CHIEF EXECUTIVE'S REPORT

As the Company is entering its 5th anniversary of public listing in Hong Kong, I am pleased to report that the Group continued to deliver encouraging business results and create higher value for shareholders in the first half of 2007. These fully reflected the growth momentum we have developed over recent years and helped gear towards realising our targets in the Group's Strategic Plan for 2006-2011.

Benefiting from the positive operating environment and our reinforced business platform, we were able to drive encouraging growth in both operating income and profit. More inspiring is that after a stable first quarter, our growth pace accelerated further in the second quarter. Before going into the details of our financial and business results, I would like to highlight the mileage we have covered in the first half to demonstrate our strong commitment to achieving growth, quality and excellence.

– We successfully grew our lending assets across-the-board amid fierce market competition, particularly in the high yielding segments;

– On the back of the robust investment market, we substantially increased our fee income;

– With better asset and liability management, we managed to further widen our net interest margin;

– We have further strengthened our market leadership positions in various key business areas of residential mortgage, loan syndication and RMB banking business in the local market;

– Our asset quality continued to improve with impressive results;

– Our distribution channels are greatly reinforced to support and foster business growth;

– To enhance our core competencies, we remained committed to the investment in human resources and IT while keeping good cost discipline.

Financial Highlights

By attaining solid growth in our core segments, we delivered higher earnings in the first half of 2007.

Net operating income before loan impairment allowances grew by 14.7% to HK$12,060 million. Compared to the same period in 2006, operating profit before loan impairment allowances was up 14.5% to HK$8,642 million, the highest interim result since our listing in 2002. Operating profit increased by 7.6% to HK$8,808 million despite lower loan impairment allowances write-back. The Group's profit attributable to shareholders grew by 5.3% to HK$7,466 million. Earnings per share increased by 5.3% to HK$0.7062.

Return on average total assets (ROA) and return on average shareholders' funds (ROE) were 1.57% and 17.32% respectively, versus 1.59% and 17.63% respectively for the first half of 2006. The slight changes were largely attributable to the higher loan impairment allowances write-back and investment property revaluation gain a year ago. ROE before loan impairment allowances and ROA before loan impairment allowances improved by 1.30 percentage points to 20.05% and by 0.12 percentage point to 1.78%, respectively.

As mentioned above, the Group's advances to customers surged by 13.2%, amounting to HK$392,811 million. We witnessed robust growth in high-margin advances such as trade finance, SME loans and loans extended to customers through our Mainland operation. This, together with the high volume of IPO financing, contributed significantly to the rise of the Group's net interest income by 18.7% to HK$8,903 million.

During the interim period, we widened our net interest margin by 22 basis points to 2.03%, versus 1.81% a year ago. This was achieved despite the spread between HKD Prime and HIBOR narrowed by 38 basis points in the first half of the year. This extent of improvement exceeded that of our peers and aptly reflected our relentless efforts to improve the assets and deposits mix, the control of funding costs as well as the yield on debt securities. Average interest-earning assets were up 5.9% to HK$883,030 million primarily as a result of higher average deposits, including substantial amount of IPO subscription funds.

Our focused effort to boost the Group's fee-based income led to a sharp increase in net fees and commission income of 49.5% to HK$2,632 million. Riding on the robust local stock market and having further enhanced our channels to capture new business opportunities, our stock brokerage commissions increased by 105.6%. Led by the sales of China equity funds and other thematic funds, our asset management fees income registered an equally strong growth of 104.8%. Insurance and investment income from BOC Life grew by 25.8% to HK$263 million, which was attributable to higher interest income from securities investment.

Net trading income fell by 62.5% to HK$417 million following the 79.0% decline in net trading income from foreign exchange and related products, resulting from the net trading loss of foreign exchange swap contracts. However, should the net trading loss of swap contracts be excluded, the income from foreign exchange business would have increased by 19.0%.

To cater for the Group's long-term expansion, it remains our key policy to invest in human resources and IT infrastructure. During the interim period, we initiated salary increment to ensure that our remuneration package was competitive in the market. We also recruited additional manpower, including professionals in various fields, for business development. At the same time, our e-banking channels and branch network were enhanced to better serve customers. As a result, the Group's operating expenses increased by 15.0% to HK$3,418 million in the first six months. Despite this increase, we managed to optimise our cost-to-income ratio which, at 28.34%, was merely 0.09 percentage point higher than that recorded in the same period of 2006 and remained at low end of industry level.

With effective risk management, the Group's asset quality improved further. Classified and impaired loan ratio dropped to 0.41%, versus 0.57% six months ago. In this regard, we once again outperformed the local banking sector as a whole.

The Group's total assets reached HK$1,047,095 million as at the end of June 2007, up 12.7% from end-2006. Total deposits from customers increased by 15.9% to HK$815,517 million. The Group's capital and liquidity positions remained strong. Consolidated capital adequacy ratio was 14.29% at the end of June 2007, versus 15.72% at end-2006, due to an increase in risk-weighted assets. Average liquidity ratio was 50.08%, versus 50.30% a year ago.

Business Review

The performance of our major business streams testified to our success in driving the growth of both business volume and profitability.

Retail Banking

We continued to leverage the competitive edge of our personal banking segment which presented superb results in the first half of 2007. We succeeded in growing the high-yielding segments, such as investment and insurance, expanding our high net worth customer base with enhanced wealth management services, maintaining our market lead in residential mortgage and Hong Kong RMB banking business while growing our credit card segment.

Net operating income before loan impairment allowances increased by 25.2% to HK$6,864 million, of which net interest income was up 13.0% to HK$4,309 million and other operating income was up an even stronger 53.0% to HK$2,555 million. Profit before taxation increased by nearly 29.6% to HK$4,134 million.

We grew non-interest operating income substantially by 53.0% year-on-year in an active investment market. By strengthening our trading platform, especially the automated channels, and implementing effective marketing strategies, we achieved solid growth in both stock transaction volume and stock brokerage commissions of 111.9% and 105.6% respectively. Driven by the sales of China equity funds and other thematic funds, asset management fees grew substantially by 104.8%. Commissions from the sales of bonds also increased by 124.1% upon the introduction of private placement service.

We moved on to grow our wealth management segment with encouraging results. In the first six months, the number of wealth management customers and assets under management increased by 16.8% and 16.9% respectively. Through service enhancement and customisation, we started providing premium services to our high net worth customer group.

Notwithstanding intense competition, we maintained our market leadership in residential mortgage which outperformed the industry by registering a growth of 3.3%. We introduced a wider assortment of mortgage products to tailor the diverse needs of customers. Under such measures, the underwriting of new mortgages soared by 119.4%, versus the market average of merely 38.0%. We continued to expand our credit card business in terms of card advances and card issuance. In particular, cardholder spending and merchant acquiring volume increased by 25.9% and 35.3% respectively.

The Group remained the local market leader in RMB banking business. RMB deposits went up by 20.5% during the interim period. We also led the market in the RMB credit card business, with RMB merchant acquiring volume and RMB cardholder spending volume growing by 51.1% and 57.9% respectively. In June we launched a new RMB bond service and acted as one of the joint lead managers and bookrunners as well as placing banks for the first issuance of RMB bonds by China Development Bank in Hong Kong. With the further expansion of RMB banking business in Hong Kong, the role of BOCHK as the only local RMB clearing bank has been enhanced accordingly.

We continued to shape up our distribution channels to support business growth. We reinforced our e-banking platform and services, which contributed significantly to the surge in online stock trading. Transactions of e-banking surged by 116.7% while stock brokerage business volume via our automated channels rose by 176.7% in the first half of this year as compared with the same period of 2006. More wealth management centres were set up to cater to our targeted high net worth customers.

Corporate Banking

We steered the business growth of the corporate banking segment with considerable progress in the first half of this year. Net operating income before loan impairment allowances increased by 19.6%, of which net interest income was up 19.5% and other operating income increased by 19.8%. Operating profit before loan impairment allowances, at HK$2,235 million, increased by 21.4% while pre-tax profit stayed at roughly the same level as a year ago.

It has been our prime emphasis to grow corporate lending in order to increase net interest income in this business segment. Spurred by Hong Kong's vibrant external trade, our trade finance recorded a substantial growth of 28.1%. Its proportion in the Group's total loan portfolio also increased. We also made significant headway in industrial, commercial and financial loans, which increased by a total of 18.8%. Under our new SME business model and through aggressive marketing, we registered a growth of 19.9% in SME loans in the first six months. We remained the market leader in loan syndication in the Hong Kong-Macau and Mainland-Hong Kong-Macau syndicated loan markets. We acted as the coordinator for the largest syndicated loan ever-recorded in Hong Kong in recent years. Backed by robust stock trading and the spate of IPO in Hong Kong, we made use of our reinforced business platform to boost our IPO financing business, which registered a two-fold growth and provided more than HK$220 billion worth of financing to both corporate and retail customers. We acted as the major receiving bank for 20 IPOs in Hong Kong in the first half of the year.

Mainland Business

China business has always been one of the Group's strategic focuses. Our Mainland branches continued to enjoy solid results in the first half. Operating profit before loan impairment allowances increased by 57.3%. Total advances to customers increased by 16.6%, of which RMB loans surged by 42.8%. Deposits from customers rose by 40.6%.

As mentioned in the last Annual Report, the Group is pursuing a dualistic approach with regard to the development of Mainland business by incorporating Nanyang Commercial Bank, Limited (NCB) as a local bank in the Mainland to provide full banking services while maintaining BOCHK and Chiyu's status as foreign-funded banks to focus on corporate banking and foreign exchange businesses. In this connection, preparation for the incorporation of NCB and the roll-out of full banking services in the Mainland has been well underway since the beginning of this year. We are pleased to announce that in June this year, NCB obtained the approval of China Banking Regulatory Commission to incorporate its current operations in the Mainland as its wholly-owned subsidiary under the name of Nanyang Commercial Bank (China) Limited (NCB China).

The business scope of the Group's Mainland branches and sub-branches kept expanding. By end-June, 12 of our 14 branches and sub-branches were allowed to conduct RMB business. All of the 14 outlets are now licensed to conduct derivatives business and offer insurance agency services.

We continued to work closely with our parent BOC Group for business development. In the first half of this year, business referrals between BOC and us contributed to the loan growth on both sides. Our collaboration with BOC in the offering of privileged and priority banking services for wealth management customers from both banks in the Asia Pacific Region has been making good progress. These successful experiences will be the key motivating force that drives our continuous cooperation for mutual gains.

Treasury

The focus of our Treasury segment this year is portfolio diversification and product development. I am satisfied that considerable progress was made in that regard in the first six months. We adjusted the Group's asset allocation by diversifying into structured debt securities to maximise return on residual funds, thus resulting in a more balanced portfolio. We have been actively developing new treasury products. Under our new notes programme, the first batch of structured notes was issued in February 2007 and generated a sales volume of over HK$700 million in the first half of 2007. We also launched equity warrants to enrich the Group's product portfolio and offer more investment choices to our customers.

Treasury registered a healthy growth in net interest income of 20.5%, which was attributable to better return from the effectively diversified debt securities portfolio. However, owing to the fall in other operating income caused mainly by the net trading loss of foreign exchange swap contracts, as well as the decline in net trading income from interest rate instruments and commodities, total operating income decreased by 12.2% year-on-year to HK$2,454 million. Profit before taxation was down 14.8% to HK$2,221 million.

Insurance

The insurance segment performed well in the first half of 2007. Net interest income was up 66.3% to HK$346 million mainly due to the rise in investments in debt securities. Despite the fall in other operating income of 17.5% that led to a decline of 12.0% in total operating income, profit before taxation jumped up by 35.4% to HK$107 million.

Upon acquiring a 51% shareholding in BOC Life in 2006, we have been actively expanding our insurance product offerings to meet our customers' diverse demands. For example, we introduced a series of new insurance products including regular pay products and launched various promotion campaigns. As a result, income from first year regular premium was up by 88.2% year-on-year.

Outlook

Looking ahead, we believe that the macroeconomic environment is likely to remain stable. The Hong Kong economy will continue to benefit from the Mainland's strong economic performance, despite that the global growth is expected to moderate in the second half of the year. The opening of the Mainland's financial services sector, in particular, is expected to give rise to greater business opportunities. However, we are also alert to the risks that could arise from the mounting volatility of the global investment market and the uncertainty in interest rate movements. The potential rise of operating costs in Hong Kong is also an aspect we need to monitor closely and manage proactively.

In the remainder of the year, we will drive business growth by taking advantage of our new business model, the Relationship-Product-Channel (RPC) Model, and our reinforced business platform. Given the momentum we have already built up in growing our loan business, we will continue to strengthen high-yielding segments such as trade finance, SME lending, consumer loans and our Mainland operation's lending business. We will also seek to maintain our lead and further expand our market share in residential mortgage, loan syndication and Hong Kong RMB banking business. Wealth management will continue to be one of our major targets. With our enhanced wealth management platform, branch infrastructure and product capability, we are in a stronger position than before to grow this segment by means of product innovation and customisation. Provided that the stock market remains favourable, our sufficiently strengthened trading platform should enable us to capture the growth opportunities in stock brokerage business. All these pursuits will of course be supported by the entrenchment of the RPC Model and the new corporate culture throughout the Group.

With the approval given by China Banking Regulatory Commission, we are proceeding at full speed to incorporate NCB China as a local bank in the Mainland. This new wholly-owned subsidiary of the Group is to be headquartered in Shanghai and its operation is scheduled for commencement by the end of this year. With the support of the whole Group, we have already started arming our Mainland branches with the necessary internal infrastructure and manpower so that we can offer a full range of RMB banking services in the Mainland market. We will also allocate sufficient resources for building and promoting the new NCB China brand in the Mainland. NCB China will be actively identifying locations in major cities in the Pearl River Delta, the Yangzi River Delta and other coastal regions for the purpose of expanding its branch network in the Mainland.

In terms of business scope expansion, our Mainland branches will seek to enhance competitiveness in various business segments, particularly trade finance, property mortgage and wealth management, through product and channel improvement. The underlying objective is to expand cross-border services by introducing into the Mainland products originating from Hong Kong.

We are confident of the Group's ability to maintain its consistently good pace of growth in income and profit, accompanied by ongoing consciousness in risk management.

In concluding, I wish to thank the Board of Directors for their guidance. I would also like to thank all my colleagues for their commitment and exertion to excel themselves and deliver record results.

HE Guangbei
Vice Chairman and Chief Executive

Hong Kong, 23 August 2007