,891	26,189
	164,516	178,521
Held-to-maturity securities are classified as follows in:		
Treasury bills	100	–
Certificates of deposit held	10,746	14,479
Other held-to-maturity securities	153,670	164,042
	164,516	178,521

27. Loans and receivables

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Unlisted, at amortised cost	24,847	13,080
Loans and receivables are analysed by issuers as follows:		
Public sector entities	–	100
Banks and other financial institutions	24,847	12,980
	24,847	13,080



28. Trading liabilities and other financial instruments at fair value through profit or loss

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Structured deposits (Note 29)	10,103	6,373
Short positions in Exchange Fund Bills (Note 30)	3,169	1,551
Per consolidated balance sheet	13,272	7,924
Certificates of deposit issued – at fair value through profit or loss (per consolidated balance sheet)	3,800	3,829
	17,072	11,753

The Group designated on initial recognition HK\$13,903 million (31 December 2005: HK\$10,202 million) of financial liabilities at fair value through profit or loss. The amount of change in their fair values is attributable to changes in a benchmark interest rate. The difference between the carrying amount and the amount that the Group would be contractually required to pay at maturity to the holders of these financial liabilities is HK\$170 million (31 December 2005: HK\$140 million).

29. Deposits from customers

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Current, savings and other deposit accounts (per consolidated balance sheet)	640,891	632,658
Structured deposits reported as trading liabilities and other financial instruments at fair value through profit or loss (Note 28)	10,103	6,373
	650,994	639,031
Analysed by:		
Demand deposits and current accounts		
– corporate customers	23,153	23,854
– individual customers	5,282	5,094
	28,435	28,948
Savings deposits		
– corporate customers	61,304	60,975
– individual customers	162,664	155,565
	223,968	216,540
Time, call and notice deposits		
– corporate customers	99,196	102,666
– individual customers	299,395	290,877
	398,591	393,543
	650,994	639,031

30. Assets pledged as security

As at 30 June 2006, liabilities of the Group amounting to HK\$3,169 million (31 December 2005: HK\$1,551 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$3,012 million (31 December 2005: HK\$473 million) 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\$7,164 million (31 December 2005: HK\$3,702 million) included in "Trading securities" and "Available-for-sale securities".

31. Insurance contract liabilities

	2006		
	Gross HK\$'m	Reinsurance HK\$'m	Net HK\$'m
At 1 January 2006	7,969	–	7,969
Benefits paid	(163)	–	(163)
Claims incurred and movement in liabilities	2,971	–	2,971
At 30 June 2006	10,777	–	10,777

	2005		
	Gross HK\$'m	Reinsurance HK\$'m	Net HK\$'m
At 1 January 2005	5,139	–	5,139
Benefits paid	(459)	–	(459)
Claims incurred and movement in liabilities	3,288	–	3,288
At 31 December 2005	7,968	–	7,968



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 the financial statements in accordance with HKAS 12 "Income taxes".

The major components of deferred tax assets and liabilities recorded in the consolidated balance sheet, and the movements during the first half of 2006 and the year ended 31 December 2005 are as follows:

	2006					
	Accelerated tax depreciation	Asset revaluation	Losses	Provisions	Other temporary differences	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 1 January 2006	357	2,941	(72)	(127)	(112)	2,987
Charged/(credited) to income statement	28	64	6	43	(3)	138
Charged/(credited) to equity	-	150	-	-	(163)	(13)
At 30 June 2006	385	3,155	(66)	(84)	(278)	3,112

	2005					
	Accelerated tax depreciation	Asset revaluation	Losses	Provisions	Other temporary differences	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 1 January 2005	315	2,215	(16)	(348)	(7)	2,159
Charged/(credited) to income statement	42	214	(56)	221	(62)	359
Charged/(credited) to equity	-	512	-	-	(43)	469
At 31 December 2005	357	2,941	(72)	(127)	(112)	2,987

32. Deferred taxation (continued)

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 consolidated balance sheet:

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Deferred tax assets	(65)	(68)
Deferred tax liabilities	3,177	3,055
	3,112	2,987

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(199)	(237)
Deferred tax liabilities to be settled after more than twelve months	385	357
	186	120

33. Other accounts and provisions

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Current taxation (Note)	1,657	889
Accruals and other payables	20,147	15,352
	21,804	16,241

Note:

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Current taxation		
Hong Kong profits tax	1,629	865
Overseas taxation	28	24
	1,657	889



34. Share capital

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Authorised: 20,000,000,000 ordinary shares of HK\$5.00 each	100,000	100,000
Issued and fully paid: 10,572,780,266 ordinary shares of HK\$5.00 each	52,864	52,864

35. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity on pages 37 to 38 of the financial statements.

36. Notes to consolidated cash flow statement

(a) Reconciliation of operating profit to operating cash (outflow)/inflow before taxation:

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Operating profit	8,188	7,053
Dividend income from investments in securities	(15)	(13)
Depreciation	323	287
Net loss from early redemption of held-to-maturity securities	1	3
Net loss/(gain) from disposal of available-for-sales securities	7	(21)
Reversal of impairment losses on interest in associates	–	(4)
Reversal of loan impairment allowances on advances	(642)	(1,435)
Unwind of discount on impairment	(51)	–
Advances written off net of recoveries	541	469
Change in placements with banks and other financial institutions with original maturity over three months	(16,205)	43,186
Change in trading securities and other financial instruments at fair value through profit or loss	(2,062)	(5,854)
Change in derivative financial instruments	(1,572)	(1,563)
Change in advances and other accounts	842	(25,006)
Change in available-for-sale securities	(47,529)	(25,970)
Change in held-to-maturity securities	14,237	9,982
Change in loans and receivables	(11,767)	–
Change in other assets	(976)	692
Change in deposits and balances of banks and other financial institutions repayable over three months	(2,126)	1,855
Change in trading liabilities and other financial instruments at fair value through profit or loss	5,348	4,547
Change in deposits from customers	8,233	(3,711)
Change in certificates of deposit issued	(30)	(105)
Change in other accounts and provisions	4,795	3,781
Change in insurance contract liabilities	2,809	1,036
Exchange difference	1	–
Operating cash (outflow)/inflow before taxation	(37,650)	9,209



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

	At 30 June 2006 HK\$'m	At 30 June 2005 HK\$'m
Cash and balances with banks and other financial institutions	29,029	28,285
Placements with banks and other financial institutions with original maturity within three months	50,474	68,304
Treasury bills with original maturity within three months	4,081	3,690
Certificates of deposit held with original maturity within three months	952	714
Deposits and balances of banks and other financial institutions with original maturity within three months	(45,422)	(33,137)
	39,114	67,856

37. 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:

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Direct credit substitutes	1,110	1,027
Transaction-related contingencies	6,750	5,982
Trade-related contingencies	18,898	18,936
Other commitments with an original maturity of		
– under one year or which are unconditionally cancellable	113,576	105,983
– one year and over	28,169	29,754
	168,503	161,682
Credit risk weighted amount	20,666	21,415

The calculation basis of credit risk weighted amount has been set out in Note 23 to the financial statements.

38. Capital commitments

The Group has the following outstanding capital commitments not provided for in the financial statements:

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Authorised and contracted for but not recorded	214	185
Authorised but not contracted for	25	16
	239	201

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

39. 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:

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Land and buildings		
– not later than one year	250	204
– later than one year but not later than five years	260	192
– later than five years	2	2
	512	398
Computer equipment		
– not later than one year	1	1

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.



39. 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:

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Land and buildings		
– not later than one year	214	151
– later than one year but not later than five years	255	162
	469	313

The Group leases its investment properties 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 includes contingent rentals.

40. 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, profits before tax and assets are derived from Hong Kong.

With the merger of BOC Life in the first half of 2006, the Group's business became more diversified and one more business segment "Insurance" was added. As a result, information about six business segments is provided in segmental reporting. They are Retail Banking, Corporate Banking, Treasury, Investment Activities, Insurance and Unallocated.

Both Retail Banking and Corporate Banking segments provide general banking services. Retail Banking mainly serves individual customers and small companies. Corporate Banking mainly manages medium to large companies. 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. Investment Activities include the Group's holdings of premises, investment properties and interests in associates. Insurance segment mainly provides long-term life insurance products, including traditional and linked individual life insurance and group life insurance products. The segment "Unallocated" refers to those items related to the Group as a whole but independent of the other five business segments.

Revenues, expenses, assets and liabilities of any business segment mainly include items directly attributable to the segment. Regarding occupation of the Group's premises, rentals are internally charged on market rates according to the areas occupied. For management overheads, allocations are made on reasonable bases. During the period, 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 fund flows are charged according to the internal funds transfer pricing mechanism of the Group. The charge on any such flow is mainly made by reference to the corresponding money market rate.

40. Segmental reporting (continued)

	Half-year ended 30 June 2006								
	Retail HK\$'m	Corporate HK\$'m	Treasury HK\$'m	Investment HK\$'m	Insurance HK\$'m	Unallocated HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Net interest income/(expenses)	3,812	1,981	2,076	(603)	208	99	7,573	-	7,573
Net fees and commission income/(expenses)	1,394	487	(9)	21	(108)	(18)	1,767	(6)	1,761
Net trading income/(expenses)	250	48	722	-	(415)	-	605	1	606
Net (loss)/gain on investments in securities	-	-	(11)	3	-	-	(8)	-	(8)
Net insurance premium income	-	-	-	-	3,478	-	3,478	(2)	3,476
Other operating income	26	-	17	353	3	348	747	(578)	169
Total operating income/(expenses)	5,482	2,516	2,795	(226)	3,166	429	14,162	(585)	13,577
Net insurance benefits and claims	-	-	-	-	(3,060)	-	(3,060)	-	(3,060)
Net operating income before loan impairment allowances	5,482	2,516	2,795	(226)	106	429	11,102	(585)	10,517
Reversal of loan impairment allowances on advances	38	604	-	-	-	-	642	-	642
Net operating income	5,520	3,120	2,795	(226)	106	429	11,744	(585)	11,159
Operating expenses	(2,326)	(675)	(189)	(227)	(27)	(112)	(3,556)	585	(2,971)
Operating profit/(loss)	3,194	2,445	2,606	(453)	79	317	8,188	-	8,188
Net loss from disposal/revaluation of properties, plant and equipment	(5)	-	-	(4)	-	-	(9)	-	(9)
Net gain from disposal of/fair value adjustment on investment properties	-	-	-	494	-	-	494	-	494
Profit before taxation	3,189	2,445	2,606	37	79	317	8,673	-	8,673
At 30 June 2006									
Assets									
Segment assets	156,708	212,688	455,588	26,878	12,234	625	864,721	(4,927)	859,794
Interests in associates	-	-	-	57	-	-	57	-	57
Unallocated corporate assets	-	-	-	-	-	484	484	-	484
	156,708	212,688	455,588	26,935	12,234	1,109	865,262	(4,927)	860,335
Liabilities									
Segment liabilities	539,684	131,392	95,407	191	11,176	-	777,850	(4,927)	772,923
Unallocated corporate liabilities	-	-	-	-	-	4,461	4,461	-	4,461
	539,684	131,392	95,407	191	11,176	4,461	782,311	(4,927)	777,384
Half-year ended 30 June 2006									
Other information									
Additions of properties, plant and equipment	-	-	-	288	-	-	288	-	288
Depreciation	89	28	14	171	1	20	323	-	323
Amortisation of securities	-	-	856	-	-	-	856	-	856



40. Segmental reporting (continued)

	Half-year ended 30 June 2005								
	Retail HK\$'m	Corporate HK\$'m	Treasury HK\$'m	Investment HK\$'m	Insurance HK\$'m	Unallocated HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Net interest income/(expenses)	3,650	1,777	568	(149)	141	14	6,001	–	6,001
Net fees and commission income/(expenses)	980	482	(10)	80	(44)	(16)	1,472	(19)	1,453
Net trading income/(expenses)	244	21	483	(2)	(45)	–	701	(2)	699
Net gain on investments in securities	–	–	18	–	–	–	18	–	18
Net insurance premium income	–	–	–	–	1,775	–	1,775	(1)	1,774
Other operating (expenses)/income	(22)	2	–	321	3	275	579	(453)	126
Total operating income/(expenses)	4,852	2,282	1,059	250	1,830	273	10,546	(475)	10,071
Net insurance benefits and claims	–	–	–	–	(1,760)	–	(1,760)	–	(1,760)
Net operating income before loan impairment allowances	4,852	2,282	1,059	250	70	273	8,786	(475)	8,311
Reversal of loan impairment allowances on advances	85	1,350	–	–	–	–	1,435	–	1,435
Net operating income	4,937	3,632	1,059	250	70	273	10,221	(475)	9,746
Operating expenses	(2,142)	(601)	(92)	(233)	(23)	(77)	(3,168)	475	(2,693)
Operating profit	2,795	3,031	967	17	47	196	7,053	–	7,053
Net loss from disposal/revaluation of properties, plant and equipment	–	–	–	(9)	–	–	(9)	–	(9)
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	927	–	–	927	–	927
Share of profits less losses of associates	–	–	–	(1)	–	–	(1)	–	(1)
Profit before taxation	2,795	3,031	967	934	47	196	7,970	–	7,970
At 31 December 2005									
Assets									
Segment assets	158,844	211,834	426,791	24,902	9,343	662	832,376	(1,609)	830,767
Interests in associates	–	–	–	61	–	–	61	–	61
Unallocated corporate assets	–	–	–	–	–	174	174	–	174
	158,844	211,834	426,791	24,963	9,343	836	832,611	(1,609)	831,002
Liabilities									
Segment liabilities	554,244	101,719	82,381	647	8,365	–	747,356	(1,609)	745,747
Unallocated corporate liabilities	–	–	–	–	–	3,542	3,542	–	3,542
	554,244	101,719	82,381	647	8,365	3,542	750,898	(1,609)	749,289
Half-year ended 30 June 2005									
Other information									
Additions of properties, plant and equipment	–	–	–	165	–	–	165	–	165
Depreciation	73	16	22	172	1	3	287	–	287

41. 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.

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

(a) *Sale of certain assets to related parties*

Sale of properties

In June 2006, BOC Life completed the disposal of BOCG Insurance Tower, for consideration of HK\$255 million, to BOC Insurance. Following the disposal, BOC Life leased back part of the subject property from BOC Insurance at a monthly rental of HK\$420,000 to continue the operation of its business.

Sale of an associate

In March 2006, BOCHK completed the disposal of a 40% equity interest in Charleston Investments Company Limited to BOC Group Investment Limited at a total consideration of HK\$2 million.

Sale of investment security

In March 2006, BOCHK completed the disposal of a 10% equity interest in Yithan Company Limited to BOC Group Investment Limited at a total consideration of HK\$8 million.

(b) *Purchase of a subsidiary from a related party*

In June 2006, the Company acquired a 51% equity interest in BOC Life from BOC Insurance at a total consideration of HK\$900 million. The principal business of BOC Life is the provision of life insurance policies to customers in Hong Kong.

(c) *Advances to third parties guaranteed by BOC group companies*

As at 30 June 2006, BOC, the intermediate holding company, and its subsidiaries provided guarantees for loans in favour of the Group amounting to HK\$3,982 million (31 December 2005: HK\$3,255 million) to certain third parties. BOC and its subsidiaries held equity interests of not more than 20% in these third parties.



41. Significant related party transactions (continued)**(d) 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 2006			
	Notes	Immediate and intermediate holding companies HK\$'m	Associates HK\$'m	Other related parties ¹ HK\$'m
Income statement items:				
Interest income	(i)	325	–	10
Interest expense	(ii)	(327)	(2)	(113)
Insurance premium paid (net)	(iii)	–	–	(4)
Administrative services fees received/receivable	(iv)	17	–	10
Rental fees received/receivable	(iv)	–	–	8
Credit card commission paid/payable (net)	(v)	(46)	–	(1)
Securities brokerage commission paid/payable (net)	(v)	–	–	(64)
Rental, property management and letting agency fees paid/payable	(v)	–	–	(39)
Funds selling commission received	(vi)	–	–	22
Correspondent banking fee received	(vii)	5	–	–
Net trading gains/(losses)		73	–	(2)

41. Significant related party transactions (continued)

(d) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

	Half-year ended 30 June 2005			
	Notes	Immediate and intermediate holding companies HK\$'m	Associates HK\$'m	Other related parties ¹ HK\$'m
Income statement items:				
Interest income	(i)	144	–	2
Interest expense	(ii)	(170)	(1)	(33)
Insurance commission received (net)	(iii)	–	–	6
Administrative services fees received/receivable	(iv)	2	–	2
Rental fees received/receivable	(iv)	–	–	7
Credit card commission paid/payable (net)	(v)	(34)	–	–
Securities brokerage commission paid/payable (net)	(v)	–	–	(41)
Rental, property management and letting agency fees paid/payable	(v)	(1)	–	(38)
Funds selling commission received	(vi)	–	–	26
Correspondent banking fee received	(vii)	5	–	–
Net trading losses		(61)	–	(4)



41. Significant related party transactions (continued)**(d) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)**

	At 30 June 2006			
		Immediate and intermediate holding companies	Associates	Other related parties ¹
	Notes	HK\$'m	HK\$'m	HK\$'m
Balance sheet items:				
Cash and balances with banks and other financial institutions	(i)	5,115	–	6
Placements with banks and other financial institutions	(i)	9,773	–	2
Derivative financial instruments assets	(viii)	29	–	–
Advances and other accounts	(i)	42	–	–
Other assets	(ix)	90	–	1,912
Deposits and balances of banks and other financial institutions	(ii)	21,791	–	1,096
Deposits from customers	(ii)	52	74	5,360
Derivative financial instruments liabilities	(viii)	24	–	1
Other accounts and provisions	(ix)	46	–	1,160

41. Significant related party transactions (continued)

(d) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

	At 31 December 2005			
	Notes	Immediate and intermediate holding companies HK\$'m	Associates HK\$'m	Other related parties ¹ HK\$'m
Balance sheet items:				
Cash and balances with banks and other financial institutions	(i)	4,851	–	19
Placements with banks and other financial institutions	(i)	12,328	–	–
Derivative financial instruments assets	(viii)	4	–	2
Advances and other accounts	(i)	20	–	–
Other assets	(ix)	33	–	574
Deposits and balances of banks and other financial institutions	(ii)	19,596	–	857
Deposits from customers	(ii)	97	91	4,158
Derivative financial instruments liabilities	(viii)	78	–	–
Other accounts and provisions	(ix)	55	–	978

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 and its subsidiaries and associates including deposit of cash and balances with banks and other financial institutions, placement of interbank deposits 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.

(ii) Interest expense

In the ordinary course of business, the Group accepts interbank deposits and current, fixed, savings and other deposits from the immediate holding company, intermediate holding companies and subsidiaries and associates of BOC at the relevant market rates at the time of the transactions.

(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 a subsidiary of BOC at the relevant market rates at the time of the transactions.



41. Significant related party transactions (continued)

(d) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

Notes: (continued)

(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 the intermediate holding companies and subsidiaries of BOC mainly on the basis of cost plus a margin of 5%, and receives office premises rental fees from the subsidiaries of BOC 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 and its subsidiaries. The Group also pays rental fees to subsidiaries of BOC. 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 subsidiary of BOC 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 and its subsidiaries. The aggregate notional amount of such derivative transactions amounted to HK\$32,185 million as at 30 June 2006 whilst the corresponding derivative financial instruments assets and liabilities amounted to HK\$29 million and HK\$25 million respectively as at that date. These transactions are executed at the relevant market rates at the time of the transactions.

(ix) Other assets and other accounts and provisions

Included within "Other assets" and "Other accounts and provisions" are receivables from and payables to intermediate holding companies and subsidiaries of BOC. The amounts mainly represent the accounts receivables from and payables to a subsidiary of BOC in relation to dealing 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.

41. Significant related party transactions (continued)**(e) 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. As at 30 June 2006, the total undrawn loan commitments, trade finance-related contingencies and guarantees amounted to HK\$1,243 million (31 December 2005: HK\$1,143 million).

(f) 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 2006 and 2005 is detailed as follows:

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Salaries and other short-term employee benefits	21	13
Post-employment benefits	–	1
	21	14

(g) Transactions with Ministry of Finance and The People's Bank of China

The Group enters into banking transactions with these entities in the normal course of business. These include purchases and redemption of treasury bonds and money market transactions. The outstanding balances at the period/year end, and the related income and expense for the period are as follows:

(i) Advances to customers/banks and other financial institutions

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest income	5	–

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	–	–
Outstanding balance at end of the period/year	190	–



41. Significant related party transactions (continued)

(g) Transactions with Ministry of Finance and The People's Bank of China (continued)

(ii) Treasury bonds

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest income	52	67

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	2,630	2,523
Outstanding balance at end of the period/year	1,798	2,630

(iii) Due from banks and other financial institutions

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest income	112	75

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	21,846	11,648
Outstanding balance at end of the period/year	22,498	21,846

41. Significant related party transactions (continued)

(g) Transactions with Ministry of Finance and The People's Bank of China (continued)

(iv) Due to banks and other financial institutions

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest expense	–	(5)

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	–	–
Outstanding balance at end of the period/year	–	–

(h) 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 and enter into any transactions with Central SAFE for the six months ended 30 June 2006 and 2005 respectively.

Central SAFE has controlling equity interests in certain other banks 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 expense for the period are as follows:

(i) Advances to customers/banks and other financial institutions

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest income	–	–

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	11	–
Outstanding balance at end of the period/year	–	11



41. Significant related party transactions (continued)

(h) Transactions with Central SAFE and other companies controlled by Central SAFE (continued)

(ii) Investment securities

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest income	38	20

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	2,043	1,743
Outstanding balance at end of the period/year	1,701	2,043

(iii) Trading securities and other financial instruments at fair value through profit or loss

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest income	–	–

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	19	–
Outstanding balance at end of the period/year	18	19

41. Significant related party transactions (continued)

(h) Transactions with Central SAFE and other companies controlled by Central SAFE (continued)

(iv) Due from banks and other financial institutions

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest income	9	12

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	1,034	2,115
Outstanding balance at end of the period/year	325	1,034

(v) Due to banks and other financial institutions

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest expense	–	–

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	15	14
Outstanding balance at end of the period/year	16	15



41. Significant related party transactions (continued)

(i) Transactions with other state-controlled entities

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. Accordingly, 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, investment related services;
- provision of fiduciary activities; and
- purchase of utilities, transport, telecommunication and postal services.

Utilities, transport, telecommunication and postal services are charged by service providers at market rates. Management believes that, based on their assessment, the amounts of such related party transactions are insignificant for the period and therefore are not disclosed below. Details of other transactions are set forth below:

The Group enters into banking transactions with other state-controlled entities in the ordinary course of business. These include loans, deposits, investment securities, money market transactions and off-balance sheet exposures. The outstanding balances and related provisions at the period/year end, and the related income and expenses for the period are as follows:

(i) Advances to customers/banks and other financial institutions

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest income	943	492
Reversal of individually assessed loan impairment allowances	47	20

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	41,543	31,870
Outstanding balance at end of the period/year	36,800	41,543
Less: individually assessed loan impairment allowances	(375)	(469)
	36,425	41,074

41. Significant related party transactions (continued)

(i) Transactions with other state-controlled entities (continued)

(ii) Investment securities

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest income	179	190

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	6,977	6,086
Outstanding balance at end of the period/year	7,931	6,977

Investment securities include held-to-maturity securities and available-for-sale securities.

(iii) Trading securities and other financial instruments at fair value through profit or loss

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest income	9	13

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	738	117
Outstanding balance at end of the period/year	540	738



41. Significant related party transactions (continued)**(i) Transactions with other state-controlled entities (continued)****(iv) Due from banks and other financial institutions**

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest income	129	43

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	4,839	4,418
Outstanding balance at end of the period/year	5,821	4,839

(v) Due to banks and other financial institutions

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest expense	(83)	(46)

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	6,434	7,463
Outstanding balance at end of the period/year	6,457	6,434

41. Significant related party transactions (continued)**(i) Transactions with other state-controlled entities (continued)****(vi) Deposits from customers**

	Half-year ended 30 June 2006 HK\$'m	Half-year ended 30 June 2005 HK\$'m
Interest expense	(761)	(296)

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
Outstanding balance at beginning of the period/year	44,652	39,161
Outstanding balance at end of the period/year	36,692	44,652

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
(vii) Contingent liabilities and commitments (including guarantees)	26,819	26,852

	At 30 June 2006 HK\$'m	At 31 December 2005 HK\$'m
(viii) Derivative transactions unsettled (notional amount)	513	4,020

42. Ultimate holding company

BOC was the Company's ultimate holding company before August 2004. Following the reorganisation of BOC in August 2004, Central SAFE (previously known as China SAFE Investments Ltd) holds controlling equity capital of BOC on behalf of the State. Accordingly, Central SAFE, acting on behalf of the State has become the ultimate holding company of the Company whilst BOC has become the Company's intermediate holding company.



43. Comparative amounts

In June 2006, the Group acquired a 51% shareholding of an entity under common control, BOC Life. The financial statements have been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 “Merger accounting for common control combinations” issued by the HKICPA. The comparative amounts for the period ended 30 June 2005 and 31 December 2005 have been restated in accordance with the principles for merger accounting to present the result and assets of the Group as if BOC Life had been in existence as at those dates.

Certain comparative amounts have been reclassified to conform with the current period’s presentation.

44. 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 2005 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 23 March 2006.