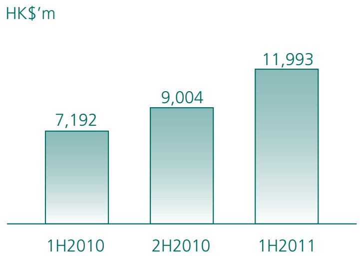
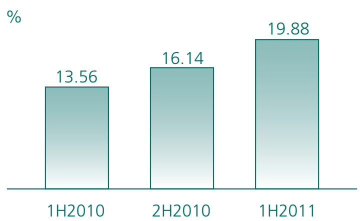
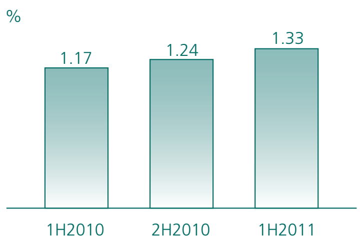
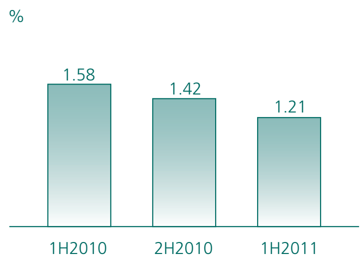
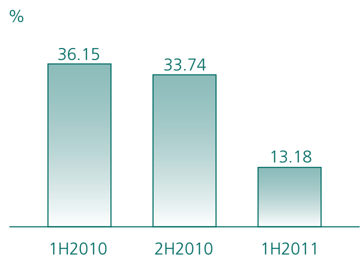
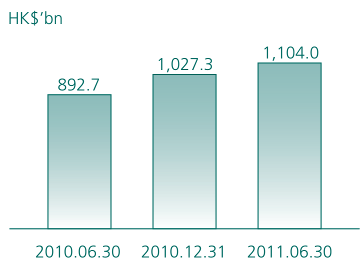
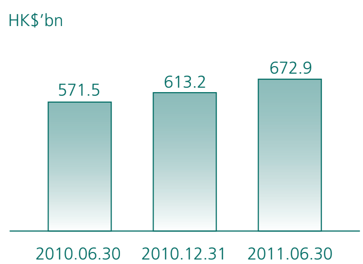
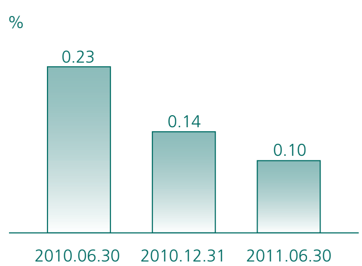
MANAGEMENT'S DISCUSSION AND ANALYSIS

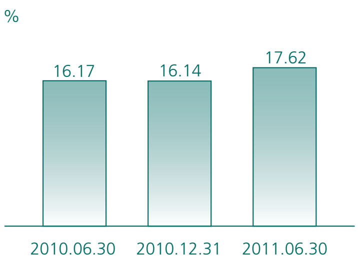
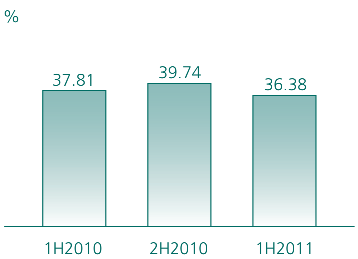
The following sections provide metrics and analytics of the Group's performance, financial positions, and risk management. These should be read in conjunction with the financial information included in this Interim Report.

FINANCIAL PERFORMANCE AND CONDITION IN BRIEF

The following table is a summary of the Group's key financial results for the first half of 2011 with a comparison with the previous two half-yearly periods.

Financial Indicators		2011 First Half Performance
1. Profit Attributable to Shareholders		**Profit attributable to shareholders** • The Group's profit continued to grow. Profit attributable to shareholders was HK$11,993 million, up HK$4,801 million, or 66.8%, year-on-year. • The Group recorded a net recovery from the underlying collateral of the Lehman Brothers Minibonds amounting to HK$2,854 million*. • Should the impact of the above-mentioned net recovery together with the expenses of Lehman Brothers-related products (hereafter called "impact of Lehman Brothers-related products") be excluded, profit attributable to shareholders would have been HK$9,679 million, up HK$2,423 million or 33.4% year-on-year, a record high since listing. * Refer to Note 2 and Note 11 to the Interim Financial Information.
2. Return on Average Shareholders' Equity ("ROE")[1]		**ROE** • ROE was 19.88%, increasing by 6.32 percentage points year-on-year. • Excluding the impact of the Lehman Brothers-related products, ROE would have been 15.75%, up 2.49 percentage points year-on-year.
3. Return on Average Total Assets ("ROA")[2]		**ROA** • ROA was 1.33%, up 0.16 percentage point year-on-year. • Excluding the impact of the Lehman Brothers-related products, ROA would have been 1.07%, down 0.11 percentage point year-on-year. The decrease was due to the expansion of the Group's average asset base with the growth of advances to customers and RMB interbank balances and placements.

Financial Indicators		2011 First Half Performance
4. Net Interest Margin ("NIM")		**NIM** • NIM was 1.21%, down 37 basis points year-on-year due to the increase in market rate-based loans under the low interest rate environment, intense competition for deposits and the diluting effect of RMB business in Hong Kong. • Excluding the estimated impact of RMB clearing services performed by BOCHK, NIM would have been 1.48%, down 16 basis points year-on-year.
5. Cost-to-Income Ratio ("CIR")		**CIR** • CIR was 13.18%, down 22.97 percentage points year-on-year, mainly due to the net recovery from the underlying collateral of the Lehman Brothers Minibonds. • Should the impact of the Lehman Brothers-related products be excluded, CIR would have been 31.92%, down 3.62 percentage points year-on-year.
6. Deposits from Customers (including structured deposits)		**Deposits from Customers** • Total deposits increased by 7.5% from the end of 2010, with the strong performance of RMB and USD deposits.
7. Advances to Customers		**Advances to Customers** • Advances to customers grew healthily by 9.7% from the end of 2010. The Group also improved the pricing of loans.
8. Classified or Impaired Loan Ratio[3]		**Classified or Impaired Loan Ratio** • Classified or impaired loan ratio was 0.10%, down 0.04 percentage point from the end of 2010. • Formation of new classified loans remained at a low level, representing approximately 0.03% of total loans.

<table>
<tr><th>Financial Indicators</th><th></th><th>2011 First Half Performance</th></tr>
<tr><td>9. Capital Adequacy Ratio ("CAR")[4]</td><td>
</td><td>CAR
• CAR was maintained at a high level of 17.62%.
• Core capital ratio was 12.87%.</td></tr>
<tr><td>10. Average Liquidity Ratio</td><td>
</td><td>Average Liquidity Ratio
• Average liquidity ratio was at a healthy level of 36.38%.</td></tr>
</table>

1 Return on Average Shareholders' Equity of the Company as defined in "Financial Highlights".

2 Return on Average Total Assets as defined in "Financial Highlights".

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

4 Capital adequacy ratio is 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 Group adopted the foundation internal ratings-based ("FIRB") approach to calculate credit risk and BOCHK adopted the internal models approach to calculate general market risk for interest rate and exchange rate exposures as at 30 June 2011, as opposed to the standardised (credit risk) ("STC") approach and standardised market risk ("STM") approach that were used as at 31 December 2010. As a result of the change in the basis used, the capital ratios shown above are not directly comparable.

ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

The Hong Kong economy continued to recover despite uncertainties such as the European debt crisis and the negative impact of the earthquake tragedy in Japan. Supported by strong private consumption and merchandise exports, Hong Kong's annualised GDP grew by 6.3% in the first half of the year. The labour market continued to improve, with the unemployment rate falling to 3.5% in the second quarter of the year. Inflationary pressures increased, driving up the overall consumer prices by 5.6% in June 2011 compared to a year ago. Market interest rates remained low, with the average 1-month HIBOR staying at around 0.18% in the first half of 2011.

The property market remained buoyant. The average price of private domestic properties showed an increase of 14.0% in the first half of 2011, following a 21.0% increase in 2010. Measures were taken by the government and regulatory body to ensure a more stable property market and mortgage environment. These included the Government's plan to increase land supply and the Hong Kong Monetary Authority's new guidelines to lower the loan-to-value ratio for mortgage loans. Meanwhile, in view of higher funding costs, banks raised the HIBOR-based mortgage rates several times in the first half of the year.

The Hong Kong stock market was adversely affected by the European debt crisis, concern over a slowdown in the global economy and the Mainland's credit tightening policy. As a result, investment sentiments turned weak in the first half.

The growth momentum of loans remained strong in the market due to the rise in demand, which was partly caused by the tightening of credit in the Mainland. Meanwhile, competition for deposits intensified and led to a rise in funding costs.

The offshore RMB market in Hong Kong expanded in an incremental and orderly manner. The demands for RMB trade settlement grew rapidly while RMB deposits in Hong Kong saw solid growth. Permission was granted to offshore monetary authorities and eligible banks to access the Mainland's RMB bond market. With regard to the RMB clearing bank business in Hong Kong, a major development was that the RMB Fiduciary Account Service was introduced to help Participating Banks to better manage their credit exposure to the Clearing Bank.

In summary, the operating environment for the banking industry remained challenging in the first half of 2011. Banks were faced with the narrowing of net interest margins. Inflationary pressure also put pressure on banks' profitability. Nevertheless, the surging demand for loans and the rapid expansion of RMB market presented significant business opportunities for the banking sector.

Looking ahead to the remainder of the year, the Hong Kong economy is still subject to uncertainties in view of the unresolved European debt crisis and sluggish economic recovery in the United States. Lately, the global financial markets reeled amid concern over worsening global economic outlook triggered by the downgrade of the US sovereign credit rating. The potential impact of these factors on the financial markets and the banking sector cannot be ignored.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL REVIEW

Financial Highlights

HK$'m, except percentage amounts	**Half-year ended 30 June 2011**	Half-year ended 31 December 2010	Half-year ended 30 June 2010
Net interest income	**10,205**	9,770	8,964
Other operating income	**4,921**	5,197	3,577
Net operating income before impairment allowances	**15,126**	14,967	12,541
Operating expenses	**(1,993)**	(5,050)	(4,534)
Operating profit before impairment allowances	**13,133**	9,917	8,007
Net (charge)/reversal of impairment allowances	**(30)**	154	161
Others	**1,484**	904	599
Profit before taxation	**14,587**	10,975	8,767
Profit attributable to equity holders of the Company	**11,993**	9,004	7,192
Earnings per share (HK$)	**1.1343**	0.8517	0.6802
Return on average total assets	**1.33%**	1.24%	1.17%
Return on average shareholders' equity	**19.88%**	16.14%	13.56%
Net interest margin	**1.21%**	1.42%	1.58%
Non-interest income ratio	**32.53%**	34.72%	28.52%
Cost-to-income ratio	**13.18%**	33.74%	36.15%

In the first half of 2011, the Group continued to strive for balanced growth that supports long-term development. By tapping into opportunities arising from the economic recovery and the fast-expanding offshore RMB market, the Group achieved encouraging results. At the same time, it stayed alert to various risks in its operating environment and continued to exercise prudent risk management.

Compared to the first half of 2010, the Group's net operating income before impairment allowances increased by HK$2,585 million or 20.6% to HK$15,126 million. The increase was mainly attributable to higher net interest income, net fee and commission income as well as net trading gain. Operating expenses decreased sharply primarily due to the net recovery from the underlying collateral of the Lehman Brothers Minibonds. The Group recorded a modest amount of net charge of impairment allowances. The net gain on property revaluation also rose year-on-year. The Group's profit attributable to equity holders increased by HK$4,801 million, or 66.8%, to HK$11,993 million. Earnings per share were HK$1.1343, up HK$0.4541 from the same period last year. ROA and ROE stood at 1.33% and 19.88% respectively.

As compared to the second half of 2010, the Group's profit attributable to equity holders increased by HK$2,989 million, or 33.2% mainly due to the growth in net operating income, the net recovery from the underlying collateral of the Lehman Brothers Minibonds and the increase in net gain on property revaluation. Both net interest income and net fee and commission income rose, while net trading gain registered a decline due to mark-to-market changes of certain financial instruments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Net Interest Income and Margin

HK$'m, except percentage amounts	**Half-year ended 30 June 2011**	Half-year ended 31 December 2010	Half-year ended 30 June 2010
Interest income	**15,156**	12,778	10,671
Interest expense	**(4,951)**	(3,008)	(1,707)
Net interest income	**10,205**	9,770	8,964
Average interest-earning assets	**1,698,704**	1,367,524	1,142,383
Net interest spread	**1.14%**	1.35%	1.53%
Net interest margin	**1.21%**	1.42%	1.58%
Adjusted net interest margin* (adjusted for clearing bank function)	**1.48%**	1.55%	1.64%

* The adjusted net interest margin excludes the estimated impact of RMB clearing services performed by BOCHK. Since December 2003, the Bank has been appointed as the clearing bank to provide RMB clearing services in Hong Kong.

Compared to the first half of 2010, the Group's net interest income increased by HK$1,241 million or 13.8% on the back of growth in average interest-earning assets. Net interest income continued to be compressed by the narrowing of net interest spread.

In the first half of 2011, average interest-earning assets increased by HK$556,321 million or 48.7% year-on-year, mainly supported by the increase in both customer deposits and RMB funds from the clearing bank business. Net interest margin was 1.21%, down 37 basis points compared to the first half of 2010. Should the estimated impact of BOCHK's RMB clearing function in Hong Kong be excluded, the adjusted net interest margin would have been 1.48%, down 16 basis points.

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

	Half-year ended 30 June 2011		Half-year ended 31 December 2010		Half-year ended 30 June 2010	
ASSETS	**Average balance HK$'m**	**Average yield %**	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**628,593**	**1.21**	341,069	1.15	211,521	0.95
Debt securities investments	**423,344**	**2.36**	418,023	2.20	369,306	2.28
Loans and advances to customers	**630,343**	**2.02**	593,731	2.02	547,281	2.00
Other interest-earning assets	**16,424**	**1.74**	14,701	1.48	14,275	1.26
Total interest-earning assets	**1,698,704**	**1.80**	1,367,524	1.85	1,142,383	1.88
Non interest-earning assets	**160,827**	**–**	136,300	–	116,018	–
Total assets	**1,859,531**	**1.64**	1,503,824	1.69	1,258,401	1.71

	Half-year ended 30 June 2011		Half-year ended 31 December 2010		Half-year ended 30 June 2010	
LIABILITIES	**Average balance HK$'m**	**Average rate %**	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**441,309**	**0.89**	179,419	0.87	105,914	0.58
Current, savings and fixed deposits	**1,000,360**	**0.53**	910,007	0.41	807,886	0.27
Subordinated liabilities	**27,094**	**2.11**	27,840	1.68	26,373	2.10
Other interest-bearing liabilities	**41,910**	**0.40**	68,091	0.35	39,572	0.31
Total interest-bearing liabilities	**1,510,673**	**0.66**	1,185,357	0.50	979,745	0.35
Non interest-bearing deposits	**67,777**	**–**	76,078	–	57,847	–
Shareholders' funds# and non interest-bearing liabilities	**281,081**	**–**	242,389	–	220,809	–
Total liabilities	**1,859,531**	**0.54**	1,503,824	0.40	1,258,401	0.27

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

Average yield of interest-earning assets fell by 8 basis points while the average rate of interest-bearing liabilities increased by 31 basis points. As a result, the net interest spread decreased year-on-year by 39 basis points. Contribution from net free fund increased by 2 basis points.

The increased proportion of loans and advances with pricing based on interbank market rates (hereafter called "market rate-based loans") put pressure on asset yield. Meanwhile, the local RMB deposits (including those arising from the clearing bank business and the Group's customers) grew significantly. However, the spread remained low as the use of offshore RMB fund was still limited. Deposit costs also rose amid keen market competition.

The adverse impact from the above-mentioned factors was moderated by the Group's growth in higher-yielding assets such as loans and advances to customers. The Group also focused on enhancing the pricing of its corporate lending and improved the pricing of new corporate loans during the period. In the second quarter of 2011, the Group raised the pricing of HIBOR-based residential mortgage loans several times.

Compared to the second half of 2010, net interest income increased by HK$435 million or 4.5% primarily due to the growth in average interest-earning assets. Net interest margin was 1.21%, down 21 basis points. Should the estimated impact of BOCHK's RMB clearing function in Hong Kong be excluded, the adjusted net interest margin would have been 1.48%, down 7 basis points.

Persistently low market interest rates, increased deposit costs, higher proportion of market rate-based loans coupled with the growth in local RMB assets put pressure on the Group's net interest margin. These negative factors were partly counterbalanced by the growth in higher-yielding assets such as loans and advances to customers and debt securities investments.

Net Fee and Commission Income

HK$'m	**Half-year ended 30 June 2011**	Half-year ended 31 December 2010	Half-year ended 30 June 2010
Securities brokerage	**1,485**	1,829	1,509
Credit cards	**1,189**	1,100	903
Insurance	**610**	341	220
Loan commissions	**588**	338	623
Bills commissions	**418**	380	371
Payment services	**303**	296	272
Currency exchange	**224**	207	125
Funds distribution	**176**	93	67
Trust services	**123**	108	98
Safe deposit box	**107**	97	103
Others	**209**	209	190
Fee and commission income	**5,432**	4,998	4,481
Fee and commission expenses	**(1,446)**	(1,351)	(1,084)
Net fee and commission income	**3,986**	3,647	3,397

Net fee and commission income rose by HK$589 million or 17.3% year-on-year to HK$3,986 million, primarily due to the increase of HK$390 million or 177.3% in commission income from the insurance business and HK$109 million or 162.7% from fund distribution. The commission income from insurance, comprising life insurance, general insurance and reinsurance, grew with the rise in business volume. To boost the sale of funds, the Group stepped up its marketing efforts and enhanced its customer services through an investment product specialist team. Fee income from credit cards grew as the cardholder spending and merchant acquiring volume increased by 26.2% and 38.4% respectively. Fee and commission income from currency exchange, bills, trusts and payment services also recorded satisfactory growth. Fee and commission expenses rose by HK$362 million or 33.4%, mainly due to the increases in credit cards and insurance commission expenses.

Compared to the second half of 2010, net fee and commission income increased by HK$339 million or 9.3%. The growth was mainly driven by the HK$250 million or 74.0% increase in loan commissions and HK$269 million or 78.9% rise in insurance commission income. At the same time, fee income from credit card business rose by HK$89 million or 8.1% while commission from fund distribution grew by HK$83 million or 89.2%. Fee income from other traditional businesses such as bills, currency exchange and trust services also grew. Fee income from securities brokerage declined by HK$344 million or 18.8% as investment sentiments turned weaker in the first half of 2011.

Net Trading Gain/(Loss)

HK$'m	**Half-year ended 30 June 2011**	Half-year ended 31 December 2010	Half-year ended 30 June 2010
Foreign exchange and foreign exchange products	**662**	649	350
Interest rate instruments and items under fair value hedge	**(4)**	686	(424)
Equity instruments	**32**	12	(20)
Commodities	**71**	58	58
Net trading gain/(loss)	**761**	1,405	(36)

Net trading gain was HK$761 million, increasing by HK$797 million from the first half of 2010. The growth was mainly driven by the increase in net trading gain from foreign exchange and related products as well as the decrease in net trading loss of interest rate instruments and items under fair value hedge. Net trading gain from foreign exchange and related products rose by HK$312 million or 89.1%, which was mainly attributable to the fast-growing currency exchange activities. The decrease in net trading loss from interest rate instruments and items under fair value hedge was primarily due to the change in mark-to-market values of certain interest rate swap contracts.

Compared to the second half of 2010, net trading gain declined by HK$644 million or 45.8%. The decrease was mainly due to the decline in mark-to-market gain on certain interest rate instruments.

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

HK$'m	**Half-year ended 30 June 2011**	Half-year ended 31 December 2010	Half-year ended 30 June 2010
Banking business of the Group	**18**	(5)	49
BOC Life	**380**	107	591
Net gain on financial instruments designated at fair value through profit or loss	**398**	102	640

The Group recorded a net gain of HK$398 million on financial instruments designated at fair value through profit or loss in the first half of 2011, falling by HK$242 million or 37.8% from the same period last year. The decrease was mainly due to the decline in mark-to-market gain on certain debt securities of BOC Life caused by the movement of market interest rates. These mark-to-market changes were substantially offset by the corresponding changes in policy reserves, as reflected in the changes in net insurance benefits and claims which were attributable to the movement of market interest rates.

Compared to the second half of 2010, net gain on financial instruments designated at fair value through profit or loss increased by HK$296 million. The growth was mainly attributable to the mark-to-market gain of certain debt securities investments of BOC Life.

Operating Expenses

HK$'m, except percentage amounts	**Half-year ended 30 June 2011**	Half-year ended 31 December 2010	Half-year ended 30 June 2010
Staff costs	**2,740**	2,831	2,526
Premises and equipment expenses (excluding depreciation)	**610**	627	574
Depreciation on owned fixed assets	**614**	575	556
Other operating expenses	**864**	1,005	801
Core operating expenses	**4,828**	5,038	4,457
Impact of Lehman Brothers-related products*	**(2,835)**	12	77
Total operating expenses	**1,993**	5,050	4,534
Cost-to-income ratio	**13.18%**	33.74%	36.15%
Core cost-to-income ratio	**31.92%**	33.66%	35.54%

* For details, see Note 2 and Note 11 to the Interim Financial Information.

The Group's total operating expenses dropped by HK$2,541 million, or 56.0%, to HK$1,993 million. The decrease was mainly due to the net recovery of HK$2,854 million from the underlying collateral of the Lehman Brothers Minibonds. The Group's core operating expenses increased by HK$371 million or 8.3%. In the first half of 2011, the Group focused on enhancing operational efficiency and investing for business development.

Staff costs increased by HK$214 million or 8.5%, mainly due to the increase in headcount, in particular front-line staff, and higher salaries and performance-related remuneration. Compared to 30 June 2010, headcount measured in full-time equivalents rose by 675 to 14,104 as at 30 June 2011.

Premises and equipment expenses increased by HK$36 million or 6.3%, as a result of higher rental for branches in Hong Kong and the Mainland. Depreciation on owned fixed assets rose by HK$58 million or 10.4%, which was attributable to larger depreciation charge on premises following the upward revaluation.

Other operating expenses rose by HK$63 million or 7.9% mainly due to higher marketing and promotion expenses as well as expenses connected with the growth in business volume.

Compared to the second half of 2010, operating expenses declined by HK$3,057 million or 60.5%. This was largely due to the impact of the Lehman Brothers-related products as well as lower staff costs and promotional expenses in the first half of 2011.

Net (Charge)/Reversal of Loan Impairment Allowances

HK$'m	**Half-year ended 30 June 2011**	Half-year ended 31 December 2010	Half-year ended 30 June 2010
Net reversal/(charge) of allowances before recoveries			
– individual assessment	**42**	93	56
– collective assessment	**(295)**	(272)	(256)
Recoveries	**216**	155	294
Net (charge)/reversal of loan impairment allowances	**(37)**	(24)	94

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Group registered a modest amount of net charge of loan impairment allowances of HK$37 million in the first half of 2011.

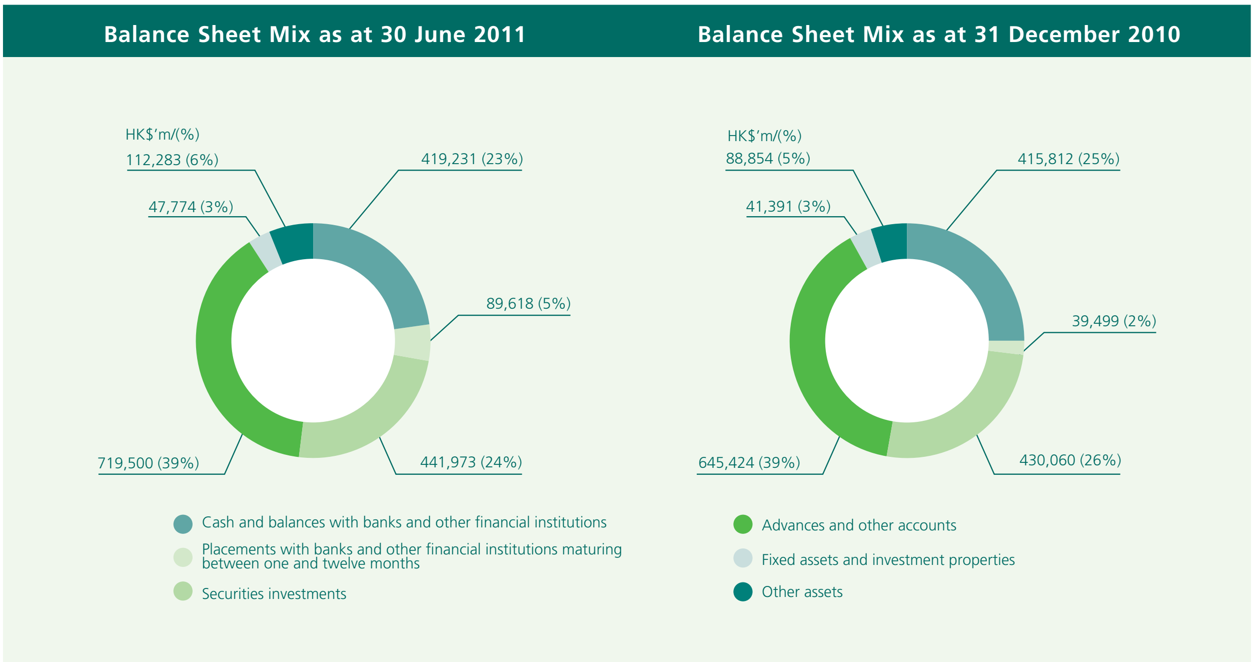
As the economic environment continued to improve, the Group recorded a net reversal of individual impairment allowances before recoveries in the current period amounting to HK$42 million. Meanwhile, net charge of collective impairment allowances before recoveries increased by HK$39 million or 15.2% year-on-year to HK$295 million mainly due to loan growth and the periodic review of the parameter values in the assessment model.

Compared to the second half of 2010, net charge of loan impairment allowances increased by HK$13 million or 54.2%. Net charge of collective impairment allowances before recoveries increased mainly due to loan growth in the first half of 2011.

Financial Position

HK$'m, except percentage amounts	**At 30 June 2011**	At 31 December 2010
Cash and balances with banks and other financial institutions	**419,231**	415,812
Placements with banks and other financial institutions maturing between one and twelve months	**89,618**	39,499
Hong Kong SAR Government certificates of indebtedness	**54,460**	46,990
Securities investments[1]	**441,973**	430,060
Advances and other accounts	**719,500**	645,424
Fixed assets and investment properties	**47,774**	41,391
Other assets[2]	**57,823**	41,864
Total assets	**1,830,379**	1,661,040
Hong Kong SAR currency notes in circulation	**54,460**	46,990
Deposits and balances from banks and other financial institutions	**386,904**	313,784
Deposits from customers	**1,103,435**	1,027,033
Insurance contract liabilities	**43,045**	39,807
Other accounts and provisions[3]	**85,074**	88,260
Subordinated liabilities[4]	**27,838**	26,877
Total liabilities	**1,700,756**	1,542,751
Non-controlling interests	**3,460**	3,108
Capital and reserves attributable to the equity holders of the Company	**126,163**	115,181
Total liabilities and equity	**1,830,379**	1,661,040
Loan-to-deposit ratio[5]	**60.95%**	59.69%

1 Securities investments comprise investment in securities and financial assets at fair value through profit or loss.
2 Interests in associates, deferred tax assets and derivative financial instruments are included in other assets.
3 Financial liabilities at fair value through profit or loss, derivative financial liabilities, debt securities in issue at amortised cost, current tax liabilities and deferred tax liabilities are included in other accounts and provisions.
4 Subordinated liabilities comprise USD subordinated notes issued in 2010 and EUR subordinated loans granted by BOC in 2008.
5 The deposit base also includes structured deposits reported as "Financial liabilities at fair value through profit or loss".



As at 30 June 2011, the Group's total assets amounted to HK$1,830,379 million, up HK$169,339 million or 10.2% from the end of 2010. The overall asset growth was primarily driven by the expansion of the Group's core banking businesses and RMB business in Hong Kong. Key changes include:

- Placements with banks and other financial institutions maturing between one and twelve months increased by HK$50,119 million, or 126.9%, mainly due to the growth in RMB placements with banks and other financial institutions.

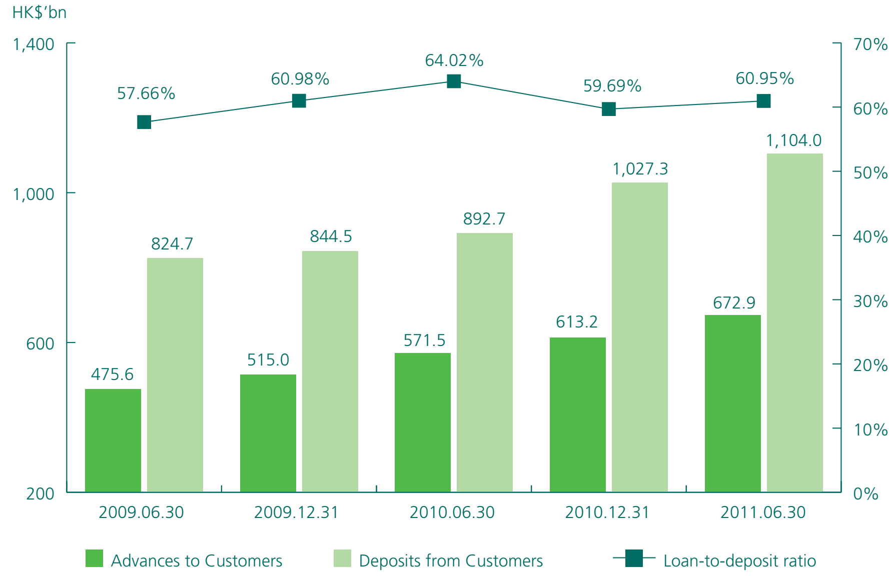
- Securities investments increased by HK$11,913 million or 2.8%, mainly due to the increase in investments in government-related securities as well as high-quality financial institutions and corporate debts.

- Advances and other accounts rose by HK$74,076 million or 11.5%, which was mainly attributable to the growth in advances to customers by HK$59,639 million or 9.7%.

- Other assets grew by HK$15,959 million or 38.1%, which was mainly led by the increase in derivative financial instruments and accounts receivable.

- Deposits and balances from banks and other financial institutions increased by HK$73,120 million or 23.3%, led by the growth in interbank borrowing as well as RMB deposits from banks.

Advances to customers and deposits to customers*



* Deposits from customers including structured deposits

Advances to Customers

HK$'m, except percentage amounts	At 30 June 2011	%	At 31 December 2010	%
Loans for use in Hong Kong	**434,636**	**64.6**	387,087	63.1
Industrial, commercial and financial	**231,812**	**34.5**	206,947	33.7
Individuals	**202,824**	**30.1**	180,140	29.4
Trade finance	**59,840**	**8.9**	53,396	8.7
Loans for use outside Hong Kong	**178,382**	**26.5**	172,736	28.2
Total advances to customers	**672,858**	**100.0**	613,219	100.0

The Group had adhered to a balanced growth strategy with regard to its loan book. It also strived to optimise the loan portfolio structure and improve its pricing. As a result, the Group recorded a healthy loan growth of HK$59,639 million or 9.7% to HK$672,858 million in the first half of 2011.

Loans for use in Hong Kong grew by HK$47,549 million or 12.3%.

- Lending to the industrial, commercial and financial sectors increased by HK$24,865 million, or 12.0%, to HK$231,812 million, covering a wide range of industries. Notable growth was recorded in the lending to wholesale and retail trade, property investment as well as transport and transport equipment.

- Residential mortgage loans (excluding those under the Government-sponsored Home Ownership Scheme) were up by HK$20,660 million, or 14.0%, to HK$168,084 million, as a result of the Group's effective marketing efforts in an active property market particularly in the first quarter of the year. The proportion of total new drawdown in HIBOR-based residential mortgage loans increased as customers were more inclined to take advantage of low interbank rates.

Trade finance rose by HK$6,444 million or 12.1%. Meanwhile, loans for use outside Hong Kong grew by HK$5,646 million or 3.3%.

*Deposits from Customers**

HK$'m, except percentage amounts	At 30 June 2011	%	At 31 December 2010	%
Demand deposits and current accounts	**70,619**	**6.4**	70,453	6.9
Savings deposits	**522,972**	**47.4**	528,035	51.4
Time, call and notice deposits	**509,844**	**46.2**	428,545	41.7
	1,103,435	**100.0**	1,027,033	100.0
Structured deposits designated at fair value through profit or loss	**569**	**0.0**	234	0.0
Deposits from customers	**1,104,004**	**100.0**	1,027,267	100.0

* including structured deposits

In the first half of 2011, the Group's deposits from customers increased by HK$76,737 million, or 7.5%, to HK$1,104,004 million. Customers were inclined to shift their funds towards fixed deposits for higher interest rates amid the competition among banks in Hong Kong. Time, call and notice deposits rose by HK$81,299 million or 19.0% to HK$509,844 million. Savings deposits recorded a drop of HK$5,063 million or 1.0%. The Group's loan-to-deposit ratio was up 1.26 percentage points to 60.95% at the end of June 2011.

Loan Quality

HK$'m, except percentage amounts	At 30 June 2011	At 31 December 2010
Advances to customers	**672,858**	613,219
Classified or impaired loan ratio[1]	**0.10%**	0.14%
Impairment allowances	**2,470**	2,311
Regulatory reserve for general banking risks	**6,595**	5,076
Total allowances and regulatory reserve	**9,065**	7,387
Total allowances as a percentage of advances to customers	**0.37%**	0.38%
Impairment allowances[2] on classified or impaired loan ratio	**38.53%**	40.02%
Residential mortgage loans[3] – delinquency and rescheduled loan ratio[4]	**0.01%**	0.02%
Card advances – delinquency ratio[4,5]	**0.15%**	0.15%

	Half-year ended 30 June 2011	Half-year ended 30 June 2010
Card advances – charge-off ratio[5,6]	**1.07%**	1.56%

1 Classified or impaired loans represent advances which have been classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.
2 Referring to impairment allowances on loans classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.
3 Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.
4 Delinquency ratio is measured by a ratio of total amount of overdue loans (more than three months) to total outstanding loans.
5 Excluding Great Wall cards and computed according to the HKMA's definition.
6 Charge-off ratio is measured by a ratio of total write-offs made during the period to average card receivables during the period.

The Group's loan quality remained sound, with the classified or impaired loan ratio falling by 0.04 percentage point to 0.10%. Classified or impaired loans decreased by HK$161 million, or 18.6%, to HK$706 million mainly due to collections and fewer new classified loans. New classified loans in the first half of 2011 represented approximately 0.03% of total loans outstanding.

Total impairment allowances, including both individual assessment and collective assessment, amounted to HK$2,470 million. Total impairment allowances in respect of the classified or impaired loans as a percentage of total classified or impaired loans accounted for 38.53%.

The quality of the Group's residential mortgage loans remained sound with the combined delinquency and rescheduled loan ratio standing at a low level of 0.01% at the end of June 2011. As compared to the first half of 2010, the charge-off ratio of card advances dropped by 0.49 percentage points to 1.07%, mainly due to the cardholders' improved debt servicing capability as economic conditions improved.

Capital and Liquidity Ratios

HK$'m, except percentage amounts	**At 30 June 2011**	At 31 December 2010
Core capital	**83,563**	78,275
Deductions	**(791)**	(332)
Core capital after deductions	**82,772**	77,943
Supplementary capital	**31,347**	33,876
Deductions	**(791)**	(332)
Supplementary capital after deductions	**30,556**	33,544
Total capital base after deductions	**113,328**	111,487
Risk-weighted assets		
Credit risk	**561,273**	648,236
Market risk	**21,722**	18,328
Operational risk	**48,789**	47,895
Capital floor adjustment	**41,768**	–
Deductions	**(30,230)**	(23,862)
Total risk-weighted assets	**643,322**	690,597
Capital adequacy ratios (consolidated basis)		
Core capital ratio	**12.87%**	11.29%
Capital adequacy ratio	**17.62%**	16.14%

	Half-year ended 30 June 2011	Half-year ended 30 June 2010
Average liquidity ratio	**36.38%**	37.81%

The Group adopted the foundation internal ratings-based ("FIRB") approach to calculate credit risk and standardised (credit risk) ("STC") approach for certain credit exposures being exempted from FIRB effective from 1 January 2011. The market risk of the Group mainly sourced from BOCHK. BOCHK adopted the internal models approach ("IMM") to calculate general market risk for interest rate and exchange rate exposures effective from 1 April 2011 while the Group continued to adopt the standardised (market risk) ("STM") approach to calculate the remaining market risk. In addition, the Group continued to adopt the standardised (operational risk) ("STO") approach for operational risk. The Group's capital adequacy ratio was calculated based on the various risk measurement approaches above.

The Group adopted the STC approach and STM approach to calculate credit risk and market risk respectively as at 31 December 2010. As a result of the change in the basis used, the amounts shown above are not directly comparable.

Consolidated capital adequacy ratio of the banking group at 30 June 2011 was 17.62%. The Group's total capital base expanded by 1.7% to HK$113,328 million mainly due to the increase in retained earnings.

The average liquidity ratio in the first half of 2011 remained strong at 36.38%.

BUSINESS REVIEW

PERSONAL BANKING

HK$'m	**Half-year ended 30 June 2011**	Half-year ended 30 June 2010
Net interest income	**2,843**	2,932
Other operating income	**2,720**	2,384
Operating income	**5,563**	5,316
Operating expenses	**(2,754)**	(3,044)
Operating profit before impairment allowances	**2,809**	2,272
Net charge of loan impairment allowances	**(77)**	(37)
Others	**(9)**	(5)
Profit before taxation	**2,723**	2,230

	At 30 June 2011	At 31 December 2010
Segment assets	**237,746**	210,978
Segment liabilities	**656,172**	657,605

Note: For additional segmental information, see Note 40 to the Interim Financial Information.

Financial Results

In the first half of 2011, the Group's Personal Banking business recorded a profit before taxation of HK$2,723 million, up HK$493 million or 22.1% year-on-year. Operating income rose by 4.6%, driven mainly by the increase in net fee and commission income. The increase was, however, partially offset by a drop in net interest income. Operating profit before impairment allowances was HK$2,809 million, up 23.6%.

Net interest income decreased by 3.0% mainly because of higher deposit costs despite a growth in average balance of loans and advances. Other operating income rose by 14.1% on account of the strong growth in fee income from insurance and fund distribution.

During the period, a more detailed and comprehensive cost allocation mechanism was adopted. No change has been made to the comparative figures. If the same cost allocation mechanism is applied for the same period last year, it is estimated that operating expenses in the first half of 2011 would have increased by HK$179 million year-on-year. The increase was mainly due to higher business-related expenses such as marketing and promotional expenses.

Net charge of loan impairment allowances was HK$77 million, mainly due to impairment allowances made on collective assessment. The increase was in line with the expansion of loan balances.

Advances and other accounts, including mortgage loans and card advances, increased by 12.3% to HK$220,649 million, while deposits from customers dropped by 0.3% to HK$626,172 million.

Business operation

The Group managed to achieve solid growth in major Personal Banking businesses in the first half of 2011. It registered satisfactory growth in its residential mortgage business with improved pricing of new HIBOR-based mortgage loans. It also continued to enhance its securities business platform with the newly established mobile banking channel. Meanwhile, the Group strived to provide more differentiated services to its wealth management customers. The credit card business grew steadily in terms of card issuance and merchant acquiring volume. To meet customers' demand for RMB banking products and services, the Group expanded its product spectrum substantially, thus reinforcing its premier position in Hong Kong's RMB banking business as a whole.

Robust growth of residential mortgages

The Group maintained its steady growth in the first half of 2011. It launched the "First-year HIBOR-based and Prime-based afterwards" mortgage plan to meet customers' needs. Meanwhile, the Group continued to strengthen its strategic partnership with major property developers and participated in joint promotions in most of the prime property development projects. The Group's outstanding residential mortgage loans grew by 14.0% from the end of 2010. In view of higher funding costs, the Group raised the pricing of new HIBOR-based mortgage loans. The credit quality of residential mortgages remained sound under the Group's rigorous risk assessment and control over the mortgage business.

Further development of investment and insurance businesses

The Group expanded its stock brokerage service spectrum and embarked on a number of promotion and marketing campaigns. With the support of the new mobile banking service, stock brokerage volume through this channel increased satisfactorily. As for the fund distribution business, more RMB funds were introduced. The phenomenal 237.1% growth in the Group's retail fund distribution volume was partly accounted for by the professional consultation service on retail funds jointly offered by the sales staff and the newly formed Investment Product Specialist Team.

Regarding its Bancassurance business, the Group maintained its competitive advantages by enhancing its sales model, launching effective marketing campaigns and implementing a multi-channel distribution strategy. The financial planning model continued to expand with encouraging results. There was robust growth in the sales of insurance products. Meanwhile, more RMB insurance products were introduced to meet the market's demand. The Group further improved its service quality. New initiatives such as the customer satisfaction survey were taken for the purpose of service enhancement.

Decent growth in credit card business

The Group's card business sustained its growth momentum. The total number of cards issued increased by 6.4% from the end of 2010, while cardholder spending and merchant acquiring volume rose by 26.2% and 38.4% respectively year-on-year. The Group maintained its leadership in the China UnionPay ("CUP") merchant acquiring business and CUP card issuing business, with merchant acquiring and cardholder spending volume surging by 56.1% and 85.6% respectively compared to the first half of 2010.

Riding on the success of "BOC CUP Dual Currency Credit Card", the Group introduced "BOC CUP Dual Currency Commercial Card", which is the first of its kind in Hong Kong to use both RMB and HKD as the settlement currencies for corporate customers. The Group's success in credit card business gained extensive market recognition, as evidenced by a total of 30 awards received from VISA International, MasterCard and China UnionPay respectively.

The credit quality of the Group's card advances remained sound with the annualised charge-off ratio for the six months period to 30 June 2011 standing at 1.07%.

Maintaining sound relationship with high potential customers

To further expand its high net-worth customer base, the Group strived to maintain long-term relationship with its wealth management customers by providing differentiated services and customising wealth management solutions through different service channels. It organised a range of marketing activities and provided various market information to wealth management customers. Under the "Customer Referral Programme" and "New Customer Relationship Building Programme", the Group broadened its customer base by cross-selling with bundled promotional offers. At the end of June 2011, the total number of wealth management customers and their assets maintained with the Group grew by 9.7% and 4.0% respectively from the end of 2010.

Optimising distribution channels and enhancing e-platform services

The Group continuously optimised its distribution channels to meet cross-border and local customer needs. At the end of June 2011, the Group's service network in Hong Kong comprised 266 branches, including 132 wealth management centres and 21 dedicated Mainland customer service centres. Furthermore, a new hotline was set up specifically for providing enquiry services to Mainland customers.

The Group further invested in the automated banking service network to facilitate customers in using banking services beyond normal banking hours. This included installing newly designed ATM's as well as cash and cheque deposit machines with enhanced functions. To strengthen its multi-currency deposit and withdrawal services, the Group upgraded the cheque deposit machines to accept RMB and USD cheques in addition to HKD ones. This is the first of its kind in Hong Kong. The Group also enhanced the functions of its e-Banking platform, including the extension of FX and Bullion Margin trading hours. Moreover, the internet functions were extended to the mobile banking platform with good response. The number of mobile banking users increased significantly from the end of 2010.

In recognition of its well accepted electronic platform and outstanding services, the Group was honoured with the "Best Internet Banking" and "Best Mobile Telephone Banking" awards of the Capital Weekly Service Awards 2011.

CORPORATE BANKING

HK$'m	**Half-year ended 30 June 2011**	Half-year ended 30 June 2010
Net interest income	**4,163**	2,995
Other operating income	**1,622**	1,464
Operating income	**5,785**	4,459
Operating expenses*	**(1,371)**	(1,232)
Operating profit before impairment allowances	**4,414**	3,227
Net reversal of loan impairment allowances	**40**	131
Others	**(1)**	–
Profit before taxation	**4,453**	3,358

	At 30 June 2011	At 31 December 2010
Segment assets	**508,613**	458,928
Segment liabilities	**487,944**	407,328

Note: For additional segmental information, see Note 40 to the Interim Financial Information.

* During the period, a more detailed and comprehensive cost allocation mechanism was adopted. No change has been made to the comparative figures.

Financial Results

Corporate Banking achieved a strong growth of HK$1,095 million or 32.6% in profit before taxation, which stood at HK$4,453 million. Operating profit before impairment allowances increased by 36.8% to HK$4,414 million. The increase was mainly driven by the growth in net interest income.

Net interest income increased by 39.0%, which was mainly attributable to the increase in the average balance of loans and deposits, and improved loan pricing. Other operating income increased by 10.8%, led by the growth in fee income from payment services and currency exchange, as well as bills commission.

Operating expenses* would have increased by HK$135 million year-on-year, if the same cost allocation mechanism is applied for the same period last year. The increase was mainly due to higher business-related expenses and staff costs.

Net reversal of loan impairment allowances decreased as recoveries were lower.

Advances and other accounts increased by 10.9% to HK$506,317 million, while deposits from customers grew by 20.2% to HK$482,304 million.

* During the period, a more detailed and comprehensive cost allocation mechanism was adopted. No change has been made to the comparative figures.

Business Operation

The Group's Corporate Banking business continued with a balanced growth strategy in the first half of 2011. Corporate loans registered steady growth with improvement in loan pricing. Besides, the Group focused on providing a full range of financial services, including cross-border financial services, to its core corporate clients.

The Group's RMB corporate banking business marked solid development as a result of the introduction of a broader range of relevant products and services as well as aggressive marketing and promotion. The Group's service platform was further improved. Alert to clients' needs, the Group succeeded in reaching out to new clients and capturing cross-selling opportunities for higher revenue.

At the same time, the Group adhered to its vigilant risk management policy to ensure well-balanced and sustainable growth.

Quality growth in corporate lending business

The demand for corporate loans continued to rise in the first half of the year. The Group grasped the market opportunity to grow its credit portfolio in a well-balanced manner. It remained cautious in securing new loans and focused more attention on the pricing of loans. The effectiveness of this strategy is reflected in the healthy growth of 8.5% in corporate lending and the improved loan pricing and loan quality in the first six months. The Group also maintained close collaboration with BOC through the "Global Relationship Manager Programme" and "Global United Facilities Arrangement" to better serve its customers. In the first half of 2011, the Group remained the top mandated arranger in the Hong Kong-Macau syndicated loan market.

SME business registered steady development

The Group further grew its SME banking business by participating in the "SME Financing Guarantee Scheme" launched by the Hong Kong Mortgage Corporation Limited as well as by enhancing its service model, improving its product features and offering total solution services to SME customers. Through closer collaboration with BOC and NCB (China) and cooperation with major trade associations, the Group continued to explore new targeted customers. In May 2011, BOCHK received for the fourth consecutive year the "SME's Best Partner Award" presented by the Hong Kong Chamber of Small and Medium Business Limited.

Steady growth in trade finance and trade settlement business

The flourishing of global trade fuelled the growth of the Group's trade finance business. The Group also collaborated with BOC to offer cross-border trade finance, such as the RMB agency payment services, to corporate customers in both Hong Kong and the Mainland. In the first half of 2011, the Group's balance of trade finance grew by 12.1% versus the end of 2010. Cross-border trade settlement volume recorded a notable growth of 138% year-on-year.

Custody services making good progress

The custody business continued to expand in the first half of 2011. The Group stepped up its sales efforts and had successfully secured mandates to provide global custody services to various Qualified Domestic Institutional Investors and other institutions including major banks, fund houses as well as insurance and securities companies inside and outside Mainland. Custody of RMB investment instruments was on the increase, and the Group continued to provide escrow services to large corporate entities. It also strengthened its relationship with its corporate customers and actively sought business opportunities in custody services. At the end of June 2011, excluding the RMB fiduciary account, total assets under the Group's custody were valued at HK$481.7 billion, increasing by 4.7% over the end of 2010.

Expanding service spectrum in cash management

The Group made further progress in developing its cash management business. New services were introduced to drive growth and to enhance the Group's competitiveness. In conjunction with the implementation of the local interbank RMB autopay system by the Hong Kong Interbank Clearing Limited in March 2011, the Group rolled out a wide range of RMB payment and receivable products. The Group also launched the cross-border RMB bill payment service which allows merchants in Shenzhen to collect RMB bill payments from bank accounts in Hong Kong. At the same time, the Group strengthened the linkage of its cash management service platform with those of BOC and its overseas branches. With effective marketing, the number of Corporate Banking Services Online ("CBS Online") customers increased by 12.4% over the end of 2010.

Proactive measures in risk management

The Group remained persistently vigilant over risk management. Stringent credit control was in place to safeguard asset quality. The Group closely monitored those corporate customers who could be adversely affected by rising production costs in the Mainland, RMB appreciation, upsurge in commodity prices, and emerging risks in Japan and the European region.

MAINLAND BUSINESS

Steady growth of Mainland business

The Group's Mainland business recorded satisfactory growth in the first half of 2011. During the period, the Group focused on strengthening its deposit base to support long-term development. Customer deposits grew by 34.9% while advances to customers registered a 1.2% drop, thus resulting in an improvement in its loan-to-deposit ratio. The Group also strived to enlarge its customer base by strengthening its customer service capability and enriching its range of RMB wealth management products for Mainland customers.

Further development in distribution channels and branch network

The expansion of the Group's network in the Mainland continued. NCB (China)'s Beijing Zhongguancun sub-branch commenced operation on 1 March 2011. The Group's total number of branches and sub-branches in the Mainland increased to 26 at the end of June 2011. Meanwhile, NCB (China) has been approved by the China Banking Regulatory Commission ("CBRC") to establish the Foshan sub-branch and the Qingdao Development Zone sub-branch. Furthermore, the Group upgraded the platform and functionality of its internet banking channel to enhance customer experience. The improved corporate internet banking was launched during the interim period, while the new personal internet banking would commence in the second half of 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

TREASURY

HK$'m	**Half-year ended 30 June 2011**	Half-year ended 30 June 2010
Net interest income	**2,393**	2,341
Other operating income	**752**	35
Operating income	**3,145**	2,376
Operating expenses*	**(323)**	(330)
Operating profit before impairment allowances	**2,822**	2,046
Net reversal of impairment allowances on securities investments	**43**	72
Profit before taxation	**2,865**	2,118

	At 30 June 2011	At 31 December 2010
Segment assets	**992,322**	910,772
Segment liabilities	**509,338**	437,174

Note: For additional segmental information, see Note 40 to the Interim Financial Information.

Financial Results

The Treasury segment's profit before taxation rose by 35.3% year-on-year to HK$2,865 million in the first half of 2011. Operating profit before impairment allowances increased by 37.9% to HK$2,822 million, driven by improvements in both net interest income and other operating income.

Net interest income rose by 2.2%, which was mainly attributable to the growth of RMB business with improved asset yield. The substantial rise in other operating income resulted mainly from higher net trading gain from foreign exchange and related products and mark-to-market change of certain interest rate instruments.

Operating expenses* would have decreased by HK$57 million, if the same cost allocation mechanism is applied for the same period last year.

* During the period, a more detailed and comprehensive cost allocation mechanism was adopted. No change has been made to the comparative figures.

Business Operation

Enhancing investment portfolio management

In the face of various uncertainties in the financial market, the Group proactively managed its banking book. The Group took advantage of the steepening yield curve and continued to invest in fixed rate debt securities, in particular government-related securities as well as high-quality financial institution and corporate bonds. The Group disposed of lower-yielding securities to improve the asset-liability structure. Furthermore, in order to capture the opportunities arising from the expansion of the RMB investment market, the Group took initiative to develop the RMB bond business in the Mainland.

The Group remained vigilant in managing its portfolio. In respect of the exposure to the European countries affected by the debt crisis, namely Portugal, Ireland, Italy, Greece and Spain, the Group only had exposure to debt securities issued by financial institutions of Ireland and Italy amounting to a total of HK$1,002 million as at the end of June 2011 (versus HK$1,238 million at the end of 2010).

Growing traditional and RMB-related businesses

The Group continued to strengthen its traditional product offering by improving its customer service quality and optimising the Investment Product Specialist Team for the high net-worth customer group. In addition, the Group's strategy of focusing on RMB-related business continued to yield promising results. The Group recorded robust growth in foreign exchange income. With regard to the RMB clearing bank business in Hong Kong, a major development was that the RMB Fiduciary Account Service was introduced to help Participating Banks to better manage their credit exposure to the Clearing Bank. The Group also launched securities sale and repurchase facilities (RMB Repo Facilities) through the Central Moneymarkets Unit to facilitate intraday liquidity management of Participating Banks. Meanwhile, following the establishment of the asset management platform towards the end of last year, the Group launched the "BOCHK RMB Bond Fund" targeting high net-worth customers. The Group also cooperated with BOC's overseas branches to build up a global RMB banknote network while providing product support and price-quoting services to those branches.

INSURANCE

HK$'m	**Half-year ended 30 June 2011**	Half-year ended 30 June 2010
Net interest income	**847**	724
Gross earned premiums	**6,530**	2,813
Gross earned premiums ceded to reinsurers	**(3,133)**	(11)
Other operating income	**399**	559
Operating income	**4,643**	4,085
Net insurance benefits and claims	**(4,220)**	(3,875)
Net operating income	**423**	210
Operating expenses	**(101)**	(104)
Operating profit before impairment allowances	**322**	106
Net charge of impairment allowances on securities investments	**(31)**	–
Profit before taxation	**291**	106

	At 30 June 2011	At 31 December 2010
Segment assets	**53,186**	48,195
Segment liabilities	**49,850**	45,149

Note: For additional segmental information, see Note 40 to the Interim Financial Information.

Financial Results

The Group's Insurance segment recorded strong financial results in the first half of 2011. Profit before taxation grew by 174.5% to HK$291 million. The increase was mainly attributable to the improved underwriting profit and the success of the RMB product strategy.

Net interest income rose by 17.0% mainly due to the increase in debt securities investments made for the new premiums received. Gross insurance premium income rose considerably by 132.1% of which regular premium income accounted for a significant part. Net insurance benefits and claims, which reflect changes in policy reserves, rose by 8.9%. The increase was mainly caused by the overall growth of the insurance business.

Assets in the insurance segment grew by 10.4% with the increase in both debt and equity securities investments made for the new premiums. Liabilities rose by 10.4%, which reflected the corresponding increase in insurance contractual liabilities.

Business Operation

Further enhancement in product mix, service quality and market share

The Group maintained its growth momentum in the insurance business. The Group continued to focus on its regular-premium products. The flagship products – "Target 5 Years Insurance Plan Series" and "Multi-Plus Savings Insurance Plan" – registered strong sales. New products such as "Tactics Investment Insurance Plan" and "Well-Assure Refundable Accident Insurance Plan" were launched during the first half of 2011. The Group also enhanced its service by strengthening the quality and speed of the compensation and underwriting process. Through the optimisation of product mix and service quality, the Group further reinforced its market position and expanded its market share.

Maintaining leading position in RMB insurance products

In response to the strong market demand, the Group developed and introduced more RMB insurance products in the interim period, including the new RMB series of its popular plans, such as the "Target 5 Years Insurance Plan Series" and "Multi-Plus Savings Insurance Plan", which were well-received by customers. This further solidified the Group's leadership role in the RMB insurance market.

RISK MANAGEMENT

Banking Group

Overview

The Group believes that sound risk management is crucial to the success of any organisation. In its daily operation, the Group attaches a high degree of importance to risk management and emphasises that a balance must be struck between risk control and business growth and development. The principal types of risk inherent in the Group's businesses are credit risk, interest rate risk, market risk, liquidity risk, operational risk, reputation risk, legal and compliance risk, and strategic risk. The Group's risk management objective is to enhance shareholder value by maintaining risk exposures within acceptable limits. The Group has a defined risk appetite statement approved by the Board, which is an expression of the types and level of risk that the Group is willing to take in order to achieve its business goals and to meet the expectations of its stakeholders under a controllable risk level.

Risk Management Governance Structure

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

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

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

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

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

Credit Risk Management

Credit risk is the risk of loss that a customer or counterparty will be unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, on– and off-balance sheet exposures of a bank. It arises principally from the lending, trade finance and treasury businesses, and covers inter-bank transactions, foreign exchange and derivative transactions as well as investments in bonds and securities. The Chief Credit Officer, who reports directly to the CRO, takes charge of credit risk management and is also responsible for the control of credit risk exposure of subsidiaries in line with the credit risk management principles and requirements set by the Group. The Chief Analytics Officer, who also reports directly to the CRO, is responsible for the development and maintenance of internal rating models and rating criteria. For loans and advances to customers, different credit approval and control procedures are adopted according to the level of risk associated with the customer, counterparty or transaction. The Credit Risk Assessment Committee comprising experts from the Group's credit and other functions is responsible for making an independent assessment of all credit facilities which require the approval of Deputy Chief Executives or above. Corporate and financial institution credit applications are independently reviewed and objectively assessed by risk management units. Obligor ratings and facility grades are assigned to these portfolios. Retail internal rating systems are deployed in the risk assessment of retail credit transactions, including small business retail exposures, residential mortgage loans, personal loans and credit cards. Obligor ratings as well as loss estimates (if applicable) are used to support credit approval.

The Group identifies credit concentration risk by industry, geography, customer and counterparty risk. The Group monitors changes to counterparties' credit risk, the quality of the credit portfolio and risk concentrations, and reports regularly to the Group's management

The Group uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, analysis and reporting. For corporate and financial institutions, more frequent rating review and closer monitoring are required for riskier customers. For retail exposures, monthly updated ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools. The Group has established a master scale for internal credit rating purpose, which is in compliance with the Banking (Capital) Rules on rating structure. In addition to obligor ratings, the Group adopts a facility rating system to assess the risk in the facility structure during credit approval. This two-dimensional rating approach to evaluate credit risk complies with the HKMA's requirement on IRB.

As of 30 June 2011, the Group continues to adopt loan grading criteria which divide credit assets into 5 categories with reference to HKMA's guidelines. The Risk Management Department ("RMD") provides regular credit management information reports and ad hoc reports to the Management Committee, RC and Board of Directors to facilitate their continuous monitoring of credit risk.

For investments in debt securities and securitisation assets, the obligor ratings or external credit ratings, assessment of the underlying assets and credit limits setting on customer/security issuer basis are used for managing credit risk associated with the investment. For derivatives, the Group sets customer limits to manage the credit risk involved and follows the same approval and control processes as applied for loans and advances. Ongoing monitoring and stop-loss procedures are established.

The Group adopts a comprehensive methodology in determining whether a particular asset/mortgage-backed security ("ABS/MBS") is impaired. Under the methodology, the Group will take into consideration not only the mark-to-market (MTM) price of the issue and its external credit rating, but also additional factors such as FICO score, vintage, location, adjustable rate mortgage ("ARM") status, delinquencies, level of collateral protection, loan-to-value ratio and prepayment speed of the underlying assets. Furthermore, having considered these factors, the ABS/MBS issue has to further pass the required credit enhancement coverage ratio set by the Group. This ratio is determined by applying assumptions regarding the default rates based on the available delinquency, foreclosure and real estate owned ("REO") data of the ABS/MBS issue.

Interest Rate Risk Management

Interest rate risk means the risk to a bank's earnings and economic value arising from adverse movements in interest rate and term structures of the bank's asset and liability positions. The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are:

- Repricing risk – mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income;
- Basis risk – different pricing basis for different transactions so that the yield on assets and cost of liabilities may change by different amounts within the same repricing period;
- Yield curve risk – non-parallel shifts in the yield curve that may have an adverse impact on net interest income or economic value;
- Option risk – exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cashflows of assets and liabilities.

The Group has set out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk. The indicators and limits include, but are not limited to, re-pricing gap limits, basis risk, duration, price value of a basis point (PVBP), Greeks, net interest income sensitivity ratio, economic value sensitivity ratio (including sub-limit for AFS securities), etc.

The indicators and limits are classified into two levels, which are approved by the RC and ALCO respectively. Risk-taking business units are required to conduct their business within the boundary of the interest rate risk limits. Before launching a new product or business in the banking book, relevant departments are required to go through a risk assessment process, which includes assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be reported to both the CFO and CRO and submitted to the RC for approval.

Net interest income (NII) sensitivity ratio and economic value (EV) sensitivity ratio assess the impact of interest rate movement on the Group's net interest income and capital base. They are the Group's key interest rate risk indicators. The former assesses the impact of interest rate movement on net interest income as a percentage to budgeted net interest income for the year. The latter assesses the impact of interest rate movement on economic value (i.e. the present value of cash-flows of assets, liabilities and off-balance-sheet items discounted using market interest rate) as a percentage to the latest capital base. Limits are set by RC on these two indicators to monitor and control the Group's banking book interest rate risk.

The Group uses scenario analysis and stress test to assess the banking book interest rate risk the Group would face under adverse circumstances. Scenario analysis and stress test are also devised to assess the impact on net interest income and economic value as well as capital base arising from the optionality of demand and savings deposits, the prepayment of mortgage loans and the prepayment of ABS/MBS due to extension/contraction of weighted average life.

Market Risk Management

Market risk refers to the risk of losses arising from adverse movements in the value of foreign exchange and commodity positions and the trading book interest rate and equity positions held by the Group due to the volatility of financial market prices (debt security price/interest rate, foreign exchange rate, equity price, commodity price). The Group adopts robust market risk appetite to achieve balance between risk and return. The Group's objective in managing market risk is to secure healthy growth of the treasury business, by effective management of potential market risk in the Group's business, according to the Group's overall risk appetite and strategy of the treasury business and based on well-established risk management regime and measures.

With regard to the corporate governance of risk management, the Board and Risk Committee, senior management and functional departments/units perform their respective duties and responsibilities to manage the Group's market risk. The Risk Management Department (Market Risk Management) is mainly responsible for managing market risk, assisting senior management to perform their day-to-day duties, independently monitoring the market risk profile and compliance of management policies and limits of the Group and BOCHK, and ensuring that the aggregate and individual market risks are within acceptable level.

The Group's market risk management framework covers the Group's subsidiaries. The Group establishes uniform market risk management policies to regulate the Group's and subsidiaries' market risk management work; meanwhile, the Group sets up the Group VAR limit, which is allocated and monitored across the Group, according to subsidiaries' business requirements and risk tolerance level. In line with the requirements set in the Group policy, subsidiaries should formulate detailed regulations (subject to prior consent by BOCHK) and must bear the responsibility of managing the daily market risk of the institution. Subsidiaries set up independent risk monitoring teams to monitor daily market risk and limit compliance, and submit management information and reports to BOCHK on a regular basis.

The Group sets up market risk indicators and limits to identify, measure, monitor and control market risk. Major risk indicators and limits include but are not limited to VAR, Stop Loss, Open Position, Stress Testing and Sensitivity Analysis (Basis Point Value, Greeks), etc. To meet management requirements, major risk indicators and limits are classified into three levels, and approved by the Risk Committee, Management Committee or CRO and Deputy Chief Executive (DCE) in charge of treasury business respectively. The treasury business units of BOCHK and other subsidiaries (as for Group Limit) are required to conduct their business within approved market risk indicators and limits.

VAR refers to the core indicator used in managing the Group's market risk. It is a statistical method used to measure the maximum loss of trading book positions held by the bank over a target horizon with a given level of confidence. The Group adopts a uniform VAR calculation model, using the historical simulation approach and two years' historical data, to calculate VAR of the Group and subsidiaries over a one-day holding period with a 99% confidence level, and set up VAR limit of the Group and subsidiaries.

The predictive power of the VAR measure is monitored by back-testing, which compares the calculated VAR figure of those trading positions of each business day with the actual revenues arising on those positions on the next business day. These actual revenues exclude non-trading income, such as fee and commission. If back-testing revenues are negative and exceeding the VAR, a "back-testing exception" is noted. Generally speaking, the number of back-testing exceptions in a rolling 12-month period will not exceed four times. Back-testing results are reported to the Group's senior management, including the CE and CRO. BOCHK conducts backtesting of VAR measures on a monthly basis.

Although a valuable guide to risk, VAR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;

- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intraday exposures.

The Group recognises these limitations by formulating stress test indicators and limits to assess and manage the market risk uncovered by VAR. The stress testing programme of the trading book includes sensitivity testing on changes in risk factors with various degrees of severity, as well as scenario analysis on historical events, including the 1987 Equity Market Crash, 1994 Bond Market Crash, the 1997 Asian Financial Crisis, the 2001 September 11 incidents and the 2008 Global Financial Crisis, etc.

HKMA has approved BOCHK to adopt an internal model to calculate general market risk capital charge for the risk categories of interest rates and exchange rates. The approval has become effective on 1 April 2011.

Liquidity Risk Management

Liquidity risk is the risk that banks fail to provide sufficient funds to grow assets or pay due obligations, and so need to bear an unacceptable loss. The Group adopts a sound liquidity risk appetite to provide stable, reliable and adequate sources of cash to meet liquidity needs under normal circumstances or stressed scenarios; and survive with net positive cumulative cash flow in extreme scenarios without requesting HKMA to act as the lender of last resort.

The Group's liquidity risk management objective is to effectively manage the liquidity of on-balance sheet and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Group adjusts its asset structure (including loans, bond investments, interbank placements, etc.) to maintain sufficient liquid assets in support of normal business needs and ensure its ability to raise enough funds at reasonable costs to serve external claims in case of emergency. The Group is committed to diversifying the source of funds and the use of funds to avoid excessive concentration of assets and liabilities and prevent triggering liquidity risk due to the break of funding strand when problems occur in one concentrated funding source. The Group also pays attention to liquidity risk created by off-balance sheet activities, such as loan commitments, derivatives, options and other complex structured products. The Group has an overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, intraday liquidity, intra-group liquidity, the liquidity risk arising from others' risk, etc., and has formulated a corresponding funding contingency plan.

The Group establishes liquidity risk management indicators and limits to identify, measure, monitor and control liquidity risk. Such indicators and limits include (but are not limited to) liquidity ratio, deposit stability ratio, loan-to-deposit ratio, Maximum Cumulative Outflow ("MCO") and liquidity buffer asset portfolio. The Group applies cash flow analysis (under normal and stress conditions) and liquidity stress test (including institution-specific and worldwide crisis) to assess the Group's capability to withstand various severe liquidity crises. Also, the Assets and Liabilities Management System ("ALM") is developed to provide data support for facilitating the liquidity risk management duties.

The Group's liquidity risk management also covers new product or business development. Before launching a new product or business, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying liquidity risk and consideration of the adequacy of the current risk management mechanism. Any material impact on liquidity risk noted during the risk assessment process will be reported to RC for approval.

The Group has established a set of uniform liquidity risk management policies which serve as standards and guidance to all the Group's members for liquidity risk management. On the basis of the Group's uniform policy, each of the subsidiaries formulates its own liquidity management policies according to its own characteristics (subject to prior consent by BOCHK), and assumes its own liquidity risk management responsibility. Subsidiaries are required to report their respective liquidity positions on a regular basis to the Risk Management Department (Market Risk Management) of BOCHK which consolidates such information and monitors group-wide liquidity risk.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal process, staff and information technology system, or from external events. The risk is inherent in every aspect of business operations and confronted by the Bank in its day-to-day operational activities.

The Group has put in place an effective internal control process which requires the establishment of policies and control procedures for all the key activities. Proper segregation of duties and authorisation is the fundamental principle followed by the Group. Corporate-level policy and procedure on operational risk management are formulated by the Operational Risk & Compliance Department ("OR&CD") and approved by RC.

The Group has adopted the "Three Lines of Defence" model for its operational risk management governance structure: all departments as the first line of defence are the owner of operational risk and are responsible for carrying out the duties and functions of self-risk control in the process of business operation through self-assessment, self-checking and self-correction. OR&CD together with certain specialist functional units in relation to operational risk management within the Group are the second line of defence, which is responsible for assessing and monitoring the operational risk condition of the first line of defence, and providing them with guidance. In addition to formulating the operational risk management policy and procedure, OR&CD, being independent from business units, is the central management unit of the Group's operational risk management and also responsible for designing the operational risk assessment methodologies, tools and the reporting mechanism (including the capturing of data on operational risk events loss), monitoring the implementation status of policies and operational procedures in the departments of the first line of defence through operational risk management tools, and assessing and reporting the overall operational risk position to Management and RC. Certain specialist functional units, including the Human Resources Department, Information Technology Department, Corporate Services Department, OR&CD, Financial Management Department and General Accounting & Accounting Policy Department, are required to carry out their managerial duties of the second line of defence with respect to some specific aspects of operational risk. Besides taking charge of operational risk management in their own units, these units are also required to provide other units with professional advice/training in respect of certain operational risk categories and to lead the corporate-level operational risk management. Audit Department is the third line of defence which provides independent assessment with respect to the operational risk management framework and is required to conduct periodic audit of the operational risk management activities of various departments/business units within the Group regarding their compliance and effectiveness and to put forward recommendations for corrective actions.

The Group adopts the tools or methodologies such as key risk indicators, self-assessment, operational risk events reporting and review to identify, assess, monitor and control the risks inherent in business activities and products, as well as takes out insurance to mitigate unforeseeable operational risks. Business continuity plans are in place to support business operations in the event of an emergency or disaster. Adequate backup facilities are maintained and periodic drills are conducted.

Reputation Risk Management

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

In order to mitigate reputation risk, the Group has formulated and duly followed its Reputation Risk Management Policy. The policy aims to prevent and manage reputation risk proactively at an early stage when an incident occurs. Since reputation risk is often caused by various types of operational and strategic issues that may have a negative impact on the trust in and perception of the company, all operational and key risks identified are assessed through the established KCSA framework to evaluate the severity of their impact on the Group, including the damage to reputation. In addition, the Group has put in place a framework including system support to achieve continuous monitoring of external reputation risk incidents and published failures of risk incidents in the financial industry.

Legal and Compliance Risk Management

Legal risk is the risk that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the Group's operation or financial condition. Compliance risk is the risk of legal or regulatory sanctions, financial loss, or loss to reputation that the Group may suffer as a result of any failure to comply with all applicable laws and regulations. Legal and compliance risks are managed by OR&CD, which reports directly to the CRO. All legal matters are handled by the Legal Services Centre ("LSC"), which reports to the Chief Operating Officer. OR&CD is responsible for legal risk management of the Group with support rendered by LSC. As part of the Group's corporate governance framework, policy for the management of legal and compliance risk is approved by the Risk Committee.

Strategic Risk Management

Strategic risk generally refers to the risks that may induce immediate or future negative impact on the financial and market positions of the Group because of poor strategic decisions, improper implementation of strategies and lack of response to the market. The Board of Directors reviews and approves the policy for the management of strategic risks. Key strategic issues have to be fully evaluated and properly endorsed by the senior management and the Board.

The Group will regularly review its business strategies to cope with the latest market situation and developments.

Capital Management

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

To comply with HKMA's requirements as stated in the Supervisory Policy Manual "Supervisory Review Process", the Group has established the Internal Capital Adequacy Assessment Process (ICAAP) and reviews it annually. Using the statutory minimum CAR, 8%, as a starting point, extra capital (capital add-on) needed to cover the risks not captured under Pillar I is assessed. A Scorecard approach based on HKMA's compliance guidance on Pillar II has been used to evaluate the Group's risk profile in order to assess the add-on capital in Pillar II to the regulatory capital under Pillar I to determine the minimum CAR. An Operating CAR Range has also been established which incorporates the need for future business growth and efficiency of capital utilisation. In response to the core capital requirements under Basel III Accord, minimum common equity CAR and minimum core CAR are introduced in 2011's ICAAP. As the Group has adopted Foundation Internal Ratings-Based ("FIRB") approach in its calculation of credit risk since 2011, all capital adequacy targets are determined based on FIRB approach.

Stress Testing

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

BOC Life Insurance

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

Insurance Risk Management

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

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

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

For 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, BOC Life has a retention limit on any single life insured. BOC Life cedes the excess of the insured benefit over the limit for standard risks (from a medical point of view) to reinsurer under an excess of loss reinsurance arrangement.

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 and persistency. In order to assess the uncertainty due to the mortality assumption and lapse assumption, BOC Life conducts mortality study and lapse study in order to determine the appropriate assumptions. In these studies, consistent results are reflected in both assumptions with appropriate margins.

Interest Rate Risk Management

An increase in interest rates may result in the depreciation of the value of the bond portfolio. It may also result in customers accelerating surrenders. A decrease in interest rates may result in an inability to adequately match guarantees or lower returns leading to customer dissatisfaction. BOC Life manages the asset liability matching of its portfolios within an asset liability management framework that has been developed to achieve investment returns that match its obligations under insurance contracts.

Liquidity Risk Management

Liquidity risk is the risk of not being able to fund increases in assets or meet obligations as they fall due without incurring unacceptable loss. BOC Life's asset liability matching framework includes cash flow management to preserve liquidity to match policy payout from time to time. In the normal course of BOC Life's business, new business premiums generate constant cash inflows and, as a result, the portfolios also grow gradually to meet future liquidity requirement.

Credit Risk Management

BOC Life has exposure to credit risk, which is the risk that a customer or counterparty will be unable to or unwilling to meet a commitment that it has entered into. Key areas to which BOC Life's insurance business is exposed include:

- Default risk of bond issuers or the counterparties of structured products
- Credit spread widening as a result of credit migration (downgrade)
- Re-insurers' share of insurance unpaid liabilities
- Amounts due from re-insurers in respect of claims already paid
- Amount due from insurance contract holders
- Amount due from insurance intermediaries

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

In order to enhance credit risk management, BOC Life has strengthened its communication with the Investment Management of the Group and closely monitors and updates the established Disposal and Watch Lists to ensure consistency with the Group's credit risk management and investment strategy.