

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 1. Basis of preparation and accounting policies

### *Basis of preparation*

The unaudited interim report has been prepared in accordance with HKAS 34 “Interim Financial Reporting” issued by the HKICPA.

### *Accounting policies*

The accounting policies and methods of computation used in the preparation of the unaudited interim report are consistent with those used in the Group’s financial statements for the year ended 31 December 2007 and should be read in conjunction with the Group’s Annual Report for 2007.

## 2. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that are consistent with those used in the Group’s financial statements for the year ended 31 December 2007.

## 3. Financial risk management

The Group is exposed to financial risks as a result of engaging in a variety of business activities. The principal financial risks are credit risk, market risk (including currency and interest rate risk) and liquidity risk. This note summarises the Group’s exposures to these risks.

### 3.1 Credit risk

#### **Gross loans and advances**

##### (a) *Impaired advances*

A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred and that loss event(s) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If there is objective evidence that an impairment loss on loans has been incurred, the amount of loss is measured as the difference between the carrying amount and the present value of estimated future cash flows generated by the financial asset. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the holder of the asset about the loss events.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Gross loans and advances (continued)

##### (a) Impaired advances (continued)

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Gross impaired advances to customers	649	697
Individually assessed loan impairment allowances made in respect of such advances	416	381
Current market value of collateral held against the covered portion of advances to customers	441	559
Covered portion of advances to customers	335	410
Uncovered portion of advances to customers	314	287
Gross impaired advances to customers as a percentage of gross advances to customers	0.14%	0.17%

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

Classified or impaired advances to customers are analysed as follows:

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Gross classified or impaired advances to customers	1,607	1,803
Gross classified or impaired advances to customers as a percentage of gross advances to customers	0.34%	0.44%

Classified or impaired advances to customers follow the definitions set out in the Banking (Disclosure) Rules and represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Gross loans and advances (continued)

(b) *Advances overdue for more than 3 months*

Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously outside the approved limit that was advised to the borrower.

The gross amount of advances overdue for more than 3 months is analysed as follows:

	At 30 June 2008		At 31 December 2007	
	Amount HK\$'m	% of gross advances to customers	Amount HK\$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	171	0.03%	242	0.06%
– one year or less but over six months	184	0.04%	163	0.04%
– over one year	619	0.13%	652	0.16%
Advances overdue for over three months	974	0.20%	1,057	0.26%
Individually assessed loan impairment allowances made in respect of such advances	345		305	

**3. Financial risk management (continued)**

**3.1 Credit risk (continued)**

**Gross loans and advances (continued)**

(b) *Advances overdue for more than 3 months (continued)*

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Current market value of collateral held against the covered portion of advances to customers	<b>1,922</b>	1,970
Covered portion of advances to customers	<b>723</b>	847
Uncovered portion of advances to customers	<b>251</b>	210

Collateral held against overdue or impaired loans is principally represented by charges over business assets such as commercial and residential premises for corporate loans and mortgages over residential properties for personal loans.

As at 30 June 2008 and 31 December 2007, there were no advances to banks and other financial institutions that were overdue for more than three months.

(c) *Rescheduled advances*

	<b>At 30 June 2008</b>		At 31 December 2007	
	<b>Amount HK\$'m</b>	<b>% of gross advances to customers</b>	Amount HK\$'m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in advances overdue for more than 3 months	<b>116</b>	<b>0.02%</b>	186	0.05%

As at 30 June 2008 and 31 December 2007, there were no rescheduled advances to banks and other financial institutions.

Rescheduled advances are those advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or of repayment period, are non-commercial. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in overdue advances.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Gross loans and advances (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

The information concerning gross advances to customers has been analysed into loans used inside or outside Hong Kong by industry sectors of the borrowers as follows:

	At 30 June 2008					
	Gross advances HK\$'m	% Covered by collateral or other security	Classified or impaired HK\$'m	Overdue* HK\$'m	Individually assessed	Collectively assessed
					impairment allowances HK\$'m	impairment allowances HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	19,195	37.78%	6	32	3	52
– Property investment	72,249	87.85%	229	645	17	200
– Financial concerns	13,500	7.00%	–	8	–	41
– Stockbrokers	177	14.66%	–	–	–	–
– Wholesale and retail trade	16,273	60.16%	217	352	94	44
– Manufacturing	16,313	57.88%	131	259	42	52
– Transport and transport equipment	22,289	20.60%	2	10	1	62
– Recreational activities	25	92.16%	–	–	–	–
– Information technology	8,244	22.29%	–	79	–	22
– Others	26,158	36.58%	84	450	17	72
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	14,129	99.90%	111	501	6	12
– Loans for purchase of other residential properties	116,148	99.96%	193	1,547	6	77
– Credit card advances	5,666	–	25	1,267	–	62
– Others	11,861	79.61%	94	548	42	15
Total loans for use in Hong Kong	342,227	72.06%	1,092	5,698	228	711
Trade finance	31,683	32.44%	146	441	111	95
Loans for use outside Hong Kong	101,677	34.54%	369	472	77	302
Gross advances to customers	475,587	61.40%	1,607	6,611	416	1,108

3. Financial risk management (continued)

3.1 Credit risk (continued)

Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

(i) Sectoral analysis of gross advances to customers (continued)

	At 31 December 2007					
	Gross advances HK\$'m	% Covered by collateral or other security	Classified or impaired HK\$'m	Overdue*	Individually assessed impairment allowances HK\$'m	Collectively assessed impairment allowances HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	17,979	33.97%	16	18	3	52
– Property investment	65,963	86.50%	343	961	14	187
– Financial concerns	12,346	6.05%	–	14	–	43
– Stockbrokers	242	12.10%	–	–	–	–
– Wholesale and retail trade	13,572	65.05%	238	382	85	41
– Manufacturing	14,468	58.08%	138	550	37	48
– Transport and transport equipment	21,001	21.11%	3	25	1	60
– Recreational activities	30	93.53%	–	–	–	–
– Information technology	2,009	37.39%	–	2	–	6
– Others	21,046	41.70%	90	584	16	65
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	13,969	99.78%	129	599	8	13
– Loans for purchase of other residential properties	106,583	99.87%	284	2,078	18	81
– Credit card advances	5,761	–	23	245	–	63
– Others	10,708	79.61%	119	314	50	14
Total loans for use in Hong Kong	305,677	73.31%	1,383	5,772	232	673
Trade finance	24,275	40.71%	105	399	73	77
Loans for use outside Hong Kong	83,110	39.76%	315	375	76	254
Gross advances to customers	413,062	64.64%	1,803	6,546	381	1,004

\* Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Gross loans and advances (continued)

##### (d) Concentration of advances to customers (continued)

##### (ii) Geographical analysis of gross advances to customers and overdue advances

The following geographical analysis of gross advances to customers and overdue advances is based on the location of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

##### Gross advances to customers

	At 30 June 2008 HK\$'m	At 31 December 2007 HK\$'m
Hong Kong	391,429	351,102
Mainland China	57,858	39,050
Others	26,300	22,910
	<b>475,587</b>	413,062
<b>Collectively assessed loan impairment allowances in respect of the gross advances to customers</b>		
Hong Kong	895	827
Mainland China	155	124
Others	58	53
	<b>1,108</b>	1,004

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers and overdue advances (continued)

##### Overdue advances

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Hong Kong	6,050	6,221
Mainland China	415	278
Others	146	47
	<b>6,611</b>	<b>6,546</b>
<b>Individually assessed loan impairment allowances in respect of the overdue advances</b>		
Hong Kong	319	284
Mainland China	56	46
Others	10	2
	<b>385</b>	<b>332</b>
<b>Collectively assessed loan impairment allowances in respect of the overdue advances</b>		
Hong Kong	59	60
Mainland China	7	10
Others	1	–
	<b>67</b>	<b>70</b>



### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers and overdue advances (continued)

##### Classified or impaired advances

	At 30 June 2008 HK\$'m	At 31 December 2007 HK\$'m
Hong Kong	1,373	1,572
Mainland China	234	223
Others	–	8
	<b>1,607</b>	<b>1,803</b>
<b>Individually assessed loan impairment allowances in respect of the classified or impaired advances</b>		
Hong Kong	355	333
Mainland China	61	46
Others	–	2
	<b>416</b>	<b>381</b>
<b>Collectively assessed loan impairment allowances in respect of the classified or impaired advances</b>		
Hong Kong	22	19
Mainland China	4	6
	<b>26</b>	<b>25</b>

##### Reposessed assets

The estimated market value of reposessed assets held by the Group as at 30 June 2008 amounted to HK\$223 million (31 December 2007: HK\$116 million). They comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the borrowers concerned) for release in full or in part of the obligations of the borrowers.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Debt securities

The table below represents an analysis of the carrying value of investment in securities by credit rating and credit risk characteristic, based on Moody's ratings or their equivalent to the respective issues of the debt securities.

	At 30 June 2008				
	US mortgage related*				Total HK\$'m
	Subprime HK\$'m	Alt-A HK\$'m	Prime HK\$'m	Others** HK\$'m	
Aaa	1,213	5,110	24,297	50,369	80,989
Aa1 to Aa3	–	101	–	96,857	96,958
A1 to A3	30	–	53	26,055	26,138
Lower than A3	–	–	–	2,771	2,771
Unrated	–	–	–	52,028	52,028
	<b>1,243</b>	<b>5,211</b>	<b>24,350</b>	<b>228,080</b>	<b>258,884</b>

	At 31 December 2007				
	US mortgage related*				Total HK\$'m
	Subprime HK\$'m	Alt-A HK\$'m	Prime HK\$'m	Others** HK\$'m	
Aaa	4,118	6,567	29,014	54,673	94,372
Aa1 to Aa3	–	–	–	88,952	88,952
A1 to A3	–	–	–	27,062	27,062
Lower than A3	–	–	–	2,772	2,772
Unrated	–	–	–	83,445	83,445
	<b>4,118</b>	<b>6,567</b>	<b>29,014</b>	<b>256,904</b>	<b>296,603</b>

\* Representing those securities relating to residential mortgage.

\*\* Including exposures to Freddie Mac and Fannie Mae.

### 3. Financial risk management (continued)

#### 3.1 Credit risk (continued)

##### Debt securities (continued)

For the above investment in debt securities with no issue rating, their issuer ratings are analysed as follows:

	<b>At 30 June 2008 HK\$m</b>	At 31 December 2007 HK\$m
Aaa	<b>8,355</b>	16,917
Aa1 to Aa3	<b>32,313</b>	47,998
A1 to A3	<b>9,058</b>	7,663
Lower than A3	<b>448</b>	490
Unrated	<b>1,854</b>	10,377
	<b>52,028</b>	83,445

The Group defines US subprime mortgage related debt securities as those that are supported by US residential subprime mortgage loans to borrowers. As at 30 June 2008, the Group's exposure to the US subprime mortgage market was limited to investments in the US subprime mortgage related debt securities.

With regard to risk management of the debt securities, the Group analyses important factors of its US mortgage asset-backed securities such as different vintages, delinquency rates, credit ratings and underlying mortgage pools.

The Group's impairment allowances on available-for-sale and held-to-maturity debt securities held at 30 June 2008 amounted to HK\$1,308 million and HK\$2,281 million respectively (31 December 2007: HK\$190 million and HK\$1,682 million). The carrying values of the available-for-sale and held-to-maturity debt securities considered impaired as at 30 June 2008 were HK\$4,785 million and HK\$5,947 million respectively (31 December 2007: HK\$556 million and HK\$3,738 million).

Included in the above were impairment allowances on US subprime mortgage related debt securities held at 30 June 2008 amounting to HK\$450 million (31 December 2007: HK\$1,253 million) and the carrying value of these impaired securities as at 30 June 2008 amounted to HK\$894 million (31 December 2007: HK\$2,856 million).

The Group's impairment allowances on US Alt-A mortgage backed securities held at 30 June 2008 amounted to HK\$1,229 million (31 December 2007: HK\$573 million). The carrying value of these impaired securities as at 30 June 2008 was HK\$3,215 million (31 December 2007: HK\$1,380 million).

The Group's impairment allowances on US prime mortgage backed securities held at 30 June 2008 amounted to HK\$1,910 million (31 December 2007: HK\$46 million). The carrying value of these impaired securities as at 30 June 2008 was HK\$6,623 million (31 December 2007: HK\$58 million).

As at 30 June 2008 and 31 December 2007, there were no overdue debt securities.

**3. Financial risk management (continued)**

**3.2 Market risk**

**VAR**

The following table sets out the VAR for all trading market risk exposure<sup>1</sup> of BOCHK.

HK\$m		At 30 June	Minimum for the first half of year	Maximum for the first half of year	Average for the first half of year
VAR for all market risk	- 2008	6.3	3.0	7.8	5.2
	- 2007	2.8	1.4	4.8	3.1
VAR for foreign exchange risk products	- 2008	5.7	2.8	7.3	4.6
	- 2007	3.5	1.0	5.2	3.4
VAR for interest rate risk products	- 2008	3.3	1.0	3.8	2.1
	- 2007	1.3	0.7	3.1	1.8
VAR for equity risk products	- 2008	0.2	0.2	2.8	0.6
	- 2007	0.3	0.1	0.6	0.3
VAR for commodity risk products	- 2008	0.0	0.0	0.5	0.1
	- 2007	0.0	0.0	0.4	0.1

In the first half of 2008, the average daily revenue<sup>2</sup> of BOCHK earned from market risk-related trading activities was HK\$6.0 million (first half of 2007: HK\$2.6 million).

1 Structural FX positions have been excluded.

2 Revenues from structural FX positions and back to back transactions have been excluded.

### 3. Financial risk management (continued)

#### 3.2 Market risk (continued)

##### Currency risk

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2008 and 31 December 2007. Included in the tables are the Group's assets and liabilities at carrying amounts in HK\$ equivalent, categorised by the original currency.

	At 30 June 2008							
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	EURO HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	Total HK\$'m
<b>Assets</b>								
Cash and balances with banks and other financial institutions	85,278	40,984	48,131	1,037	127	9,090	3,805	188,452
Placements with banks and other financial institutions maturing between one and twelve months	615	17,166	32,277	182	11	-	438	50,689
Financial assets at fair value through profit or loss	707	8,714	27,787	-	-	-	74	37,282
Derivative financial instruments	-	892	20,505	-	-	-	-	21,397
Hong Kong SAR Government certificates of indebtedness	-	-	32,430	-	-	-	-	32,430
Advances and other accounts	16,810	98,693	359,174	3,833	1,728	1,372	5,402	487,012
Investment in securities								
– Available-for-sale securities	145	63,630	24,826	15,916	533	2,172	11,895	119,117
– Held-to-maturity securities	920	67,226	36,740	5,613	1,425	1,210	20,371	133,505
– Loans and receivables	-	612	7,996	120	-	148	1,199	10,075
Interests in associates	-	-	89	-	-	-	-	89
Investment properties	-	-	8,634	-	-	-	-	8,634
Properties, plant and equipment	78	1	25,151	-	-	-	-	25,230
Other assets (including deferred tax assets)	57	2,327	10,706	16	25	24	101	13,256
<b>Total assets</b>	<b>104,610</b>	<b>300,245</b>	<b>634,446</b>	<b>26,717</b>	<b>3,849</b>	<b>14,016</b>	<b>43,285</b>	<b>1,127,168</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	-	-	32,430	-	-	-	-	32,430
Deposits and balances of banks and other financial institutions	58,416	13,837	7,043	226	249	580	1,274	81,625
Financial liabilities at fair value through profit or loss	-	1,250	10,812	-	-	-	51	12,113
Derivative financial instruments	-	1,747	15,958	-	-	-	-	17,705
Deposits from customers	42,273	195,317	492,689	9,805	2,625	22,699	53,702	819,110
Debt securities in issue at amortised cost	-	693	2,003	-	-	-	60	2,756
Other accounts and provisions (including current and deferred tax liabilities)	1,454	7,737	19,734	336	49	276	1,104	30,690
Insurance contract liabilities	-	4,591	20,479	-	-	-	-	25,070
Subordinated liability	-	-	-	8,150	-	-	-	8,150
<b>Total liabilities</b>	<b>102,143</b>	<b>225,172</b>	<b>601,148</b>	<b>18,517</b>	<b>2,923</b>	<b>23,555</b>	<b>56,191</b>	<b>1,029,649</b>
Net on-balance sheet position	2,467	75,073	33,298	8,200	926	(9,539)	(12,906)	97,519
Off-balance sheet net notional position*	390	(71,924)	66,440	(8,779)	(1,194)	9,549	12,308	6,790
Contingent liabilities and commitments	9,453	62,162	159,177	4,045	816	411	1,793	237,857

\* Off-balance sheet net notional position represents the net notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements.

**3. Financial risk management (continued)**
**3.2 Market risk (continued)**
**Currency risk (continued)**

	At 31 December 2007							
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	EURO HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	Total HK\$'m
<b>Assets</b>								
Cash and balances with banks and other financial institutions	30,849	49,833	71,731	1,147	160	1,815	3,530	159,065
Placements with banks and other financial institutions maturing between one and twelve months	375	23,854	28,750	–	–	–	175	53,154
Financial assets at fair value through profit or loss	917	8,997	24,286	–	–	–	240	34,440
Derivative financial instruments	–	773	13,703	–	–	–	1	14,477
Hong Kong SAR Government certificates of indebtedness	–	–	32,770	–	–	–	–	32,770
Advances and other accounts	13,335	71,309	323,495	4,202	1,667	1,006	5,220	420,234
Investment in securities								
– Available-for-sale securities	90	62,612	26,697	7,005	28	1,321	6,900	104,653
– Held-to-maturity securities	864	84,686	59,565	2,486	–	1,554	16,273	165,428
– Loans and receivables	–	3,594	26,511	428	–	–	569	31,102
Interests in associates	–	–	83	–	–	–	–	83
Investment properties	–	–	8,058	–	–	–	–	8,058
Properties, plant and equipment	72	1	23,220	–	–	–	–	23,293
Other assets (including deferred tax assets)	69	947	19,361	161	61	145	136	20,880
<b>Total assets</b>	<b>46,571</b>	<b>306,606</b>	<b>658,230</b>	<b>15,429</b>	<b>1,916</b>	<b>5,841</b>	<b>33,044</b>	<b>1,067,637</b>
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	–	–	32,770	–	–	–	–	32,770
Deposits and balances of banks and other financial institutions	27,173	19,422	9,090	147	2,141	92	2,534	60,599
Financial liabilities at fair value through profit or loss	–	2,717	8,688	–	–	–	–	11,405
Derivative financial instruments	–	1,257	9,824	–	–	–	11	11,092
Deposits from customers	17,360	166,416	548,223	8,432	2,492	12,284	38,399	793,606
Debt securities in issue at amortised cost	–	667	1,422	–	–	–	–	2,089
Other accounts and provisions (including current and deferred tax liabilities)	574	9,751	26,706	311	31	387	761	38,521
Insurance contract liabilities	–	4,284	18,213	–	–	–	–	22,497
<b>Total liabilities</b>	<b>45,107</b>	<b>204,514</b>	<b>654,936</b>	<b>8,890</b>	<b>4,664</b>	<b>12,763</b>	<b>41,705</b>	<b>972,579</b>
Net on-balance sheet position	1,464	102,092	3,294	6,539	(2,748)	(6,922)	(8,661)	95,058
Off-balance sheet net notional position*	394	(97,215)	89,481	(6,478)	2,436	7,050	8,975	4,643
Contingent liabilities and commitments	4,873	55,183	163,697	4,693	1,017	259	1,581	231,303

### 3. Financial risk management (continued)

#### 3.2 Market risk (continued)

##### Interest rate risk

The tables below summarise the Group's exposure to interest rate risk as at 30 June 2008 and 31 December 2007. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Derivative financial instruments are principally used to reduce the Group's exposure to interest rate movements. Their carrying amounts are presented under the column captioned "Non-interest bearing".

	At 30 June 2008						
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Non-interest bearing HK\$'m	Total HK\$'m
<b>Assets</b>							
Cash and balances with banks and other financial institutions	181,649	-	-	-	-	6,803	188,452
Placements with banks and other financial institutions maturing between one and twelve months	-	37,480	13,209	-	-	-	50,689
Financial assets at fair value through profit or loss	4,659	3,116	1,571	7,953	16,883	3,100	37,282
Derivative financial instruments	-	-	-	-	-	21,397	21,397
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	32,430	32,430
Advances and other accounts	374,303	68,631	30,732	9,326	947	3,073	487,012
Investment in securities							
– Available-for-sale securities	21,084	22,980	5,523	37,188	28,529	3,813	119,117
– Held-to-maturity securities	33,961	39,380	14,992	25,075	20,097	-	133,505
– Loans and receivables	4,203	2,560	3,312	-	-	-	10,075
Interests in associates	-	-	-	-	-	89	89
Investment properties	-	-	-	-	-	8,634	8,634
Properties, plant and equipment	-	-	-	-	-	25,230	25,230
Other assets (including deferred tax assets)	-	-	-	-	-	13,256	13,256
<b>Total assets</b>	<b>619,859</b>	<b>174,147</b>	<b>69,339</b>	<b>79,542</b>	<b>66,456</b>	<b>117,825</b>	<b>1,127,168</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	32,430	32,430
Deposits and balances of banks and other financial institutions	68,346	3,123	5,378	-	-	4,778	81,625
Financial liabilities at fair value through profit or loss	5,508	5,457	289	859	-	-	12,113
Derivative financial instruments	-	-	-	-	-	17,705	17,705
Deposits from customers	639,630	112,674	31,574	483	-	34,749	819,110
Debt securities in issue at amortised cost	-	-	2,756	-	-	-	2,756
Other accounts and provisions (including current and deferred tax liabilities)	8,592	-	569	138	-	21,391	30,690
Insurance contract liabilities	-	-	-	-	-	25,070	25,070
Subordinated liability	-	-	8,150	-	-	-	8,150
<b>Total liabilities</b>	<b>722,076</b>	<b>121,254</b>	<b>48,716</b>	<b>1,480</b>	<b>-</b>	<b>136,123</b>	<b>1,029,649</b>
Interest sensitivity gap	(102,217)	52,893	20,623	78,062	66,456	(18,298)	97,519

**3. Financial risk management (continued)**
**3.2 Market risk (continued)**
**Interest rate risk (continued)**

	At 31 December 2007						Total HK\$m
	Up to 1 month HK\$m	1-3 months HK\$m	3-12 months HK\$m	1-5 years HK\$m	Over 5 years HK\$m	Non-interest bearing HK\$m	
<b>Assets</b>							
Cash and balances with banks and other financial institutions	152,746	-	-	-	-	6,319	159,065
Placements with banks and other financial institutions maturing between one and twelve months	-	42,230	10,924	-	-	-	53,154
Financial assets at fair value through profit or loss	3,562	1,839	2,164	5,894	17,397	3,584	34,440
Derivative financial instruments	-	-	-	-	-	14,477	14,477
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	32,770	32,770
Advances and other accounts	328,750	58,396	19,372	9,487	643	3,586	420,234
Investment in securities							
– Available-for-sale securities	11,668	21,320	6,257	19,959	40,869	4,580	104,653
– Held-to-maturity securities	25,562	43,920	18,534	43,022	34,390	-	165,428
– Loans and receivables	7,459	11,444	12,199	-	-	-	31,102
Interests in associates	-	-	-	-	-	83	83
Investment properties	-	-	-	-	-	8,058	8,058
Properties, plant and equipment	-	-	-	-	-	23,293	23,293
Other assets (including deferred tax assets)	-	-	-	-	-	20,880	20,880
<b>Total assets</b>	<b>529,747</b>	<b>179,149</b>	<b>69,450</b>	<b>78,362</b>	<b>93,299</b>	<b>117,630</b>	<b>1,067,637</b>
<b>Liabilities</b>							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	32,770	32,770
Deposits and balances of banks and other financial institutions	45,728	3,428	6,897	-	-	4,546	60,599
Financial liabilities at fair value through profit or loss	6,600	2,355	1,531	919	-	-	11,405
Derivative financial instruments	-	-	-	-	-	11,092	11,092
Deposits from customers	623,009	98,440	35,157	547	-	36,453	793,606
Debt securities in issue at amortised cost	-	-	1,977	112	-	-	2,089
Other accounts and provisions (including current and deferred tax liabilities)	7,624	107	-	128	-	30,662	38,521
Insurance contract liabilities	-	-	-	-	-	22,497	22,497
<b>Total liabilities</b>	<b>682,961</b>	<b>104,330</b>	<b>45,562</b>	<b>1,706</b>	<b>-</b>	<b>138,020</b>	<b>972,579</b>
Interest sensitivity gap	(153,214)	74,819	23,888	76,656	93,299	(20,390)	95,058



### 3. Financial risk management (continued)

#### 3.3 Liquidity risk

Tables below analyse assets and liabilities of the Group as at 30 June 2008 and 31 December 2007 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2008							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
<b>Assets</b>								
Cash and balances with banks and other financial institutions	92,602	95,850	-	-	-	-	-	188,452
Placements with banks and other financial institutions maturing between one and twelve months	-	-	37,480	13,209	-	-	-	50,689
Financial assets at fair value through profit or loss								
- debt securities held for trading	-	3,442	2,482	1,734	725	3	-	8,386
- others	-	-	-	-	-	-	-	-
- debt securities designated at fair value through profit or loss								
- certificates of deposit held	-	-	-	25	1,127	1,359	-	2,511
- others	-	-	101	742	6,576	15,866	-	23,285
- equity securities	-	-	-	-	-	-	3,100	3,100
Derivative financial instruments	17,845	474	297	1,746	844	191	-	21,397
Hong Kong SAR Government certificates of indebtedness	32,430	-	-	-	-	-	-	32,430
Advances and other accounts								
- advances to customers	29,007	15,649	29,278	57,561	201,189	140,361	1,018	474,063
- trade bills	18	4,349	3,920	981	-	-	-	9,268
- advances to banks and other financial institutions	28	80	309	189	3,075	-	-	3,681
Investment in securities								
- debt securities held for available-for-sale								
- certificates of deposit held	-	1,072	383	1,290	3,831	-	-	6,576
- others	-	4,228	6,188	5,775	50,671	37,081	4,785	108,728
- debt securities held for held-to-maturity								
- certificates of deposit held	-	1,387	1,132	3,826	7,198	-	-	13,543
- others	-	635	2,452	19,703	64,018	27,207	5,947	119,962
- debt securities held for loans and receivables	-	4,203	2,560	3,312	-	-	-	10,075
- equity securities	-	-	-	-	-	-	3,813	3,813
Interests in associates	-	-	-	-	-	-	89	89
Investment properties	-	-	-	-	-	-	8,634	8,634
Properties, plant and equipment	-	-	-	-	-	-	25,230	25,230
Other assets (including deferred tax assets)	5,212	7,618	8	169	87	-	162	13,256
<b>Total assets</b>	<b>177,142</b>	<b>138,987</b>	<b>86,590</b>	<b>110,262</b>	<b>339,341</b>	<b>222,068</b>	<b>52,778</b>	<b>1,127,168</b>

**3. Financial risk management (continued)**
**3.3 Liquidity risk (continued)**

	At 30 June 2008							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	32,430	-	-	-	-	-	-	32,430
Deposits and balances of banks and other financial institutions	59,374	13,750	3,123	5,378	-	-	-	81,625
Financial liabilities at fair value through profit or loss								
– certificates of deposit issued	-	-	962	-	861	-	-	1,823
– others	-	3,669	3,347	2,513	478	283	-	10,290
Derivative financial instruments	13,710	642	306	1,799	981	267	-	17,705
Deposits from customers	338,799	335,080	111,325	32,266	1,640	-	-	819,110
Debt securities in issue at amortised cost	-	-	-	2,756	-	-	-	2,756
Other accounts and provisions (including current and deferred tax liabilities)	14,879	7,821	12	2,909	4,096	19	954	30,690
Insurance contract liabilities	1,955	4	1	815	16,280	6,015	-	25,070
Subordinated liability	-	-	-	-	-	8,150	-	8,150
<b>Total liabilities</b>	<b>461,147</b>	<b>360,966</b>	<b>119,076</b>	<b>48,436</b>	<b>24,336</b>	<b>14,734</b>	<b>954</b>	<b>1,029,649</b>
Net liquidity gap	(284,005)	(221,979)	(32,486)	61,826	315,005	207,334	51,824	97,519

### 3. Financial risk management (continued)

#### 3.3 Liquidity risk (continued)

	At 31 December 2007							
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	Total HK\$'m
<b>Assets</b>								
Cash and balances with banks and other financial institutions	40,100	118,965	-	-	-	-	-	159,065
Placements with banks and other financial institutions maturing between one and twelve months	-	-	42,230	10,924	-	-	-	53,154
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- certificates of deposit held	-	-	-	80	-	-	-	80
- others	-	1,697	779	2,342	1,307	32	-	6,157
- debt securities designated at fair value through profit or loss								
- certificates of deposit held	-	-	-	415	393	2,316	-	3,124
- others	-	36	343	272	5,376	15,468	-	21,495
- equity securities	-	-	-	-	-	-	3,584	3,584
Derivative financial instruments	12,686	228	129	929	459	46	-	14,477
Hong Kong SAR Government certificates of indebtedness	32,770	-	-	-	-	-	-	32,770
Advances and other accounts								
- advances to customers	21,196	16,345	25,968	43,608	173,120	130,067	1,373	411,677
- trade bills	12	2,815	2,227	280	-	-	-	5,334
- advances to banks and other financial institutions	27	-	600	440	2,156	-	-	3,223
Investment in securities								
- debt securities held for available-for-sale								
- certificates of deposit held	-	701	462	2,614	3,689	-	-	7,466
- others	-	5,886	3,776	7,515	30,790	44,084	556	92,607
- debt securities held for held-to-maturity								
- certificates of deposit held	-	1,097	1,490	2,426	6,351	624	-	11,988
- others	-	4,278	12,309	17,166	81,918	34,031	3,738	153,440
- debt securities held for loans and receivables	-	7,459	11,444	12,199	-	-	-	31,102
- equity securities	-	-	-	-	-	-	4,580	4,580
Interests in associates	-	-	-	-	-	-	83	83
Investment properties	-	-	-	-	-	-	8,058	8,058
Properties, plant and equipment	-	-	-	-	-	-	23,293	23,293
Other assets (including deferred tax assets)	3,360	16,219	24	174	202	-	901	20,880
<b>Total assets</b>	<b>110,151</b>	<b>175,726</b>	<b>101,781</b>	<b>101,384</b>	<b>305,761</b>	<b>226,668</b>	<b>46,166</b>	<b>1,067,637</b>

### 3. Financial risk management (continued)

#### 3.3 Liquidity risk (continued)

	At 31 December 2007							
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	Total HK\$'m
<b>Liabilities</b>								
Hong Kong SAR currency notes in circulation	32,770	-	-	-	-	-	-	32,770
Deposits and balances of banks and other financial institutions	28,200	22,074	3,428	6,897	-	-	-	60,599
Financial liabilities at fair value through profit or loss								
– certificates of deposit issued	-	-	-	1,086	868	-	-	1,954
– others	-	2,554	1,925	3,680	983	309	-	9,451
Derivative financial instruments	8,320	418	355	954	831	214	-	11,092
Deposits from customers	329,544	329,918	98,440	35,157	547	-	-	793,606
Debt securities in issue at amortised cost	-	-	-	1,977	112	-	-	2,089
Other accounts and provisions (including current and deferred tax liabilities)	15,446	15,543	1,071	1,660	4,100	-	701	38,521
Insurance contract liabilities	2,054	-	-	535	13,786	6,122	-	22,497
<b>Total liabilities</b>	<b>416,334</b>	<b>370,507</b>	<b>105,219</b>	<b>51,946</b>	<b>21,227</b>	<b>6,645</b>	<b>701</b>	<b>972,579</b>
Net liquidity gap	(306,183)	(194,781)	(3,438)	49,438	284,534	220,023	45,465	95,058

The above maturity classifications have been prepared in accordance with relevant provisions under the Banking (Disclosure) Rules. The Group has reported assets such as advances and debt securities which have been overdue for not more than one month as “Repayable on demand”. In the case of an asset that is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as “Indefinite”. The above assets are stated after deduction of provisions, if any.

The analysis of debt securities by remaining period to maturity is disclosed in order to comply with relevant provisions under the Banking (Disclosure) Rules. The disclosure does not imply that the securities will be held to maturity.

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet as at 30 June 2008 and 31 December 2007.

#### 3.4 Insurance risk

The Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. The Group 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 the Group’s underwriting procedures.

### 3. Financial risk management (continued)

#### 3.4 Insurance risk (continued)

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group'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, the Group has a retention limit on any single life insured. The Group reinsures the excess of the insured benefit over the limit for standard risks (from a medical point of view) under an excess of loss reinsurance arrangement. The Group does not have in place any reinsurance for contracts that insure against survival risk.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group 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.

#### 3.5 Capital management

##### (a) Capital adequacy ratio

	<b>At 30 June 2008</b>	At 31 December 2007
Capital adequacy ratio	<b>13.87%</b>	13.08%
Core capital ratio	<b>11.51%</b>	12.23%

The capital ratios are computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules.

The differences between the basis of consolidation for accounting and regulatory purposes are described in "Appendix – Subsidiaries of the Company" on page 123.

### 3. Financial risk management (continued)

#### 3.5 Capital management (continued)

##### (b) Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratio as at 30 June 2008 and 31 December 2007 and reported to the HKMA is analysed as follows:

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Core capital:		
Paid up ordinary share capital	<b>43,043</b>	43,043
Reserves	<b>19,572</b>	22,611
Profit and loss account	<b>3,310</b>	207
Minority interests	<b>1,230</b>	1,284
	<b>67,155</b>	67,145
Deductions from core capital	<b>(274)</b>	(483)
Core capital	<b>66,881</b>	66,662
Supplementary capital:		
Fair value gains arising from holdings of available-for-sale securities	<b>157</b>	18
Fair value gains arising from holdings of securities designated at fair value through profit or loss	<b>3</b>	9
Collective loan impairment allowances	<b>1,108</b>	1,004
Regulatory reserve	<b>4,620</b>	4,130
Term subordinated debt	<b>8,144</b>	–
	<b>14,032</b>	5,161
Deductions from supplementary capital	<b>(274)</b>	(483)
Supplementary capital	<b>13,758</b>	4,678
Total capital base after deductions	<b>80,639</b>	71,340

Subsidiaries which are not included in the consolidation group for the calculation of capital adequacy ratios are denoted in "Appendix – Subsidiaries of the Company" on page 123. Investment costs in such subsidiaries are deducted from the capital base.

#### 4. Net interest income

	Half-year ended 30 June 2008 HK\$m	Half-year ended 30 June 2007 HK\$m
<b>Interest income</b>		
Cash and due from banks and other financial institutions	2,694	3,229
Advances to customers	8,197	9,940
Listed investments	1,369	1,239
Unlisted investments	5,626	6,675
Others	219	401
	<b>18,105</b>	21,484
<b>Interest expense</b>		
Due to banks, customers and other financial institutions	(7,710)	(12,098)
Debt securities in issue	(58)	(49)
Subordinated liability	(6)	–
Others	(302)	(434)
	<b>(8,076)</b>	(12,581)
<b>Net interest income</b>	<b>10,029</b>	8,903

Included within interest income is HK\$21 million (first half of 2007: HK\$14 million) of interest income recognised on advances classified as impaired for the first half of 2008. Interest accrued on impaired investment securities amounted to HK\$13 million (first half of 2007: Nil).

Included within interest income and interest expense are HK\$17,416 million (first half of 2007: HK\$20,882 million) and HK\$7,670 million (first half of 2007: HK\$12,192 million) for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

## 5. Net fees and commission income

	Half-year ended 30 June 2008 HK\$'m	Half-year ended 30 June 2007 HK\$'m
<b>Fees and commission income</b>		
Securities brokerage		
– Stockbroking	1,289	1,324
– Bonds	220	65
Credit cards	578	471
Bills commissions	329	273
Loan commissions	263	129
Payment services	239	221
Asset management	157	342
Insurance	132	85
Trust services	87	66
Guarantees	26	24
Others		
– currency exchange	108	73
– RMB business	99	54
– safe deposit box	96	99
– information search	25	23
– correspondent banking	21	17
– low deposit balance accounts	15	17
– BOC cards	13	14
– postage and telegrams	13	12
– agency services	11	8
– dormant accounts	9	11
– sundries	115	111
	<b>3,845</b>	3,439
<b>Fees and commission expenses</b>	<b>(946)</b>	(807)
<b>Net fees and commission income</b>	<b>2,899</b>	2,632
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fees and commission income	288	158
– Fees and commission expenses	(14)	(36)
	<b>274</b>	122
– trust and other fiduciary activities		
– Fees and commission income	169	66
– Fees and commission expenses	(3)	–
	<b>166</b>	66



**6. Net trading income**

	<b>Half-year ended 30 June 2008 HK\$'m</b>	Half-year ended 30 June 2007 HK\$'m
Net gain from:		
– foreign exchange and foreign exchange products	<b>875</b>	155
– interest rate instruments	<b>206</b>	192
– equity instruments	<b>135</b>	70
– commodities	<b>21</b>	–
	<b>1,237</b>	417

**7. Net gain on investment in securities**

	<b>Half-year ended 30 June 2008 HK\$'m</b>	Half-year ended 30 June 2007 HK\$'m
Net gain from disposal of available-for-sale securities	<b>129</b>	1
Net (loss)/gain from redemption of held-to-maturity securities	<b>(1)</b>	1
	<b>128</b>	2

**8. Net insurance premium income**

	<b>Half-year ended 30 June 2008 HK\$'m</b>	Half-year ended 30 June 2007 HK\$'m
Gross written premiums	<b>4,511</b>	2,936
Less: Gross written premiums ceded to reinsurers	<b>(10)</b>	(3)
Net insurance premium income	<b>4,501</b>	2,933

**9. Other operating income**

	<b>Half-year ended 30 June 2008 HK\$'m</b>	Half-year ended 30 June 2007 HK\$'m
Dividend income from investment in securities		
– listed investments	<b>91</b>	–
– unlisted investments	<b>9</b>	9
Gross rental income from investment properties	<b>151</b>	123
Less: Outgoings in respect of investment properties	<b>(24)</b>	(22)
Net gain on disposal of subsidiaries	–	1
Others	<b>104</b>	88
	<b>331</b>	199

Included in the “Outgoings in respect of investment properties” is HK\$1 million (first half of 2007: HK\$2 million) of direct operating expenses related to investment properties that were not let during the period.

**10. Net insurance benefits and claims**

	<b>Half-year ended 30 June 2008 HK\$'m</b>	Half-year ended 30 June 2007 HK\$'m
Claims, benefits and surrenders paid	<b>741</b>	440
Movement in liabilities	<b>2,862</b>	2,193
Gross claims, benefits and surrenders paid and movement in liabilities	<b>3,603</b>	2,633
Less: Reinsurers’ share of claims, benefits and surrenders paid and movement in liabilities	<b>(1)</b>	(1)
Net insurance claims, benefits and surrenders paid and movement in liabilities	<b>3,602</b>	2,632

## 11. Net (charge)/reversal of impairment allowances

	Half-year ended 30 June 2008 HK\$'m	Half-year ended 30 June 2007 HK\$'m
<b>Advances to customers</b>		
Individually assessed		
– new allowances	(142)	(106)
– releases	62	109
– recoveries	187	340
Net reversal of individually assessed loan impairment allowances	107	343
Collectively assessed		
– new allowances	(199)	(192)
– releases	7	–
– recoveries	14	15
Net charge of collectively assessed loan impairment allowances	(178)	(177)
Net (charge)/reversal of loan impairment allowances	(71)	166
<b>Available-for-sale securities</b>		
Net charge of impairment losses on available-for-sale securities		
– Individually assessed	(1,187)	–
<b>Held-to-maturity securities</b>		
Net charge of impairment allowances on held-to-maturity securities		
– Individually assessed	(962)	–
<b>Others</b>	(7)	–
<b>Net (charge)/reversal of impairment allowances</b>	<b>(2,227)</b>	<b>166</b>

**12. Operating expenses**

	Half-year ended 30 June 2008 HK\$'m	Half-year ended 30 June 2007 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	2,302	1,957
– termination benefit	2	6
– pension cost	178	146
	<b>2,482</b>	2,109
Premises and equipment expenses (excluding depreciation)		
– rental of premises	193	168
– information technology	184	143
– others	118	106
	<b>495</b>	417
Depreciation	480	373
Auditors' remuneration		
– audit services	5	4
– non-audit services	1	1
Other operating expenses	625	514
	<b>4,088</b>	3,418

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

	Half-year ended 30 June 2008 HK\$'m	Half-year ended 30 June 2007 HK\$'m
Net gain on disposal of investment properties	9	2
Net gain on fair value adjustments on investment properties	701	414
	<b>710</b>	416

**14. Net (loss)/gain from disposal/revaluation of properties, plant and equipment**

	Half-year ended 30 June 2008 HK\$'m	Half-year ended 30 June 2007 HK\$'m
Net loss on disposal of other fixed assets	–	(2)
Net (loss)/gain on revaluation of premises	(8)	7
	<b>(8)</b>	5

## 15. Taxation

Taxation in the condensed consolidated income statement represents:

	Half-year ended 30 June 2008 HK\$'m	Half-year ended 30 June 2007 HK\$'m
Hong Kong profits tax		
– current period taxation	1,286	1,508
Deferred tax (reversal)/charge	(111)	44
Hong Kong profits tax	1,175	1,552
Overseas taxation	78	47
	<b>1,253</b>	<b>1,599</b>

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2008. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2008 at the rates of taxation prevailing in the countries in which the Group operates.

The taxation on the Group's profit before taxation that differs from the theoretical amount that would arise using the taxation rate of Hong Kong is as follows:

	Half-year ended 30 June 2008 HK\$'m	Half-year ended 30 June 2007 HK\$'m
Profit before taxation	8,434	9,227
Calculated at a taxation rate of 16.5% (2007: 17.5%)	1,392	1,615
Effect of different taxation rates in other countries	32	(11)
Income not subject to taxation	(225)	(52)
Expenses not deductible for taxation purposes	54	54
Utilisation of previously unrecognised tax losses	–	(7)
Taxation charge	<b>1,253</b>	<b>1,599</b>
Effective tax rate	<b>14.9%</b>	<b>17.3%</b>

**16. Dividends**

	Half-year ended 30 June 2008		Half-year ended 30 June 2007	
	Per share HK\$	Total HK\$m	Per share HK\$	Total HK\$m
Interim dividend	0.438	4,631	0.428	4,525

At a meeting held on 28 August 2008, the Board declared an interim dividend of HK\$0.438 per ordinary share for the first half of 2008 amounting to approximately HK\$4,631 million. This declared dividend is not reflected as a dividend payable in this interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

**17. Earnings per share for profit attributable to the equity holders of the Company**

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the first half of 2008 of approximately HK\$7,088 million (first half of 2007: HK\$7,466 million) and on the ordinary shares in issue of 10,572,780,266 shares (2007: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the first half of 2008 (first half of 2007: Nil).

**18. Retirement benefit costs**

The principal defined contribution schemes for the Group's employees are ORSO schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon termination of employment after completing 20 years of service, or at a scale ranging from 20% to 95% for employees who have completed between 3 to 20 years of service, on conditions of retirement, early retirement, permanent incapacity and ill-health or termination of employment other than summary dismissal.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also participates in the BOC-Prudential Easy Choice MPF Scheme, of which the trustee is BOCI-Prudential Trustee and the investment manager is BOCI-Prudential Manager, which are related parties of the Company.

The Group's total contributions made to the ORSO schemes for the first half of 2008 amounted to approximately HK\$149 million (first half of 2007: approximately HK\$129 million), after a deduction of forfeited contributions of approximately HK\$7 million (first half of 2007: approximately HK\$7 million). For the MPF Scheme, the Group contributed approximately HK\$19 million (first half of 2007: approximately HK\$13 million) for the first half of 2008.

**19. Share option schemes****(a) *Share Option Scheme and Sharesave Plan***

The principal terms of the Share Option Scheme and the Sharesave Plan were approved and adopted by written resolutions of all the shareholders of the Company dated 10 July 2002.

The purpose of the Share Option Scheme is to provide the participants with the opportunity to acquire proprietary interests in the Company. The Board may, in its absolute discretion, offer to grant options under the Share Option Scheme to any person as the Board may select. The subscription price for the shares shall be determined on the date of grant by the Board as an amount per share calculated on the basis of established rules. An option may be exercised in whole or in part at any time after the date prescribed by the Board and from time to time as specified in the offer and on or before the termination date prescribed by the Board.

The purpose of the Sharesave Plan is to encourage broad-based employee ownership of the shares of the Company. The amount of the monthly contribution under the savings contract to be made in connection with an option shall be the amount which the relevant eligible employee is willing to contribute, which amount shall not be less than 1% and not more than 10% of the eligible employee's monthly salary as at the date of application or such other maximum or minimum amounts as permitted by the Board. When an option is exercised during an exercise period, it may be exercised in whole or in part.

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the first half of 2008 (first half of 2007: Nil).

**19. Share option schemes (continued)****(b) Pre-Listing Share Option Scheme**

On 5 July 2002, several directors together with approximately 60 senior management personnel of the Group and employees of BOC were granted options by BOC (BVI), the immediate holding company of the Company, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) an aggregate of 31,132,600 existing issued shares of the Company. The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to all options granted to employees on or before 7 November 2002.

Details of the share options outstanding as at 30 June 2008 are disclosed as follows:

				Total	Average
	Directors	Senior management	Others*	number of share options	exercise price (HK\$ per share)
At 1 January 2008	6,651,600	2,253,100	1,446,000	10,350,700	8.5
Less: Share options exercised during the period	(361,500)	(587,500)	(1,446,000)	(2,395,000)	8.5
At 30 June 2008	6,290,100	1,665,600	–	7,955,700	8.5
Exercisable at 30 June 2008	6,290,100	1,665,600	–	7,955,700	8.5
At 1 January 2007	8,459,100	3,980,450	1,446,000	13,885,550	8.5
Transfer	(1,446,000)	–	1,446,000	–	8.5
Less: Share options exercised during the year	(361,500)	(1,727,350)	(1,446,000)	(3,534,850)	8.5
At 31 December 2007	6,651,600	2,253,100	1,446,000	10,350,700	8.5
Exercisable at 31 December 2007	6,651,600	2,253,100	1,446,000	10,350,700	8.5

\* Represented share options held by ex-directors of the Group.

Share options were exercised on a regular basis throughout the period, the weighted average share price during the period was HK\$19.23 (31 December 2007: HK\$19.38).

The options granted under this scheme can be exercised at HK\$8.50 per share in respect of the option price of HK\$1.00. These options have a vesting period of four years from the date on which dealings in the shares commenced on the Stock Exchange with a valid exercise period of ten years. No offer to grant any options under the Pre-Listing Share Option Scheme will be made on or after the date on which dealings in the shares commenced on the Stock Exchange.



## 20. Cash and balances with banks and other financial institutions

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Cash	<b>4,089</b>	3,334
Balances with central banks	<b>83,826</b>	30,627
Balances with banks and other financial institutions	<b>4,687</b>	6,139
Placements with banks and other financial institutions maturing within one month	<b>95,850</b>	118,965
	<b>188,452</b>	159,065

## 21. Financial assets at fair value through profit or loss

	Financial assets designated at fair value through profit or loss					
	Trading securities		Total		Total	
	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
At fair value						
Debt securities						
– Listed in Hong Kong	<b>476</b>	190	<b>330</b>	895	<b>806</b>	1,085
– Listed outside Hong Kong	<b>168</b>	537	<b>3,266</b>	2,687	<b>3,434</b>	3,224
	<b>644</b>	727	<b>3,596</b>	3,582	<b>4,240</b>	4,309
– Unlisted	<b>7,742</b>	5,510	<b>22,200</b>	21,037	<b>29,942</b>	26,547
	<b>8,386</b>	6,237	<b>25,796</b>	24,619	<b>34,182</b>	30,856
Equity securities						
– Listed in Hong Kong	<b>72</b>	327	<b>304</b>	349	<b>376</b>	676
– Unlisted	<b>115</b>	94	<b>2,609</b>	2,814	<b>2,724</b>	2,908
	<b>187</b>	421	<b>2,913</b>	3,163	<b>3,100</b>	3,584
Total	<b>8,573</b>	6,658	<b>28,709</b>	27,782	<b>37,282</b>	34,440

**21. Financial assets at fair value through profit or loss (continued)**

Financial assets at fair value through profit or loss are analysed by type of issuer as follows:

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Sovereigns	<b>7,294</b>	4,197
Public sector entities	<b>1,719</b>	1,333
Banks and other financial institutions	<b>24,576</b>	24,820
Corporate entities	<b>3,693</b>	4,090
	<b>37,282</b>	34,440

Financial assets at fair value through profit or loss are analysed as follows:

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Treasury bills	<b>6,586</b>	3,517
Certificates of deposit held	<b>2,511</b>	3,204
Other financial assets at fair value through profit or loss	<b>28,185</b>	27,719
	<b>37,282</b>	34,440

## 22. Derivative financial instruments

The Group enters into the following equity, foreign exchange, interest rate and precious metal related derivative financial instruments for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currency on a future date. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates or buy or sell interest rate financial instruments on a future date at an agreed price in the financial market under the administration of the stock exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency, interest rate and precious metal swaps are commitments to exchange one set of cash flows or commodity for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or precious metals (for example, silver swaps) or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate, equity and precious metal options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated over-the-counter (“OTC”) between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock option).

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the condensed consolidated balance sheet. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group’s exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or equity and metal prices relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

**22. Derivative financial instruments (continued)**

The following tables summarise the contract/notional amounts of each significant type of derivative financial instrument as at 30 June 2008 and 31 December 2007:

	At 30 June 2008			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting* HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot and forwards	288,861	–	–	288,861
Swaps	192,702	–	68	192,770
Foreign currency option contracts				
– Options purchased	5,137	–	–	5,137
– Options written	5,181	–	–	5,181
	491,881	–	68	491,949
Interest rate contracts				
Futures	4,821	–	–	4,821
Swaps	48,826	22,917	5,184	76,927
Interest rate option contracts				
– Swaptions written	702	–	–	702
– Bond options written	468	–	–	468
	54,817	22,917	5,184	82,918
Bullion contracts	16,769	–	–	16,769
Equity contracts	8,931	–	–	8,931
Other contracts	157	–	–	157
<b>Total</b>	<b>572,555</b>	<b>22,917</b>	<b>5,252</b>	<b>600,724</b>

\* Derivative transactions which do not qualify as hedges for accounting purposes but are managed in conjunction with the financial instruments designated at fair value through profit or loss are separately disclosed in compliance with the requirements set out in the Banking (Disclosure) Rules.

## 22. Derivative financial instruments (continued)

	At 31 December 2007			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot and forwards	258,556	–	1,495	260,051
Swaps	156,554	–	–	156,554
Foreign currency option contracts				
– Options purchased	5,607	–	–	5,607
– Options written	5,875	–	–	5,875
	426,592	–	1,495	428,087
Interest rate contracts				
Futures	226	–	–	226
Swaps	36,714	6,708	3,253	46,675
Interest rate option contracts				
– Swaptions written	780	–	–	780
– Bond options written	780	–	–	780
	38,500	6,708	3,253	48,461
Bullion contracts	12,950	–	–	12,950
Equity contracts	5,378	–	–	5,378
Other contracts	172	–	–	172
Total	483,592	6,708	4,748	495,048

**22. Derivative financial instruments (continued)**

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2008 and 31 December 2007:

	At 30 June 2008							
	Fair value assets				Fair value liabilities			
	Trading	Hedging	Not qualified for hedge accounting	Total	Trading	Hedging	Not qualified for hedge accounting	Total
Exchange rate contracts								
Spot and forwards	17,649	-	-	17,649	(12,681)	-	-	(12,681)
Swaps	613	-	1	614	(727)	-	(1)	(728)
Foreign currency option contracts								
- Options purchased	27	-	-	27	-	-	-	-
- Options written	-	-	-	-	(26)	-	-	(26)
	18,289	-	1	18,290	(13,434)	-	(1)	(13,435)
Interest rate contracts								
Futures	1	-	-	1	(9)	-	-	(9)
Swaps	700	379	8	1,087	(1,153)	(153)	(78)	(1,384)
Interest rate option contracts								
- Swaptions written	-	-	-	-	(5)	-	-	(5)
- Bond options written	-	-	-	-	(7)	-	-	(7)
	701	379	8	1,088	(1,174)	(153)	(78)	(1,405)
Bullion contracts	890	-	-	890	(1,728)	-	-	(1,728)
Equity contracts	1,129	-	-	1,129	(1,137)	-	-	(1,137)
Total	21,009	379	9	21,397	(17,473)	(153)	(79)	(17,705)

## 22. Derivative financial instruments (continued)

	At 31 December 2007							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot and forwards	12,588	-	-	12,588	(7,822)	-	(10)	(7,832)
Swaps	269	-	-	269	(634)	-	-	(634)
Foreign currency option contracts								
– Options purchased	48	-	-	48	-	-	-	-
– Options written	-	-	-	-	(51)	-	-	(51)
	12,905	-	-	12,905	(8,507)	-	(10)	(8,517)
Interest rate contracts								
Swaps	492	10	23	525	(885)	(124)	(90)	(1,099)
Interest rate option contracts								
– Swaptions written	-	-	-	-	(17)	-	-	(17)
– Bond options written	-	-	-	-	(23)	-	-	(23)
	492	10	23	525	(925)	(124)	(90)	(1,139)
Bullion contracts	774	-	-	774	(1,110)	-	-	(1,110)
Equity contracts	273	-	-	273	(326)	-	-	(326)
Total	14,444	10	23	14,477	(10,868)	(124)	(100)	(11,092)

**22. Derivative financial instruments (continued)**

The credit risk weighted amounts of the above derivative financial instruments are as follows:

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Exchange rate contracts		
Forwards	<b>659</b>	1,017
Swaps	<b>660</b>	492
Foreign currency option contracts		
– Options purchased	<b>6</b>	19
Interest rate contracts		
Swaps	<b>265</b>	104
Bullion contracts	<b>50</b>	63
Equity contracts	<b>79</b>	49
	<b>1,719</b>	1,744

The credit risk weighted amounts are the amounts that have been calculated in accordance with the Banking (Capital) Rules. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

There is no effect of bilateral netting agreement on the fair values or the credit risk-weighted amounts of the derivative financial instruments.

Approximately 56% (31 December 2007: 52%) of the Group's transactions in derivative contracts are conducted with other financial institutions.



**23. Advances and other accounts**

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Personal loans and advances	<b>152,491</b>	141,708
Corporate loans and advances	<b>323,096</b>	271,354
Advances to customers	<b>475,587</b>	413,062
Loan impairment allowances		
– Individually assessed	<b>(416)</b>	(381)
– Collectively assessed	<b>(1,108)</b>	(1,004)
	<b>474,063</b>	411,677
Trade bills	<b>9,268</b>	5,334
Advances to banks and other financial institutions	<b>3,681</b>	3,223
Total	<b>487,012</b>	420,234

As at 30 June 2008, advances to customers included accrued interest on gross advances of HK\$1,147 million (31 December 2007: HK\$1,454 million).

As at 30 June 2008 and 31 December 2007, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

## 24. Investment in securities

	At 30 June 2008 HK\$'m	At 31 December 2007 HK\$'m
<b>(a) Available-for-sale securities</b>		
Debt securities, at fair value		
– Listed in Hong Kong	2,794	3,659
– Listed outside Hong Kong	33,415	18,455
	<b>36,209</b>	22,114
– Unlisted	79,095	77,959
	<b>115,304</b>	100,073
Equity securities, at fair value		
– Listed in Hong Kong	3,282	4,135
– Listed outside Hong Kong	453	–
	<b>3,735</b>	4,135
– Unlisted	78	445
	<b>3,813</b>	4,580
	<b>119,117</b>	104,653
<b>(b) Held-to-maturity securities</b>		
Listed, at amortised cost		
– in Hong Kong	4,078	4,107
– outside Hong Kong	23,165	21,078
	<b>27,243</b>	25,185
Unlisted, at amortised cost	108,543	141,925
	<b>135,786</b>	167,110
Impairment allowances	(2,281)	(1,682)
	<b>133,505</b>	165,428
<b>(c) Loans and receivables</b>		
Unlisted, at amortised cost	10,075	31,102
<b>Total</b>	<b>262,697</b>	301,183
Market value of listed held-to-maturity securities	<b>26,708</b>	24,776

**24. Investment in securities (continued)**

Investment in securities is analysed by type of issuer as follows:

	At 30 June 2008			
	Available- for-sale securities	Held-to- maturity securities	Loans and receivables	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Sovereigns	15,474	1,463	–	16,937
Public sector entities	7,697	18,341	–	26,038
Banks and other financial institutions	64,948	84,932	10,075	159,955
Corporate entities	30,998	28,769	–	59,767
	<b>119,117</b>	<b>133,505</b>	<b>10,075</b>	<b>262,697</b>

	At 31 December 2007			
	Available- for-sale securities	Held-to- maturity securities	Loans and receivables	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Sovereigns	13,402	1,814	–	15,216
Public sector entities	9,673	20,530	–	30,203
Banks and other financial institutions	47,989	108,547	31,102	187,638
Corporate entities	33,589	34,537	–	68,126
	<b>104,653</b>	<b>165,428</b>	<b>31,102</b>	<b>301,183</b>

Available-for-sale and held-to-maturity securities are analysed as follows:

	Available-for-sale securities		Held-to-maturity securities	
	At 30 June 2008 HK\$'m	At 31 December 2007 HK\$'m	At 30 June 2008 HK\$'m	At 31 December 2007 HK\$'m
Treasury bills	9,425	9,396	100	200
Certificates of deposit held	6,576	7,466	13,543	11,988
Others	103,116	87,791	119,862	153,240
	<b>119,117</b>	<b>104,653</b>	<b>133,505</b>	<b>165,428</b>

**25. Investment properties**

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
At 1 January	<b>8,058</b>	7,481
Disposals	<b>(89)</b>	(200)
Fair value gains (Note 13)	<b>701</b>	1,056
Reclassification to properties, plant and equipment (Note 26)	<b>(36)</b>	(279)
At period/year end	<b>8,634</b>	8,058

**26. Properties, plant and equipment**

	<b>Premises HK\$'m</b>	<b>Equipment, fixtures and fittings HK\$'m</b>	<b>Total HK\$'m</b>
Net book value at 1 January 2008	<b>20,783</b>	<b>2,510</b>	<b>23,293</b>
Additions	<b>13</b>	<b>204</b>	<b>217</b>
Disposals	–	<b>(1)</b>	<b>(1)</b>
Revaluation	<b>2,165</b>	–	<b>2,165</b>
Depreciation for the period (Note 12)	<b>(191)</b>	<b>(289)</b>	<b>(480)</b>
Reclassification from investment properties (Note 25)	<b>36</b>	–	<b>36</b>
Net book value at 30 June 2008	<b>22,806</b>	<b>2,424</b>	<b>25,230</b>
At 30 June 2008			
Cost or valuation	<b>22,806</b>	<b>5,795</b>	<b>28,601</b>
Accumulated depreciation and impairment	–	<b>(3,371)</b>	<b>(3,371)</b>
Net book value at 30 June 2008	<b>22,806</b>	<b>2,424</b>	<b>25,230</b>
Net book value at 1 January 2007	17,906	1,834	19,740
Additions	–	1,147	1,147
Disposals	(16)	(17)	(33)
Revaluation	2,946	–	2,946
Depreciation for the year	(332)	(455)	(787)
Reclassification from investment properties (Note 25)	279	–	279
Exchange adjustments	–	1	1
Net book value at 31 December 2007	20,783	2,510	23,293
At 31 December 2007			
Cost or valuation	20,783	5,642	26,425
Accumulated depreciation and impairment	–	(3,132)	(3,132)
Net book value at 31 December 2007	20,783	2,510	23,293

**26. Properties, plant and equipment (continued)**

The analysis of cost or valuation of the above assets is as follows:

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
At 30 June 2008			
At cost	–	5,795	5,795
At valuation	22,806	–	22,806
	<b>22,806</b>	<b>5,795</b>	<b>28,601</b>
At 31 December 2007			
At cost	–	5,642	5,642
At valuation	20,783	–	20,783
	<b>20,783</b>	<b>5,642</b>	<b>26,425</b>

**27. Other assets**

	At 30 June 2008 HK\$'m	At 31 December 2007 HK\$'m
Repossessed assets	136	76
Precious metals	1,843	1,741
Accounts receivable and prepayments	11,184	19,040
	<b>13,163</b>	<b>20,857</b>

**28. Financial liabilities at fair value through profit or loss**

	At 30 June 2008 HK\$'m	At 31 December 2007 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills (Note 31)	6,689	3,492
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 29)	3,601	5,959
– Certificates of deposit issued	1,823	1,954
	<b>5,424</b>	<b>7,913</b>
	<b>12,113</b>	<b>11,405</b>

**28. Financial liabilities at fair value through profit or loss (continued)**

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2008 is more than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$33 million, and it was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$44 million as at 31 December 2007. The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the period and cumulatively, attributable to changes in credit risk is insignificant.

**29. Deposits from customers**

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Current, savings and other deposit accounts (per condensed consolidated balance sheet)	<b>819,110</b>	793,606
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 28)	<b>3,601</b>	5,959
	<b>822,711</b>	799,565
Analysed by:		
Demand deposits and current accounts		
– corporate customers	<b>32,682</b>	32,645
– individual customers	<b>8,225</b>	7,854
	<b>40,907</b>	40,499
Savings deposits		
– corporate customers	<b>74,292</b>	76,668
– individual customers	<b>221,210</b>	209,985
	<b>295,502</b>	286,653
Time, call and notice deposits		
– corporate customers	<b>212,440</b>	172,342
– individual customers	<b>273,862</b>	300,071
	<b>486,302</b>	472,413
	<b>822,711</b>	799,565

**30. Other accounts and provisions**

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Other accounts payable	<b>24,864</b>	33,335
Provisions	<b>11</b>	9
	<b>24,875</b>	33,344

**31. Assets pledged as security**

As at 30 June 2008, liabilities of the Group amounting to HK\$6,689 million (31 December 2007: HK\$3,492 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$3,675 million (31 December 2007: Nil) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK\$11,629 million (31 December 2007: HK\$3,836 million) included in "Trading securities" and "Available-for-sale securities".

**32. Deferred taxation**

Deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in this interim financial information in accordance with HKAS 12 "Income Taxes".

The major components of deferred tax assets and liabilities recorded in the condensed consolidated balance sheet, and the movements during the first half of 2008 and the year ended 31 December 2007 are as follows:

	At 30 June 2008					
	Accelerated tax depreciation	Asset revaluation	Tax losses	Provisions	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2008	533	3,777	(15)	(169)	(182)	3,944
(Credited)/charged to income statement (Note 15)	(43)	(26)	(73)	8	23	(111)
Charged/(credited) to equity and minority interests	-	262	-	-	(235)	27
At 30 June 2008	<b>490</b>	<b>4,013</b>	<b>(88)</b>	<b>(161)</b>	<b>(394)</b>	<b>3,860</b>

**32. Deferred taxation (continued)**

	At 31 December 2007					
	Accelerated tax depreciation	Asset revaluation	Tax losses	Provisions	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2007	401	3,155	(71)	(89)	(74)	3,322
Charged/(credited) to income statement	132	143	56	(80)	1	252
Charged/(credited) to equity and minority interests	-	479	-	-	(109)	370
At 31 December 2007	533	3,777	(15)	(169)	(182)	3,944

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the condensed consolidated balance sheet:

	At 30 June 2008 HK\$'m	At 31 December 2007 HK\$'m
Deferred tax assets	(93)	(23)
Deferred tax liabilities	3,953	3,967
	<b>3,860</b>	<b>3,944</b>

	At 30 June 2008 HK\$'m	At 31 December 2007 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(93)	(23)
Deferred tax liabilities to be settled after more than twelve months	4,334	4,115
	<b>4,241</b>	<b>4,092</b>



**32. Deferred taxation (continued)**

The deferred tax charged/(credited) to equity during the first half of 2008 and the year ended 31 December 2007 is as follows:

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Fair value reserves in shareholders' equity:		
– premises	263	476
– available-for-sale securities	(240)	(109)
– minority interests	4	3
	<b>27</b>	370

**33. Insurance contract liabilities**

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Gross and net		
At 1 January	22,497	14,239
Benefits paid	(737)	(881)
Claims incurred and movement in liabilities	3,310	9,139
At period/year end	<b>25,070</b>	22,497

**34. Subordinated liability**

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Subordinated loan	<b>8,150</b>	–

In June 2008, BOCHK obtained a floating-rate subordinated loan with a principal amount of EUR660 million from BOC, the intermediate holding company. The loan will be due and repayable in June 2018. Interest is charged at 6-month EURIBOR plus 0.85% per annum for the first five years of the loan term, and at 6-month EURIBOR plus 1.35% per annum for the remaining tenure, payable semi-annually.

### 35. Share capital

	At 30 June 2008 HK\$'m	At 31 December 2007 HK\$'m
Authorised: 20,000,000,000 ordinary shares of HK\$5 each	100,000	100,000
Issued and fully paid: 10,572,780,266 ordinary shares of HK\$5 each	52,864	52,864

### 36. Reserves

The Group's reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity on pages 44 to 45.

### 37. Notes to condensed consolidated cash flow statement

#### (a) Reconciliation of operating profit to operating cash inflow before taxation

	Half-year ended 30 June 2008 HK\$'m	Half-year ended 30 June 2007 HK\$'m
Operating profit	7,724	8,808
Depreciation	480	373
Net charge/(reversal) of impairment allowances	2,227	(166)
Unwind of discount on impairment	(21)	(14)
Advances written off net of recoveries	86	214
Interest expense on subordinated liability	6	–
Change in cash and balances with banks and other financial institutions with original maturity over three months	17,866	(6,883)
Change in placements with banks and other financial institutions with original maturity over three months	(627)	(9,863)
Change in financial assets at fair value through profit or loss	565	2,360
Change in derivative financial instruments	(307)	(615)
Change in advances and other accounts	(66,914)	(46,767)
Change in investment in securities	33,400	(1,751)
Change in other assets	7,689	(46,795)
Change in deposits and balances of banks and other financial institutions	21,026	(2,316)
Change in financial liabilities at fair value through profit or loss	708	3,077
Change in deposits from customers	25,504	109,223
Change in debt securities in issue at amortised cost	667	283
Change in other accounts and provisions	(8,471)	(48)
Change in insurance contract liabilities	2,573	2,196
Exchange difference	199	6
Operating cash inflow before taxation	44,380	11,322
Cash flows from operating activities included:		
– Interest received	19,220	21,158
– Interest paid	7,254	12,427
– Dividend received	100	9

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

	<b>At 30 June 2008 HK\$'m</b>	At 30 June 2007 HK\$'m
Cash and balances with banks and other financial institutions with original maturity within three months	<b>173,272</b>	110,712
Placements with banks and other financial institutions with original maturity within three months	<b>10,847</b>	14,339
Treasury bills with original maturity within three months	<b>12,820</b>	8,244
Certificates of deposit held with original maturity within three months	<b>1,816</b>	702
	<b>198,755</b>	133,997

**38. Contingent liabilities and commitments**

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the corresponding aggregate credit risk weighted amount:

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Direct credit substitutes	<b>1,511</b>	2,120
Transaction-related contingencies	<b>8,186</b>	7,075
Trade-related contingencies	<b>33,231</b>	29,081
Commitments that are unconditionally cancellable without prior notice	<b>53,169</b>	50,034
Other commitments with an original maturity of		
– up to one year	<b>93,133</b>	84,804
– over one year	<b>48,627</b>	58,189
	<b>237,857</b>	231,303
Credit risk weighted amount	<b>45,867</b>	47,356

The calculation basis of the credit risk weighted amount has been set out in Note 22.

### 39. Capital commitments

The Group has the following outstanding capital commitments not provided for in this interim financial information:

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Authorised and contracted for but not provided for	<b>318</b>	165
Authorised but not contracted for	<b>54</b>	1
	<b>372</b>	166

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

### 40. Operating lease commitments

#### (a) *The Group as lessee*

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Land and buildings		
– not later than one year	<b>357</b>	321
– later than one year but not later than five years	<b>378</b>	297
– later than five years	<b>5</b>	–
	<b>740</b>	618

Certain non-cancellable operating leases included in the tables above were subject to renegotiation and rent adjustment with reference to market rates prevailing at specified agreed dates.

**40. Operating lease commitments (continued)****(b) The Group as lessor**

The Group has contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

	<b>At 30 June 2008 HK\$'m</b>	At 31 December 2007 HK\$'m
Land and buildings		
– not later than one year	<b>276</b>	251
– later than one year but not later than five years	<b>272</b>	215
	<b>548</b>	466

The Group leases its investment properties (Note 25) under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions. None of the leases include contingent rentals.

**41. Segmental reporting**

The Group engages in many businesses in several regions. For segmental reporting purposes, information is solely provided in respect of business segments. Geographical segment information is not presented because over 90% of the Group's revenues and profits before tax are derived from the assets located in Hong Kong.

Information about the four business segments is provided in segmental reporting. They are Personal Banking, Corporate Banking, Treasury and Insurance.

Both Personal Banking and Corporate Banking segments provide general banking services. Personal Banking serves individual customers while Corporate Banking deals with non individual customers. The Treasury segment is responsible for managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. The Insurance segment shows business relating to the Group's long-term life insurance products, including traditional and linked individual life insurance and group life insurance products. "Others" refers to those items related to the Group as a whole but independent of the other four business segments, including the Group's holdings of premises, investment properties and interests in associates.

Revenues, expenses, assets and liabilities of any business segment mainly include items directly attributable to the segment. In relation to occupation of the Group's premises, rentals are internally charged based on market rates according to the areas occupied. For management overheads, allocations are made on reasonable bases. During the second half of 2007, the Group has revised the allocation bases and comparative amounts have been reclassified to conform with the current year's presentation. There is no impact on the Group's income statement and balance sheet. Inter-segment funding is charged according to the internal funds transfer pricing mechanism of the Group. The charge on any such funding is mainly made by reference to the corresponding money market rate.

## 41. Segmental reporting (continued)

	Half-year ended 30 June 2008							
	Personal HK\$'m	Corporate HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Net interest (expenses)/income								
– external	(1,950)	3,092	8,319	538	30	10,029	–	10,029
– inter-segment	5,280	(120)	(4,863)	–	(297)	–	–	–
	3,330	2,972	3,456	538	(267)	10,029	–	10,029
Net fees and commission income/ (expenses)	2,141	1,012	(2)	(164)	(22)	2,965	(66)	2,899
Net trading income/(expenses)	370	90	898	–	(121)	1,237	–	1,237
Net loss on financial instruments designated at fair value through profit or loss	–	–	(92)	(1,392)	–	(1,484)	–	(1,484)
Net gain on investment in securities	–	–	128	–	–	128	–	128
Net insurance premium income	–	–	–	4,503	–	4,503	(2)	4,501
Other operating income	21	30	1	8	977	1,037	(706)	331
<b>Total operating income</b>	<b>5,862</b>	<b>4,104</b>	<b>4,389</b>	<b>3,493</b>	<b>567</b>	<b>18,415</b>	<b>(774)</b>	<b>17,641</b>
Net insurance benefits and claims	–	–	–	(3,602)	–	(3,602)	–	(3,602)
<b>Net operating income before impairment allowances</b>	<b>5,862</b>	<b>4,104</b>	<b>4,389</b>	<b>(109)</b>	<b>567</b>	<b>14,813</b>	<b>(774)</b>	<b>14,039</b>
Net charge of impairment allowances	(18)	(60)	(2,149)	–	–	(2,227)	–	(2,227)
<b>Net operating income/(expenses)</b>	<b>5,844</b>	<b>4,044</b>	<b>2,240</b>	<b>(109)</b>	<b>567</b>	<b>12,586</b>	<b>(774)</b>	<b>11,812</b>
Operating expenses	(2,879)	(1,081)	(431)	(69)	(402)	(4,862)	774	(4,088)
<b>Operating profit/(loss)</b>	<b>2,965</b>	<b>2,963</b>	<b>1,809</b>	<b>(178)</b>	<b>165</b>	<b>7,724</b>	<b>–</b>	<b>7,724</b>
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	710	710	–	710
Net loss from disposal/revaluation of properties, plant and equipment	–	–	–	–	(8)	(8)	–	(8)
Share of profits less losses of associates	–	–	–	–	8	8	–	8
<b>Profit/(loss) before taxation</b>	<b>2,965</b>	<b>2,963</b>	<b>1,809</b>	<b>(178)</b>	<b>875</b>	<b>8,434</b>	<b>–</b>	<b>8,434</b>
<b>At 30 June 2008</b>								
<b>Assets</b>								
Segment assets	165,005	339,456	563,506	27,738	41,196	1,136,901	(10,370)	1,126,531
Interests in associates	–	–	–	–	89	89	–	89
Unallocated corporate assets	–	–	–	–	548	548	–	548
	165,005	339,456	563,506	27,738	41,833	1,137,538	(10,370)	1,127,168
<b>Liabilities</b>								
Segment liabilities	524,774	324,447	154,217	25,982	282	1,029,702	(10,370)	1,019,332
Unallocated corporate liabilities	–	–	–	–	10,317	10,317	–	10,317
	524,774	324,447	154,217	25,982	10,599	1,040,019	(10,370)	1,029,649
<b>Half-year ended 30 June 2008</b>								
<b>Other information</b>								
Additions of properties, plant and equipment	4	1	–	1	211	217	–	217
Depreciation	133	65	52	2	228	480	–	480
Amortisation of securities	–	–	(73)	–	–	(73)	–	(73)

## 41. Segmental reporting (continued)

	Half-year ended 30 June 2007							
	Personal HK\$m	Corporate HK\$m	Treasury HK\$m	Insurance HK\$m	Others HK\$m	Subtotal HK\$m	Eliminations HK\$m	Consolidated HK\$m
Net interest (expenses)/income								
– external	(4,198)	2,746	9,956	346	53	8,903	–	8,903
– inter-segment	8,039	57	(7,505)	–	(591)	–	–	–
	3,841	2,803	2,451	346	(538)	8,903	–	8,903
Net fees and commission income/ (expenses)	2,037	781	7	(111)	(33)	2,681	(49)	2,632
Net trading income	268	81	46	–	22	417	–	417
Net loss on financial instruments designated at fair value through profit or loss	–	–	(5)	(389)	–	(394)	–	(394)
Net gain on investment in securities	–	–	2	–	–	2	–	2
Net insurance premium income	–	–	–	2,936	–	2,936	(3)	2,933
Other operating income	27	1	1	5	804	838	(639)	199
<b>Total operating income</b>	6,173	3,666	2,502	2,787	255	15,383	(691)	14,692
Net insurance benefits and claims	–	–	–	(2,632)	–	(2,632)	–	(2,632)
<b>Net operating income before impairment allowances</b>	6,173	3,666	2,502	155	255	12,751	(691)	12,060
Net (charge)/reversal of impairment allowances	(54)	220	–	–	–	166	–	166
<b>Net operating income</b>	6,119	3,886	2,502	155	255	12,917	(691)	12,226
Operating expenses	(2,581)	(899)	(258)	(48)	(323)	(4,109)	691	(3,418)
<b>Operating profit/(loss)</b>	3,538	2,987	2,244	107	(68)	8,808	–	8,808
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	416	416	–	416
Net gain from disposal/revaluation of properties, plant and equipment	–	–	–	–	5	5	–	5
Share of profits less losses of associates	–	–	–	–	(2)	(2)	–	(2)
<b>Profit before taxation</b>	3,538	2,987	2,244	107	351	9,227	–	9,227
<b>At 31 December 2007</b>								
<b>Assets</b>								
Segment assets	162,634	281,680	566,661	24,545	37,567	1,073,087	(5,771)	1,067,316
Interests in associates	–	–	–	–	83	83	–	83
Unallocated corporate assets	–	–	–	–	238	238	–	238
	162,634	281,680	566,661	24,545	37,888	1,073,408	(5,771)	1,067,637
<b>Liabilities</b>								
Segment liabilities	545,397	284,353	116,095	23,182	2,539	971,566	(5,771)	965,795
Unallocated corporate liabilities	–	–	–	–	6,784	6,784	–	6,784
	545,397	284,353	116,095	23,182	9,323	978,350	(5,771)	972,579
<b>Half-year ended 30 June 2007</b>								
<b>Other information</b>								
Additions of properties, plant and equipment	2	–	–	–	285	287	–	287
Depreciation	104	47	23	1	198	373	–	373
Amortisation of securities	–	–	919	–	–	919	–	919

#### 42. Significant related party transactions

Related parties are those parties that have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or other entities.

The Group provides loans and credit facilities to related parties in the normal course of business. Such transactions are conducted with terms that are no more favourable than those contracted with third party customers of the Group.

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

**(a) Advances to third parties guaranteed by BOC Group companies**

As at 30 June 2008, BOC, the intermediate holding company, provided guarantees for loans in favour of the Group amounting to HK\$7,450 million (31 December 2007: HK\$3,693 million) to certain third parties. BOC held equity interests of not more than 20% in these third parties.

**(b) Advances acquired from BOC**

During the first half of 2008, the Group has entered into an agreement with BOC to acquire advances amounting to USD300 million arising from trade finance facilities granted to customers. The outstanding amount of such advances at balance sheet date has been included as “advances to customers” in this interim financial information.



**42. Significant related party transactions (continued)****(c) Summary of transactions entered into during the ordinary course of business with BOC Group companies**

The aggregate income and expenses arising from related party transactions with the immediate holding company, the intermediate holding companies, associates of the Company as well as subsidiaries and associates of BOC are summarised as follows:

	Half-year ended 30 June 2008			
	Notes	Immediate and intermediate holding companies HK\$'m	Associates HK\$'m	Other related parties <sup>1</sup> HK\$'m
Income statement items:				
Interest income	(i)	574	–	7
Interest expense	(ii)	(235)	(1)	(63)
Insurance premium paid (net)	(iii)	–	–	(14)
Administrative services fees received/receivable	(iv)	15	–	12
Rental fees received/receivable	(iv)	1	–	27
Credit card commission paid/payable (net)	(v)	(43)	–	(1)
Securities brokerage commission paid/payable (net)	(v)	–	–	(188)
Rental, property management and letting agency fees paid/payable	(v)	–	–	(48)
Funds selling commission received	(vi)	–	–	40
Correspondent banking fee received	(vii)	7	–	–
Net trading losses		(7)	–	(76)

## 42. Significant related party transactions (continued)

## (c) Summary of transactions entered into during the ordinary course of business with BOC Group companies (continued)

	Half-year ended 30 June 2007			
	Notes	Immediate and intermediate holding companies HK\$'m	Associates HK\$'m	Other related parties <sup>1</sup> HK\$'m
Income statement items:				
Interest income	(i)	205	–	9
Interest expense	(ii)	(232)	(2)	(168)
Insurance premium paid (net)	(iii)	–	–	(20)
Administrative services fees received/receivable	(iv)	16	–	16
Rental fees received/receivable	(iv)	–	–	11
Credit card commission paid/payable (net)	(v)	(42)	–	(1)
Securities brokerage commission paid/payable (net)	(v)	–	–	(178)
Rental, property management and letting agency fees paid/payable	(v)	–	–	(40)
Funds selling commission received	(vi)	–	–	71
Correspondent banking fee received	(vii)	7	–	–
Loans services fees received		–	–	1
Net trading gains		11	–	54

## 42. Significant related party transactions (continued)

## (c) Summary of transactions entered into during the ordinary course of business with BOC Group companies (continued)

	At 30 June 2008			
	Notes	Immediate and intermediate holding companies HK\$'m	Associates HK\$'m	Other related parties <sup>1</sup> HK\$'m
Balance sheet items:				
Cash and balances with banks and other financial institutions	(i)	21,056	–	21
Placements with banks and other financial institutions maturing between one and twelve months	(i)	14,013	–	–
Financial assets at fair value through profit or loss		297	–	2,030
Derivative financial instruments assets	(viii)	38	–	3
Advances and other accounts	(i)	45	–	860
Investment in securities	(i)	367	–	–
Other assets	(ix)	52	–	1,351
Deposits and balances of banks and other financial institutions	(ii)	11,473	–	617
Deposits from customers	(ii)	84	75	4,473
Derivative financial instruments liabilities	(viii)	25	–	89
Other accounts and provisions	(ix)	54	–	2,306
Subordinated liability	(x)	8,150	–	–
Off-balance sheet items:				
Contingent liabilities and commitments	(xi)	7,422	–	722

**42. Significant related party transactions (continued)****(c) Summary of transactions entered into during the ordinary course of business with BOC Group companies (continued)**

	At 31 December 2007			
	Notes	Immediate and intermediate holding companies HK\$'m	Associates HK\$'m	Other related parties <sup>1</sup> HK\$'m
Balance sheet items:				
Cash and balances with banks and other financial institutions	(i)	22,854	–	30
Placements with banks and other financial institutions maturing between one and twelve months	(i)	8,917	–	–
Financial assets at fair value through profit or loss		438	–	2,097
Derivative financial instruments assets	(viii)	30	–	3
Advances and other accounts	(i)	21	–	–
Investment in securities	(i)	347	–	–
Other assets	(ix)	64	–	5,154
Deposits and balances of banks and other financial institutions	(ii)	15,478	–	680
Deposits from customers	(ii)	74	85	7,158
Derivative financial instruments liabilities	(viii)	14	–	23
Other accounts and provisions	(ix)	100	–	5,538
Off-balance sheet items:				
Contingent liabilities and commitments	(xi)	2,248	–	3,722

1 Subsidiaries and associates of BOC and post-employment benefit plans for the benefit of employees of the Company are collectively disclosed as other related parties and certain of which are state-controlled entities.

Notes:

**(i) Interest income**

In the ordinary course of business, the Group enters into various transactions with BOC Group companies including deposit of cash and balances with banks and other financial institutions, placement of interbank deposits, investment in securities and provision of loans and credit facilities. The transactions were conducted at prices and terms that are no more favourable than those charged to and contracted with other third party customers of the Group.

**42. Significant related party transactions (continued)****(c) Summary of transactions entered into during the ordinary course of business with BOC Group companies (continued)**

Notes: (continued)

**(ii) Interest expense**

In the ordinary course of business, the Group accepts interbank deposits and current, fixed, savings and other deposits from BOC Group companies at the relevant market rates at the time of the transactions. Interest on a subordinated loan is charged at the contracted rate as denoted in Note 34.

**(iii) Insurance premium paid/insurance commission received (net)**

In the ordinary course of business, the Group provides insurance agency services to and purchases general insurance policies from BOC Group companies at the relevant market rates at the time of the transactions.

**(iv) Administrative services fees and rental fees received/receivable**

In the ordinary course of business, the Group receives administrative services fees for the provision of various administrative services including internal audit, technology, human resources support and training to BOC Group companies mainly on the basis of cost plus a margin of 5%, and receives office premises rental fees from BOC Group companies at the relevant market rates at the time of the transactions.

**(v) Commission, property management, letting agency fees and rental fees paid/payable**

In the ordinary course of business, the Group pays commission fees for credit card administrative and promotional services, securities brokerage services, property management and letting agency fees to BOC Group companies. The Group also pays rental fees to BOC Group companies. These transactions have been entered into in the ordinary course of business and were priced at the relevant market rates at the time of the transactions.

**(vi) Funds selling commission received**

In the ordinary course of business, the Group receives commission for engaging in promotion and sale of fund products of a BOC Group company to customers of the Group at the relevant market rates at the time of the transactions.

**(vii) Correspondent banking fee received**

In the ordinary course of business, BOC provides services to the Group's customers including remittance services and advising on and collecting letters of credit issued by the Group. The Group shares the fees paid by its customers with BOC on the basis agreed between the parties from time to time.

**(viii) Derivative financial instruments assets/liabilities**

In the ordinary course of business, the Group enters into foreign exchange contracts and interest rate contracts with BOC Group companies. As at 30 June 2008 the aggregate notional amount of such derivative transactions amounted to HK\$23,270 million (31 December 2007: HK\$13,219 million) whilst the corresponding derivative financial instruments assets and liabilities amounted to HK\$41 million (31 December 2007: HK\$33 million) and HK\$114 million (31 December 2007: HK\$37 million) respectively. These transactions are executed at the relevant market rates at the time of the transactions.

**42. Significant related party transactions (continued)****(c) Summary of transactions entered into during the ordinary course of business with BOC Group companies (continued)**

Notes: (continued)

**(ix) Other assets and other accounts and provisions**

Included within "Other assets" and "Other accounts and provisions" are receivables from and payables to BOC Group companies. The amounts mainly represent the account receivables from and payables to a subsidiary of BOC in relation to dealing in securities trading transactions on behalf of the Group's customers. The receivables and payables arose from transactions carried out in the normal course of business.

**(x) Subordinated liability**

BOCHK entered into a subordinated credit facility agreement with BOC for the purposes of capital management. Major commercial terms of the loan are stated in Note 34.

**(xi) Contingent liabilities and commitments**

In the ordinary course of business, the Group provides loan facilities and trade finance services to, and guarantees for the obligations of BOC and its subsidiaries and associates on normal commercial terms.

**(d) Key management personnel**

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and senior management. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior periods, no material transaction was conducted with key management personnel of BOCHK, its holding companies and parties related to them.

The key management compensation for the six months ended 30 June 2008 and 2007 is detailed as follows:

	<b>Half-year ended 30 June 2008 HK\$m</b>	Half-year ended 30 June 2007 HK\$m
Salaries and other short-term employee benefits	<b>31</b>	27
Post-employment benefits	<b>1</b>	1
	<b>32</b>	28

**42. Significant related party transactions (continued)****(e) Transactions with Central SAFE and other companies controlled by Central SAFE**

Central SAFE is the controlling entity of BOC. Central SAFE is approved by the State Council of the PRC to assume the rights and obligations of the equity owner on behalf of the State. Accordingly, Central SAFE, acting on behalf of the State, has become the ultimate holding company of the Company by virtue of its interest in BOC.

The Group did not have any balances or enter into any transactions with Central SAFE for the six months ended 30 June 2008 and 2007 (31 December 2007: Nil).

Central SAFE has controlling equity interests in certain other entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business. These include loans, investment securities and money market transactions. The outstanding balances at the period/year end, and the related income and expenses for the period are as follows:

	2008		2007	
	Interest income/ (expense) for the six months ended 30 June HK\$'m	Outstanding balance at 30 June HK\$'m	Interest income/ (expense) for the six months ended 30 June HK\$'m	Outstanding balance at 31 December HK\$'m
Advances to customers/banks and other financial institutions	–	–	–	23
Investment in securities	50	3,989	36	2,433
Financial assets at fair value through profit or loss	9	15	–	9
Due from banks and other financial institutions	28	501	35	1,443
Due to banks and other financial institutions	(16)	1,286	(1)	2,417

**42. Significant related party transactions (continued)**

**(f) Transactions with the Ministry of Finance and the People's Bank of China and other state-controlled entities**

The Group enters into banking transactions with the Ministry of Finance and the People's Bank of China in the normal course of business. These include purchases and redemption of treasury bonds and money market transactions.

The state-controlled entities are those, other than BOC (the intermediate holding company and its subsidiaries) and Central SAFE and its controlled companies, over which the PRC government directly or indirectly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies through its government authorities, agencies and affiliates. The Group has extensive transactions with other state controlled entities. These transactions, conducted in the ordinary course of business, may include, but are not limited to, the following:

- lending, provision of credits and guarantees and deposit taking;
- inter-bank balance taking and placing;
- sale, purchase, underwriting and redemption of bonds issued by other state-controlled entities;
- rendering of foreign exchange, remittance and investment related services;
- provision of fiduciary activities; and
- purchase of utilities, transport, telecommunication and postal services.



### 43. Liquidity ratio

	Half-year ended 30 June 2008	Half-year ended 30 June 2007
Average liquidity ratio	42.47%	50.08%

The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the period.

The liquidity ratio is computed on the solo basis (the Hong Kong offices only) and is in accordance with the Fourth Schedule of the Banking Ordinance.

### 44. Currency concentrations

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions. The net options position is calculated based on the basis of delta-weighted positions of all foreign exchange options contracts.

	At 30 June 2008							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi Yuan	Others	Total
Spot assets	326,686	3,956	27,299	33,774	14,207	102,775	11,345	520,042
Spot liabilities	(253,254)	(3,029)	(19,165)	(30,888)	(23,735)	(101,853)	(27,127)	(459,051)
Forward purchases	211,449	28,741	29,660	33,092	28,738	28,235	49,473	409,388
Forward sales	(284,037)	(29,936)	(38,151)	(36,246)	(19,217)	(27,835)	(33,835)	(469,257)
Net options position	470	4	(7)	(40)	18	-	(69)	376
Net long/(short) position	1,314	(264)	(364)	(308)	11	1,322	(213)	1,498
Net structural position	235	-	-	-	-	1,378	-	1,613

	At 31 December 2007							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi Yuan	Others	Total
Spot assets	327,003	2,019	15,739	27,376	6,028	44,929	7,364	430,458
Spot liabilities	(224,622)	(4,764)	(9,215)	(24,055)	(12,951)	(44,055)	(19,615)	(339,277)
Forward purchases	159,983	22,718	25,775	22,051	25,907	26,760	43,162	326,356
Forward sales	(257,677)	(20,215)	(32,238)	(25,426)	(18,858)	(26,322)	(30,823)	(411,559)
Net options position	107	(16)	(17)	22	(5)	-	(9)	82
Net long/(short) position	4,794	(258)	44	(32)	121	1,312	79	6,060
Net structural position	84	-	-	-	-	459	-	543

**45. Cross-border claims**

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country, which is different from that of the counterparty, or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are analysed by geographical areas and disclosed as follows:

	<b>Banks</b> HK\$'m	<b>Public sector</b> <b>entities</b> HK\$'m	<b>Others</b> HK\$'m	<b>Total</b> HK\$'m
<b>At 30 June 2008</b>				
Asia, other than Hong Kong				
– Mainland China	65,516	83,408	47,413	196,337
– Others	67,896	117	20,696	88,709
	<b>133,412</b>	<b>83,525</b>	<b>68,109</b>	<b>285,046</b>
North America				
– United States	11,630	19,891	71,554	103,075
– Others	12,075	323	152	12,550
	<b>23,705</b>	<b>20,214</b>	<b>71,706</b>	<b>115,625</b>
Western Europe				
– Germany	35,499	990	1,361	37,850
– Others	116,501	265	8,484	125,250
	<b>152,000</b>	<b>1,255</b>	<b>9,845</b>	<b>163,100</b>
Total	<b>309,117</b>	<b>104,994</b>	<b>149,660</b>	<b>563,771</b>

**45. Cross-border claims (continued)**

	Banks HK\$'m	Public sector entities HK\$'m	Others HK\$'m	Total HK\$'m
At 31 December 2007				
Asia, other than Hong Kong				
– Mainland China	56,017	30,926	29,699	116,642
– Others	75,767	469	19,585	95,821
	131,784	31,395	49,284	212,463
North America				
– United States	9,726	27,179	78,144	115,049
– Others	18,081	95	68	18,244
	27,807	27,274	78,212	133,293
Western Europe				
– Germany	42,651	–	2,331	44,982
– Others	155,136	3	11,827	166,966
	197,787	3	14,158	211,948
Total	357,378	58,672	141,654	557,704

**46. Non-bank Mainland China exposures**

Non-bank counterparties are identified in accordance with the definitions set out in the prudential return “Quarterly Analysis of Loans and Advances and Provisions” issued by the HKMA. Exposures to Mainland China arising from non-bank counterparties are summarised as follows:

	At 30 June 2008			
	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m	Individually assessed impairment allowances HK\$'m
Mainland China entities	85,387	37,231	122,618	30
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	28,811	17,364	46,175	36
Other non-bank Mainland China exposures	12,419	5,322	17,741	9
	126,617	59,917	186,534	75

**46. Non-bank Mainland China exposures (continued)**

	At 31 December 2007			
	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m	Individually assessed impairment allowances HK\$'m
Mainland China entities	60,275	44,693	104,968	23
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	23,142	17,535	40,677	13
Other non-bank Mainland China exposures	10,133	8,261	18,394	8
	93,550	70,489	164,039	44

**47. Ultimate holding company**

Central SAFE, acting on behalf of the State, is the ultimate holding company of the Company whilst BOC is the Company's intermediate holding company.

**48. Compliance with HKAS 34**

The interim report for the first half of 2008 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

**49. Statutory accounts**

The information in the interim report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2007 have been delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 25 March 2008.