MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides an analysis of the Group's performance, financial position, and risk management. The following analysis should be read in conjunction with the financial statements included in this Interim Report.

CONSOLIDATED FINANCIAL REVIEW

In the first six months of 2007, the Group achieved encouraging financial performance and made good progress in implementing its strategic plan for 2006-2011. Driven by strong growth in core earnings, the Group posted record highs in its half-yearly financial results. Compared to the first half of 2006, operating profit before loan impairment allowances increased to HK$8,642 million, up HK$1,096 million or 14.5%. Despite a fall in both loan impairment allowances write-back and investment property revaluation gain, profit attributable to shareholders rose by HK$373 million, or 5.3%, to HK$7,466 million. Earnings per share were HK$0.7062, up HK$0.0353. Return on average total assets ("ROA") and return on average shareholders' funds ("ROE") were 1.57% and 17.32% respectively. ROA and ROE were lower on a year-on-year basis mainly because of the relatively higher loan impairment allowances write-back and revaluation gain on investment properties recorded in the first half of 2006. ROE before loan impairment allowances in the first half of 2007 improved by 1.30 percentage points to 20.05% while ROA before loan impairment allowances also improved by 0.12 percentage point to 1.78%.

Financial Highlights

HK$'m, except percentage amounts	**Half-year ended 30 June 2007**	Half-year ended 31 December 2006	Half-year ended 30 June 2006
Operating income	**12,060**	10,792	10,517
Operating expenses	**(3,418)**	(3,587)	(2,971)
Operating profit before loan impairment allowances	**8,642**	7,205	7,546
Reversal of loan impairment allowances	**166**	1,148	642
Others	**419**	113	485
Profit before taxation	**9,227**	8,466	8,673
Profit attributable to equity holders of the Company	**7,466**	6,914	7,093
Earnings per share (HK$)	**0.7062**	0.6539	0.6709
Return on average total assets	**1.57%**	1.53%	1.59%
Return on average shareholders' funds*	**17.32%**	16.69%	17.63%
Return on average total assets before loan impairment allowances	**1.78%**	1.57%	1.66%
Return on average shareholders' funds* before loan impairment allowances	**20.05%**	17.39%	18.75%
Net interest margin	**2.03%**	1.97%	1.81%
Non-interest income ratio	**26.18%**	22.79%	28.66%
Cost-to-income ratio	**28.34%**	33.24%	28.25%

* 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	**Half-year ended 30 June 2007**	Half-year ended 31 December 2006*	Half-year ended 30 June 2006*
Interest income	**21,484**	20,868	19,403
Interest expense	**(12,581)**	(12,536)	(11,900)
Net interest income	**8,903**	8,332	7,503
Average interest-earning assets	**883,030**	837,113	833,847
Net interest spread	**1.61%**	1.54%	1.39%
Net interest margin	**2.03%**	1.97%	1.81%

* Interest expense on short positions in Exchange Fund Bills and callable interest rate swaps were reclassified from "Net gain from interest rate instruments" included as "Net trading income" to "Interest expense". Average interest-earning assets, net interest spread and net interest margin were revised accordingly.

Compared to the first half of 2006, net interest income increased by HK$1,400 million, or 18.7%, to HK$8,903 million. Average interest-earning assets grew by HK$49,183 million, or 5.9%, to HK$883,030 million mainly due to the increase in average deposits (including funds from IPO subscriptions). Net interest margin increased by 22 basis points to 2.03% and net interest spread widened by 22 basis points to 1.61%.

After a relatively steep rise in the first half of 2006, HKD and USD interest rates have performed quite differently since the second half of 2006. While one-month LIBOR has remained flat at around 5.3% since the second half of 2006 due to the softening US economy, one-month HIBOR dropped gradually in the second half of 2006 from 4.19% at end-June 2006 to 3.91% at end-2006 due to abundant liquidity in the local banking sector. Conversely, in the first half of 2007, one-month HIBOR rebounded to 4.48% at end-June due to IPO activities. Compared to the first half of 2006, average one-month HIBOR increased by 5 basis points to 4.24% while average one-month LIBOR increased by 47 basis points to 5.32% in the first half of 2007. At the same time, the Group's average HKD Prime rate decreased by 33 basis points year-on-year to 7.75%, thus narrowing the HKD Prime-to-one-month HIBOR spread (hereinafter called "Prime-HIBOR spread") by 38 basis points to 3.51% in the first half of 2007.

During the period under review, average customer deposits increased by HK$48,260 million, or 7.4%, leading to an increase in average interest-earning assets by HK$49,183 million, or 5.9%. The increasing interest rate environment together with the rise in investments in structured securities and selected corporate bonds helped raise the gross yield on debt securities by 45 basis points. At the same time, the Group's assets mix further improved with average debt securities investments and loans and advances to customers accounting for 37.4% and 41.2% of average interest-earning assets, up 2.0 and 1.8 percentage points respectively. In particular, higher yielding loans such as trade finance, SME loans and lending through the Group's Mainland branches grew year-on-year. Nevertheless, as Prime-HIBOR spread narrowed and pricing pressure continued, loan spread was compressed. Weighted average yield from the residential mortgage portfolio, excluding Government Home Ownership Scheme ("GHOS") mortgages, decreased by 13 basis points year-on-year to 2.65% below HKD Prime rate. As a result, average gross yield from loans and advances to customers fell by 11 basis points to 5.51%. On the other hand, the Group's overall funding costs remained flat. The Group's conscious effort in managing funding costs continued to enhance the fixed deposits spread. Meanwhile, savings deposits spread also widened as average savings rate decreased in times of higher average market rates. At the same time, deposit mix continued to improve with increasing proportion of average demand deposits and current accounts as well as savings deposits (hereinafter called "lower cost deposits") to average total deposits.

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

	Half-year ended 30 June 2007		Half-year ended 31 December 2006		Half-year ended 30 June 2006	
ASSETS	**Average balance HK$'m**	**Average yield %**	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Loans to banks	**171,408**	**3.80%**	170,018	3.86%	185,034	3.93%
Debt securities investments	**330,010**	**4.84%**	309,676	4.80%	294,901	4.39%
Loans and advances to customers	**363,753**	**5.51%**	338,941	5.69%	328,777	5.62%
Other interest-earning assets	**17,859**	**4.53%**	18,478	3.81%	25,135	1.75%
Total interest-earning assets	**883,030**	**4.91%**	837,113	4.94%	833,847	4.69%
Non interest-earning assets	**87,716**		83,287		77,478	
Total assets	**970,746**	**4.46%**	920,400	4.50%	911,325	4.29%

	Half-year ended 30 June 2007		Half-year ended 31 December 2006		Half-year ended 30 June 2006	
LIABILITIES	**Average balance HK$'m**	**Average rate %**	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances of banks and other financial institutions	**43,374**	**3.31%**	45,772	2.96%	43,930	3.03%
Current, savings and fixed deposits	**696,136**	**3.30%**	658,512	3.38%	647,876	3.33%
Certificates of deposit issued	**2,473**	**3.54%**	3,022	3.41%	3,953	3.07%
Other interest-bearing liabilities	**26,743**	**3.31%**	25,140	4.69%	31,375	3.05%
Total interest-bearing liabilities	**768,726**	**3.30%**	732,446	3.40%	727,134	3.30%
Non interest-bearing deposits	**33,178**		31,848		33,781	
Shareholders' funds* and non interest-bearing liabilities	**168,842**		156,106		150,410	
Total liabilities	**970,746**	**2.61%**	920,400	2.70%	911,325	2.63%

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

Compared to the second half of 2006, net interest income increased by HK$571 million, or 6.9%. Average interest-earning assets grew by HK$45,917 million, or 5.5%, driven by the increase in average deposits (including funds from IPO subscriptions). Net interest margin and net interest spread rose by 6 basis points and 7 basis points respectively. Contribution from net free funds fell by 1 basis point.

As a result of the rebound of HKD interest rate in the first half of 2007, average one-month HIBOR increased by 19 basis points to 4.24% when compared to the second half of 2006. On the other hand, average 1-month LIBOR remained relatively stable. Improvement in net interest income was mainly attributable to the increase in average interest-earning assets as well as the increase in average loans and advances to customers, in particular higher yielding loans such as trade finance, SMEs loans and lending through Mainland branches. Meanwhile, total deposit spread widened as average savings rate decreased in times of higher average market rates. Deposit mix also improved with a higher proportion of average lower cost deposits in average total deposits. However, as Prime-HIBOR spread narrowed and pricing pressure continued, loan spread was compressed. Weighted average yield from the residential mortgage portfolio, excluding GHOS mortgages, declined by 5 basis points to 2.65% below the HKD Prime rate.

Net Fees and Commission Income

HK$'m	**Half-year ended 30 June 2007**	Half-year ended 31 December 2006	Half-year ended 30 June 2006
Bills commissions	**273**	278	259
Loan commissions	**129**	157	116
Investment and insurance fee income	**1,764**	993	858
Securities brokerage (Stockbroking)	**1,324**	739	644
Securities brokerage (Bonds)	**65**	76	29
Asset management	**342**	150	167
Life insurance*	**33**	28	18
General insurance	**52**	42	54
Trust services	**66**	64	54
Payment services	**221**	218	200
Credit cards	**471**	432	375
Account services	**153**	147	157
Guarantees	**24**	19	25
Currency exchange	**73**	66	51
RMB business	**54**	41	36
Correspondent banking	**17**	16	15
IPO-related business	**43**	25	35
Others	**99**	135	117
Fees and commission income	**3,439**	2,633	2,352
Fees and commission expenses	**(807)**	(677)	(591)
Net fees and commission income	**2,632**	1,956	1,761

* 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$871 million, or 49.5% year-on-year, to HK$2,632 million, primarily due to a significant rise in investment and insurance fee income of HK$906 million or 105.6% and an increase of fees from card business of HK$96 million or 25.6%. The remarkable performance of investment and insurance agency business reflected the Group's business initiatives on the back of the active equity market and IPO activities. Fees from card business also recorded satisfactory growth as cardholder spending and merchant acquiring volume increased by 25.9% and 35.3% respectively. Fees from currency exchange, trust services, loans and payment services all registered double-digit growth of 43.1%, 22.2%, 11.2% and 10.5% respectively. Riding on flourishing IPOs in the first half of 2007, the Group's fees and commission income from IPO-related activities such as receiving banker's fee and brokerage fee surged by 22.9%. Meanwhile, fee income from RMB-related services also rose by 50.0%. Fees and commission expenses rose by HK$216 million or 36.5%, mainly driven by the increases in stockbroking expenses as well as fees and commission expenses for credit card business. Moreover, additional charges under the Deposit Protection Scheme that commenced in September 2006 also contributed to the increase in fees and commission expenses.

Compared to the second half of 2006, net fees and commission income increased by HK$676 million, or 34.6%, largely because of the increase in fee income from stock brokerage of HK$585 million or 79.2% and that in asset management of HK$192 million or 128.0%. Fees and commission income from IPO-related activities, RMB-related business and card business also increased by 72.0%, 31.7% and 9.0% respectively. Fees and commission expenses rose by 19.2%, mainly due to an increase in stockbroking expenses, credit card expenses and the additional charges under the Deposit Protection Scheme.

Investment and Insurance Business

HK$'m	**Half-year ended 30 June 2007**	Half-year ended 31 December 2006	Half-year ended 30 June 2006
Investment and insurance fee income			
Securities brokerage (Stockbroking)	**1,324**	739	644
Securities brokerage (Bonds)	**65**	76	29
Asset management	**342**	150	167
Life insurance	**33**	28	18
	1,764	993	858
Insurance and investment income of BOC Life			
Net insurance premium income	**2,933**	2,719	3,476
Interest income	**346**	265	208
Net (loss)/gain on financial instruments designated at fair value through profit or loss	**(389)**	835	(415)
Others	**5**	6	–
Gross insurance and investment income of BOC Life*	**2,895**	3,825	3,269
Less: net insurance benefits and claims	**(2,632)**	(3,595)	(3,060)
	263	230	209
Total investment and insurance income	**2,027**	1,223	1,067

* Before commission expenses.

Total investment and insurance income surged by HK$960 million, or 90.0%, year-on-year to HK$2,027 million primarily due to an increase in investment and insurance fee income of HK$906 million, or 105.6%, and the rise in BOC Life's insurance and investment income by HK$54 million, or 25.8%. In the first half of 2007, the Group actively promoted stock brokerage and improved its trading platform and services. Against the backdrop of the buoyant equity market and IPO activities, commissions from stock brokerage rose by HK$680 million, or 105.6%, with the stock brokerage business volume growing substantially by 111.9%. Boosted by the sales of China equity funds and certain thematic funds, asset management fee income increased by HK$175 million, or 104.8%, with the sales of open-end funds rising by 107.8%. Commission from sales of bonds also increased by HK$36 million, or 124.1%, after the successful launch of private placement services which helped grow the sales of structured notes by 237.2%. Meanwhile, fee income from the Group's insurance business partner rose by HK$15 million, or 83.3%, with sales volume increased by 174.0%. At the same time, BOC Life's insurance and investment income increased by HK$54 million, or 25.8%, to HK$263 million, which was mainly attributable to higher interest income from securities investments. In the first half of 2007, the Group improved its product mix by actively promoting its own regular pay products, and at the same time, boosted the sales of single premium products of its insurance business partner. As a result, total business volume of life insurance products increased by 8.7%.

Compared to the second half of 2006, total investment and insurance income increased by HK$804 million, or 65.7%, resulting from an increase in investment and insurance fee income of HK$771 million, or 77.6%. At the same time, insurance and investment income of BOC Life rose by HK$33 million, or 14.3%.

Net Trading Income

HK$'m	**Half-year ended 30 June 2007**	Half-year ended 31 December 2006*	Half-year ended 30 June 2006*
Foreign exchange and foreign exchange products	**155**	376	737
Interest rate instruments	**192**	2	302
Equity instruments	**70**	58	15
Commodities	**–**	20	58
Net trading income	**417**	456	1,112

* Interest expense on short positions in Exchange Fund Bills and callable interest rate swaps were reclassified from "Net gain from interest rate instruments" included as "Net trading income" to "Interest expense".

Net trading income was HK$417 million, down HK$695 million or 62.5% year-on-year. This was mainly caused by the decline in net trading income from foreign exchange and foreign exchange products of HK$582 million, or 79.0%, resulting from the net trading loss on foreign exchange swap contracts**. Income from other foreign exchange activities increased satisfactorily by 19.0%. Net trading income from interest rate instruments dropped by HK$110 million, or 36.4% as the gain in fair value of the Group's interest rate swap contracts declined. Net trading income of equity instruments increased by HK$55 million due to the option premium received under the Group's newly launched notes programme and the increase in the fair value of certain equity instruments. The decrease in net trading income from commodities was chiefly attributable to the decline in customers' demand for bullion products as market volatility decreased, coupled with the net trading loss on certain commodities instruments.

Compared to the second half of 2006, net trading income decreased by HK$39 million or 8.6% as a result of the increase in the net trading loss on foreign exchange swap contracts**. This was partly offset by the increase in the fair value of interest rate swap contracts. Meanwhile, other foreign exchange activities performed satisfactorily and the related net trading income increased by 10.9%.

** 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. Under HKAS 39, the exchange difference between the spot and forward contracts is recognised as foreign exchange gain or loss (as included in "net trading income"), while the corresponding interest differential between the surplus funds in original currency and swapped currency is reflected in net interest income.

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

HK$'m	**Half-year ended 30 June 2007**	Half-year ended 31 December 2006	Half-year ended 30 June 2006
Net (loss)/gain on financial instruments designated at FVTPL of the banking business	**(5)**	(79)	(21)
Net (loss)/gain on financial instruments designated at FVTPL of BOC Life	**(389)**	835	(415)
Net (loss)/gain on financial instruments designated at FVTPL	**(394)**	756	(436)

Net loss on financial instruments designated at fair value through profit or loss decreased by HK$42 million, or 9.6%, year-on-year. Net loss on financial instruments designated at fair value through profit or loss of the Group's banking business and insurance subsidiary fell by HK$16 million, or 76.2%, and HK$26 million, or 6.3%, respectively when compared to the same period last year.

After a net gain of HK$756 million in the second half of 2006, net loss on financial instruments designated at fair value through profit or loss was HK$394 million, a decline of HK$1,150 million mainly due to the changes in the fair value of the investments in debt securities and structured notes held by BOC Life.

Net Insurance Premium Income

HK$'m	**Half-year ended 30 June 2007**	Half-year ended 31 December 2006	Half-year ended 30 June 2006
Life and Annuity	**2,358**	2,385	3,467
Linked Long Term	**578**	338	10
Retirement Scheme	**–**	2	1
	2,936	2,725	3,478
Reinsurers' share of gross earned premiums	**(3)**	(6)	(2)
Net insurance premium income	**2,933**	2,719	3,476

Compared to the first half of 2006, net insurance premium income decreased by HK$543 million, or 15.6%, to HK$2,933 million, owing to the decline in premium income from single premium products. In 2006, a relatively higher sales of single premium products was made in the first half of the year whereas in the first half of 2007, the Group focused on improving its product mix by launching a host of promotional activities for regular pay products that would provide a longer, higher and more stable income stream to the Group as well as more protection at a reasonable return to its customers. Plans like 'Wisdom Investment Linked Insurance Plan', 'Total value Retirement Solution' and 'Companion Insurance Plan' were particularly well received by customers. As a result, income from first year regular premium was up 88.2% year-on-year. At the same time, the Group boosted its sales of single premium products of its insurance business partner, and the total business volume of life insurance products (including that of BOC Life and the Group's insurance business partner) was up 8.7%.

Compared to the second half of 2006, net insurance premium income rose by HK$214 million or 7.9% to HK$2,933 million. The increase was attributable to the 9.6% growth in new insurance policies with 33.3% increase in income from first year regular premium.

Net Insurance Benefits and Claims

HK$'m	**Half-year ended 30 June 2007**	Half-year ended 31 December 2006	Half-year ended 30 June 2006
Life and Annuity	**2,084**	3,258	3,051
Linked Long Term	**551**	334	10
Retirement Scheme	**(2)**	3	–
	2,633	3,595	3,061
Reinsurers' share of claims, benefits and surrenders paid	**(1)**	–	(1)
Net insurance benefits and claims	**2,632**	3,595	3,060

Compared to the first half of 2006, net insurance benefits and claims decreased by HK$428 million, or 14.0%, to HK$2,632 million, which was mainly due to the decline in premium income from single premium products of BOC Life. Prospective liabilities were recognised on the basis of the assumptions made as to mortality, investment income and fair value changes in the underlying investments.

Compared to the second half of 2006, net insurance benefits and claims dropped by HK$963 million or 26.8%, resulting mainly from the increase in the market interest rates.

Operating Expenses

HK$'m, except percentage amounts	**Half-year ended 30 June 2007**	Half-year ended 31 December 2006	Half-year ended 30 June 2006
Staff costs	**2,109**	2,181	1,823
Premises and equipment expenses (excluding depreciation)	**417**	494	374
Depreciation on owned fixed assets	**373**	348	323
Other operating expenses	**519**	564	451
Operating expenses	**3,418**	3,587	2,971
Cost-to-income ratio	**28.34%**	33.24%	28.25%

To cope with overall business expansion, the Group's operating expenses increased by HK$447 million, or 15.0%, year-on-year to HK$3,418 million. Staff costs rose by HK$286 million or 15.7% after pay rise and the recruitment of new staff. Compared to end-June 2006, headcount measured in full-time equivalents rose by 151 to 12,866 at end-June 2007.

Premises and equipment expenses increased by HK$43 million or 11.5% primarily due to higher rental and IT costs incurred.

Depreciation on owned fixed assets rose by HK$50 million, or 15.5%, to HK$373 million, largely due to the appreciation of the value of bank premises and the increase in depreciation on computer equipments.

The increase in other operating expenses was mainly attributable to the growth of expenses incurred by credit card business.

Reversal of Loan Impairment Allowances on Advances

HK$'m	**Half-year ended 30 June 2007**	Half-year ended 31 December 2006	Half-year ended 30 June 2006
Reversal of/(Charge for) loan impairment allowances			
Individual assessment			
– new allowances	**(106)**	(281)	(366)
– releases	**109**	214	99
– recoveries	**340**	1,377	676
Collective assessment			
– new allowances	**(192)**	(192)	(2)
– releases	**–**	(16)	219
– recoveries	**15**	46	16
Net credit to Income Statement	**166**	1,148	642

The Group recorded a net reversal of loan impairment allowances of HK$166 million in the first half of 2007, primarily because of loan recoveries. Compared to the first half of 2006, net reversal of loan impairment allowances was down HK$476 million or 74.1%, which was mainly the consequence of a decline in both the loan recoveries and release of allowances. This decline reflected a natural slowdown in the improvement in bad debt migration and loan recoveries after the Group's significant improvement in asset quality in previous years.

As new allowances were offset by the releases of allowances, net impairment release from individual assessment was HK$3 million, compared to the net charge of HK$267 million recorded in the first half of 2006. The decrease in net impairment charge was caused by the decline in new allowances as additional allowances were needed to cover the deterioration of certain large accounts in the first half of 2006. In the first half of 2007, HK$106 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 amounted to HK$192 million, compared to the net release of HK$217 million in the first half of 2006. During the first half of 2007, there was a continuous refinement of methodology. The increase in new allowances was also attributable to the increase in advances to customers. The reduction in releases of allowances reflected a natural slowdown in the improvement in the bad debt migration rate after the Group's significant improvement in asset quality.

The Group continued to have recoveries of loans that were previously written off with total recoveries (individually and collectively assessed) amounting to HK$355 million. Total recoveries dropped by HK$337 million year-on-year versus the first half of 2006 during which period certain large accounts had been recovered.

Compared to the second half of 2006, net release of loan impairment allowances decreased by HK$982 million or 85.5% as a result of lower recovery of loans that were previously written off. The significant loan recoveries in the second half of 2006 were mainly attributable to the recoveries of a number of large accounts.

Property Revaluation

HK$'m	**Half-year ended 30 June 2007**	Half-year ended 31 December 2006	Half-year ended 30 June 2006
Net gain/(loss) on revaluation of premises	**7**	3	(4)
Net gain on fair value adjustments on investment properties	**414**	97	477
Deferred tax	**(59)**	(33)	(22)
Net gain on fair value adjustments on investment properties, after tax	**355**	64	455

The aggregate impact of property revaluation before tax on the income statement was HK$421 million, of which HK$414 million came from the revaluation of investment properties and HK$7 million from the revaluation of premises. The related deferred tax charge on revaluation of investment properties amounted to HK$59 million. As a result, the net impact of fair value adjustments on investment properties on the Group's profit attributable to equity holders in the first half of 2007 was HK$355 million. When compared to the first half of 2006, the decrease in net gain on property revaluation was in line with the mild increase in property prices in the first half of 2007.

Compared to the second half of 2006, the increase in net gain from revaluation of investment properties of HK$291 million was in line with the upward movement of local property prices in the first half of 2007 after a relatively quiet market in the second half of 2006.

Financial Position

HK$'m, except percentage amounts	**At 30 June 2007**	At 31 December 2006
Cash and balances with banks and other financial institutions	**122,768**	105,236
Placements with banks and other financial institutions maturing between one and twelve months	**60,804**	56,373
Hong Kong SAR Government certificates of indebtedness	**34,100**	34,750
Securities investments*	**329,562**	330,385
Advances and other accounts	**399,591**	352,858
Fixed assets and investment properties	**28,635**	27,221
Other assets**	**71,635**	22,130
Total assets	**1,047,095**	928,953
Hong Kong SAR currency notes in circulation	**34,100**	34,750
Deposits and balances of banks and other financial institutions	**46,718**	49,034
Deposits from customers	**803,914**	694,691
Debt securities in issue at amortised cost***	**283**	–
Insurance contract liabilities	**16,435**	14,239
Other accounts and provisions	**55,820**	49,599
Total liabilities	**957,270**	842,313
Minority interests	**2,076**	1,985
Capital and reserves attributable to the equity holders of the Company	**87,749**	84,655
Total liabilities and equity	**1,047,095**	928,953
Loan-to-deposit ratio	**48.17%**	49.32%

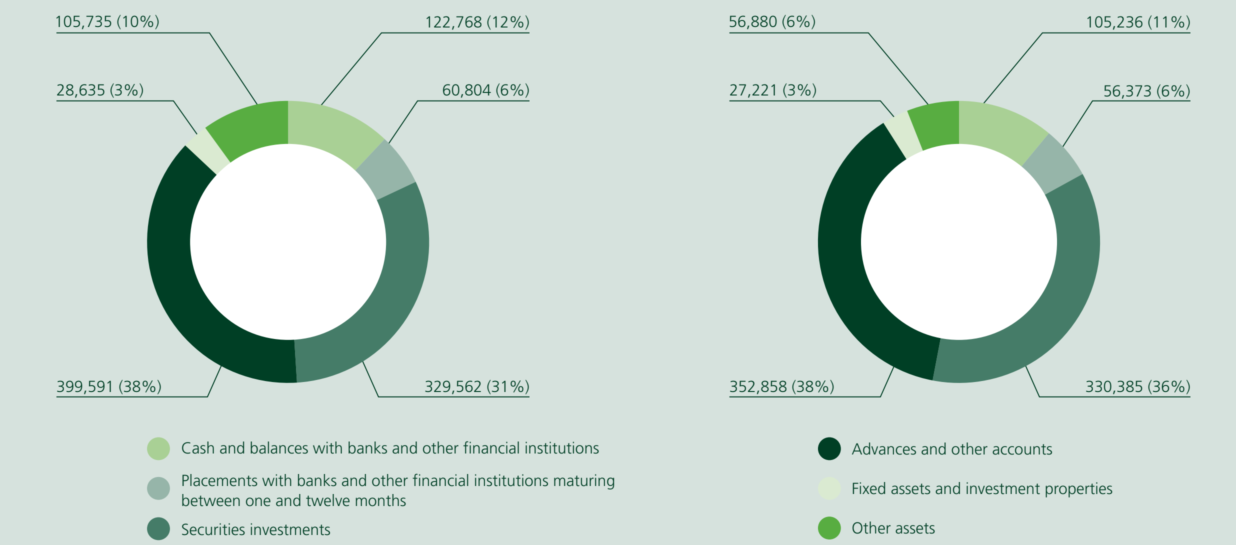
* Securities investments comprise investment in securities and financial assets at fair value through profit or loss.

** Interests in associates and derivative financial instruments 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 30 June 2007 | **Balance Sheet Mix as at 31 December 2006**

HK$'m/(%) | HK$'m/(%)



The Group's total assets were HK$1,047,095 million as at 30 June 2007, up HK$118,142 million or 12.7% from the end of 2006. Key changes include:

– On the back of increased deposits from customers in the first half of 2007, cash and balances with banks and other financial institutions increased by HK$17,532 million or 16.7%. Interbank placements increased by HK$4,431 million, or 7.9%.
– Advances and other accounts increased by HK$46,733 million, or 13.2%, primarily due to the growth of advances to customers by HK$45,721 million or 13.2%.
– Securities investments decreased slightly by HK$823 million or 0.2%. As of 30 June 2007, the Group held HK$12,800 million in US subprime asset-backed securities ("ABS"), all of AAA credit rating and with weighted average maturity of around 1.2 years.
– Other assets rose by HK$49,505 million or 223.7% as a result of the increase in accounts receivable of clearing items and shares due to IPO subscription and increased customer transactions of shares.

Advances to Customers

HK$'m, except percentage amounts	**At 30 June 2007**	**%**	At 31 December 2006	%
Loans for use in Hong Kong	**305,123**	**77.7%**	274,290	79.0%
Industrial, commercial and financial	**176,710**	**45.0%**	148,780	42.9%
Individuals	**128,413**	**32.7%**	125,510	36.1%
Trade finance	**21,598**	**5.5%**	16,865	4.9%
Loans for use outside Hong Kong	**66,090**	**16.8%**	55,935	16.1%
Total advances to customers	**392,811**	**100.0%**	347,090	100.0%

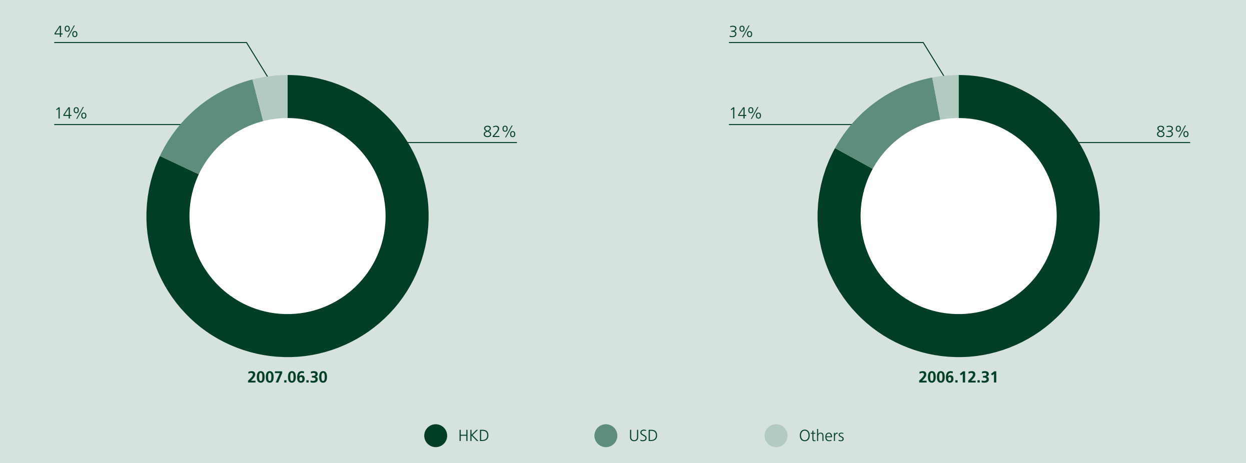
Total advances to customers registered a robust growth of HK$45,721 million or 13.2%. After excluding the impact of IPO financing, total advances to customers would have increased by 8.7%. The growth was broad-based, covering both corporate loans and individual loans. In particular, loans for use in Hong Kong, trade finance and loans for use outside Hong Kong all recorded double-digit growth. This reflected the Group's effective implementation of its growth strategies under the new business model.

Loans for use in Hong Kong grew by 11.2%. After excluding the impact of IPO financing, loan for use in Hong Kong would have increased by 5.6%:

– Lending to the industrial, commercial and financial sectors rose by HK$27,930 million, or 18.8%, to HK$176,710 million, driven by loans for transport and transport equipment, property investment and IPO financing.
– Despite keen market competition, residential mortgage loans (excluding those under GHOS) increased by HK$3,164 million, or 3.3%, to HK$100,117 million as a result of the Group's effective marketing efforts, helped by greater demand in the property market.
– Card advances grew by HK$88 million, or 1.6%, to HK$5,578 million as a result of an increase in cardholder spending.
– Other consumer lending decreased by HK$228 million, or 2.6%, to HK$8,603 million mainly due to the repayment of tax loans.

Trade finance increased substantially by HK$4,733 million, or 28.1%, as a result of the Group's new business initiatives coupled with robust import and export trade. Meanwhile, loans for use outside Hong Kong also grew strongly by HK$10,155 million or 18.2%. The increase was mainly driven by overseas lending and loan growth of the Group's Mainland branches.

Total advances to customers by currency mix (%)



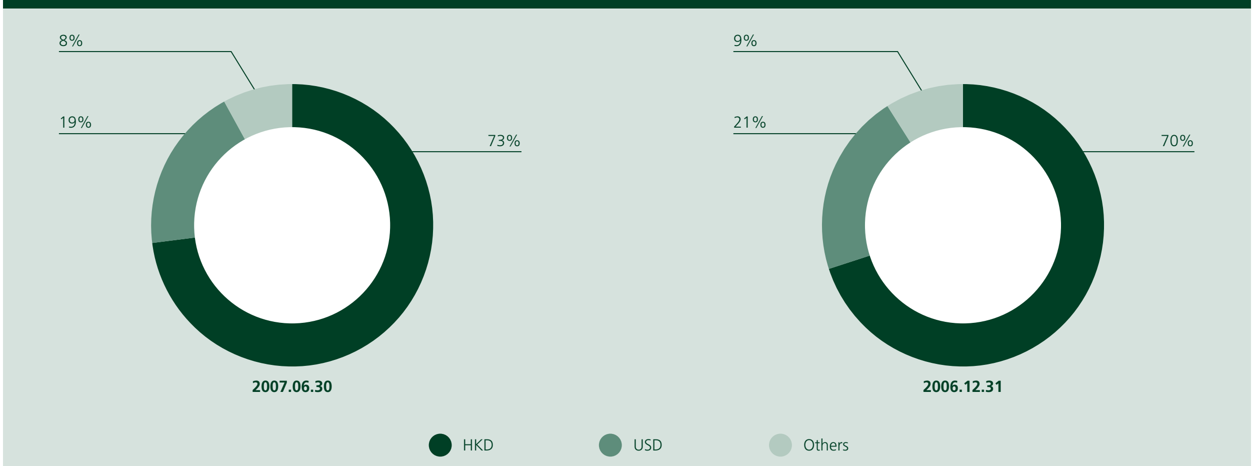
In terms of currency mix, HKD and USD advances to customers accounted for 81.7% and 14.1% respectively at the end of June 2007. Other currency advances to customers accounted for 4.2%. There was no significant change in currency mix in the first half of 2007.

Deposits from Customers

HK$'m, except percentage amounts	At 30 June 2007	%	At 31 December 2006	%
Demand deposits and current accounts	**115,443**	**14.2%**	30,979	4.4%
Savings deposits	**246,650**	**30.2%**	256,653	36.5%
Time, call and notice deposits	**441,821**	**54.2%**	407,059	57.8%
Total deposits from customers	**803,914**	**98.6%**	694,691	98.7%
Structured deposits	**11,603**	**1.4%**	9,085	1.3%
Adjusted total deposits from customers	**815,517**	**100.0%**	703,776	100.0%

At the end of June 2007, total deposits from customers was HK$803,914 million, up HK$109,223 million or 15.7% (up 15.9% if including structured deposits). Should the estimated impact of IPO-related funds be excluded, total deposits from customers would have increased by 4.9% (up 5.2% if including structured deposits). Demand deposits and current accounts grew sharply by HK$84,464 million or 272.6%, mainly driven by IPO deposits. Savings deposits decreased by HK$10,003 million or 3.9%. Time, call and notice deposits rose by HK$34,762 million or 8.5%. There was a growing demand for structured deposits – a hybrid of retail deposit and derivatives offering a higher nominal interest rate to depositors. Structured deposits grew to HK$11,603 million, up HK$2,518 million or 27.7%, representing about 1.4% of the adjusted total deposits from customers. The Group's deposit mix continued to improve with the proportion of average lower cost deposits to average adjusted total deposits rising by 1.0 percentage point over 2006. The Group's loan-to-deposit ratio was 48.17% at the end of June 2007.

currency mix (%)



In terms of currency mix, HKD and USD deposits accounted for 73.5% and 18.7% respectively at the end of June 2007, while other currency deposits accounted for 7.8%. The Group's HKD loan-to-deposit ratio was 53.5%, down from 58.3% at end-2006, mainly due to the substantial amount of IPO deposits at the end of June 2007.

Asset Quality

HK$'m, except percentage amounts	**At 30 June 2007**	At 31 December 2006
Advances to customers	**392,811**	347,090
Classified and impaired loan ratio[&]	**0.41%**	0.57%
Impairment allowances	**1,136**	1,103
Regulatory reserve for general banking risks	**3,972**	3,621
Total allowances and regulatory reserve	**5,108**	4,724
Total allowances as a percentage of advances to customers	**0.29%**	0.32%
Total allowances and regulatory reserve as a percentage of advances to customers	**1.30%**	1.36%
Impairment allowances on classified and impaired loan ratio[##]	**30.59%**	28.62%
Residential mortgage loans* – delinquency and rescheduled loan ratio**	**0.19%**	0.21%
Card advances – delinquency ratio**[#]	**0.32%**	0.25%

	Half-year ended 30 June 2007	Half-year ended 30 June 2006
Card advances – charge-off ratio[#]	**2.59%**	2.64%

& Classified and 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

HK$ bln	**Half-year ended 30 June 2007**	Half-year ended 31 December 2006	Half-year ended 30 June 2006
Beginning balance	**2.0**	3.6	4.3
New classified loans	**0.3**	0.5	0.4
Upgraded classified loans	**(0.1)**	(0.1)	(0.2)
Collection	**(0.5)**	(1.3)	(0.7)
Write-off	**(0.1)**	(0.7)	(0.1)
Others	**–**	–	(0.1)
Ending balance	**1.6**	2.0	3.6

The Group's asset quality remained strong in the first half of 2007. Classified loans decreased by approximately HK$0.4 billion or 19.4% to HK$1.6 billion. New classified loans were maintained at a low level, representing less than 0.1% of total loans outstanding. Total collections amounted to approximately HK$0.5 billion. Write-off of classified loans amounted to HK$0.1 billion.

Total impairment allowances, including both IA and CA, amounted to HK$1,136 million. Impairment allowances on classified and impaired loan ratio was 30.59%. The Group's regulatory reserve rose by HK$351 million to HK$3,972 million as advances to customers increased.

The quality of the Group's residential mortgage loans continued to improve. The combined delinquency and rescheduled loan ratio dropped by 0.02 percentage point to 0.19% in the first half of 2007. The quality of card advances remained sound, with the charge-off ratio decreasing from 2.64% to 2.59% year-on-year.

Capital and Liquidity Ratios

HK$'m, except percentage amounts	**At 30 June 2007**	Restated At 31 December 2006
Tier 1 capital	**70,597**	68,435
Deductions	**(473)**	(486)
Tier 1 capital after deductions	**70,124**	67,949
Tier 2 capital	**3,820**	4,054
Deductions	**(473)**	(486)
Tier 2 capital after deductions	**3,347**	3,568
Total capital base after deductions	**73,471**	71,517
Risk-weighted assets		
Credit risk	**483,519**	426,130
Market risk	**6,406**	5,001
Operational risk	**34,997**	32,901
Deductions	**(10,616)**	(9,124)
Total risk-weighted assets	**514,306**	454,908
Capital adequacy ratios (banking group level)		
Tier 1	**13.63%**	14.94%
Total	**14.29%**	15.72%

	Half-year ended 30 June 2007	Half-year ended 30 June 2006
Average liquidity ratio	**50.08%**	50.30%

In accordance with the Banking (Capital) Rules effective from 1 January 2007, the Group adopted the Standardised Approach in calculating capital adequacy ratios at 30 June 2007, and comparable figures at 31 December 2006 have been restated accordingly.

Consolidated capital adequacy ratio of the banking group at 30 June 2007 was 14.29%, down 1.43 percentage points from end-2006 mainly due to the increase in risk-weighted assets. Capital base rose by 2.7% to HK$73,471 million following the increase in retained earnings. Driven by the growth in advances to customers (including IPO financing) and the increase in receivables for substantial amount of settlement for shares trading, risk-weighted assets grew by 13.1% to HK$514,306 million.

Average liquidity ratio remained strong at 50.08%, down 0.22 percentage point versus the first half of 2006. Although the portfolio size of average marketable debt securities expanded, average qualifying liabilities increased as average savings deposits grew significantly, which held back the liquidity position.

BUSINESS REVIEW

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

Retail Banking

HK$'m, except percentage amounts	**Half-year ended 30 June 2007**	Half-year ended 30 June 2006	Increase/ (decrease)
Net interest income	**4,309**	3,812	+13.0%
Other operating income	**2,555**	1,670	+53.0%
Operating income	**6,864**	5,482	+25.2%
Operating expenses	**(2,676)**	(2,326)	+15.0%
Operating profit before loan impairment allowances	**4,188**	3,156	+32.7%
Net (charge for)/release of loan impairment allowances	**(54)**	38	N/A
Others	**–**	(5)	N/A
Profit before taxation	**4,134**	3,189	+29.6%

	At 30 June 2007	At 31 December 2006	Increase/ (decrease)
Segment assets	**192,948**	169,595	+13.8%
Segment liabilities	**650,938**	577,755	+12.7%

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

Results

Retail Banking performed strongly in the first half of 2007. Profit before taxation grew substantially year-on-year by HK$945 million, or 29.6%, to HK$4,134 million. Operating income grew by HK$1,382 million, or 25.2%, to HK$6,864 million, with net interest income and other operating income up 13.0% and 53.0% respectively. Operating profit before loan impairment allowances increased by HK$1,032 million or 32.7% to HK$4,188 million.

Net interest income rose by 13.0% to HK$4,309 million. Deposit spread widened as average savings rate decreased in times of higher average market rates. The improvement in deposit spread was held back by the compressed loan spread as a result of narrowed Prime-HIBOR spread and keen competition.

Other operating income soared by 53.0%, to HK$2,555 million because of the strong growth of net fees and commission income by 61.5%. Benefiting from the buoyant equity market and IPO activities, the Group's stock brokerage business grew its transaction volume by 111.9% by means of an enhanced trading platform and effective marketing, thereby increasing the commissions from securities trading by 105.6%. At the same time, boosted by the sales of China equity funds and certain thematic funds, asset management fee income increased by 104.8% as the sales of open-end funds rose. Commission from sales of bonds also increased by 124.1% after the successful launch of the Group's private placement service.

Operating expenses rose by 15.0% to HK$2,676 million, which was generally in line with the business expansion. Staff costs increased after pay rise and the recruitment of new staff.

Net charge for loan impairment allowances amounted to HK$54 million, versus net releases of HK$38 million in the first half of 2006. The net charge for loan impairment allowances was mainly caused by additional allowances for increased advances to customers as well as a slowdown in the improvement in bad debt migration.

Advances and other accounts, including mortgage loans and card advances, increased by 6.4% to HK$138,426 million, partly due to an increase in IPO financing. Owing to a large amount of IPO-related funds received, customer deposits increased by 14.1% to HK$627,307 million by end-June 2007.

Significant growth of investment and insurance businesses

Investment and insurance, both being the Group's business focuses, delivered remarkable results in the first half of 2007. In respect of the investment business, the Group actively promoted stock brokerage and improved its trading platform and services. Aided by a bullish stock market, business volume via the automated channel rose by 176.7%. As a result, the stock brokerage business volume grew substantially by 111.9%, versus the market growth rate of 81.8% during the same period. In January 2007, private placement service for structured notes was successfully launched among customers, resulting in a 237.2% growth in sales of structured notes. Meanwhile, the sales volume of open-end funds rose sharply by 107.8%, among which the China equity funds and certain thematic funds were the more popular ones among customers.

Riding on the spate of IPO activities, the Group further enhanced its IPO subscription service to cater to customers' needs and actively promoted its IPO-related businesses. The Group continued to be the major receiving bank for most of the large-scale IPOs in Hong Kong and was the major receiving bank for 20 IPOs in the first half of 2007. IPO-related commission and fee income surged by 22.9% year-on-year.

Through effective marketing campaigns and personalised services, the Group grew its number of wealth management customers and assets under management by 16.8% and 16.9% respectively in the first half of 2007.

In respect of the insurance agency business, with the further enhancement of marketing techniques and effective thematic promotional campaigns, commission income from insurance business registered solid growth on a year-on-year basis. In the first half of 2007, the Group launched a diverse range of new products, including "Supreme Saver 07 – 5 Year Life Endowment Plan", "Healthy Junior Hospital Insurance Plan", "Healthy and Prosperous Insurance Plan" and "Blossom Insurance Plan". To capture the retirement planning market, the Group also held several large scale promotional campaigns with the emphasis on retirement protection plans.

Broadening customer deposits base

To broaden its deposits base across different customer segments and to enrich its product lines, the Group introduced a series of creative deposits products which bundled deposit services with other wealth management products, such as Olympic Target High Yield Deposit and Foreign Currency Privileged Packages. To commemorate the 2008 Beijing Olympics, of which the BOC group was the official banking partner, the Group launched "Great Olympic Offers" including "Olympic Target High Yield Deposit" which offered bonus interest rate to customers and would mature on the opening day of the 2008 Olympic Games. "Foreign Currency Privileged Packages", on the other hand, combined preferential exchange rate and bonus fixed deposit rate. The Group also enhanced deposit mix by achieving a higher proportion of lower cost deposits. The ratio of average lower cost deposits to average total deposits grew by 1.0 percentage point in the first half of 2007 over 2006.

Solid growth of residential mortgages

Riding on the more active property market, the Group grew its residential mortgages by 3.3% through effective marketing and introducing a wider assortment of mortgage products to cope with intense market competition. It continued to maintain its leading position in the residential mortgage market. The underwriting of new mortgages increased by 119.4% year-on-year, outperforming the market's 38.0%. Meanwhile, the credit quality of residential mortgages continued to improve as the delinquency and rescheduled loan ratio dropped further to 0.19%.

In pursuit of high net worth customers through professional premium services

The Group is committed to providing premium services to its high net worth customers. In January 2007, "private placement service" was launched to provide this group of customers with alternative investment opportunities. To establish the image as a professional wealth management service provider, the Group staged the "BOCHK Wealth Management Expo" in June 2007 to showcase its comprehensive wealth management services for existing and potential customers. In the meantime, various large-scale and localised investment seminars were organised to update customers on the latest investment climate and opportunities. In order to extend the Group's wealth management services to overseas customers, a series of seminars were held across the Asia-Pacific region.

Continuous expansion of credit card business

The Group's card business continued to expand with card advances increased by 1.6% in the first half of 2007. Cardholder spending volume and merchant acquiring volume surged by 25.9% and 35.3% respectively.

In order to capture business opportunities arising from 2008 Beijing Olympics, the Group launched the "VISA BOC Olympic Games Prepaid Card" in May 2007, distinguishing the Group as the first issuer of prepaid cards with Beijing Olympic mascots as the theme. Marketing capacity was further enhanced after the issuance of "BOC Platinum Credit Card" embedded with the EMV chip and the development of the Personalised Spending Privileges System in June 2007, which facilitated the analysis of customer spending behaviour and provided customised privileges to customers. This did not only encourage consumer spending, but also helped customer segmentation. With the implementation of the MasterCard Internet Gateway System ("MiGS") in May 2007, the Group strengthened its merchant acquiring business by offering an internet payment gateway system to online merchants. With a strong competitive edge in the credit card market, the Group continued to extend appealing merchant offer programmes to customers through a comprehensive merchant network covering Hong Kong, Macau and the Mainland.

The Group's success in credit card business was widely recognised in the industry, as evidenced by an array of 20 awards received from MasterCard International, Visa International and China UnionPay.

Leading RMB banking business in Hong Kong

In tandem with the expanding scope of Renminbi ("RMB") banking services available in Hong Kong, the Group continued to be the local market leader in the business. The Group's market share in RMB deposits-taking business increased with the amount of deposits growing by 20.5% compared to end-2006. The Group also maintained its leading position in the RMB credit card issuing and merchant acquiring business. While the number of RMB credit cards issued grew by 8.3% compared to end-2006, RMB merchant acquiring volume and RMB card cardholder spending volume registered strong growths of 51.1% and 57.9% respectively year-on-year. In June 2007, the Group launched a new RMB bond service in Hong Kong, providing customers with a hassle-free solution for RMB bond subscription, custody and coupon collection services. In addition, the Group introduced a series of promotional offers including the "Welcome offer for RMB Integrated Service" for account opening, "Exchange Express Service", RMB preferential exchange rate, etc., which were well received by customers. It also acted as joint lead manager and bookrunner as well as placing bank for the 5 billion yuan RMB bonds issued by China Development Bank in Hong Kong. At the end of June 2007, the number of ATMs providing RMB withdrawal service reached 239.

Branch rationalisation and e-Channel Development

The Group continued to optimise its branch network. In the first half of 2007, the Group opened 3 new branches, renovated 21 existing branches and established 18 wealth management centres. As at the end of June 2007, the Group's network in Hong Kong included 289 branches and 459 ATM machines. Moreover, 89 Wealth Management Prime centres and 20 Wealth Management VIP centres were in operation to provide tailor-made financial solutions to customers.

To cope with the dramatic growth of internet banking users, the Group enhanced the capacity of its e-banking and developed new functions in order to provide convenient and user-friendly services. In the first half of 2007, the number of iT's e-banking customers increased by 12.0%. Compared to the first half of 2006, transactions of iT's e-banking surged by 116.7%. To offer more convenient and reliable e-service to customers, the Group also expanded the capacity of Telephone Banking System and installed over 20 Cheque Deposit Machines in the branches.

The Group's outstanding performance and service quality were widely recognised by the market. In the first half of 2007, the Group was named "Outstanding Retail Bank" by Capital magazine.

Corporate Banking

HK$'m, except percentage amounts	**Half-year ended 30 June 2007**	Half-year ended 30 June 2006	Increase/ (decrease)
Net interest income	**2,368**	1,981	+19.5%
Other operating income	**641**	535	+19.8%
Operating income	**3,009**	2,516	+19.6%
Operating expenses	**(774)**	(675)	+14.7%
Operating profit before loan impairment allowances	**2,235**	1,841	+21.4%
Net release of loan impairment allowances	**220**	604	-63.6%
Profit before taxation	**2,455**	2,445	+0.4%

	At 30 June 2007	At 31 December 2006	Increase/ (decrease)
Segment assets	**268,927**	222,701	+20.8%
Segment liabilities	**180,554**	148,353	+21.7%

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

Results

Corporate Banking reported a profit before taxation of HK$2,455 million. Operating profit before loan impairment allowances increased significantly by HK$394 million, or 21.4%, to HK$2,235 million, which was driven by the 19.5% growth in net interest income and 19.8% growth in other operating income. Operating expenses increased by 14.7%.

The rise in net interest income was driven by both loan growth and widening of deposit spread. The Group's average savings rate declined in times of higher average market rates. Other operating income increased with the rise in both net fees and commission income and net trading income. The surge of loan commission, bills commission and fee from payment services drove up net fees and commission income while an increase in foreign exchange transactions led to higher net trading income.

Operating expenses were up 14.7% to HK$774 million on account of an increase in staff costs after pay rise and the recruitment of new staff.

Net loan impairment releases were HK$220 million, down 63.6%, mainly due to recoveries of certain large accounts in the first half of 2006.

Advances and other accounts increased by 19.3% to HK$264,247 million due to the growth in corporate loans (including IPO financing). Customer deposits increased by 22.0% to HK$177,850 million.

Leader in loan syndication

The Group maintained its leading position in the syndicated loan market covering Hong Kong, Macau and the Mainland. According to Basis Point, a leading Asian capital market magazine, the Group was the number one mandated arranger in both the Hong Kong-Macau and Mainland-Hong Kong-Macau syndicated loan markets in the first half of 2007. Moreover, the Group was the coordinator for the largest syndicated loan in Hong Kong ever recorded in recent years.

Spectacular performance in IPO financing

Boosted by the robust stock market and the Group's intense marketing efforts, the Group registered phenomenal growth in IPO financing business. Compared to the first half of 2006, the Group's IPO financing business recorded a two-fold growth, providing more than HK$220 billion worth of financing to both corporate and retail customers in connection with the IPOs of 26 companies in Hong Kong in the first half of 2007.

Substantial growth in SME lending and customer base

The Group made good progress in implementing its SME 5-year business plan and further strengthened the growth momentum of SME lending. The SME business model was enhanced with streamlined workflow and credit approval procedures. In the first half of 2007, the SME Marketing Management Unit was established to conduct strategic analysis, formulate development plans and carry out product design and marketing for SME business. Several thematic marketing programmes were launched to strengthen the relationship with SME customers. In addition, to provide better support to customers, two commercial service centres were set up in prime business locations. Furthermore, the Group successfully launched and refined several products, including Promotion Plan for SME Export Finance and 2007 Promotion of New Small Enterprises. These initiatives further reinforced the growth momentum of SME lending, giving rise to a double-digit growth in the Group's SME loans in the first half of 2007.

Strong growth of trade finance business

The Group's trade finance business registered remarkable growth in the first half of 2007, on the back of intense promotion efforts. The outstanding balance of trade finance surged by 28.1% compared to end-2006, reaching the highest level ever recorded since listing. The volume of bills settlement also increased by 23.7% year-on-year. The Group is going to roll out the Trade Facilities Reform Programme in the coming months to further streamline business flows and refine credit approval procedures.

Reinforcing product and customer management

Since the implementation of the Relationship-Product-Channel ("RPC") model, the Group's business model for customer relationship management and product development has been further enhanced. In March 2007, the Group established the Product Management Unit to foster development, enhancement and marketing of three major products, namely trade finance, cash management and custody. In addition, the Group revamped the Commercial Business Unit and set up three separate units for better management of different customer segments. This helped strengthen marketing capability and drive market penetration. A corporate finance team was also set up in May 2007 for the provision of quality and professional services as well as the development of structured financing business for corporate customers.

Enhancing cash management and e-banking platform, and development of custodian services

The Group took a number of initiatives to grow its cash management business. It further improved its service platform and coverage, and broadened its connections with BOC's overseas branches. A specialised Cash Management team was set up to take charge of product development and marketing. At the same time, the Group continued to strengthen its e-banking functions and promote Corporate Banking Services ("CBS") Online. The number of CBS Online customers increased by 29.5% while the number of BOC Wealth Master customers saw a five-fold increase to more than 1,300 in the first half of 2007.

To ride on the robust securities markets and to grasp the business opportunity for custody services, a Custody Services team was established after months of preparation and trial run to provide securities settlement and custody services for corporate customers. In the first half of 2007, the Group successfully won the bid to act as a foreign custodian for a well-received offshore wealth management product of a major bank, a qualified domestic institutional investor ("QDII"), in the Mainland. Close co-operation was being fostered with other financial institutions to ensure the smooth roll-out of various custody mandates. At the end of June 2007, the Group's total assets under custody amounted to HK$241 billion. Moreover, the Group has submitted application for Qualified Foreign Institutional Investors ("QFIIs") status to the China Securities Regulatory Commission ("CSRC") in relation to the investments in the Mainland's securities markets.

Substantial growth of Mainland business

China-related business has always been one of the Group's strategic focuses. The Group's Mainland branches continued to deliver strong results in the first half of 2007. Operating profit before loan impairment allowances increased by HK$86 million, or 57.3%, due mainly to the increase in advances to customers. Total advances to customers rose by 16.6% to HK$21.7 billion, of which RMB loans surged by 42.8%. Customer deposits increased by 40.6% to HK$5.5 billion. Asset quality continued to improve with the classified loan ratio falling by 0.13 percentage point to 0.10%.

The business scope of the Group's Mainland branches and sub-branches expanded further. By the end of June 2007, the Group had a total of 12 Mainland branches and sub-branches that had been permitted to conduct RMB business. All the 14 Mainland branches and sub-branches are now licensed to conduct derivatives business and provide insurance agency services. In the first half of 2007, the Group put more emphasis on residential mortgage business by introducing a series of banking products, such as 'Bi-weekly Mortgage Repayment Plan'. In addition, several structured products for individual customers and offshore companies were launched. After the approval by China Banking Regulatory Commission ("CBRC") to conduct QDII business, all the 12 Mainland branches and sub-branches of BOCHK and Nanyang Commercial Bank, Limited ("NCB") were granted the qualification of QDII. Currently, BOCHK and NCB were entitled to a USD300 million RMB exchange quota respectively by the State Administration of Foreign Exchange ("SAFE"). To capitalise on the business opportunity arising from QDII, the Group has developed relevant products to be launched in the second half of the year. Following the adoption of the Group's dualistic approach in its China business model, NCB had received approval from CBRC on 25th June 2007 to start its preparatory work of setting up a local banking corporation in the Mainland. The new entity will be named Nanyang Commercial Bank (China) Limited ("NCB (China)"). To be headquartered in Shanghai, NCB (China) will offer comprehensive banking services in the Mainland. BOCHK and Chiyu Banking Corporation, on the other hand, will continue to operate as foreign-funded banks with emphasis on corporate banking and foreign exchange businesses in the Mainland.

Treasury

HK$'m, except percentage amounts	**Half-year ended 30 June 2007**	Half-year ended 30 June 2006	Increase/ (decrease)
Net interest income	**2,418**	2,006	+20.5%
Other operating income	**36**	789	-95.4%
Operating income	**2,454**	2,795	-12.2%
Operating expenses	**(233)**	(189)	+23.3%
Profit before taxation	**2,221**	2,606	-14.8%

	At 30 June 2007	At 31 December 2006	Increase/ (decrease)
Segment assets	**542,566**	497,155	+9.1%
Segment liabilities	**106,322**	98,531	+7.9%

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

Results

Treasury recorded a profit before taxation of HK$2,221 million, down HK$385 million or 14.8% year-on-year. Despite a satisfactory increase in net interest income by HK$412 million or 20.5%, total operating income decreased by HK$341 million or 12.2%, mainly due to the drop in other operating income by HK$753 million or 95.4%.

The increase in net interest income was achieved with higher contribution from the investments in debt securities. The fall in other operating income was caused by the net trading loss on foreign exchange swap contracts and the decline in net trading income from interest rate instruments and commodities, which outstripped the increase in net trading income of equity instruments from the option premium received after the successful launch of the Group's notes programme.

Operating expenses were up 23.3% following an increase in staff costs after pay rise.

Enhancing yield by diversifying investment portfolio and vastly expanding IPO business

The Group succeeded in adjusting its asset allocation by diversifying into structured debt securities to maximise return on residual funds. This diversification helped create a more balanced portfolio and reduce concentration risks. The Group also further strengthened its balance sheet management and structural risk management with advanced analytical models and systems. In order to facilitate information sharing and capture market opportunities, daily briefing sessions and regular market evaluation meetings were held to review the Group's investment strategies and provide the latest market information to investment teams and subsidiary companies. As a receiving bank for 20 IPOs in Hong Kong in the first half of 2007, the Group managed a total amount of IPO-related funds of over HK$650 billion.

Diversifying product offerings and reinforcing market position in Hong Kong

In the first half of 2007, the Group devoted much effort in developing treasury products. Riding on the blooming investment market, the Group successfully launched a notes programme by issuing its first structured notes in February 2007. The products were well received by customers, achieving a sales volume of over HK$700 million. Equity warrants were also launched with three derivate warrants issued and traded on the Stock Exchange of Hong Kong in June 2007. These new products did not only enhance the Group's product portfolio, but also improved the Group's market position. In view of the increasing customer demand for hedging the risk of RMB exchange rate fluctuation in Hong Kong, the Group strengthened its marketing initiative on Chinese Yuan Non-Deliverable Forward Contracts ("RMB NDF Contracts"). At the same time, extensive training and consulting support were provided to marketing teams. This, coupled with intensified marketing effort, helped enhance the Group's marketing capability for treasury products and broaden the treasury client base.

Insurance

HK$'m, except percentage amounts	**Half-year ended 30 June 2007**	Half-year ended 30 June 2006	Increase/ (decrease)
Net interest income	**346**	208	+66.3%
Other operating income	**2,441**	2,958	-17.5%
Operating income	**2,787**	3,166	-12.0%
Net insurance benefits and claims	**(2,632)**	(3,060)	-14.0%
Net operating income	**155**	106	+46.2%
Operating expenses	**(48)**	(27)	+77.8%
Profit before taxation	**107**	79	+35.4%

	At 30 June 2007	At 31 December 2006	Increase/ (decrease)
Segment assets	**18,307**	15,804	+15.8%
Segment liabilities	**17,053**	14,649	+16.4%

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

Results

The Insurance segment achieved notable results in the first half of 2007. Profit before taxation rose significantly by HK$28 million, or 35.4%, year-on-year to HK$107 million. This was mainly driven by the increase in net interest income.

Net interest income rose by 66.3% to HK$346 million, which was primarily attributable to the increase in investments in debt securities. Other operating income decreased by HK$517 million, or 17.5%, mainly because of the decline in net insurance premium income by 15.6%. In the first half of 2007, the Group improved its product mix by organising many promotional activities for regular pay products. This resulted in an 88.2% increase in sales of regular pay products despite a fall in the sales of single premium products by 19.3%. In line with the reduction in premium income, net insurance benefits and claims decreased by 14.0% to HK$2,632 million.

Operating expenses were up 77.8% following an increase in staff costs after pay rise and the recruitment of new staff.

Assets in the Insurance segment grew by 15.8% because of the increase in investments in interest rate debt securities and equity instruments. Liabilities rose by 16.4%, mainly caused by higher insurance contract liabilities.

Broadening product range and improving product mix

Following the combination with BOC Life in 2006, the Group further diversified its range of insurance products to meet customers' needs. In the first half of 2007, a series of new insurance products, such as "Supreme Saver 5-year Endowment Plan" and "Blossom 8-year Endowment Plan", were introduced and met with keen customer response. Meanwhile, in order to improve the Group's product mix, various promotion campaigns were launched to strengthen its market position and spur the sales of long-term regular pay products and investment-linked plans. For example, the "Summer" promotion campaign took place in April 2007 to promote three life insurance plans with unique features to meet different customers' needs. As a result, sales of long-term regular pay products premium was up 88.2% year-on-year.

Stepping up systematic sales training

Excellent feedback from the Group's marketing teams had been received since the establishment of the BOCG Life Bancassurance Academy, the Group's in-house sales training facility. The Group further expanded its training programme by offering more than 20 classes on related topics to frontline staff in the first half of 2007.

PROGRESS OF IMPLEMENTATION OF RPC MODEL

In accordance with the Group's 2006-2011 Strategic Plan, the Group started implementing the Relationship-Product-Channel ("RPC") Model in March 2007, with a view to reinforcing the Group's overall effectiveness and competitiveness by enhancing its range of products and services that are tailored to the needs of different customer segments, and optimising channels and workflow. The Group is committed to ensuring the success of this model and has made good progress in transformation works, including organisation structure realignments, new job evaluation and assignment, adjustments on the performance assessment system, and policies, procedures and business processes review and amendments. Related trainings were also provided to staff at different levels.

REGULATORY DEVELOPMENT

Basel II Capital Accord

The Group considers "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (known as "Basel II") not only as a regulatory compliance issue but also a key driver for continuous improvement of internal risk management. The Group moved on with its preparation for Basel II in the first half of 2007. In relation to Pillar One, the Group adopted the Standardised Approach to calculate minimum capital requirement on credit risk, market risk and operational risk. The Foundation Internal Ratings-Based ("FIRB") approach will also be gradually adopted on the calculation of the capital requirements. The related gap analysis together with a roadmap to meet the FIRB requirements was completed. Under Pillar Two, the Group has made good progress in setting up its internal Capital Adequacy Assessment Process ("ICAAP") (please refer to "Capital management of Risk Management" for details). To comply with Pillar III which focuses on the disclosure requirements and policies prescribed by the Banking (Disclosure) Rules ("Disclosure

Rules"), the Group has formulated a Disclosure Policy with the aim of making disclosures in its 2007 reporting in accordance with the Disclosure Rules.

RISK MANAGEMENT

Banking Group

Overview

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

Risk Management Governance Structure

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

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

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

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

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

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 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 risk 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 Strategic Risk Management Policy. Key strategic issues are fully evaluated and properly endorsed by the top 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. The Chief Credit Officer ("CCO") who reports directly to the CRO is responsible for the management of credit risk within the Group. The CCO is also responsible for the formulation of all credit policies and procedures. Different credit approval and control procedures are adopted according to the level of risk associated with the customer or transaction. Corporate credit applications are independently reviewed and objectively assessed by risk management units. Small business credit scorecard is used to assist the credit assessment of small enterprise credit facilities. A credit scoring system is used to process retail credit transactions, including residential mortgage loans, personal loans and credit cards. The Credit Risk Assessment Committee comprising experts from the Group's credit and other functions is responsible for making an independent assessment of all credit facilities which require the approval of Deputy Chief Executives or above.

The Group adopts an eight-grade facility grading structure according to HKMA's loan classification requirement. The Risk Management Department ("RMD") provides regular credit management information reports and ad hoc reports to the Management Committee, RC, AC and Board of Directors.

Market Risk Management

Market risk is the risk of loss that results from movements in market rates and prices. The Group's market risk arises from customer-related business and proprietary trading. Trading positions are subject to daily marked-to-market valuation. Market risk is managed within the risk limits approved by RC. The overall risk limits are divided into sub-limits by reference to different risk products, including interest rate, foreign exchange rate, commodity price and equity price.

RMD is responsible for the oversight of the Group's market risk to ensure that overall and individual market risks are within the Group's risk tolerance. Risk exposures are monitored on a day-to-day basis to ensure that they are within established risk limits.

VAR is a statistical technique which estimates the potential losses that could occur on risk positions taken over a specified time horizon within a given level of confidence. The Group uses historical movements in market rates and prices, a 99% confidence level and a 1-day holding period to calculate portfolio and individual VAR.

The following table sets out the VAR for all trading market risk exposure of BOCHK.

HK$'m	At 30 June 2007	Minimum for the first half of 2007	Maximum for the first half of 2007	Average for the first half of 2007
VAR for all market risk	**2.8**	**1.4**	**4.8**	**3.1**
VAR for foreign exchange risk	**3.5**	**1.0**	**5.2**	**3.4**
VAR for interest rate risk	**1.3**	**0.7**	**3.1**	**1.8**
VAR for equity risk	**0.3**	**0.1**	**0.6**	**0.3**

HK$'m	At 30 June 2006	Minimum for the first half of 2006	Maximum for the first half of 2006	Average for the first half of 2006
VAR for all market risk	2.9	1.7	5.0	3.4
VAR for foreign exchange risk	3.7	1.3	5.3	3.3
VAR for interest rate risk	1.5	1.0	3.0	1.9
VAR for equity risk	0.6	0.1	0.8	0.3

In the first half of 2007, the average daily revenue of BOCHK earned from market risk-related trading activities was HK$2.6 million (first half of 2006: HK$2.6 million). The standard deviation of these daily trading revenues was HK$1.9 million (first half of 2006: HK$1.7 million).

Starting from April 2007, the VAR methodology was changed from the parametric approach to the historical simulation approach. The 2007 first half figures were calculated using the historical simulation approach.

Interest Rate Risk Management

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

repricing risk – mismatches in the maturity or repricing periods of assets and liabilities

basis risk – different pricing basis for different transactions so that yield on assets and cost of liabilities may change by different amounts within the same repricing period

yield curve risk – non-parallel shifts in the yield curve, e.g. steepening or flattening of yield curves, causing adverse impact on net interest income or economic value

option risk – exercise of the options embedded in assets, liabilities or off-balance sheet items causing a change in the cashflows of assets and liabilities

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

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

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

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

Stress test on yield curve risk is performed to assess the impact on earnings and economic value due to steepening or flattening of the yield curve. The impact of optionality of demand and savings deposits and prepayment of mortgage loans is also assessed under different stress test scenarios.

Liquidity Risk Management

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

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

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

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. Management of the respective business lines is responsible for managing and reporting operational risks specific to their business units by applying the respective tools such as key risk indicators, self assessment and operational risk events reporting mechanism to identify, assess and control the risks inherent in their business processes, activities and products. These are followed by periodic monitoring and ongoing review of changes by RMD. Besides the current operational risk status, trends derived from historical data are served as alert on potential risks. RMD evaluates the operational risk profile, records operational risk data and reports operational risk issues to RC and senior management. The Group also takes insurance to mitigate unforeseeable operational risks.

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

Capital Management

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

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 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.

Insurance Group

The principal activity of the Group's insurance 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 Group's insurance business include insurance risk, interest rate risk and credit risk. BOC Life manages these risks independently and reports to the Group's management 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 of HK$400,000 on any single life insured. BOC Life reinsures the excess of the insured benefit over HK$400,000 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 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.

Credit Risk Management

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