The following sections provide an analysis of the Group's performance, financial position, and risk management. These should be read in conjunction with the financial statements included in this Annual Report.

PERFORMANCE MEASUREMENT

The Group delivered satisfactory results in 2007. The following table highlights the Group's financial performance in terms of earnings, dividend payout, cost efficiency, asset growth, loan quality, and capital strength. These encouraging results can be attributed to the successful execution of the Group's strategic plan for 2006-2011, and the generally favourable economic environment.

Financial Indicators	Performance	Result Highlights
Earnings	• Operating profit before impairment allowances increased by 32.1% to HK$19,481 million. • Profit attributable to shareholders increased by 10.3% to HK$15,446 million.	• **Both operating profit before impairment allowances and profit attributable to shareholders: record highs since IPO**
ROE[1] and ROA[2]	• ROE and ROA were 17.40% and 1.53% respectively. • ROE and ROA before impairment allowances rose by 4.03 percentage points and 0.28 percentage point to 21.95% and 1.89% respectively.	• **ROE: 17.40%** • **ROA: 1.53%**
Dividend payout ratio	The proposed final dividend plus the interim dividend represent a total payout ratio of 62.6%, which is within the range set out in the Group's dividend policy.	• **2007 full year dividend per share: up 7.9%**
Net interest income and net interest margin	• Net interest income increased by 22.5% to HK$19,395 million. • Net interest margin rose from 1.90% in 2006 to 2.07% in 2007 mainly due to the improvement in net interest spread.	• **Net interest income up 22.5%** • **Net interest margin: 2.07%**
Non-interest income[3]	Non-interest income was up 43.6%, primarily driven by investment-related agency fee income. Non-interest income to operating income[4] ratio increased by 3.15 percentage points to 28.84% due to a higher growth rate in non-interest income relative to net interest income.	• **Non-interest income to operating income ratio: 28.84%**
Cost efficiency	Cost-to-income ratio dropped further by 2.26 percentage points to 28.52% as increase in operating income outpaced that of operating expenses. Operating income increased by 27.9% while operating expenses increased by 18.5%.	• **Cost-to-income ratio: 28.52%, well below the market average**
Total assets	• Total assets increased by 14.9% to HK$1,067.6 billion as total deposits from customers grew by 14.2% to HK$793.6 billion.	• **Total assets: up 14.9%**
Loan quality	• Formation of new classified loans[5] remained at a low level, being less than 0.3% of total loans. • Classified or impaired loan[6] ratio declined by 0.13 percentage point from 0.57% in 2006 to 0.44% at end-2007.	• **Classified or impaired loan ratio: 0.44%**
Capital strength and liquidity	Capital adequacy ratio and liquidity ratio remained strong.	• **Capital adequacy ratio: 13.08%** • **Liquidity ratio: 50.92%**

(1) ROE represents return on average capital and reserves attributable to the equity holders of the Company.
(2) ROA represents return on average total assets and is defined in "Financial Highlights".
(3) Non-interest income represents net fees and commission income, net trading income, net gain/(loss) on financial instruments designated at fair value through profit or loss, net gain/(loss) on investments in securities, net insurance premium income, other operating income and net insurance benefits and claims.
(4) Operating income comprises net interest income and non-interest income as defined in (3) above.
(5) Classified loans are advances to customers which have been classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality.
(6) Classified or impaired loans represent advances which have been classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired. Repossessed assets are initially recognised at the lower of their fair value or the amortised cost of the related outstanding loans on the date of repossession. The related loans and advances are deducted from loans and advances.

HIGHLIGHTS OF THE GROUP'S PROGRESS IN IMPLEMENTING THE 2006-2011 STRATEGIC PLAN

The Group formulated and implemented its 2006-2011 strategic plan in 2006 with the vision of becoming a top-quality financial services provider with a powerful base in Hong Kong, a solid presence in China and a strategic foothold in the region. 2007 was the second year of the implementation of this strategic plan and significant progress was recorded (For further details, please refer to Progress Update of 2006-2011 Strategic Plan on pages 49 to 50 of this report).

- The Group maintained its **leading position** in the syndication loan market covering Hong Kong, Macau and the Mainland, local residential mortgage business, Hong Kong RMB banking business, RMB card merchant acquiring business and RMB card issuing business. The Group also acted as joint lead manager and book runner for all three RMB bonds issued in Hong Kong and was the market leader in the business.

- The stronger **wealth management** platform put in place since 2005 helped significantly increase the total number of wealth management customers by 68% and assets under management by 46% in 2007. During the year, private placement services were successfully launched to better serve high net worth individuals.

- The Group completed its implementation of the **RPC model**. Dedicated and professional teams have been formed to focus on the development of product and relationship management. The Group's distribution network was further optimised. During the year, various business models were refined and workflows streamlined. As a result of these initiatives, the Group recorded broad-based growth in both deposits and loans in 2007. More importantly, strong growths were registered in the **high return segments**, such as investment and insurance business, lending by Mainland branches, trade finance and SME loans.

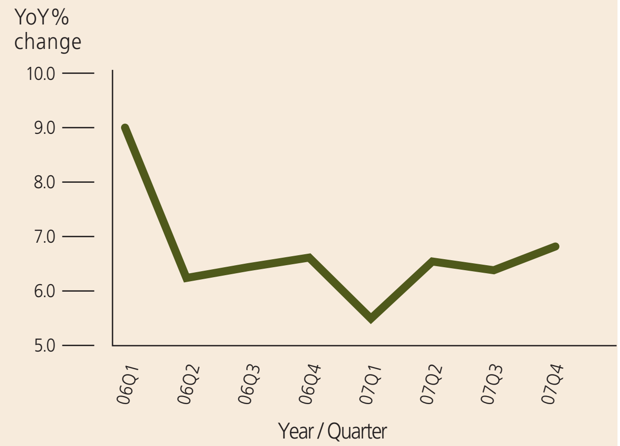
- The Group's **product manufacturing capabilities** were further enhanced. A range of new products were developed and launched during the year, including structured notes, equity warrants and QDII products under the Group's own brand. Securities products such as the stock broking services were upgraded to handle the significant increase in trading volume.

- The Group **expanded its service platform** to cover custody services. A custody service team was formed and major service platforms were put in place to pave the way for expansion. At the same time, the Group also formed a special purpose entity with BOC to provide back-end service support to BOC Group Bank Card in the Mainland.

- Nanyang Commercial Bank (China) Limited ("NCB (China)") was incorporated in the Mainland and business commenced in December 2007. NCB (China) is an integral part of the Group's **China business model** which adopts a dualistic approach in developing Mainland-related business.

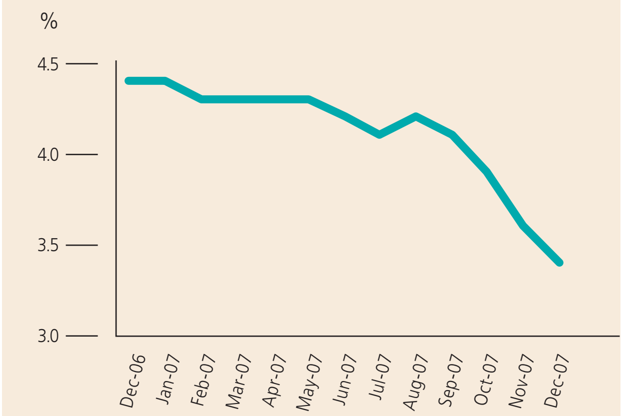
BUSINESS ENVIRONMENT

Hong Kong Real GDP



Source: Bloomberg

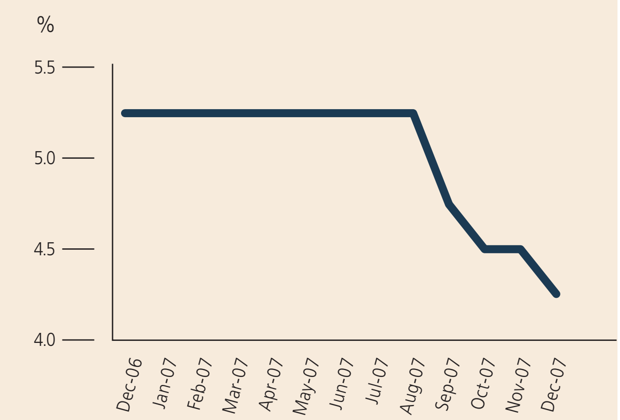
Hong Kong Unemployment Rate



Source: Bloomberg

On the back of robust economic growth in Hong Kong, the local banking sector could operate in a largely favourable environment in 2007. Boosted by strong private consumption, business investment, inbound tourism, exports of merchandise and services as well as an active financial market, Hong Kong's economy registered growth for the fourth consecutive year, with real GDP growing by 6.3% in 2007. The unemployment rate edged down further to 3.4%. However, owing to strong internal demand and the impact of imported inflation, inflationary pressure in Hong Kong mounted with the composite consumer price index rising by 3.8% by the end of the year.

Federal Funds Target Rate



Source: Bloomberg

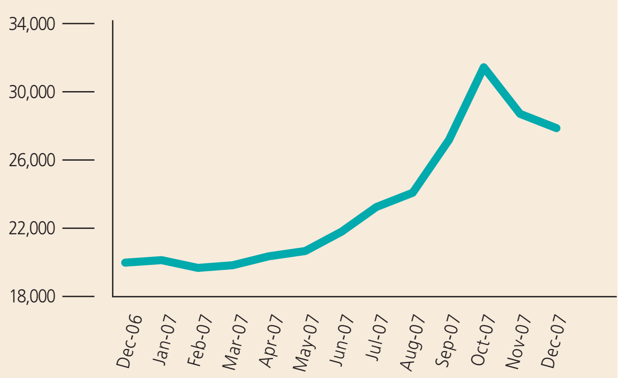
HIBOR

Source: Bloomberg

HKD and USD interest rates were relatively stable in the first half of 2007 but became more volatile in the second half. In the first half of the year, US Federal Funds Target Rate remained at 5.25% while LIBOR remained flat. Meanwhile, owing to increased demand for IPO funds, HKD short-term market rates rose steadily. However, tightened interbank liquidity from credit crunch in international markets and heightened demand for local liquidity driven by IPO activities caused short-term market rates to surge in August. In September, in order to alleviate the tightened interbank market, the US Federal Reserve lowered the US Federal Funds Target Rate, which marked the beginning of the interest rate cut cycle. During the fourth quarter, US Federal Funds Target Rate was cut by an aggregate of 100 basis points to 4.25%. Banks in Hong Kong followed the rate cut and both 1-month HIBOR and LIBOR declined in the period. During the year, the yield curve steepened, as evidenced by the broader average interest spread of 52 basis points in 2007 between 2-year Exchange Fund notes and its 10-year counterparts, versus 31 basis points in 2006.

In 2007 the Group's average HKD Prime rates decreased by 44 basis points whereas the average 1-month HIBOR increased by 16 basis points. As a result, HKD Prime-to-one month HIBOR spread (hereinafter called "Prime-HIBOR spread") narrowed by 60 basis points to 3.31%.

Hang Seng Index



Source: Bloomberg

Underpinned by broad-based economic growth in Hong Kong and continuous capital inflow, the local stock market performed strongly though not without certain volatility in 2007. Driven by a large number of IPO activities and the extension of the Qualified Domestic Institutional Investor (QDII) Scheme, at one point the Hang Seng Index (HSI) rocketed to a record high of over 30,000 points in October. However, the uncertainty that started creeping in across global credit markets thereafter caused the market to become more volatile and the HSI closed at 27,813 points at end-2007, which was still 39% higher than that at end-2006. Total transaction volume more than doubled. Amid the buoyant stock market, there was strong demand for investment-linked instruments. The spate of IPO activities also boosted IPO-related lending for banks in Hong Kong.

Because of higher household income and lower mortgage rates, the local residential property market continued to revive. During the year, property prices increased significantly and the transaction volume shot up to a record high in 10 years. Inflation, together with the concern for negative real interest rates in Hong Kong resulting from aggressive US rate cuts, drove up the demand for real estate investment which in turn fueled the growth of mortgage lending.

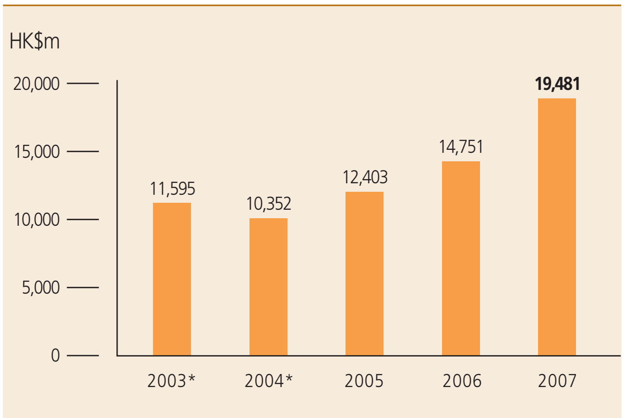
Basically favourable economic fundamentals allowed the local banking sector to operate under a benign credit environment. The loan quality of retail banks further improved with the classified loan ratio dropping to 0.86% at end-2007.

In 2007, the local banking sector was able to benefit from the expansion of domestic demand, buoyant investment markets and improved loan quality despite inflated operating expenses and compressed margins due to intensified market competition.

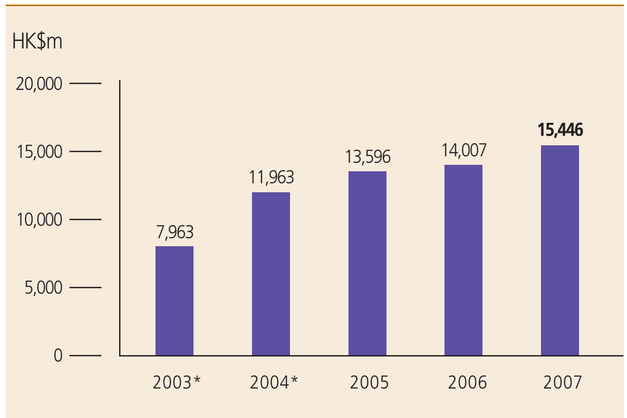
CONSOLIDATED FINANCIAL REVIEW

In 2007, the Group achieved satisfactory financial results and made significant progress in implementing its strategic plan for 2006-2011. Both operating profit before impairment allowances and profit attributable to shareholders reached record highs since its IPO in 2002. Driven by strong growth in core earnings, operating profit before impairment allowances increased by HK$4,730 million, or 32.1%, to HK$19,481 million. Impairment allowances on securities and a lower net reversal of loan impairment allowances adversely affected the profit performance for the year. Despite these, the Group's profit attributable to shareholders rose by HK$1,439 million, or 10.3%, to HK$15,446 million. Earnings per share were HK$1.4609, up HK$0.1361. Return on average total assets ("ROA") and return on average shareholders' funds ("ROE") were 1.53% and 17.40% respectively. ROA and ROE before impairment allowances improved by 0.28 percentage point and 4.03 percentage points to 1.89% and 21.95% respectively.

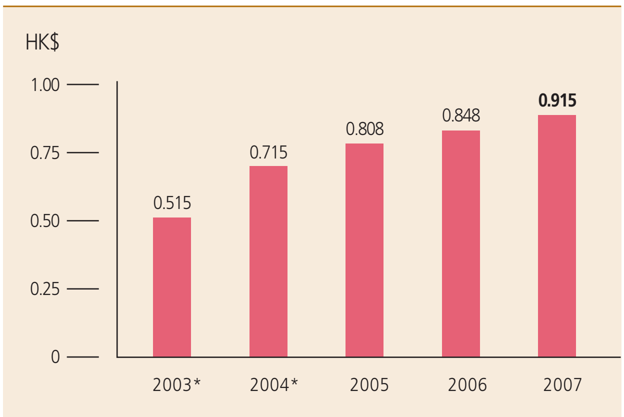
Operating Profit before Impairment Allowances



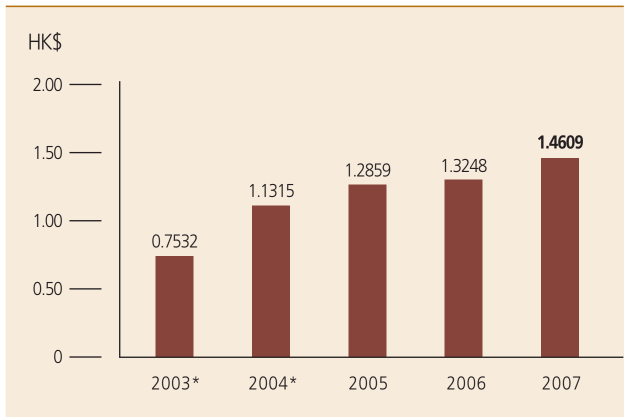
Profit Attributable to Equity Holders



Dividend per Share



Earnings per Share



* Excluding BOC Life

Financial Highlights

HK$'m, except percentage amounts	2007	2006
Operating income	**27,254**	21,309
Operating expenses	**(7,773)**	(6,558)
Operating profit before impairment allowances	**19,481**	14,751
Net (charge)/reversal of impairment allowances	**(1,448)**	1,794
Others	**1,093**	594
Profit before taxation	**19,126**	17,139
Profit attributable to equity holders of the Company	**15,446**	14,007
Earnings per share (HK$)	**1.4609**	1.3248
Return on average total assets	**1.53%**	1.56%
Return on average shareholders' funds*	**17.40%**	17.02%
Return on average total assets before impairment allowances	**1.89%**	1.61%
Return on average shareholders' funds before impairment allowances*	**21.95%**	17.92%
Net interest margin	**2.07%**	1.90%
Non-interest income ratio	**28.84%**	25.69%
Cost-to-income ratio	**28.52%**	30.78%

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

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

Net Interest Income and Margin

HK$'m, except percentage amounts	2007	2006
Interest income	**46,056**	40,271
Interest expense	**(26,661)**	(24,436)
Net interest income	**19,395**	15,835
Average interest-earning assets	**938,377**	835,493
Net interest spread	**1.65%**	1.47%
Net interest margin	**2.07%**	1.90%

Net interest income increased by HK$3,560 million, or 22.5%, to HK$19,395 million in 2007. Average interest-earning assets grew by HK$102,884 million, or 12.3%, to HK$938,377 million. Net interest margin was 2.07%, up 17 basis points from 1.90% in 2006, due mainly to an increase of 18 basis points in net interest spread despite a decline of 1 basis point in the contribution from net free fund.

Market interest rates in 2007 on average were higher than in 2006. In the first half of 2007, market interest rates were relatively stable. However, the tightening of credit markets and fears of liquidity crunch led to a surge in one-month LIBOR in August 2007. After three interest rate cuts announced by the US Federal Reserve in the second half of 2007, one-month LIBOR fell from the peak of 5.82% in September 2007 to 4.60% at end-2007. Meanwhile, HKD short-term interest rates moved more or less in the same direction as USD rates. One-month HIBOR peaked at 5.70% in October 2007 and then dropped to 3.25% at end-2007. Average one-month HIBOR rose by 16 basis points to 4.28% versus 4.12% a year ago while average one-month LIBOR increased by 15 basis points to 5.25% during the same period. The Group's average HKD Prime rate was down by 44 basis points to 7.59%, thus narrowing the HKD Prime-HIBOR spread by 60 basis points to 3.31%.

The increase in the Group's net interest income was mainly driven by the growth in interest-earning assets and widening of net interest margin. Average interest earning assets grew by 12.3%, driven primarily by the increase in average customer deposits. Average gross yield on debt securities investments rose by 32 basis points following the re-pricing of debt securities. Maturing lower yielding securities were reinvested in higher yielding investments. At the same time, the Group's asset mix improved with average loans and advances to customers increased to 40.71% of total average interest-earning assets, up 0.75 percentage point from the previous year. Loan mix also improved with strong growth recorded in the higher yielding segments such as Mainland lending, SME loans and trade finance. However, as Prime-HIBOR spread narrowed and pricing pressure continued, loan spread was compressed. Weighted average yield on residential mortgage portfolio, excluding Government Home Ownership Scheme ("GHOS") mortgages, decreased by 10 basis points to 2.66% from 2.56% below HKD Prime rate. Meanwhile, total deposit spread widened as savings deposits spread increased with higher average market rates. The Group also made conscious effort in managing funding costs by enhancing the interest rate tier system applicable to savings deposits.

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

	Year ended 31 December 2007		Year ended 31 December 2006	
ASSETS	**Average balance HK$'m**	**Average yield %**	Average balance HK$'m	Average yield %
Loans to banks	**207,454**	**4.01**	177,465	3.90
Debt securities investments	**331,422**	**4.92**	302,349	4.60
Loans and advances to customers	**382,040**	**5.45**	333,901	5.65
Other interest-earning assets	**17,461**	**3.73**	21,778	2.63
Total interest-earning assets	**938,377**	**4.91**	835,493	4.82
Non interest-earning assets	**94,200**	**–**	80,407	–
Total assets	**1,032,577**	**4.46**	915,900	4.40

	Year ended 31 December 2007		Year ended 31 December 2006	
LIABILITIES	**Average balance HK$'m**	**Average rate %**	Average balance HK$'m	Average rate %
Deposits and balances of banks and other financial institutions	**45,819**	**3.38**	44,859	2.99
Current, savings and fixed deposits	**742,152**	**3.27**	653,237	3.35
Certificate of deposits issued	**2,266**	**3.58**	3,484	3.22
Other interest-bearing liabilities	**27,189**	**2.92**	28,232	3.78
Total interest-bearing liabilities	**817,426**	**3.26**	729,812	3.35
Non interest-bearing deposits	**36,866**	**–**	32,807	–
Shareholders' funds* and non interest-bearing liabilities	**178,285**	**–**	153,281	–
Total liabilities	**1,032,577**	**2.58**	915,900	2.67

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

Second Half Performance

In the second half of 2007, net interest income increased by HK$1,589 million, or 17.8%, compared to the first half. Average interest-earning assets grew by HK$109,791 million, or 12.4%. Both net interest margin and net interest spread rose by 7 basis points.

Improvement in net interest income was mainly attributable to the growth in interest-earning assets and continuous improvement in net interest margin. Higher average market interest rates and reinvestment of matured debt securities enhanced the average gross yield on debt securities by 15 basis points. Increase in higher yielding loans, including lending in the Mainland, SME loans and trade finance, also helped improve the loan spread. However, as Prime-HIBOR spread narrowed and pricing pressure continued, overall loan spread was compressed. Weighted average yield from the residential mortgage portfolio, excluding GHOS mortgages, declined by 1 basis point to 2.66% below the HKD Prime rate. On the other hand, deposit spread widened as average savings rate decreased amid higher average market rates.

Net Fees and Commission Income

HK$'m	**2007**	2006
Bills commissions	**588**	537
Loan commissions	**347**	273
Investment and insurance fee income	**4,511**	1,851
Securities brokerage (Stock broking)	**3,560**	1,383
Securities brokerage (Bonds)	**211**	105
Asset management	**683**	317
Life insurance*	**57**	46
General insurance	**96**	96
Trust services	**153**	118
Payment services	**464**	418
Credit cards	**1,027**	807
Account services	**290**	304
Guarantees	**32**	44
Currency exchange	**184**	117
RMB business	**137**	77
Correspondent banking	**37**	31
IPO-related business	**105**	60
Others	**206**	252
Fees and commission income	**8,177**	4,985
Fees and commission expenses	**(1,903)**	(1,268)
Net fees and commission income	**6,274**	3,717

* As a result of the combination with BOC Life in 2006, fee income from life insurance only included that from the Group's insurance business partner after group consolidation elimination.

Net fees and commission income increased by HK$2,557 million, or 68.8%, to HK$6,274 million, mainly driven by the high growth in investment and insurance fee income of HK$2,660 million or 143.7% and an increase in fees from credit card business of HK$220 million or 27.3%. To capture business opportunities arising from the buoyant stock market and IPO activities, the Group took various initiatives to drive business growth and successfully boosted its investment fee income to a record high. Fees from credit card business also showed satisfactory growth as cardholder spending and merchant acquiring volume increased by 24.1% and 32.3% respectively. Fees and commission income from RMB-related business, currency exchange, trust services, loans and payment services registered double-digit growth of 77.9%, 57.3%, 29.7%, 27.1% and 11.0% respectively. Benefiting from the IPO boom, the Group's receiving banker's fee and IPO-related brokerage fee income surged by 75.0%. As a result of the growth in transaction volume, fees and commission expenses rose by HK$635 million or 50.1%, mainly due to the increases in stock broking, credit card and RMB-related service expenses. Charges under the Deposit Protection Scheme that commenced in September 2006 also contributed to the increase in fees and commission expenses.

Second Half Performance

Compared to the first half of 2007, net fees and commission income increased by HK$1,010 million, or 38.4%. The Group's stock broking business continued to perform well with the related fee income up HK$912 million or 68.9% as business volume increased. Fee income from bond sales surged by HK$81 million, or 124.6%, with strong growth in the sales of RMB-denominated bonds and structured notes. With increased business volume, commission income from loan and bills grew by 69.0% and 15.4% respectively. Fees and commission income from credit card business, RMB-related business, currency exchange and IPO-related business also increased by 18.0%, 53.7%, 52.1% and 44.2% respectively. Fees and commission expenses rose by HK$289 million, or 35.8%, mainly due to the increases in stock broking expenses, credit card expenses and business promotional expenses.

Investment and Insurance Business

HK$'m	**2007**	2006
Investment and insurance fee income		
Securities brokerage (Stock broking)	**3,560**	1,383
Securities brokerage (Bonds)	**211**	105
Asset management	**683**	317
Life insurance*	**57**	46
	4,511	1,851
Insurance income of BOC Life		
Net insurance premium income	**8,426**	6,195
Interest income	**788**	473
Net gain on financial instruments designated at fair value through profit or loss	**893**	420
Others	**15**	6
Gross insurance and investment income of BOC Life#	**10,122**	7,094
Less: net insurance benefits and claims	**(9,440)**	(6,655)
	682	439
Total investment and insurance income	**5,193**	2,290
Of which: Life insurance fee income*	**57**	46
Insurance income of BOC Life#	**682**	439
Total life insurance income	**739**	485
Investment fee income	**4,454**	1,805
Total investment and insurance income	**5,193**	2,290

* As a result of the combination with BOC Life in 2006, fee income from life insurance only included that from the Group's insurance business partner after group consolidation elimination.

Before commission expenses.

Total investment and insurance income grew strongly by 126.8%, reaching HK$5,193 million. Investment and insurance fee income increased by HK$2,660 million, or 143.7%, while BOC Life's insurance income was up HK$243 million, or 55.4%. Against the backdrop of the buoyant equity market, the Group took major initiatives to reinforce its stock trading platform and services which boosted the business volume of stock broking and related commission income substantially by 187.5% and 157.4% respectively. Commission from sales of bonds also increased by HK$106 million, or 101.0%, after the introduction of private placement services which helped boost the sales of structured notes significantly by 195.8%. At the same time, asset management fee income increased by HK$366 million, or 115.5%, with the sales of open-end funds rising by 125.8%. This was the result of the Group's product innovation initiatives, including the launch of its in-house developed open-end funds and certain thematic and China equity funds. Fee income from the Group's insurance business partner rose by HK$11 million, or 23.9%, with the increase in sales volume. On the other hand, BOC Life's insurance income increased by HK$243 million, or 55.4%, which was primarily attributable to higher interest income from securities investments. Meanwhile, net insurance premium income rose by 36.0% with the increase in the sales of all regular pay and single premium products. After accounting for the contribution of the HK$57 million fee income by the Group's insurance business partner, total life insurance income was HK$739 million, increasing by HK$254 million or 52.4% and the total business volume of life insurance products rose by 45.2%.

Second Half Performance
Compared to the first half of 2007, total investment and insurance income increased by HK$1,139 million, or 56.2%, mainly due to an increase in investment and insurance fee income of HK$983 million, or 55.7%. At the same time, insurance income of BOC Life rose by HK$156 million, or 59.3%.

Net Trading Income

HK$'m	**2007**	2006
Foreign exchange and foreign exchange products	**800**	1,113
Interest rate instruments	**30**	304
Equity instruments	**181**	72
Commodities	**2**	78
Net trading income	**1,013**	1,567

Net trading income recorded a decline of HK$554 million, or 35.4%. This was mainly caused by the decline in net trading income from foreign exchange and foreign exchange products as well as the decline in net trading income from interest rate instruments. Net trading income from foreign exchange and foreign exchange products decreased by HK$313 million due primarily to the net trading loss of foreign exchange swap contracts.** Meanwhile, income from other foreign exchange activities, including customer generated business, increased satisfactorily by 26.8%. Net trading income from interest rate instruments decreased by HK$274 million mainly because of the marked-to-market loss on interest rate swap contracts. Net trading income of equity instruments increased by HK$109 million, or 151.4%, primarily driven by the increases in option premium and related trading income after the successful launch of the Group's structured notes programme and equity warrants. The decrease in net trading income from commodities was mainly caused by the decline in customers' demand for bullion products as market volatility subsided as well as the increase in the net trading loss on certain commodities instruments.

Second Half Performance
Compared to the first half of 2007, net trading income increased by HK$179 million, or 42.9%, as net trading loss on foreign exchange swap contracts** was significantly lower. This was partly offset by the marked-to-market loss on interest rate swap contracts. Meanwhile, other foreign exchange activities performed satisfactorily and the related net trading income increased by 20.9%. Net trading income of equity instruments also increased by HK$41 million, or 58.6%, with higher option premium income received under the Group's structured notes programme.

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

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

HK$'m	**2007**	2006
Net loss on financial instruments designated at FVTPL of the banking business	**(25)**	(99)
Net gain on financial instruments designated at FVTPL of BOC Life	**893**	420
Net gain on financial instruments designated at FVTPL	**868**	321

Net gain on financial instruments designated at fair value through profit or loss rose by HK$547 million, or 170.4%, mainly due to the increase in net gain on financial instruments of BOC Life arising from the capital gain from its equity investments.

Second Half Performance
Compared to the net loss of HK$394 million recorded in the first half of 2007, a net gain on financial instruments designated at fair value through profit or loss of HK$1,262 million was recorded in the second half of the year, mainly due to the marked-to-market gain of debt securities investments and capital gain from the equity investments of BOC Life.

Net Insurance Premium Income

HK$'m	**2007**	2006
Life and Annuity	**6,595**	5,852
Linked Long Term	**1,840**	348
Retirement Scheme	**–**	3
	8,435	6,203
Reinsurers' share of gross earned premiums	**(9)**	(8)
Net insurance premium income	**8,426**	6,195

Net insurance premium income grew by HK$2,231 million, or 36.0%, to HK$8,426 million, as premium income from sales of new insurance policies increased by 36.9%. The Group continued to improve its product mix by launching a host of promotional activities for regular pay and investment-linked products. A wide range of new single premium products was also launched to meet different customers' needs. As a result, net insurance premium income from single premium and regular premium products increased by 37.0% and 27.4% respectively. In particular, net insurance premium income from investment-linked products rose by 428.5%.

Second Half Performance
Compared to the first half of 2007, net insurance premium income rose significantly by HK$2,560 million, or 87.3%, to HK$5,493 million. The increase was mainly attributable to the 89.6% growth in premium income from sales of new insurance policies.

Net Insurance Benefits and Claims

HK$'m	2007	2006
Life and Annuity	**7,527**	6,309
Linked Long Term	**1,915**	344
Retirement Scheme	**2**	3
	9,444	6,656
Reinsurers' share of claims, benefits and surrenders paid	**(4)**	(1)
Net insurance benefits and claims	**9,440**	6,655

Net insurance benefits and claims increased by HK$2,785 million, or 41.8%, to HK$9,440 million, which was in line with the growth of net insurance premium income. Prospective liabilities were recognised on the basis of the assumptions made as to mortality, investment income and fair value changes in the underlying investments.

Second Half Performance
Compared to the first half of 2007, net insurance benefits and claims increased significantly by HK$4,176 million, or 158.7%, driven by the increase in business and change in market interest rates.

Operating Expenses

HK$'m, except percentage amounts	2007	2006
Staff costs	**4,656**	4,004
Premises and equipment expenses (excluding depreciation)	**958**	868
Depreciation on owned fixed assets	**787**	671
Other operating expenses	**1,372**	1,015
Operating expenses	**7,773**	6,558
Cost-to-income ratio	**28.52%**	30.78%

In line with the overall business expansion of the Group, operating expenses were up HK$1,215 million, or 18.5%, to HK$7,773 million. Staff costs rose by HK$652 million or 16.3% after pay rise and the recruitment of new staff for business expansion and infrastructure renovation. Compared to end-2006, headcount measured in full-time equivalents rose by 429 to 13,427 at end-2007.

Premises and equipment expenses increased by HK$90 million, or 10.4%, primarily due to higher rental and IT costs.

Depreciation on owned fixed assets rose by HK$116 million, or 17.3%, to HK$787 million, largely due to the appreciation of the value of bank premises and the increase in depreciation on computer equipment.

The increase of HK$357 million, or 35.2%, in other operating expenses was caused by growing business volume and higher promotional expenses.

Second Half Performance
Compared to the first half of 2007, total operating expenses rose by HK$937 million, or 27.4%, mainly due to growing business volume, the rise in promotional expenses and staff costs after salary adjustment in the second quarter of the year.

Net Reversal of Loan Impairment Allowances on Advances

HK$'m	**2007**	2006
Net Reversal/(Charge) of Loan Impairment Allowances on Advances		
Individual assessment		
– new allowances	**(330)**	(647)
– releases	**299**	313
– recoveries	**1,311**	2,053
Collective assessment		
– new allowances	**(625)**	(194)
– releases	**–**	203
– recoveries	**30**	62
Net Reversal of Loan Impairment Allowances on Advances	**685**	1,790

The Group recorded a net reversal of loan impairment allowances on advances of HK$685 million, down HK$1,105 million or 61.7%, compared to 2006. The decrease was mainly due to the decline in both loan recoveries and release of allowances.

As new allowances were mostly offset by the releases of allowances, net loan impairment charge from individual assessment (before recoveries) was HK$31 million, down HK$303 million. The decrease in net impairment charge (before recoveries) was caused by the decline in new allowances as loan quality continued to improve. A sum of HK$330 million of new allowances was made to cover the formation of new impaired loans and further deterioration of existing impaired accounts.

Net charge of collective impairment allowances (before recoveries) amounted to HK$625 million, compared to the net release of HK$9 million in 2006. The increase in the net impairment charge (before recoveries) was mainly attributable to growth in the loan portfolio and the continuous refinement of the collective assessment methodology. Reduction in release of allowances due to significant improvement in loan quality during the past years also contributed to the increase in the net impairment charge.

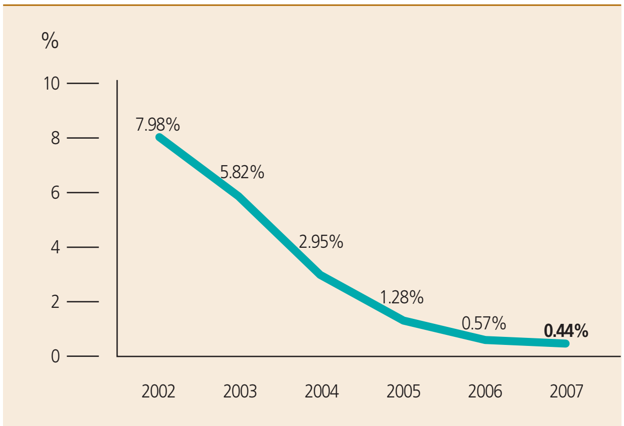
The Group continued to make progress in recoveries of loans that were previously written off. Total recoveries in individual and collective assessment amounted to HK$1,341 million, down HK$774 million compared to 2006 during which certain large accounts were recovered.

Second Half Performance

Net reversal of loan impairment allowances rose by HK$353 million or 212.7% in the second half of 2007, mainly attributable to the recoveries of certain large accounts, which were partly offset by the increase in net impairment charge from collective assessment and individual assessment.

The Group's loan quality continued to improve with the classified or impaired loan ratio# having improved by 0.13 percentage point to 0.44% at end-2007. This was mainly due to the 9.3% reduction in classified or impaired loans and 19.0% growth in advances to customers.

Classified Loan Ratio



Classified loan ratio* also fell by 0.13 percentage point to a record low of 0.44% at end-2007. Over the past six years, the Group's classified loans have been reduced at a compound annual rate of 41%. Classified loan ratio dropped substantially from 7.98% at end-2002 to 0.44% at end-2007.

* Classified loans represent advances which have been classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality.

\# Classified or impaired loans represent advances which have been classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

Net Charge of Impairment Allowances on Securities Investments

HK$'m	**2007**	2006
Held-to-maturity securities	**(1,844)**	–
Available-for-sale securities	**(289)**	–
Net charge of impairment allowances on securities investments	**(2,133)**	–

In 2007, the Group made HK$2,133 million of impairment charge for its portfolio of US asset-backed securities, as a result of the increasing market volatility and its adoption of appropriate provisioning policy.

There were further volatile movements in the market during 2008. The Group will continue to monitor the market closely and will conduct a thorough impairment assessment based on conditions at the end of the first quarter of 2008. For details about the composition and changes in the Group's investment securities portfolio, and the impairment and provisioning policies on investment, please refer to Note 28 and Note 2 to the Financial Statements.

Second Half Performance

In the second half of 2007, the Group made HK$2,133 million of impairment charge for its portfolio of US asset-backed securities.

Property Revaluation

HK$'m	**2007**	2006
Net gain/(loss) on revaluation of premises	**19**	(1)
Net gain on fair value adjustments on investment properties	**1,056**	574
Deferred tax	**(143)**	(55)
Net gain on fair value adjustments on investment properties, after tax	**913**	519

The aggregate impact of property revaluation before tax on the income statement was HK$1,075 million, of which HK$1,056 million came from the revaluation of investment properties and HK$19 million from the revaluation of premises. The related deferred tax charge on revaluation of investment properties amounted to HK$143 million. As a result, the net impact of fair value adjustments on investment properties on the Group's profit attributable to equity holders in 2007 was HK$913 million. The net gain on property revaluation was in line with the trend of rising property prices in 2007.

Second Half Performance

Compared to the first half of 2007, net gain from revaluation of investment properties, after tax increased by HK$203 million because of rising local property prices in the second half of 2007.

Financial Position

HK$'m, except percentage amounts	**At 31 December 2007**	At 31 December 2006
Cash and balances with banks and other financial institutions	**159,065**	105,236
Placements with banks and other financial institutions maturing between one and twelve months	**53,154**	56,373
Hong Kong SAR Government certificates of indebtedness	**32,770**	34,750
Securities investments*	**335,623**	330,385
Advances and other accounts	**420,234**	352,858
Fixed assets and investment properties	**31,351**	27,221
Other assets**	**35,440**	22,130
Total assets	**1,067,637**	928,953
Hong Kong SAR currency notes in circulation	**32,770**	34,750
Deposits and balances of banks and other financial institutions	**60,599**	49,034
Deposits from customers	**793,606**	694,691
Debt securities in issue at amortised cost***	**2,089**	–
Insurance contract liabilities	**22,497**	14,239
Other accounts and provisions	**61,018**	49,599
Total liabilities	**972,579**	842,313
Minority interests	**2,216**	1,985
Capital and reserves attributable to the equity holders of the Company	**92,842**	84,655
Total liabilities and equity	**1,067,637**	928,953
Loan-to-deposit ratio	**51.66%**	49.32%

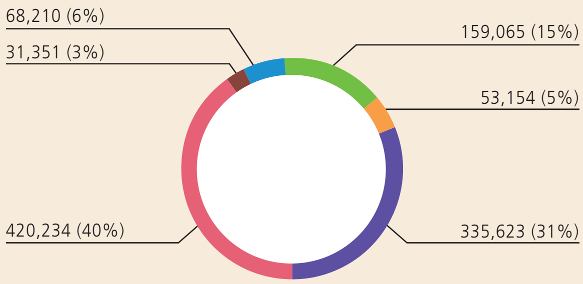
* Securities investments comprise investment in securities and financial assets at fair value through profit or loss.

** Interests in associates, derivative financial instruments and deferred tax assets are included in other assets.

*** Debt securities in issue at amortised cost represents the notes issued under the Group's notes programme.

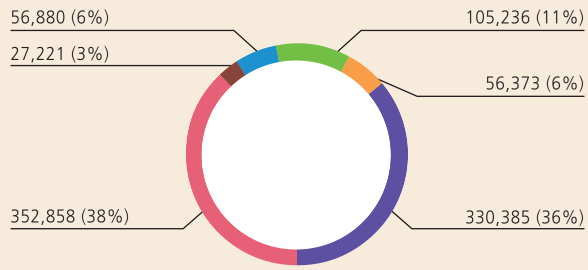
Balance Sheet Mix as at 31 December 2007

HK$'m/(%)



Balance Sheet Mix as at 31 December 2006

HK$'m/(%)



- Cash and balances with banks and other financial institutions
- Placements with banks and other financial institutions maturing between one and twelve months
- Securities investments
- Advances and other accounts
- Fixed assets and investment properties
- Other assets

The Group's total assets were HK$1,067,637 million at 31 December 2007, up HK$138,684 million or 14.9% from the end of 2006. Key changes include:

- Cash and balances with banks and other financial institutions increased by HK$53,829 million, or 51.2%, mainly due to the increase in interbank placements maturing within one month.

- Advances and other accounts increased by HK$67,376 million, or 19.1%, primarily driven by the growth of advances to customers by HK$65,972 million, or 19.0%.

- Securities investments increased slightly by HK$5,238 million, or 1.6%. As of 31 December 2007, the Group's exposure in US subprime asset-backed securities fell to HK$4.1 billion from HK$12.8 billion as of end-June 2007.

- Other assets increased by HK$13,310 million, or 60.1%, as a result of the increase in derivative financial instruments and accounts receivable of shares due to increased stock transactions by customers.

Advances to Customers

HK$'m, except percentage amounts	**At 31 December 2007**	**%**	At 31 December 2006	%
Loans for use in Hong Kong	**305,677**	**74.0**	274,290	79.0
Industrial, commercial and financial	**168,656**	**40.8**	148,780	42.9
Individuals	**137,021**	**33.2**	125,510	36.1
Trade finance	**24,275**	**5.9**	16,865	4.9
Loans for use outside Hong Kong	**83,110**	**20.1**	55,935	16.1
Total advances to customers	**413,062**	**100.0**	347,090	100.0

Total advances to customers grew strongly by HK$65,972 million, or 19.0%, covering both corporate loans and individual loans. In particular, higher yielding segments including lending in the Mainland, trade finance and SME lending, recorded substantial growths of 60.9%, 43.9% and 32.2% respectively. The strong growth in loans was mainly the result of the Group's effective implementation of its strategies under the new business model as well as greater domestic demand arising from a robust economy.

Loans for use in Hong Kong grew by 11.4%:

- Lending to the industrial, commercial and financial sectors rose by HK$19,876 million, or 13.4%, to HK$168,656 million, driven by loans for property investment, transport and transport equipment and manufacturing.

- Residential mortgage loans (excluding those under GHOS) increased by HK$9,630 million, or 9.9%, to HK$106,583 million as a result of the Group's effective product innovation and marketing efforts, helped by greater demand in the property market.

- Card advances grew by HK$955 million, or 19.9%, to HK$5,761 million with the increase in cardholder spending.

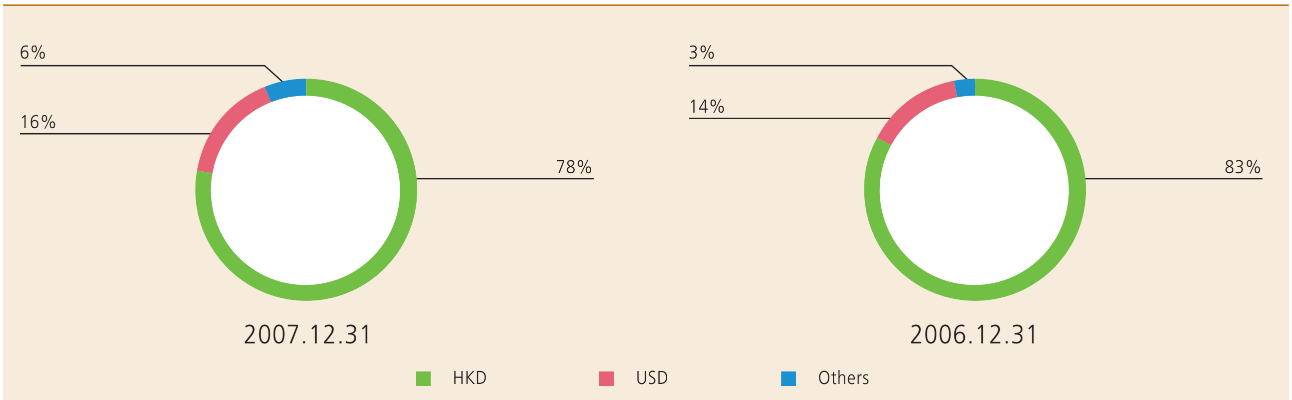
- Other consumer lending increased considerably by HK$1,193 million, or 12.5%, to HK$10,708 million, mainly driven by the growths in personal loans and tax loans.

Trade finance grew strongly by HK$7,410 million, or 43.9%, thanks to the Group's intense promotional efforts, improved business model and the robust import and export trade. Meanwhile, loans for use outside Hong Kong increased considerably by HK$27,175 million or 48.6%. The increase was mainly fuelled by overseas lending and loan growth of the Group's Mainland branches.

Second Half Performance

The Group's growth momentum in total loans continued in the second half of the year. Compared to the first half figures of 2007 which included a considerable sum of IPO financing, total loans rose by HK$20,251 million, or 5.2% in the second half. Excluding the impact of IPO financing, total advances to customer would have shown an even stronger increase of 9.4%. Strong growth momentum was shown in individual loans, trade finance and loans for use outside Hong Kong. Residential mortgages increased by HK$6,466 million, or 6.5%, while trade finance rose by HK$2,677 million, or 12.4%. Loans for use outside Hong Kong grew significantly by HK$17,020 million, or 25.8%. Corporate loans in Hong Kong increased by HK$7,310 million, or 4.5%, after excluding IPO financing at the end of June 2007.

Total Advances to Customers by Currency Mix (%)



In terms of currency mix, advances to customers in all types of currency increased when compared to end-2006. HKD and USD advances to customers accounted for 78.4% and 15.6% respectively at the end of 2007. Other currency advances to customers accounted for 6.0%.

Deposits from Customers

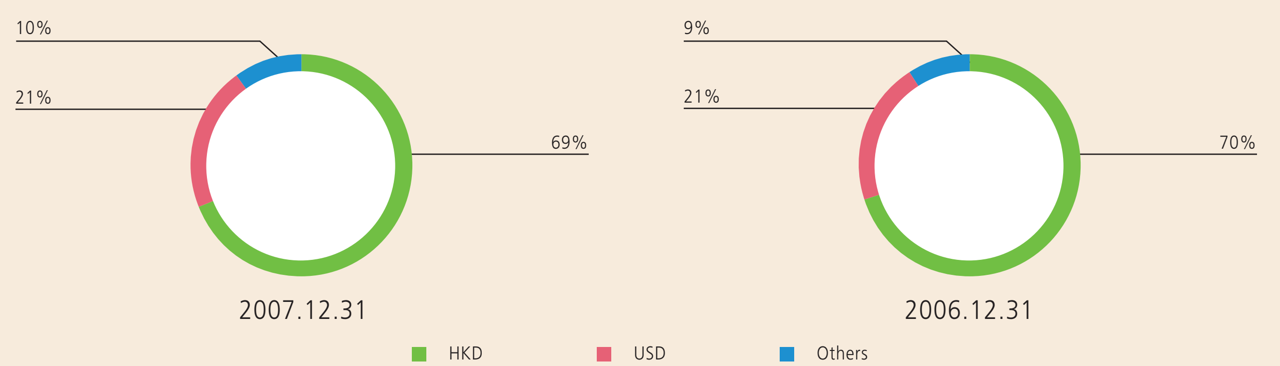
HK$'m, except percentage amounts	**At 31 December 2007**	**%**	At 31 December 2006	%
Demand deposits and current accounts	**40,499**	**5.1**	30,979	4.4
Savings deposits	**286,653**	**35.9**	256,653	36.5
Time, call and notice deposits	**466,454**	**58.3**	407,059	57.8
Total deposits from customers	**793,606**	**99.3**	694,691	98.7
Structured deposits	**5,959**	**0.7**	9,085	1.3
Adjusted total deposits from customers	**799,565**	**100.0**	703,776	100.0

Total deposits from customers were HK$793,606 million, up HK$98,915 million, or 14.2%. Demand deposits and current accounts increased by 30.7% or HK$9,520 million. Savings deposits rose by 11.7% or HK$30,000 million while time, call and notice deposits increased by 14.6% or HK$59,395 million. Structured deposits, a hybrid of retail deposit and derivatives offering a higher nominal interest rate, decreased by 34.4% or HK$3,126 million, as customers chose to switch their funds under the robust investment environment. The Group's loan-to-deposit ratio increased by 2.34 percentage points to 51.66% at the end of 2007 as total loan growth outstripped deposit growth.

Second Half Performance

Total deposits from customers in the second half of 2007 declined by HK$10,308 million, or 1.3%, mainly due to the substantial amount of IPO deposits recorded in the first half. Demand deposits and current accounts dropped by 64.9%, or HK$74,944 million. Savings deposits increased by 16.2% or HK$40,003 million while time, call and notice deposits increased by 5.6% or HK$24,633 million. On the other hand, structured deposits decreased by 48.6% or HK$5,644 million. Should the estimated impact of IPO-related funds be excluded, total deposits from customers would have increased by 8.9%.

Adjusted Total Deposits from Customers by Currency Mix (%)



In terms of currency mix, HKD and USD deposits accounted for 69.1% and 21.0% respectively at the end of 2007, while other currency deposits accounted for 9.9%. The Group's HKD loan-to-deposit ratio was 58.7%, up from 58.3% at end-2006, as HKD loan growth outpaced that of HKD deposit.

Loan Quality

HK$'m, except percentage amounts	**At 31 December 2007**	At 31 December 2006
Advances to customers	**413,062**	347,090
Classified or impaired loan ratio[&]	**0.44%**	0.57%
Impairment allowances	**1,385**	1,103
Regulatory reserve for general banking risks	**4,130**	3,621
Total allowances and regulatory reserve	**5,515**	4,724
Total allowances as a percentage of advances to customers	**0.34%**	0.32%
Total allowances and regulatory reserve as a percentage of advances to customers	**1.34%**	1.36%
Impairment allowances on classified or impaired loan ratio[##]	**22.52%**	28.62%
Residential mortgage loans* – delinquency and rescheduled loan ratio**	**0.15%**	0.21%
Card advances – delinquency ratio**[#]	**0.28%**	0.25%

	2007	2006
Card advances – charge-off ratio[#]	**2.40%**	2.44%

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

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

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

\# Excluding Great Wall cards and computed according to the HKMA's definition.

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

Movement of Classified Advances to Customers

In HK$ bln	**2007**	2006
Beginning balance	**2.0**	4.3
New classified loans	**1.2**	0.9
Upgraded classified loans	**(0.1)**	(0.3)
Collection	**(1.1)**	(2.0)
Write-off	**(0.3)**	(0.8)
Others	**0.1**	(0.1)
Ending balance	**1.8**	2.0

The Group's loan quality continued to improve in 2007 with the classified loan ratio falling to a historical low of 0.44%, against 0.57% at end-2006. Classified loans decreased by approximately HK$0.2 billion or 9.4% to HK$1.8 billion. New classified loans remained at a low level, representing less than 0.3% of total loans outstanding. Total collections amounted to approximately HK$1.1 billion. Write-off of classified loans amounted to HK$0.3 billion.

Total impairment allowances, including both IA and CA, amounted to HK$1,385 million. Impairment allowances on classified or impaired loans ratio was 22.52%. The Group's regulatory reserve increased by HK$509 million to HK$4,130 million as advances to customers increased.

The quality of the Group's residential mortgage loans continued to improve with the combined delinquency and rescheduled loan ratio dropping by 0.06 percentage point from 0.21% at end-2006 to 0.15% at-end 2007. The quality of card advances remained sound, with the charge-off ratio decreasing from 2.44% to 2.40% in 2007.

Capital and Liquidity Ratios

HK$'m, except percentage amounts	**At 31 December 2007**	Restated At 31 December 2006 (Unaudited)
Core capital	**67,145**	68,295
Deductions	**(483)**	(486)
Core capital after deductions	**66,662**	67,809
Supplementary capital	**5,161**	4,194
Deductions	**(483)**	(486)
Supplementary capital after deductions	**4,678**	3,708
Total capital base after deductions	**71,340**	71,517
Risk-weighted assets		
Credit risk	**510,970**	426,130
Market risk	**7,998**	5,001
Operational risk	**39,139**	32,901
Deductions	**(12,875)**	(9,124)
Total risk-weighted assets	**545,232**	454,908
Capital adequacy ratios (banking group level)		
Core capital ratio	**12.23%**	14.91%
Capital adequacy ratio	**13.08%**	15.72%

	2007	2006
Average liquidity ratio	**50.92%**	50.46%

In accordance with the Banking (Capital) Rules that has become effective from 1 January 2007, the Group has adopted the Standardised Approach in calculating capital adequacy ratios at 31 December 2007, and comparable figures at 31 December 2006 have been restated accordingly.

Consolidated capital adequacy ratio of the banking group at 31 December 2007 was 13.08%, down 2.64 percentage points from end-2006 mainly due to the significant increase in risk-weighted assets. Risk-weighted assets rose by 19.9% to HK$545,232 million. The increase was primarily due to the growth of advances to customers and interbank placements.

Average liquidity ratio remained strong at 50.92%, versus 50.46% in 2006. Although the growth in average customer deposits led to an increase in average qualifying liabilities, average liquidity ratio rose slightly as average liquefiable assets increased with the growth of interbank placements and marketable debt securities.

BUSINESS REVIEW

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

PERSONAL BANKING

HK$'m, except percentage amounts	**Full-year ended 31 December 2007**	Restated Full-year ended 31 December 2006	Increase/ (decrease)
Net interest income	**8,144**	7,003	+16.3%
Other operating income	**5,931**	3,049	+94.5%
Operating income	**14,075**	10,052	+40.0%
Operating expenses	**(5,829)**	(4,853)	+20.1%
Operating profit before loan impairment allowances	**8,246**	5,199	+58.6%
Net charge of loan impairment allowances	**(112)**	(37)	+202.7%
Others	**(5)**	(18)	-72.2%
Profit before taxation	**8,129**	5,144	+58.0%

	At 31 December 2007	Restated At 31 December 2006	Increase/ (decrease)
Segment assets	**162,634**	144,828	+12.3%
Segment liabilities	**545,397**	516,848	+5.5%

Note: For additional segmental information, see Note 48 to the Financial Statements.

Results

Personal Banking registered strong growth in 2007. Operating income grew by 40.0% to HK$14,075 million, which was driven by both the 16.3% increase in net interest income and the 94.5% increase in other operating income (mainly income arising from stock broking and fund distribution). Operating profit before loan impairment allowances rose by 58.6% to HK$8,246 million. Profit before taxation was HK$8,129 million, up HK$2,985 million or 58.0% from 2006.

Net interest income rose by 16.3% to HK$8,144 million, primarily attributable to the growth in mortgage loans and other consumer lending coupled with the widening of deposit spread. Deposit spread widened as savings deposits spread increased with higher average market rates. These positive factors were partly neutralised by the compressed loan spread as a result of the narrowed Prime-HIBOR spread and keen competition.

Other operating income soared by 94.5% to HK$5,931 million mainly because of the 106.5% growth of net fees and commission income. To capture business opportunities arising from the buoyant equity market and IPO activities, the Group further enhanced its retail stock trading platform, thereby boosting its stock brokerage business substantially by 187.5% and increasing the commission income from securities trading by 157.4%. Sales of open-end funds grew by 125.8% as a result of various initiatives, including the introduction of open-end funds developed in-house by the Group and certain thematic and China equity funds. Meanwhile, commission from the sales of bonds increased by 101.0% because of the hefty rise in the sales of structured notes. During the second half of 2007, a gain arising on initial recognition of shares received from Visa Inc. also contributed to the increase in other operating income.

Operating expenses rose by 20.1% to HK$5,829 million, mainly necessitated by strong business growth and increased staff costs after pay rise.

Net charge of loan impairment allowances surged by 202.7% to HK$112 million. The increase was mainly attributable to the reduction in recoveries and the refinement of the loan impairment assessment methodology.

Advances and other accounts, including mortgage loans and card advances, increased by 10.5% to HK$142,169 million. Customer deposits increased by 4.9% to HK$513,027 million.

Driving the Growth of Investment and Insurance Businesses

Investment and insurance businesses continued to contribute significantly to the Group's earnings growth in 2007. The growth of the investment business was driven primarily by product innovation and new business initiatives. Amid the buoyant stock market and IPO boom, the Group actively promoted stock brokerage services to capture the rapidly growing demand. As a result, the business volume of stock brokerage rose substantially by 187.5% in 2007, outperforming the market growth rate of 158.7%. This was spurred by a 287.4% growth in business volume via automated channels after the initiatives taken by the Group to enhance its Telephone Banking System and internet platform. In response to customers' demand for high-yield investment products, the Group expanded the offerings of structured notes through its newly-launched private placement services. The Group also actively broadened its product range by introducing different products to meet different customer needs arising from an increasingly volatile market. As a result, there was a hefty growth of 195.8% in the sales of structured notes. Realising that investment in the China and Asian markets was becoming more and more popular, the Group launched a series of IPO funds that were thematic or related to emerging markets, China equity and property. At the same time, the Group launched a number of in-house developed open-end funds such as "NCB China Equity Fund" and "NCB China Resources Opportunities Fund". Such initiatives received overwhelming response from customers and contributed to the 125.8% growth in the sales volume of open-end funds.

The Group registered impressive volume growth in its Bancassurance business in 2007. Its business platform was also strengthened to facilitate product development, branding, marketing, and sales forces development. The Group is now in a position to offer appropriate choices of products to customers based on their needs.

At the same time, the Group widened the spectrum of life insurance products by introducing a range of tailor-made products to meet customers' diverse needs in different stages of life, namely, "Supreme Saver 07 – 5 Year Life Endowment Plan", "Healthy and Prosperous Insurance Plan", "Fortune Saving Protection Plan", "Blossom Insurance Plan" and "Healthy Junior Hospital Insurance Plan". Meanwhile, the features of existing life insurance products have been refined to ensure better product quality for customers. In addition to products, the Group has created a positive branding image and market awareness through advertising and marketing campaigns in major media in Hong Kong. At the same time, extensive forums and training courses were provided to frontline staff to upgrade their product proficiency and sales skills. As a result of these initiatives, the Group was able to capture a significant market share and attain a remarkable increase in sales of 45.2% in 2007.

Ensuring Market Leadership and Strong Growth in Residential Property Mortgage

As the property market continued to revive in 2007, the Group strove to grow its residential mortgage business through aggressive marketing and the introduction of a wider assortment of mortgage products. This resulted in a satisfactory growth of 9.9% in residential mortgages while the market growth was only 5.4% compared to 2006. In addition to the "HIBOR Mortgage Scheme" introduced in 2006, the Group offered other new mortgage plans to meet customers' diverse financial needs. During the year, the "Premium Free 75% Mortgage Insurance Programme" and "Welcome to the Olympic Smart Mortgage Scheme" were launched, the former targeting homebuyers with loan-to-value ratio slightly above 70% while the latter aiming at high net worth customers. The Group also aimed to grow its mortgage business in the property investment market by introducing the "Investment Property Mortgage Plan", a lending solution covering both rental agency and property management services. The Group maintained its leading position in the residential mortgage market with the underwriting of new mortgages increasing by 73.7% year-on-year, outperforming the market average of 50.7%. Meanwhile, the credit quality of residential mortgages continued to improve as the delinquency and rescheduled loan ratio dropped further to 0.15%.

Expanding High Net Worth Customer Base and Assets Under Management

The Group continued to serve its high net worth customers with premium services. In January 2007, the Group launched private placement service to provide wealth management customers with alternative investment opportunities in bonds and structured products. At the same time, the Group also upgraded its brokerage service in bonds trading for these customers. To promote its image as a professional wealth management service provider, the Group staged a couple of wealth management expositions to showcase its comprehensive wealth management services. In addition, a number of investment seminars were organised to update customers on the latest investment climate and opportunities. To strengthen its image as an expert in the "Art of Wealth Management" so as to expand its high net worth customer base, the Group launched a large-scale marketing campaign during the year. Meanwhile, Wealth Management Academy, an in-house training facility, was established to provide professional training to relevant staff. In 2007, the total number of wealth management customers and assets under management grew by 68% and 46% respectively versus 2006.

Continued Growth of Credit Card Business

As domestic consumption continued to increase with Hong Kong's economic growth, the Group was active in developing its card business and achieved very encouraging results. Card advances and the number of cards issued grew by 19.9% and 10.2% respectively. At the same time, cardholder spending volume and merchant acquiring volume registered healthy growth of 24.1% and 32.3% respectively. Meanwhile, the charge-off ratio dropped further to 2.40%, well below the market average.

Various innovative products were introduced during the year. To commemorate the 2008 Beijing Olympics, the Group, being the first issuer of prepaid card with Beijing 2008 Olympics mascots as the theme, issued the "VISA BOC Olympic Games Prepaid Card" in May 2007. The Group's marketing capacity was enhanced through the launch of the "Smart Statement System", the introduction of the "EMV chip credit card" and the implementation of the "Personalised Spending Privileges System", which helped the Group in analysing customers' spending behaviour and customising privileges for target customers. To further expand the merchant acquiring business, the Group employed a new internet payment gateway system, the "MasterCard Internet Gateway System", in May 2007 to better serve online merchants. To capture the growing business opportunities in the Mainland, the Group formed a special purpose entity with BOC in November to provide back-end service support to BOC Group Bank Card in the Mainland. This should be regarded as a key strategic initiative taken by the Group to expand its card business in the Mainland.

Expanding and Maintaining Market Leadership in RMB Banking Business in Hong Kong

The Group remained the market leader in Renminbi ("RMB") banking business in Hong Kong in 2007. The Group enjoyed the largest market share in the local RMB deposits-taking business with the amount of deposits growing by 41.3% year-on-year. The Group also consolidated its leading position in the RMB credit card issuing and merchant acquiring businesses. In 2007, the number of RMB credit cards issued grew by 31.6% while the RMB card acquiring volume and RMB card cardholder spending volume surged by 80.2% and 65.2% respectively. In June 2007, to capture the business opportunities arising from the issue of RMB-denominated bonds in Hong Kong, the Group launched a new RMB bond service offering customers a hassle-free solution for RMB bond subscription, custody and coupon collection. In addition, the Group introduced a series of promotional offers, including the "Welcome Offer for RMB Integrated Service" for new accounts, "Exchange Express Service", RMB preferential exchange rate, etc. All these were well received by customers. During the year, the Group also acted as the joint lead manager and bookrunner as well as placing bank for RMB bonds valued at a total of 10 billion yuan issued in Hong Kong by major Mainland banks. By the end of 2007, the number of ATMs providing RMB withdrawal service reached 252.

Channel Rationalisation and e-channel Development

To enhance service quality and support business growth, the Group continued to optimise its branch network. During the year, the Group opened 3 new branches, closed 2 old branches, renovated 34 existing branches and added 24 wealth management centres to its network in Hong Kong. By the end of 2007, the Group's service network in Hong Kong included 288 branches. Moreover, 95 Wealth Management Prime centres and 20 Wealth Management VIP centres have been in operation to provide exclusive financial services to customers. To encourage customers to use automated banking services, in addition to 459 ATM machines, the Group has installed 80 Cheque Deposit Machines and 135 Cash Deposit Machines in Hong Kong.

The Group continued to upgrade its e-banking functions, especially in investment areas. The number of e-banking customers grew by 28% and the stock trading transactions carried out through e-channels accounted for 73% of total transactions. To support dramatic growth in e-banking stock trading, the number of Automated Stock Trading telephone lines increased by 250% as compared with early 2007. Moreover, the capacity of internet stock information services was expanded to provide better service quality.

CORPORATE BANKING

HK$'m, except percentage amounts	**Full-year ended 31 December 2007**	Restated Full-year ended 31 December 2006	Increase/ (decrease)
Net interest income	**5,739**	5,009	+14.6%
Other operating income	**1,930**	1,687	+14.4%
Operating income	**7,669**	6,696	+14.5%
Operating expenses	**(1,940)**	(1,653)	+17.4%
Operating profit before loan impairment allowances	**5,729**	5,043	+13.6%
Net release of loan impairment allowances	**797**	1,827	-56.4%
Others	**–**	(3)	N/A
Profit before taxation	**6,526**	6,867	-5.0%

	At 31 December 2007	Restated At 31 December 2006	Increase/ (decrease)
Segment assets	**281,680**	227,527	+23.8%
Segment liabilities	**284,353**	209,363	+35.8%

Note: For additional segmental information, see Note 48 to the Financial Statements.

Results

Corporate Banking recorded satisfactory results in 2007. Operating income increased by 14.5% to HK$7,669 million, which was driven by the growth in both net interest income and other operating income. After accounting for the 17.4% increase in operating expenses, operating profit before loan impairment allowances rose by 13.6% to HK$5,729 million. Owing to the significant reduction in the net release of loan impairment allowances, profit before taxation fell by 5.0% to HK$6,526 million.

Net interest income increased by 14.6% to HK$5,739 million mainly due to the growth in average loans and advances. Other operating income rose by 14.4% to HK$1,930 million, thanks to the increases in loan and bills commission income coupled with the growth in fees income from both trust services and payment services.

Operating expenses were up 17.4% to HK$1,940 million as a result of increased staff costs after pay rise and the recruitment of new staff.

Net release of loan impairment allowances were HK$797 million, down 56.4%, mainly due to the reduction of loan recoveries and increase in impairment allowances attributable to the continuous refinement of assessment methodology. Growth in advances to customers and reduction in release of allowances as loan quality improved significantly in recent years also accounted for the decrease in the net release of loan impairment allowances.

Advances and other accounts increased by 23.8% to HK$280,569 million. Customer deposits grew by 36.1% to HK$281,487 million.

Upholding Market Leadership in Loan Syndication

The Group remained the market leader in the syndicated loan market covering Hong Kong, Macau and the Mainland. According to *Basis Point*, the Group was again the top arranger in both Hong Kong-Macau and Mainland-Hong Kong-Macau syndicated loan markets in 2007. The Group's outstanding performance in loan syndication was well recognised in the market. One of its syndicated loan transactions was ranked among the top three financing projects in the Asia-Pacific region by *Euromoney*.

Spectacular Performance of IPO Financing Business

Boosted by the robust stock market and intense marketing efforts, the Group registered phenomenal growth in its IPO financing business in 2007. Supported by both corporate and personal customers, IPO financing grew by 162.1% to HK$528 billion covering a total of 48 newly listed corporations.

Growing SME Business

In order to expand its high-yielding segments and improve its loan mix, the Group regards SME business as one of its strategic focuses. In 2007 the Group made good progress in implementing its SME 5-year business plan by once again achieving double-digit growth in SME loan. During the year, the Group further refined its SME model by establishing the SME Marketing Management Unit to formulate development plans, conduct strategic analysis and carry out product design and marketing. In addition, new Commercial Centre and Commercial Service Centres were set up to enhance customer segmentation and marketing. At the same time, credit approval procedures were expedited. In order to boost its competitiveness in the SME market, the Group launched several new products and refined its existing products such as "SME Quick Loan", "Credit Card Merchant Overdraft Link" and "Commercial Customers Olympic Welcome Offer". With all these initiatives, the Group registered very encouraging growth of 32.2% in SME lending in 2007.

Substantial Expansion of Trade Finance

Under intensive promotional efforts, the Group's trade finance business attained remarkable growth in 2007. During the year, a series of promotion plans including the "Trade Peak Season Link" and "Trade Services Reward Campaign" were launched to offer attractive incentives to corporate customers. Meanwhile, a trade product team specialising in product development and marketing was set up. As a result of these initiatives, the outstanding balance of trade finance and the volume of trade bills settlement grew by 43.9% and 22.9% respectively in 2007. In addition, the constituent proportion of SME in overall trade finance business increased further and contributed to overall profitability.

Strong Growth in Cash Management

The Group made good progress in developing its cash management business. During the year, a specialised cash management team was set up to take charge of product development and marketing. The Group has been actively designing tailor-made cash management solutions and improving its service platforms. An extra-territorial cash management project was successfully launched for a major Mainland enterprise seeking international expansion. At the same time, several other cash management projects with large Chinese enterprises have been underway. Through its improved electronic platforms and effective marketing campaigns, the Group was able to increase the number of CBS Online customers significantly by 64.0% while growing the number of BOC Wealth Master customers by eight folds in 2007.

Vigorous Development of Custody Services

In view of the growing importance of the custody business, the Group established a custody service team in 2007 to deliver securities settlement and custody services for institutional clients and QDIIs. Service platforms for local custody, global custody and escrow services were set up to pave the way for expansion. The Group also worked with BOC to successfully implement a number of major QDII mandates, and acted as a major custody service provider for QDIIs in the market. At end-2007, the Group's total assets under custody amounted to HK$378 billion. During the year, the Group submitted its application for Qualified Foreign Institutional Investor ("QFII") status to the China Securities Regulatory Commission ("CSRC") in relation to investments in the Mainland's securities markets.

Extension of Clearing Service in the Mainland and Macau

In early 2007, BOCHK was re-appointed by the People's Bank of China (PBOC) to continue acting as the clearing bank for RMB-denominated businesses in Hong Kong. Since 2002, the Group has been acting as an agent in Hong Kong providing clearing service for HKD cheques and USD cheques between Shenzhen and Hong Kong as well as between Guangdong and Hong Kong. The clearing service was further expanded to Macau in 2007. Taking into account the increasing commercial activities between Hong Kong and Macau, the Group introduced "Cross Border Clearing of Hong Kong Dollar Negotiable Instruments between Macau and Hong Kong" in August 2007, under which the Group acted as an agent to provide settlement services to banks operating in Macau to collect funds from HKD cheques drawn on banks in Hong Kong.

CHINA-RELATED BUSINESS

Robust Growth of China-related Business

China-related business has all along been one of the Group's strategic focuses. Formally incorporated on 14 December 2007, Nanyang Commercial Bank (China) Limited ("NCB (China)") commenced business as from 24 December 2007 in Shanghai. This was a milestone for the development of the Group's China-related business. In 2007, the Group introduced various growth initiatives in the Mainland. In response to the emerging needs of corporate customers for flexible financing arrangement in both the Mainland and Hong Kong, several cross-border facilities were launched. Meanwhile, bilateral business referrals made between the Group and BOC continued to be rewarding with substantial benefits gained by both sides.

The Group's Mainland branches continued to deliver strong results in 2007. Operating profit before impairment allowances increased by HK$200 million, or 53.5%, due mainly to the increase in advances to customers. Total advances to customers rose by 60.9% to HK$30.0 billion, of which RMB loans surged by 194.2%. Customer deposits increased by 48.4% to HK$5.8 billion. Loan quality remained sound, with the classified loan ratio standing at 0.68%.

The business scope of the Group's Mainland branches and sub-branches continued to expand. By the end of 2007, the Group had a total of 15 branches and sub-branches in the Mainland. Among them, 12 Mainland branches and sub-branches have been permitted to conduct RMB business* while 15 Mainland branches and sub-branches have been licensed to conduct derivatives business and 14 Mainland branches and sub-branches have been allowed to provide insurance agency services. In 2007, the Group put more effort in promoting the residential mortgage business by introducing a series of new products such as the "Bi-weekly Mortgage Repayment Plan". To further expand the wealth management business in the Mainland, the Group launched a series of structured products. Besides, the Group formed a strategic alliance with insurance companies for developing insurance agency business in the Mainland. 13 Mainland branches and sub-branches were granted the qualification of QDII. During the year, the Group introduced a number of QDII products, including the "NCB China Equity Fund" and "BOCHK Bauhinia". All were well received by customers. To cater for the emerging needs of Mainland customers, a brand-new website was launched in October 2007 to enable them to access the full range of banking services via online banking.

* Except for Mainland residents

TREASURY

HK$'m, except percentage amounts	**Full-year ended 31 December 2007**	Restated Full-year ended 31 December 2006	Increase/ (decrease)
Net interest income	**5,869**	4,406	+33.2%
Other operating income	**206**	743	-72.3%
Operating income	**6,075**	5,149	+18.0%
Operating expenses	**(627)**	(521)	+20.3%
Operating profit	**5,448**	4,628	+17.7%
Net charge of impairment allowances on securities investments	**(2,133)**	–	N/A
Others	**–**	(2)	N/A
Profit before taxation	**3,315**	4,626	-28.3%

	At 31 December 2007	Restated At 31 December 2006	Increase/ (decrease)
Segment assets	**566,661**	517,200	+9.6%
Segment liabilities	**116,095**	98,532	+17.8%

Note: For additional segmental information, see Note 48 to the Financial Statements.

Results

The Treasury segment recorded a profit before taxation of HK$3,315 million. Net interest income increased by 33.2%. The increase was offset by the decrease in other operating income, the rise in operating expenses and the net charge for impairment allowances on securities investments.

The rise in the net interest income was mainly due to the growth of surplus funds as well as higher average investment yield. Higher market interest rates and reinvestment of matured debt securities improved the investment yield in 2007.

Other operating income fell by 72.3% to HK$206 million. The fall was caused mainly by the net trading loss on foreign exchange swap contracts and the decline in net trading income from interest rate instruments and commodities. Meanwhile, the net trading income of equity instruments rose after the successful launch of structured notes and equity warrants.

Operating expenses rose by 20.3% to HK$627 million after pay rise and the recruitment of new staff.

Net charge of impairment allowances on securities investments of HK$2,133 million was made for the Group's portfolio of US asset-backed securities.

Diversifying Investment Portfolio and Growing IPO Business

The capital market was becoming increasingly volatile in 2007. Owing to the credit crunch in the second half of the year, borrowing costs surged and credit spread widened significantly which created a challenging environment for treasury management. In view of the changeable market conditions, the Group closely monitored its asset and liability structure as well as the credit spread movements, and adopted appropriate investment strategies to grow return on surplus funds. During the year, the Group adjusted its asset allocation and increased debt securities investments in large commercial banks to grow its interest income. It also strengthened its balance sheet management and structural risk management by implementing the Asset Liability Management System in August 2007. As a receiving bank for 36 IPOs in 2007, the Group managed a total amount of over HK$1,900 billion in IPO-related funds.

Expanding Product Offerings and Reinforcing Market Position in Hong Kong

The Group continued to develop its treasury products to serve customers' needs. The Group believed that the blooming investment market was offering a good opportunity for expanding the scope of its treasury products and embarked on a notes programme by issuing its first structured notes in February 2007. These products received keen response from customers. At the same time, equity warrants were launched and traded on the Stock Exchange of Hong Kong in 2007. In view of increasing market demand for hedging the RMB exchange risk, the Group strengthened its marketing initiatives on Chinese Yuan Non-Deliverable Forward Contracts ("RMB NDF Contracts"). These new products not only helped to diversify the Group's treasury product portfolio but also solidified the Group's market position in the local RMB market.

INSURANCE

HK$'m, except percentage amounts	**Full-year ended 31 December 2007**	Restated Full-year ended 31 December 2006	Increase/ (decrease)
Net interest income	**788**	473	+66.6%
Other operating income	**9,030**	6,421	+40.6%
Operating income	**9,818**	6,894	+42.4%
Net insurance benefits and claims	**(9,440)**	(6,655)	+41.8%
Net operating income	**378**	239	+58.2%
Operating expenses	**(117)**	(65)	+80.0%
Profit before taxation	**261**	174	+50.0%

	At 31 December 2007	Restated At 31 December 2006	Increase/ (decrease)
Segment assets	**24,545**	15,804	+55.3%
Segment liabilities	**23,182**	14,649	+58.2%

Note: For additional segmental information, see Note 48 to the Financial Statements.

Results

The Group's Insurance segment delivered good results in 2007. Profit before taxation rose by 50.0% to HK$261 million. This was mainly driven by a significant increase in net interest income.

Net interest income rose by 66.6% to HK$788 million. This was primarily attributable to an increase in investments in debt securities made possible by the significant growth of premium income. Other operating income increased by 40.6% to HK$9,030 million due mainly to the growth of net insurance premium income. In line with the growth of net insurance premium income, net insurance benefits and claims increased by 41.8% to HK$9,440 million.

Operating expenses were up 80.0% to HK$117 million, primarily due to the increase in promotional expenses and recruitment of new staff.

Assets in the Insurance segment grew by 55.3% because of the increase in investments in interest rate instruments and equity instruments. Liabilities rose by 58.2% with an increase in insurance contract liabilities.

Broadening Product Range and Stepping Up Marketing Effort

Following the combination with BOC Life in 2006, the Group continued to grow its insurance business by offering a wide range of single premium products while at the same time diversifying regular pay and other investment-linked products to meet the demand of customers. New single premium products such as the "Supreme Saver 07-5-year Endowment Plan" and "Fortune Saving Protection Plan", were successfully launched with enthusiastic response from customers. At the same time, the Group broadened its product offerings of regular pay products such as the "Blossom 8-year Endowment Plan" and "Get Free Insurance Plan". Moreover, investment-linked products were further refined by means of an expanded array of investment funds. In order to boost the sales of regular pay products and investment-linked plans, a series of promotion campaigns, customer referral schemes and promotional sponsors were launched during the year. As a result, sales of regular pay products and investment-linked plans were up 27.4% and 428.5% respectively year-on-year.

The Bancassurance Academy, the Group's in-house sales training facility, continued to provide various training programmes to the Group's marketing staff. During the year, the Group further expanded its training programmes to equip frontline staff with deeper and broader professional knowledge and better sales techniques by offering more than 30 classes. On-site training was also arranged for the Group's frontline staff deployed at its branches.

Strengthening Sales Channel

Under the Group's RPC model, the sales and distribution platform of insurance products has been reinforced. Given the Group's large customer base and extensive distribution network, initiatives were taken by frontlines and BOC Life to improve the marketing efficiency within the Group. A telemarketing call centre was established in October to promote products directly to target customers. Two specialised units were also set up to serve personal customers and corporate clients separately, which helped achieve marketing effectiveness while strengthening BOC Life's team-up with the Group's other marketing units.

REGULATORY DEVELOPMENT

Basel II Capital Accord

Following the release of the new international capital adequacy framework – known as Basel II, by Basel Committee on Banking Supervision in 2004, Hong Kong banks introduced Basel II in January 2007. The new framework aligns regulatory capital requirements more closely with inherent risks and introduces new capital charge on operational risk. It also stipulates a framework for the supervisory review of capital adequacy by the regulatory authority and a greater scope of disclosure on capital adequacy and risk management.

The Group has devoted substantial resources to the implementation of Basel II and made good progress in 2007. In relation to Pillar One, Standardised Approach was adopted to calculate minimum capital requirement on credit risk, market risk and operational risk. The Group intends to gradually adopt the Foundation Internal Ratings-Based ("FIRB") approach, which is a more risk sensitive approach, on the calculation of the regulatory capital requirements. The related gap analysis together with a roadmap to meet the FIRB requirements was completed. Meanwhile, the Group has completed the development of several rating models and the related process reengineering is in progress.

Under Pillar Two, the Group has been establishing its internal capital adequacy assessment process ("ICAAP"). For the purpose of setting a target capital adequacy ratio, scorecard methodology is used in determining capital add-on and minimum capital adequacy ratio. The Group considers ICAAP as an ongoing process for capital management and periodically reviews its capital structure with the overall risk profile.

To comply with Pillar III on the disclosure requirements prescribed by the Banking (Disclosure) Rules ("Disclosure Rules"), the Group has formulated its Disclosure Policy, which is implemented in accordance with the Disclosure Rules.

IMPLEMENTATION OF RELATIONSHIP-PRODUCT-CHANNEL ("RPC") MODEL

In accordance with its 2006-2011 Strategic Plan, the Group started implementing the Relationship-Product-Channel ("RPC") Model in March 2007. The Group believes that the new business model which is based on a customer-centric management concept will enable it to better serve customers with products and services that are tailored to their needs and will enhance operational efficiency. Under this model, the Group has proceeded to reinforce its capabilities in customer relationship management, product management and channel management by adopting a more refined customer segmentation model, putting in place professional product management and servicing teams, and optimising channels and workflows. During the year, the Group made significant progress in implementing the model. This include the realignment of the organisational structure, the establishment of relationship and product management teams, the enhancement of the channel management system, the fine-tuning of the performance assessment system, the review and refinement of policies and business processes, the optimisation of the authorisation procedures and staff training being organised at all levels. Furthermore, regular communication between the teams responsible for customer relationship, product management and channel management was established to foster the understanding of customers' needs and to reinforce marketing efforts. Benefits resulting from the first year of the implementation of the RPC Model are clearly reflected in the improved performance of all business segments reported in the foregoing sections.

CORPORATE DEVELOPMENT, TECHNOLOGY AND OPERATIONS

Human Resources

The Group believes that continuous investment in human resources is critical to its long-term business growth and the realisation of its vision and strategic goals. Under the RPC model, the Group initiated various reforms to adjust the organisational structure, reposition the staff and refine the staff performance management system. New staff members were recruited to meet the needs of the business units. At the same time, the Group is in the progress of reviewing and refining various job functions and positions with a view to promoting career development, raising the staff's sense of responsibility, and encouraging initiative-taking. The aim is to further enhance the Group's performance-driven corporate culture, and attract and retain talent.

In 2007, the Group continued to provide different training programmes for all levels of staff to improve productivity and service quality. EMBA programmes and executive development programmes conducted jointly with reputable universities such as Harvard University and University of Oxford were organised for the senior management and selected staff. More than 1,700 internal training courses were organised under the staff development plan. Such courses included workshops and seminars covering economic development, risk management, legal and compliance, corporate governance, corporate culture, marketing, and leadership. In April 2007, the Group established the Wealth Management Academy to upgrade the sales capability of frontline staff. Professional qualification programmes were also offered to frontline and Mainland staff to help them acquire professional qualifications. Moreover, a three-year Management Trainee Programme and a one-year Officer Trainee Programme have also been in place since 2006.

Technology and operations

In 2007, the Group continued to execute its 5-year IT development strategy to reinforce its information technology infrastructure. To support business growth, various projects were initiated to enhance the functionality and expand the processing capacity of information technology platforms. For instance, the RMB clearing and settlement platform was strengthened to support RMB bond services. The custody platform was enhanced to expand processing capacity, improve operational efficiency and service quality. The Group also took timely initiatives to expand the capacity of its Securities Management System to cope with the record-high stock trading volume in 2007. The capacity of the telephone banking System was expanded. The teller platform has been undergoing renovation in phases. In October 2007, a new Loan System was launched to facilitate the development of new loan products and the analysis of loan performance, promote product management, and improve operational efficiency. Furthermore, the workflow for processing mortgage loans was enhanced to cope with the increasing business volume and help maintain the Group's leading position in the mortgage business.

Following the incorporation of NCB (China), the Group proceeded to streamline the operation of China-related business by refining its operational policies and procedures, optimising business processes, and organising appropriate training for staff.

As part of the Group's IT development strategy, the Financial and Financial Risk Management System ("FRMS"), to be rolled out in phases, was initiated to revamp the existing computer systems for different finance functions, including financial accounting, management reporting, multi-dimension profitability analysis, capital management, and asset and liability management. In August 2007, the Group successfully launched the Asset Liability Management System, one of the milestones of the project, while the general ledger was being revamped as planned.

CREDIT RATINGS

As at 31 December 2007	Long-term	Short-term
Fitch	A	F1
Moody's	Aa3	P-1
Standard & Poor's	A-	A-2

As at 31 December 2007, BOCHK's long-term and short-term foreign currency issuer default ratings assigned by Fitch Ratings were A and F1 respectively while the support rating was 2.

On May 30, 2007, Moody's Investors Service changed the BOCHK's outlook for long-term bank deposit ratings to stable from positive. At the same time, Aa3 long-term and P-1 short-term local and foreign currency bank deposit ratings were affirmed. BOCHK's Financial Strength Rating was C+.

On 16 February 2007, Standard & Poor's raised BOCHK's long-term counterparty credit rating to A- and affirmed its A-2 short-term counterparty credit rating.

PROGRESS UPDATE OF 2006-2011 STRATEGIC PLAN

In March 2006, the Group announced its 2006-2011 Strategic Plan which would guide it in developing into a top-quality financial services group with a powerful base in Hong Kong, a solid presence in China, and a strategic foothold in Asia. The table below encapsulates the major progress achieved by the Group in 2007.

• Strengthening the Group's Leading Position in Hong Kong	The Group maintained its leading position in the syndication loan market covering Hong Kong, Macau and the Mainland, local residential mortgage business, Hong Kong RMB banking business, RMB card merchant acquiring business and RMB card issuing business. In ROE lucrative segments, the Group made good progress in the following areas: – **Wealth Management**: A strong wealth management platform has been created under which the total number of wealth management customers increased by 68% and assets under management rose by 46%. Investment and insurance fee income surged by 143.7%, of which fee income from stock broking and sales of funds rose significantly by 157.4% and 115.5% respectively. – **Consumer Lending**: Credit card advances and other consumer lending increased by 19.9% and 12.5% respectively. – **Cash Management**: Cash management platform was established and the Group successfully acquired as its clients a number of sizable Mainland enterprises seeking international expansion. – **SMEs**: The Group sustained double-digit growth in SME loans. The "SME Marketing Management Unit" was set up to enhance the management in this business segment. – **RMB Banking Services**: The Group remained the market leader in Hong Kong's RMB banking business and was re-appointed by PBOC to continue serving as the RMB Clearing Bank in Hong Kong. It also acted as joint lead manager and bookrunner as well as placing bank for all three RMB bonds issued in Hong Kong and was the market leader in the business.
• Developing New Capabilities in Product Manufacturing/ Distribution	– With the implementation of the RPC model, the Group's in-house product manufacturing capabilities have been reinforced. During the year, the Group launched several products under its own brand, including a notes programme in February, equity warrants in June and QDII products such as "NCB China Equity" and "BOCHK Bauhinia". – Private placement services were successfully launched to better serve high net worth customers. – Securities products such as the stock broking services were upgraded to handle the significant increase in trading volume. – To create and develop custody services, a custody service team was formed and major service platforms, covering local custody, global custody and escrow services, were built to pave the way for expansion. – The Group formed a special purpose entity with BOC to provide back-end service support to BOC Group Bank Card in the Mainland, which will give the Group an advantage in developing its card business in China. – After the acquisition of a 51% controlling stake in BOC Life, the Group actively expanded its insurance product portfolio. During the year, a range of new insurance products were introduced, and the sales of regular premium and investment-linked products increased by 27.4% and 428.5% respectively.
• Building a Stronger Presence in China	2007 was a milestone for the Group's China-related business. – During 2007, total advances to customers and customer deposits of the Group's Mainland branches increased significantly by 60.9% and 48.4% respectively. – As an integral part of the Group's dualistic approach for developing China-related business, NCB (China) was incorporated. – The Group had also submitted the application for setting up a new branch in Hangzhou. – The application for setting up a new sub-branch in Guangzhou Panyu has been approved.

• Seeking Regional Expansion	The Group set up a merger and acquisition team and has been actively seeking out M&A opportunities in the region, with a view to identifying really suitable potential targets.
• Corporate Values and Core competencies	**Corporate Values** – To support long-term business growth, the Group is in the progress of reviewing its job categorisation in order to promote career development, increase the staff's sense of responsibility and encourage initiative-taking. – The Group demonstrated its commitment to corporate social responsibility by participating actively in various social welfare and voluntary activities. For details of its involvement in community work, please refer to pages 86 to 88 – Good Corporate Citizenship. **Core Competencies** The Group received public recognition for its achievements in several key aspects during the year, ranging from disclosure to marketing and banking services. (For details, please refer to relevant sections in this report.)

RISK MANAGEMENT

Banking Group

Overview

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

Risk Management Governance Structure

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

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

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

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

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

Reputation Risk Management

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

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

Legal and Compliance Risk Management

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

Strategic Risk Management

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

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

Credit Risk Management

Credit risk is the risk that a customer or counterparty will be unable to or unwilling to meet a commitment it has entered into with the Group. It arises mainly from lending, trade finance, treasury and inter-bank transactions. For details of the Group's Credit Risk Management, please refer to Note 4 to the Financial Statements.

Market Risk Management

Market risk is the risk of loss that results from movements in market rates and prices. The Group's market risk arises from trading positions taken from customer-related business and proprietary trading. For details of the Group's Market Risk Management, please refer to Note 4 to the Financial Statements.

Interest Rate Risk Management

The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are repricing risk, basis risk, yield curve risk and option risk. For details of the Group's Interest Rate Risk Management, please refer to Note 4 to the Financial Statements.

Liquidity Risk Management

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

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

The Group monitors the liquidity risks using cash flow analysis (under normal condition and stress conditions respectively) and by examining deposit stability, concentration risk, liquidity ratio, mismatch ratios, loan-to-deposit ratio and liquidity profile of the investment portfolio. The Asset and Liability Management Committee ("ALCO") maintains oversight of liquidity risk and RC sanctions the liquidity management policies formulated by ALCO. The Treasury Department ("TD") manages the liquidity risk according to the established policies. The Finance Department monitors the Group's liquidity risks and reports to ALCO regularly. The Risk Management Department ("RMD") reviews the policies, guidelines and limits proposed by the TD.

Operational Risk Management

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

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

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

Capital Management

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

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

Stress Testing

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

BOC Life Insurance

The principal activity of BOC Life's business is the underwriting of long-term insurance business in life and annuity, linked long-term business and retirement scheme management in Hong Kong. Major types of risks inherent in the BOC Life's insurance business include insurance risk, interest rate risk and credit risk. BOC Life manages these risks independently and reports to RC on a regular basis. The key risks of its insurance business and related risk control process are as follows:

Insurance Risk Management

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

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

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

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

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

Interest Rate Risk Management

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

Counterparty Risk Management

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

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

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

SWIFTER,

Nanyang Commercial Bank (China) Limited, a solely owned subsidiary of the Group, was open for business on 24 December 2007 in Shanghai. It provides comprehensive, quality and professional financial services to the Mainland customers.

HIGHER, STRONGER

Welcome the Year of
the Olympics With Joy