中銀香港(控股)有限公司
BOC HONG KONG (HOLDINGS) LIMITED

2009 INTERIM REPORT

Stock code: 2388

The printed version of the 2009 Interim Report of the Company will replace this version in mid September 2009.

CONTENTS

FINANCIAL HIGHLIGHTS

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m	Year ended 31 December 2008 HK$'m
Net operating income before impairment allowances	**13,028**	14,039	25,526
Operating profit	**7,719**	7,724	4,182
Profit before taxation	**8,244**	8,434	4,078
Profit for the period/year	**6,875**	7,181	3,007
Profit attributable to the equity holders of the Company	**6,691**	7,088	3,343
	HK$	HK$	HK$
Earnings per share	**0.6329**	0.6704	0.3162
Dividend per share	**0.2850**	0.4380	0.4380
	HK$'m	HK$'m	HK$'m
Capital and reserves attributable to the equity holders of the Company	**94,149**	95,047	82,719
Issued and fully paid share capital	**52,864**	52,864	52,864
Total assets	**1,146,150**	1,127,168	1,147,244
Financial ratios	**%**	%	%
Return on average total assets[1]	**1.23**	1.32	0.27
Return on average capital and reserves attributable to the equity holders of the Company[2]	**15.13**	15.09	3.81
Cost to income ratio	**32.19**	29.12	34.36
Loan to deposit ratio[3]	**57.66**	57.81	56.74
Average liquidity ratio[4]	**39.70**	42.47	41.74
Capital adequacy ratio[5]	**16.10**	13.87	16.17

1. Return on average total assets = $\dfrac{\text{Profit for the period/year}}{\text{Daily average balance of total assets}}$

2. Return on average capital and reserves attributable to the equity holders of the Company

$$= \frac{\text{Profit attributable to the equity holders of the Company}}{\text{Average of the beginning and ending balance of capital and reserves attributable to the equity holders of the Company}}$$

3. Loan to deposit ratio is calculated as at 30 June 2009, 30 June 2008 and 31 December 2008. Loan represents gross advances to customers. Deposit also includes structured deposits reported as "Financial liabilities at fair value through profit or loss".

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

5. 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.

CHAIRMAN'S STATEMENT

For the first six months of 2009, the overall operating environment remained challenging although the impact of the global financial crisis appeared to be subsiding, especially into the second quarter. While we have witnessed the unprecedented market volatilities in the second half of 2008, the measures we took to safeguard our financial strength proved to be effective. Our fundamentals remain solid, positioning us to capture business opportunities and to enhance our franchise amid adverse operating conditions.

In a very challenging environment, the Group's net operating income before impairment allowances was HK$13,028 million, down 7.2%. Our core operating expenses were well contained on the back of our disciplined cost control measures. Operating profit before impairment allowances was down 11.2% to HK$8,834 million. Profit attributable to shareholders decreased by 5.6% year-on-year to HK$6,691 million or HK$0.6329 per share. The Board has declared an interim dividend payment of HK$0.285 per share, compared to HK$0.438 per share for the same period last year.

In view of the uncertain economic and financial challenges, we maintain a prudent approach in safeguarding our financial strength. As at end June 2009, our consolidated capital adequacy ratio stood comfortably at 16.10% and our liquidity position remained solid at 39.70%. Total assets amounted to HK$1,146.2 billion. We continued to manage our treasury investment proactively and prudently and to optimise the investment structure in response to market changes. Total net provision charge on our securities investments reduced substantially, comparing to the same period last year as well as the second half of last year.

As global economies slow down, market demand is weak and risks remain high. It is important for us to strike a good balance between risk management and business growth. While risk control remains our top priority, we captured new businesses by adopting a pragmatic approach and leveraging our core strengths. Despite the contracting loan demand in the market, we recorded outstanding performance in growing our loan book by 3.3% and loan commission fee income by 51.3%. We maintained our leading position in the syndication loan market and residential mortgage market. We have also actively promoted our SME business on the back of the HKSAR Government loan guarantee schemes to support the development of SMEs in Hong Kong. Of particular note, our loan quality remained solid with classified or impaired loan ratio further improving to 0.37% from 0.46% as at end 2008, which is better than industry average. In addition, our stock brokerage business managed to capture the improved momentum of the stock market, capitalizing on our efficient and strong platform with majority of the transactions being conducted through our automated channels. Fee income from our stock brokerage business increased by 26.1% year-on-year.

Despite the slowdown in overall economic activities, we focused our efforts on enhancing our franchise and strengthening our business capabilities in areas where we see important opportunities for long-term sustainable growth. We revamped the business platform and strategy of BOC Life, the Group's insurance arm. In response to the market changes, we enriched the product mix to cater to customer needs and enhanced our multi-channel strategy and sales efficiency. A new professional sales team was established, focusing on sales of regular premium products. Initial feedback on this sales model was positive with encouraging progress in the second quarter of 2009. As part of core strategy, we continued to enhance the collaboration with our parent bank, Bank of China Limited ("BOC"). In addition to the successful Asia-Pacific Syndicated Loan Centre, we have further extended our cooperation to other areas. We have strengthened the cooperation with BOC in promoting several cross-boundary products in trade finance. We have also launched a pilot scheme on "Global Relationship Manager" which enhances our global service capability to the BOC Group's leading corporate customers. Riding on our experience and capabilities, our long-term plan is to act as an effective product manufacturing agent and service support center for BOC Group in the Asia-Pacific region.

On 22 July 2009, BOCHK Group announced the details of a settlement agreement with the regulatory authorities and other thirteen distributing banks on a Lehman Brothers Minibonds Repurchase Scheme for the eligible customers. This marked an important step towards the resolution of the incident in a principled and balanced manner and demonstrated our commitment to the interests of our customers. We are confident that the Repurchase Scheme will reinforce public confidence in the banking, financial and regulatory systems in Hong Kong and enable us to move forward to tide over the global financial crisis and seize the opportunities that arise in the economic recovery.

Looking forward, despite the improved market sentiment, we expect the operating environment to remain challenging as global economies remain fragile. We, therefore, need to stay alert and agile to adjust our strategies in response to the market changes. Our solid financial strength provides us flexibility to grasp business opportunities despite market uncertainties. In July, the Pilot RMB Trade Settlement Scheme in Hong Kong was launched. We successfully completed the first cross-border RMB trade settlement and the first trade finance transaction in Hong Kong, once again reinforcing our leading position in capturing the opportunities arising from the continued expansion of RMB business in Hong Kong. Being the sole RMB Clearing Bank in Hong Kong, BOCHK enjoys a unique edge in trade settlement and trade finance between the Mainland and Hong Kong. Capitalizing on our core strengths and competitiveness in cross-border services, we will continue to work closely with BOC to provide comprehensive, professional and quality RMB trade settlement and finance support services to our customers.

As we continue to enhance our business capabilities, we are equally focused on fostering our corporate culture to enhance the Group's cohesiveness with shared vision and values by every member of the Group. This is particularly important in this market environment as well as for the Group's long-term success. I would like to take this opportunity to express my sincerest appreciation to our associates and Management team for their dedicated efforts and to my fellow Board members for their wisdom in meeting the challenges and making our success possible.

In view of the Group's expansion need, we continued to broaden and strengthen our management team. On behalf of the Board, I would like to welcome Mr. Zhuo Chengwen, who joined us as the Group's Chief Financial Officer on 1 June 2009 and Mr. Lee Alex Wing Kwai, who joined us as the Group's Chief Operating Officer on 2 July 2009. Mr. Zhuo and Mr. Lee will bring their experience and expertise to their roles and will contribute to further strengthening the BOCHK franchise together with the other members of the Management team.

Last but not least, I would like to thank our customers and shareholders for their unwavering support and trust which enables us to pursue the market opportunities and to realise our potential.

XIAO Gang
Chairman

27 August 2009

The operating environment for the banking and financial services sector remained highly challenging in early 2009 as many uncertainties stemming from last year's unprecedented global financial turmoil still existed. Loan demand remained weak. Merchandise trade was shrinking. Unemployment kept on rising and private consumption turned sluggish. The situation, however, was beginning to stabilise in the second quarter with the emergence of some positive developments, including the influx of capital and the return of investors' confidence in the stock and property markets.

Fully alert to these changes in the economy and market sentiments, we lost no time in refining our business strategy accordingly and adopted a more proactive approach in driving business growth. While continuing to maintain our capital strength, liquidity management, risk control and cost containment, we took initiatives to seize rising opportunities to gear towards the growth of the Group's traditional core business segments. By riding on our solid foundation and strong franchise, we recorded significant improvement in operating performance versus the second half of last year and achieved most of our business targets under the difficult market conditions.

Overall speaking, we have regained our growth momentum after a very trying 2008. Not only had we to a large extent recovered the lost ground experienced last year, but also enhanced our business capabilities to better position the Group for the upcoming recovery and a more sustainable development in the time ahead.

Business Highlights and Initiatives

The following summary highlights our key business results we delivered and major initiatives we took in the first half of 2009:

- Led by the growth of core businesses, operating income and operating profit improved considerably from the second half of 2008. These, together with a substantial drop in the net charge of impairment allowances, led to a reversal of profit attributable to shareholders.

- Our lending business recorded a healthy growth whereas the overall market declined amid the deepening economic downturn. We therefore gained a larger market share in lending business and increased our loan commissions by a significant margin.

- We continued to maintain leading positions in corporate lending, loan syndication, residential mortgage and RMB-related banking services in the Hong Kong market.

- Our stock brokerage business was able to benefit tremendously from the surge in stock transactions in recent months as supported by the Group's enhanced service infrastructure and other business initiatives.

- Through collaboration with BOC and in our role as BOC's Asia-Pacific Syndicated Loan Centre, we made good progress in growing our loan syndication business in the region and boosting related income.

- Our loan quality has proved to be excellent with lower classified or impaired loan ratio in an adverse market environment. We thus witnessed a net reversal of loan impairment allowances in the first half.

- By adjusting our asset allocation in a proactive and decisive manner, we reduced the risk exposure of our investment portfolio. On the back of improved sentiment in the capital markets, impairment charge on securities investments was impressively lower.

- Operating expenses were under rigorous control in view of the tough operating environment, keeping the cost-to-income ratio at a low level by industry standard.

- With strengthened capital base and liquidity management, we have fortified our foundation for any unpredictable and unfavourable changes in the highly volatile market.

Financial Performance

In the first six months of 2009, the Group's operating income was HK$13,028 million, down 7.2% year-on-year but it represented a marked improvement of 13.4% from the second half of 2008. Operating profit before impairment allowances was HK$8,834 million, down 11.2% year-on-year but again was an increase of 29.8% versus the second half of 2008.

For the first half of 2009, profit attributable to the Company's shareholders was HK$6,691 million, down by a moderate 5.6% year-on-year due mainly to a drop in net interest income caused by the narrowing of net interest margin. However, against the net loss of HK$3,745 million in the second half of 2008, it represented a major improvement which can be attributed to the increase in operating income as well as the decrease in impairment charges on securities investment.

Return on average total assets (ROA) and return on average shareholders' funds (ROE) were 1.23% and 15.13% respectively, versus 1.32% and 15.09% respectively for the same period in 2008.

Net interest income decreased by 11.0% year-on-year to HK$8,929 million as net interest margin narrowed by 27 basis points to 1.76%. This decrease was partially offset by the growth of 3.5% in average interest-earning assets which reached HK$1,023.45 billion by end-June 2009. Net interest margin (NIM) narrowed because of the decline in the contribution from net free funds in the low-interest environment and also lower interest spread.

Net fees and commission income grew by 1.7% year-on-year to HK$2,947 million. Compared to the second half of 2008, it soared by a very robust 29.3%. The key driver of this growth was stock brokerage. Capitalising on the rebound of the local stock market, we grew our stock brokerage fee income by 26.1% to HK$1,625 million year-on-year. The Group's enhanced service platform played a major role in this growth. Meanwhile, loan commission income grew by 51.3% when compared to first half of 2008.

Net trading income fell by 28.1% to HK$889 million year-on-year due to the reduction in net trading income from foreign exchange and related products, interest rate instruments and equity instruments because of lower demand in the economic downturn. Compared to the second half of 2008, however, we experienced a growth of 31.3%, resulting mainly from a mark-to-market gain on interest rate swap contracts.

On the expenditure side, we continued to exercise a high degree of prudence in managing costs. During the period under review, total operating expenses increased by 2.6% to HK$4,194 million year-on-year but decreased by 10.4% as compared with the second half of last year. If the expenses mainly related to Lehman Brothers Minibonds was not included, our total operating expenses would have decreased by 2.8% year-on-year because of savings in staff costs. The Group's cost-to-income ratio stood at the low level of 32.19%, versus 29.12% a year ago. But if the expenses mainly related to Lehman Brothers Minibonds was excluded, cost-to-income ratio would have become 30.49%.

As global capital markets showed signs of stabilising in the second quarter, the Group's net charge of impairment allowances on securities investment dropped by 45.6% year-on-year and 88.0% half-on-half to HK$1,168 million. For the same period, the Group recorded a net reversal of loan impairment allowances of HK$60 million as compared with a net charge of HK$71 million in the first half of 2008.

Despite sluggish market demand, our strenuous effort and initiatives in strengthening our core lending business paid off. Against the market average of a negative 2.5% for the period under review, we recorded a growth of 3.3% to HK$475,564 million in total loans and advances to customers, of which corporate loans increased by 4.5% and residential mortgage loans by 1.6%. As mentioned above, we were also benefitted by our designation as BOC's Regional Syndicated Loan Centre to expand our syndicated loan business beyond Hong Kong and the Mainland. The Group's loan-to-deposit ratio was 57.66%, versus 56.74% at the end-2008.

As at end-June 2009, the Group's total assets reached HK$1,146.15 billion. Due to our continuous efforts to manage risks rigorously and effectively, our loan quality remained solid. The Group's classified or impaired loan ratio for the first half of 2009 was 0.37%, versus 0.46% as at end-2008.

Our capital and liquidity positions remained strong. Consolidated capital adequacy ratio (CAR) as at end-June 2009 was 16.10%, down from 16.17% at the end-2008. The average liquidity ratio stayed healthy at 39.70%, compared to 42.47% in the first half of 2008.

Business Review

Our operating performance in the first six months speaks for our prowess in growing and developing our business even under adverse market conditions.

Personal banking

The Group's Personal Banking segment registered an operating income of HK$5,067 million and a profit before taxation of HK$2,216 million, down 13.6% and 25.3% year-on-year respectively. The decreases were caused mainly by lower net interest income and other operating income. Net interest income dropped as deposit spread narrowed against the backdrop of local deposit interest rates close to zero. The reduction in the sales of open-end funds and structured notes as well as foreign exchange activities led to the fall in other operating income.

As the operating environment began to improve after the first quarter, we took prompt initiatives to further reinforce our market position. Through effective marketing efforts, product innovation and cooperation with developers, we regained our growth momentum in residential property mortgage and maintained our market position. During the interim period, the Group's outstanding mortgage loans grew by 1.6% versus end-December 2008. We remained highly cautious over the quality of mortgage loans and exercised rigorous risk assessment and control. As a result, the delinquency and rescheduled loan ratio still stood at a low 0.07%.

Our stock brokerage business experienced a strong rebound as the local stock market became more active during the period. Our service platform for stock trading, especially the e-channel, that has been drastically enhanced in the recent past allowed us to benefit from this upturn and realised transaction growth. Our stock brokerage volume rose by 7.9% year-on-year and 52.8% versus the second half of 2008 and our market share reached a record high.

We grew our wealth management segment through service enhancement and customisation. We also strove to attract new wealth management customers with a host of promotional offers. By collaborating with BOC, we expanded our cross-border wealth management services for customers. In the first six months of this year, the total number of wealth management customers and the volume of assets under our management increased by 3.5% and 15.7% respectively.

Despite the impact of economic downturn on customers' spending, we managed to sustain the growth of the credit card business. Card issuance increased by 10.1% when compared to end-2008. Cardholder spending and merchant acquiring volume rose by 1.4% and 5.8% respectively when compared to same period of last year. As a reflection of the increased demand generated from cross-border travelling, customers' response to the "BOC-CUP (China UnionPay) Dual Currency Credit Card" launched in December 2008 was overwhelming with the number of cards issued exceeding 200,000 by end-June 2009. The loan quality of card advances remained excellent with the annualised charge-off ratio standing at 3.14%.

We enjoyed a leading position in RMB banking business in the Hong Kong market. Our focus this year is on RMB integrated services including "RMB Remittance Express" and "RMB Exchange Express". To grow our market share in RMB deposits, promotional offers were introduced. As a result, the market share of RMB deposits increased in the first six months. Our RMB credit card business witnessed robust growth and led the field in most areas. In the period under review, RMB card issuance surged by 96.4% from end-2008 while merchant acquiring volume and cardholder spending grew by 47.0% and 90.8% respectively when compare to same period of last year.

To facilitate long-term growth, we continued to upgrade our service infrastructure, especially the e-banking channels. In the first half of this year, the number of personal e-banking customers and stock transactions conducted through the e-channels rose by 3.1% and 10.8% respectively.

Corporate Banking

The Group's Corporate Banking business experienced substantial growth versus the second half of last year. Operating income saw a moderate decrease of 6.4% year-on-year to HK$3,841 million due mainly to a drop in net interest income but other operating income increased as a result of higher fee income from loans. Profit before taxation dropped only slightly by 0.9% to HK$2,935 million.

Leveraging our internal strengths and close relationship with BOC, we succeeded in delivering solid results in our Corporate Banking segment.

Despite the weak demand for loans in the economic downturn, we grew our corporate loan portfolio by 4.5% and captured a larger market share in the first six months. We remained the top mandated arranger in the Hong Kong-Macau syndicated loan market. In our role as BOC's Asia-Pacific Syndicated Loan Centre, we have been actively expanding our business in the region. The growth of our syndicated loan portfolio contributed to the rise in loan commission income.

We continued to expand our SME business, which is the backbone of the Hong Kong economy. In support of the HKSAR Government's initiatives to help SMEs in the recession, we were active in promoting both the "SME Loan Guarantee Scheme" and "Special Loan Guarantee Scheme". We also introduced a one-stop cash management solution for corporate customers, including SMEs. The quality and range of services targeting SMEs won us the "SME's Best Partner Award" for the second year in a row.

During the period under review, we deepened our collaboration with BOC and introduced a host of cross-border trade finance products. Although the trade finance business in general suffered from sluggish world trade in the beginning of this year, our hard work and innovative services enabled us to see a rebound in the second quarter. As Hong Kong's RMB clearing bank, we signed the "Clearing Agreement in Relation to Renminbi Business" with the People's Bank of China on 4 July and the cross-border RMB trade settlement clearing service was officially launched on 6 July 2009.

Much progress was made in developing our cash management business through service enhancement. In March this year we were designated as the USD settlement bank in Hong Kong for the Real Time Gross Settlement System linkage between Hong Kong and the Mainland, and we have been actively promoting this new service for customers. In June we launched an express collection service for corporate clients, which helped to capture a greater transaction volume and encourage them to use their accounts at the Group as their major operating accounts.

Mainland Business

The Group's Mainland business was up by 15.1% to HK$466 million in operating income. Profit before taxation was HK$308 million, up 30.5%, due mainly to lower exchange loss of capital funds and higher recoveries. Customer deposits increased by 6.3%, of which RMB deposits were up 10.5%. Total advances to customers fell by 9.9%. The loan quality remained good, with the classified loan ratio standing at 0.48% versus 0.88% at end-2008.

During the interim period, we continued to expand our branch network in the Mainland which now comprises

22 branches and sub-branches. We also expanded our range of cross-border services for both personal and corporate customers, and introduced diversified deposit and mortgage products. With the formation of strategic alliances with a number of insurance companies, we are able to offer various types of general and life insurance products to meet the increasingly sophisticated needs of customers.

Treasury

The Group's Treasury recorded an operating income of HK$3,746 million, down 14.7%, of which net interest income was down 15.7% to HK$2,914 million. Operating profit before taxation was up 20.7% to HK$2,184 million, caused mainly by the reduction in net charge of impairment allowances on securities investment. Operating profit before impairment allowances fell by 15.3% to HK$3,352 million.

This year the Group continued to pursue a prudent strategy for protecting its investment portfolio while remaining flexible to maximise investment gains. At the beginning of the year, in view of market volatility, the Group's investments were mostly concentrated on short-term government bills. As the market began to stabilise in the second quarter, we switched more investments to high-quality fixed-rate debt securities of government-related and government-guaranteed agencies while extending the maturity of interbank placements, thus achieving relatively steady return.

We adopted a prudent and proactive approach in asset allocation. While the Group aimed to reduce the overall credit risk of its investment portfolio, the carrying value of the Group's exposure to US non-agency RMBS decreased by 23.1% to HK$14.9 billion during the first half of 2009 due to disposal and consistent repayment.

As regards treasury investment products, our focus in these six months was on traditional products related to foreign exchange and precious metals. Because interest rates were low, corporate customers were offered foreign-exchange and interest-rate linked hedging products.

With the setting up of the Treasury Product Committee towards the end of last year, the Group is now in a stronger position to manage its treasury products.

Insurance

The Group's insurance business had a decline in operating income of 67.5% to HK$1,135 million. The decline was mainly caused by lower premium income and an increase in mark-to-market loss of debt securities investments. After accounting for the decrease in net insurance benefits and claims, we recorded a profit before taxation of HK$155 million for the interim period versus a loss of HK$178 million in the first half of 2008.

In terms of product offerings, the focus of this year has been to extend our range to cover more regular-premium products. These products received encouraging response from customers and boosted related premium income by over 50% year-on-year. At the same time, we introduced some new single-premium products to meet the needs of customers.

On 6 July this year, the Company injected HK$765 million into BOC Life so that the latter now has a stronger capital base for business development and expansion.

Outlook

While at this stage it is still premature to speak of a full recovery of the global economy, we should nevertheless be encouraged by recent market signs that point to the gradual stabilisation of the overall economic situation. As the turbulence and its knocks-on effects begin to subside, more business opportunities would be likely to arise in the near future. Given the fact that the Group's foundations have remained sound and solid after the global financial turmoil and because a comprehensive and reasonable solution has been worked out for the thorny Lehman Brothers Minibonds issue, the Group is now in a better position than a year ago to focus on the growth of business and return. Having said that, we will be highly vigilant over any potential pitfalls in the market and we are more rigorous in safeguarding our financial strength, as well as in managing risks and costs. To strike a balance between business growth and risk control, we will pursue a prudent yet flexible development strategy in an environment of change, challenge and competition.

Our performance in the first half of this year reflects the progress we have made in regaining our growth momentum and earning power. In the remainder of the year and beyond, we will strive to grow our business particularly from core segments, improve our profitability, and further reinforce our market position in Hong Kong, the Mainland and the region.

Capitalising on our fundamental strengths, we will continue to focus on our traditionally strong business segments and enhance our competitiveness in these areas. We will align our strategies in product offering with the changing market situation and provide quality services that can cater to the diverse needs of our customers. Our extensive distribution channels, enhanced business platform, product development capabilities and, above all, our customer relationship, will give us an edge in growing our core business segments, including lending, deposit-taking and investment agency services, while at the same time allowing us to drive the growth of insurance and credit card businesses.

Further expanding the Group's service scope is one of our priorities. We will continue to reinforce our business platforms and grow our newly developed business areas, including cash management and custody. To promote a more sustainable development in the long run, we will explore new business areas with good potentials and, where necessary, make appropriate investment in related service infrastructure of these and other new growth drivers.

As the sole Clearing Bank for Renminbi business in Hong Kong, we will actively expand our RMB-related banking business. Leveraging our leading market position, experiences and capabilities, we will capture business opportunities arising from the launch of cross-border RMB trade settlement services to foster the growth of a wide spectrum of related services for our corporate customers, including remittances, collections and letter of credit services between Hong Kong and designated cities in the Mainland. To coincide with the latest developments in the Mainland, we will further enhance our "RMB Merchant Link" service to provide a one-stop solution for corporate clients on the one hand while upgrading our "Integrated RMB Services" for individual customers on the other hand.

We will engage in closer collaboration with our parent, BOC, for mutual gains. With the mandate as BOC's Asia-Pacific Syndicated Loan Centre, we will play an even more active role in identifying potential clients and securing loan syndication business in the region. The introduction of the pilot scheme of "Global Relationship Manager" by BOC in April will enable us, as a partner of the scheme, to enhance service capability to high-end corporate customers around the world. Given our experiences and capabilities built up over decades in an international financial centre like Hong Kong, we will seek to function as BOC Group's product manufacturing centre and service supporting centre in the Asia-Pacific region.

To conclude, I believe the Group has come through the global financial turmoil with our fundamentals being intact and we are now in better shape to move on, seize new opportunities and meet new challenges ahead of us. With the continued guidance of the Board and support of shareholders, customers and staff, I am confident that the Group will be able to reach a new horizon in the ever-changing financial landscape, which will in turn create higher value to our stakeholders.

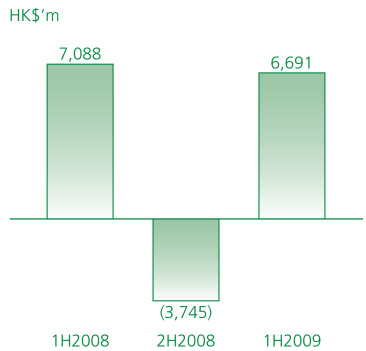
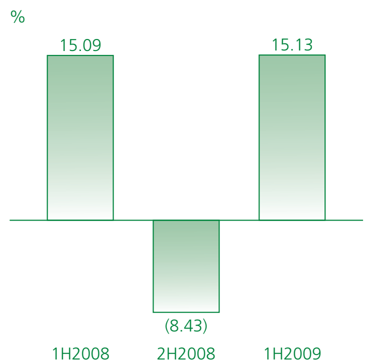
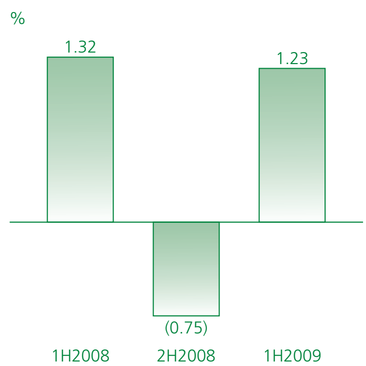
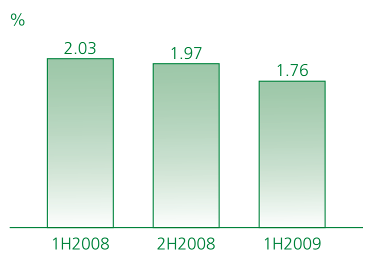
HE Guangbei
Vice Chairman & Chief Executive

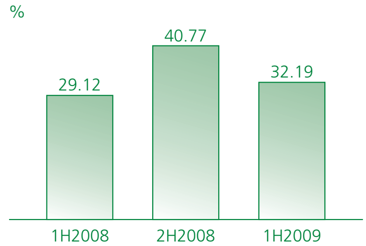
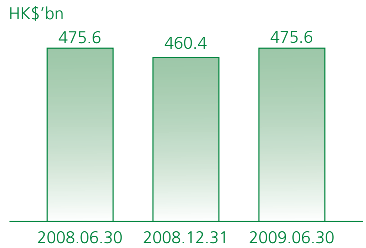
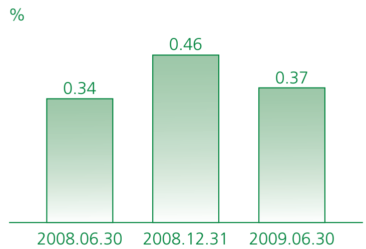
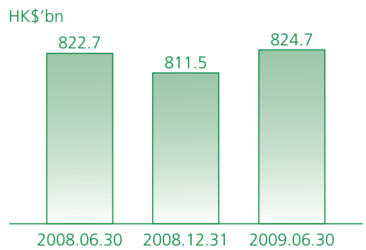
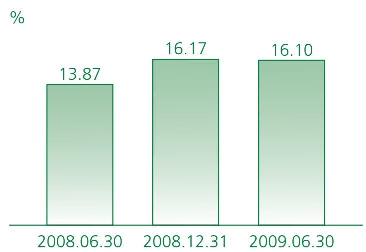
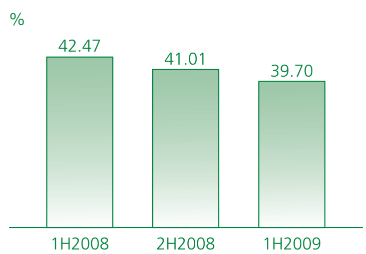
27 August 2009

The following sections provide metrics and analytics of the Group's performance, financial position, and risk management. These should be read in conjunction with the interim 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 2009 with a comparison with the previous two half-yearly periods.

<table>
<tr><th>Financial Indicators</th><th></th><th>2009 First Half Performance</th></tr>
<tr><td>1. Profit Attributable to Shareholders</td><td>
</td><td>Profit attributable to shareholders
• Profit attributable to shareholders was HK$6,691 million, down HK$397 million, or 5.6%, year-on-year</td></tr>
<tr><td>2. Return on Average Shareholders' Funds ("ROE") (Annualised)</td><td>
</td><td>ROE
• ROE was 15.13%, up 0.04 percentage point year-on-year</td></tr>
<tr><td>3. Return on Average Total Assets ("ROA") (Annualised)</td><td>
</td><td>ROA
• ROA was 1.23%, down 0.09 percentage point year-on-year</td></tr>
<tr><td>4. Net Interest Margin ("NIM")</td><td>
</td><td>NIM
• NIM was 1.76%, down 27 basis points year-on-year, due to lower market interest rates and the higher funding cost of subordinated loans
• NIM was down 21 basis points from the second half of 2008</td></tr>
</table>

<table>
<tr><th colspan="2">Financial Indicators</th><th>2009 First Half Performance</th></tr>
<tr><td>5. Cost-to-Income Ratio ("CIR")</td><td>
</td><td>CIR
• CIR was up 3.07 percentage points year-on-year as operating expenses increased by 2.6% while operating income decreased by 7.2%
• CIR fell by 8.58 percentage points from the second half of 2008 as operating expenses decreased by 10.4% whereas operating income grew by 13.4%</td></tr>
<tr><td>6. Advances to Customers</td><td>
</td><td>Advances to Customers
• Although loan demand in general was weak and declining, the Group outperformed the market with its advances to customers growing by 3.3% from end-2008 to HK$475.6 billion</td></tr>
<tr><td>7. Classified or Impaired Loan Ratio</td><td>
</td><td>Classified or Impaired Loan Ratio
• Classified or impaired loan ratio fell to 0.37%, from 0.46% at end-2008
• Formation of new classified loans remained at a low level, representing approximately 0.1% of total loans</td></tr>
<tr><td>8. Deposits from Customers (including structured deposits)</td><td>
</td><td>Deposits from Customers
• Total deposits increased by 1.6% from end-2008 to HK$824.7 billion, with an improved deposit mix</td></tr>
<tr><td>9. Capital Adequacy Ratio ("CAR")</td><td>
</td><td>CAR
• CAR maintained at a high level of 16.10% at the end of June 2009
• Tier-1 ratio stood at 11.24%</td></tr>
<tr><td>10. Average Liquidity Ratio</td><td>
</td><td>Average Liquidity Ratio
• Average liquidity ratio remained healthy at 39.70% in the first half of 2009</td></tr>
</table>

ECONOMIC BACKGROUND & OPERATING ENVIRONMENT

The operating environment as a whole remained very challenging in the first half of 2009. In the wake of the global financial crisis, the world economy was undergoing a downturn. The US recorded an annualised contraction of 6.4% in its GDP in the first quarter of 2009. Economies in the Euro region and Japan were down by 9.7% and 14.2% respectively in the same period. The effect of the drastic measures and low interest rate policy taken by respective governments was still to be seen. Hong Kong also recorded a GDP decline of 7.8% during the same period largely due to sluggish external trade, private consumption and investment. The economic contraction it experienced was the severest since the 1997 Asian Financial Crisis. The labour market was made to suffer with the unemployment rate climbing to 5.4% at the end of June, the highest since November 2005, which affected virtually all sectors of the economy. Inflationary pressure subsided with the composite consumer price index in June falling by 0.5% compared with end-2008.

The local banking sector was not exempted from the impact of economic recession. The slowdown in economic activities eroded banks' interest income from lending and fee income from wealth management. The profitability of banks was affected by lower market demand for loans and other banking services while low interest rates led to narrower net interest margin. In particular the selling of investment products virtually came to a halt after the occurrence of the Lehman Brothers Minibonds incident.

However, in the second quarter, there were signs that the rate of economic decline in the US and Europe was moderating. Back home, economic activities in the Mainland boosted by the PRC Government's policy stimulus had a positive impact on the Hong Kong economy. At the same time, Hong Kong benefited from an influx of capital, which led to a strong rebound in both the stock and residential property markets but yet the competition for mortgage business intensified.

In July, the People's Bank of China and other regulatory authorities in the Mainland launched the "Pilot Programme of Renminbi Settlement of Cross-Border Trade Transactions". It grants the right of issuing RMB bonds in Hong Kong by foreign banking subsidiaries in the Mainland. This paves the way for the further development of Hong Kong as an offshore RMB centre.

CONSOLIDATED FINANCIAL REVIEW

In the first half of 2009, the adverse impact of the global financial crisis was still keenly felt. Against this background, the Group continued to solidify its financial strength to maintain a healthy capital base, and to fortify risk management. At the same time, it focused on growing its income from traditional banking businesses and exercised prudent cost control. In the first six months of 2009, the Group's operating profit before impairment allowances decreased by HK$1,117 million, or 11.2%, year-on-year to HK$8,834 million, mainly because of the decline in net interest income and net trading income of the banking operation. However, the Group recorded growth in net fees and commission income as well as operating income from its insurance segment. During the period, a lower impairment charge on securities investments and a net reversal of loan impairment allowances were also recorded. The Group's profit attributable to shareholders decreased by HK$397 million, or 5.6%, to HK$6,691 million. Earnings per share were HK$0.6329, down HK$0.0375. Return on average total assets ("ROA") and return on average shareholders' funds ("ROE") were 1.23% and 15.13% respectively.

Compared to the second half of 2008, the Group's operating profit before impairment allowances increased by HK$2,030 million or 29.8%. Lower net interest income was more than offset by the increase in net fees and commission income, net trading income of the banking operation, operating income registered by the Group's insurance segment as well as lower operating expenses.

Financial Highlights

HK$'m, except percentage amounts	**Half-year ended 30 June 2009**	Half-year ended 31 December 2008	Half-year ended 30 June 2008
Operating income	**13,028**	11,487	14,039
Operating expenses	**(4,194)**	(4,683)	(4,088)
Operating profit before impairment allowances	**8,834**	6,804	9,951
Net charge of impairment allowances	**(1,115)**	(10,346)	(2,227)
Others	**525**	(814)	710
Profit/(loss) before taxation	**8,244**	(4,356)	8,434
Profit/(loss) attributable to equity holders of the Company	**6,691**	(3,745)	7,088
Earnings per share (HK$)	**0.6329**	(0.3542)	0.6704
Return on average total assets	**1.23%**	(0.75%)	1.32%
Return on average shareholders' funds*	**15.13%**	(8.43%)	15.09%
Return on average total assets before impairment allowances	**1.58%**	1.23%	1.83%
Return on average shareholders' funds before impairment allowances*	**19.98%**	15.31%	21.18%
Net interest margin (NIM)	**1.76%**	1.97%	2.03%
Non-interest income ratio	**31.46%**	11.83%	28.56%
Cost-to-income ratio	**32.19%**	40.77%	29.12%

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

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

Net Interest Income and Margin

HK$'m, except percentage amounts	**Half-year ended 30 June 2009**	Half-year ended 31 December 2008	Half-year ended 30 June 2008
Interest income	**11,993**	17,176	18,105
Interest expense	**(3,064)**	(7,048)	(8,076)
Net interest income	**8,929**	10,128	10,029
Average interest-earning assets	**1,023,452**	1,024,038	988,746
Net interest spread	**1.69%**	1.77%	1.79%
Net interest margin	**1.76%**	1.97%	2.03%

In the first half of 2009, short term market interest rates stayed at a low level. Compared to the first half of 2008, average one-month HIBOR fell by 177 basis points to 0.21% while average one-month LIBOR declined by 253 basis points to 0.42%. The Group's average HKD Prime rate decreased by 62 basis points year-on-year to 5.00%, thus widening the HKD Prime-to-one-month HIBOR spread (hereafter called "Prime-HIBOR spread") by 115 basis points to 4.79%.

The Group's net interest income decreased by HK$1,100 million, or 11.0%, year-on-year to HK$8,929 million. The decline was mainly due to the drop in net interest margin, partially offset by the growth in average interest-earning assets which grew by HK$34,706 million, or 3.5%, compared to the first half of 2008.

Net interest margin fell by 27 basis points to 1.76%. The decline was primarily caused by the decline in contribution from net free funds under the low interest rate environment together with lower net interest spread.

Compared to the first half of 2008, the average yield of interest-earning assets fell by 145 basis points while the average rate of interest-bearing liabilities dropped by 135 basis points. The contribution of net free funds to the net interest margin fell by 17 basis points to 7 basis points.

The narrowing of net interest spread was largely due to the higher funding cost of the subordinated loans*. During the period, the Group managed its funding cost scrupulously. Deposit mix improved with an increase in the proportion of average demand deposits and current accounts as well as savings deposits in the Group's average total deposits. The net interest spread declined by 10 basis points to 1.69%.

* Bank of China (Hong Kong) Limited, the principal operating subsidiary with the Group secured two subordinated loans from BOC, in June and December 2008 respectively

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

ASSETS	Half-year ended 30 June 2009 Average balance HK$'m	Half-year ended 30 June 2009 Average yield %	Half-year ended 31 December 2008 Average balance HK$'m	Half-year ended 31 December 2008 Average yield %	Half-year ended 30 June 2008 Average balance HK$'m	Half-year ended 30 June 2008 Average yield %
Cash, balances and placements with banks and other financial institutions	**235,320**	**1.49**	309,519	1.82	213,538	2.53
Debt securities investments	**325,425**	**2.54**	301,124	4.05	312,522	4.49
Loans and advances to customers	**451,590**	**2.38**	401,366	4.00	447,133	3.68
Other interest-earning assets	**11,117**	**1.53**	12,029	3.05	15,553	2.82
Total interest-earning assets	**1,023,452**	**2.22**	1,024,038	3.35	988,746	3.67
Non interest-earning assets	**96,879**		83,992		101,572	
Total assets	**1,120,331**	**2.02**	1,108,030	3.09	1,090,318	3.33

LIABILITIES	Half-year ended 30 June 2009 Average balance HK$'m	Half-year ended 30 June 2009 Average rate %	Half-year ended 31 December 2008 Average balance HK$'m	Half-year ended 31 December 2008 Average rate %	Half-year ended 30 June 2008 Average balance HK$'m	Half-year ended 30 June 2008 Average rate %
Deposits and balances of banks and other financial institutions	**100,535**	**1.62**	89,327	1.80	70,561	2.04
Current, savings and fixed deposits	**763,486**	**0.39**	775,768	1.46	758,195	1.85
Certificates of deposit issued	**846**	**3.94**	1,046	5.39	1,905	2.81
Other interest-bearing liabilities	**20,779**	**0.29**	25,096	4.11	30,112	2.23
Total interest-bearing liabilities	**885,646**	**0.53**	891,237	1.58	860,773	1.88
Non interest-bearing deposits	**42,278**		32,588		41,542	
Shareholders' funds* and non interest-bearing liabilities	**192,407**		184,205		188,003	
Total liabilities	**1,120,331**	**0.42**	1,108,030	1.27	1,090,318	1.49

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

Compared to the second half of 2008, net interest income fell by HK$1,199 million, or 11.8%. Average interest-earning assets decreased slightly by HK$586 million, or 0.1%. Net interest margin fell by 21 basis points with the decline in net interest spread and contribution from net free funds by 8 basis points and 13 basis points respectively.

Average one-month LIBOR fell by 201 basis points to 0.42% while average one-month HIBOR decreased by 181 basis points to 0.21% when compared to the second half of 2008. The Group's average HKD Prime rate decreased by 18 basis points, thus widening the Prime-HIBOR spread by 163 basis points. The decrease in net interest income was mainly attributable to the decline in contribution of net free funds along with the fall in market interest rates and lower net interest spread. The decrease in net interest spread was primarily caused by the higher funding cost of the aforementioned subordinated loans.

Net Fees and Commission Income

HK$'m	**Half-year ended 30 June 2009**	Half-year ended 31 December 2008	Half-year ended 30 June 2008
Investment and insurance fee income	**1,741**	1,221	1,743
Securities brokerage (Stockbroking)	**1,625**	1,091	1,289
Securities brokerage (Bonds)	**4**	39	220
Funds distribution	**38**	61	157
Life insurance*	**74**	30	77
Credit cards	**705**	754	663
Loan commissions	**398**	250	263
Bills commissions	**310**	354	329
Payment services	**227**	247	239
Account services	**132**	115	146
Currency exchange	**87**	96	108
Trust services	**82**	86	87
General insurance	**48**	47	55
Correspondent banking	**21**	23	21
Custody	**15**	16	29
IPO-related business	**1**	0	30
Others	**117**	160	132
Fees and commission income	**3,884**	3,369	3,845
Fees and commission expenses	**(937)**	(1,089)	(946)
Net fees and commission income	**2,947**	2,280	2,899

* Fee income from life insurance only included that from the Group's insurance business partner after group consolidation elimination.

Net fees and commission income grew by HK$48 million, or 1.7% year-on-year, to HK$2,947 million, mainly driven by the strong growth of HK$135 million or 51.3% in loan commissions as a result of the expansion of the Group's loan portfolio and the increase in commission income from syndicated loans. The Group's appointment as the BOC Group's "Asia-Pacific Syndicated Loan Centre" ("the Syndicated Loan Centre") not only enhances its collaboration with other members of the BOC Group but also allows it to expand its service foothold in the Region. Commission income from syndicated loans generated through the Syndicated Loan Centre increased year-on-year. Investment and insurance fee income, which is discussed in the next section "Investment and Insurance Business", dropped marginally by HK$2 million or 0.1%. Fees from the credit card business grew by HK$42 million, or 6.3%, as cardholder spending and merchant acquiring volume were up 1.4% and 5.8% respectively. Fee income from the Group's other traditional banking businesses such as bills commissions, payment services and currency exchange recorded a decline due to lower business volumes in the economic downturn. Fee income from IPO-related business decreased with the sharp decline in IPO activities in the market. Meanwhile, fees and commission expenses decreased by HK$9 million or 1.0%.

Compared to the second half of 2008, net fees and commission income rose by HK$667 million or 29.3%, largely because of the $520 million or 42.6% increase in investment and insurance fee income. Meanwhile, fees and commission income from the loan business rose by 59.2%. With the economic slowdown moderating in the second quarter of 2009, the transaction volumes and related fee incomes of other traditional banking businesses recorded a broad-based increase when compared to the first quarter of 2009.

Investment and Insurance Business

HK$'m	**Half-year ended 30 June 2009**	Half-year ended 31 December 2008	Half-year ended 30 June 2008
Investment and insurance fee income			
Securities brokerage (Stockbroking)	**1,625**	1,091	1,289
Securities brokerage (Bonds)	**4**	39	220
Funds distribution	**38**	61	157
Life insurance*	**74**	30	77
	1,741	1,221	1,743
Insurance and investment income of BOC Life			
Net insurance premium income	**2,261**	1,390	4,501
Interest income	**562**	584	538
Net (loss)/gain on financial instruments designated at fair value through profit or loss	**(1,575)**	1,256	(1,392)
Others	**5**	9	8
Gross insurance and investment income of BOC Life#	**1,253**	3,239	3,655
Less: net insurance benefits and claims	**(919)**	(4,107)	(3,602)
	334	(868)	53
Total investment and insurance income	**2,075**	353	1,796
Of which: Life insurance fee income*	**74**	30	77
Insurance income/(loss) of BOC Life#	**334**	(868)	53
Total life insurance income/(loss)	**408**	(838)	130
Investment fee income	**1,667**	1,191	1,666
Total investment and insurance income	**2,075**	353	1,796

* Fee income from life insurance only included that from the Group's insurance business partner after group consolidation elimination.

\# Before commission expenses.

The Group's investment and insurance income registered an increase of HK$279 million or 15.5% to HK$2,075 million when compared to the same period last year. In the wake of the financial crisis, commission income from the distribution of bonds and funds decreased significantly. With improved market sentiments and liquidity in the second quarter of 2009, the stock market experienced a strong rebound. Leveraging its strong distribution network and trading platform, the Group seized business opportunities arising from increased stock trading transactions and successfully grew its stock broking income by HK$336 million or 26.1%. Meanwhile, the income from BOC Life also rose by HK$281 million, or more than fivefold, to HK$334 million mainly driven by the decrease in net insurance benefits and claims as long-term interest rate rose. This increase was partially offset by the increase in net loss on financial instruments designated at fair value through profit or loss.

Compared to the second half of 2008, total investment and insurance income soared by HK$1,722 million or more than fourfold. Investment and insurance fee income increased by HK$520 million or 42.6% with significant growth in fee income from stock broking. BOC Life recorded an insurance and investment income of HK$334 million compared to a loss of HK$868 million in the second half of 2008 caused by the widening of credit spread and low interest rates last year.

Net Trading Income

HK$'m	**Half-year ended 30 June 2009**	Half-year ended 31 December 2008	Half-year ended 30 June 2008
Foreign exchange and foreign exchange products	**790**	934	875
Interest rate instruments	**28**	(333)	206
Equity instruments	**17**	(16)	135
Commodities	**54**	92	21
Net trading income	**889**	677	1,237

Net trading income declined by HK$348 million or 28.1% year-on-year to HK$889 million due to the decrease in the net trading income from foreign exchange and related products, interest rate instruments as well as equity instruments.

Net trading income from foreign exchange and related products fell by HK$85 million or 9.7%. Amid the global economic downturn and the contraction of merchandise trade, the demand for foreign exchange was weak. In addition, RMB-related foreign currency transactions decreased significantly as the market's anticipated appreciation of RMB no longer prevailed. The business volume of structured deposits also plunged. As a result, the related income from foreign exchange activities declined by HK$360 million or 36.5%. The decrease was partially offset by the increase in the mark-to-market gain on foreign exchange swap contracts*. Net trading income from interest rate instruments declined by HK$178 million or 86.4% mainly due to the mark-to-market loss on certain debt securities investments, partially offset by the increase in mark-to-market gain of interest rate swap contracts. Net trading income from equity instruments decreased by HK$118 million or 87.4%, mainly as a result of the decline in income from equity-linked instruments.

Compared to the second half of 2008, net trading income rose by HK$212 million or 31.3%, which was mainly attributable to the mark-to-market gain on interest rate swap contracts recorded in the first half of 2009 compared to a loss in the second half of 2008. The increase was partially offset by the decrease in fair value of certain debt securities investments and the decline in mark-to-market gain on foreign exchange swap contracts*.

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

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

HK$'m	**Half-year ended 30 June 2009**	Half-year ended 31 December 2008	Half-year ended 30 June 2008
Net gain/(loss)on financial instruments designated at FVTPL of the banking operation	**180**	(224)	(92)
Net (loss)/gain on financial instruments designated at FVTPL of BOC Life	**(1,575)**	1,256	(1,392)
Net (loss)/gain on financial instruments designated at FVTPL	**(1,395)**	1,032	(1,484)

Net loss on financial instruments designated at fair value through profit or loss decreased by HK$89 million or 6.0% year-on-year to HK$1,395 million, mainly resulting from the mark-to-market gain on certain debt securities of the Group's banking business. Net loss on debt securities of BOC Life rose as their market values were adversely affected by the changes in long-term market interest rates in the first half of 2009.

Compared to the net gain of HK$1,032 million recorded in the second half of 2008, the Group recorded a net loss of HK$1,395 million on financial instruments designated at fair value through profit or loss in the first half of 2009. The decline of HK$2,427 million was mainly attributable to the mark-to-market loss of debt securities investments of BOC Life recorded in the first half of 2009 versus the mark-to-market gain in the second half of 2008 with changes in long-term market interest rates.

Operating Expenses

HK$'m, except percentage amounts	**Half-year ended 30 June 2009**	Half-year ended 31 December 2008	Half-year ended 30 June 2008
Staff costs	**2,256**	2,072	2,482
Premises and equipment expenses (excluding depreciation)	**538**	581	495
Depreciation on owned fixed assets	**496**	512	480
Other operating expenses	**904**	1,518	631
Operating expenses	**4,194**	4,683	4,088
Cost-to-income ratio	**32.19%**	40.77%	29.12%

The Group continued to streamline its costs in the first half of 2009 by implementing a number of cost containment measures in view of the uncertain economic environment. As a result, core operating expenses were well contained.

Total operating expenses were up HK$106 million, or 2.6%, year-on-year to HK$4,194 million, which was largely attributable to expenses* mainly relating to the Lehman Brothers Mini-bonds issue ("Mini-bonds issue") totalling HK$222 million. Cost-to-income ratio rose by 3.07 percentage points year-on-year to 32.19%. Should these expenses* be excluded, the Group's operating expenses would have been reduced by HK$116 million or 2.8% year-on-year while the cost-to-income ratio would have risen by merely 1.37 percentage point to 30.49%.

* including the related legal expenses

Staff costs dropped by HK$226 million, or 9.1%, primarily due to the reduction in performance-related remuneration, which was partially offset by the increase in salaries after the pay rise in April 2008. Compared to end-June 2008, headcount measured by full-time equivalents fell by 3.0% to 13,209 at end-June 2009.

Premises and equipment expenses increased by HK$43 million or 8.7% mainly because of higher rental costs.

Other operating expenses were up HK$273 million, or 43.3%, primarily due to the expenses* mainly related to the Mini-bonds issue.

Compared to the second half of 2008, total operating expenses fell by HK$489 million, or 10.4%, largely due to the decline in expenses* mainly related to the Mini-bonds issue which amounted to HK$222 million and HK$769 million in the first half of 2009 and the second half of 2008 respectively. In addition, a non-recurring reversal of performance-related expense was made in the second half of 2008. Should these expenses* be excluded and the reversal be adjusted, core operating expenses would have recorded a decrease due to lower IT and promotional expenses.

Net Reversal/(Charge) of Loan Impairment Allowances

HK$'m	**Half-year ended 30 June 2009**	Half-year ended 31 December 2008	Half-year ended 30 June 2008
Net Reversal/(Charge)of loan impairment allowances			
Individual assessment			
– new allowances	**(163)**	(671)	(142)
– releases	**87**	21	62
– recoveries	**142**	535	187
Collective assessment			
– new allowances	**(198)**	(492)	(199)
– releases	**174**	3	7
– recoveries	**18**	14	14
Net credit/(charge) to Income Statement	**60**	(590)	(71)

In the first half of 2009, the Group recorded a net reversal of loan impairment allowances of HK$60 million. Compared to a net charge of HK$71 million in the first half of 2008, the net reversal was mainly due to the increase in release of allowances from collective assessment. The release of allowances from collective assessment of HK$174 million was primarily due to the improvement in asset quality of loans and advances under the Group's stringent risk management and the stabilizing economic environment since the second quarter of 2009.

Compared to the second half of last year, the new allowances from both individual and collective assessment reduced. The decrease in new allowances from individual assessment was primarily due to the impairment of loans that occurred mainly in the second half of 2008 when the global financial crisis intensified. Net impairment charge from collective assessment dropped as the overall asset quality of loans and advances improved in the first half of 2009 relative to the deterioration in the second half of last year. These positive effects were partially offset by the lower recoveries made.

* including the related legal expenses

Net Charge of Impairment Allowances on Securities Investments

HK$'m	**Half-year ended 30 June 2009**	Half-year ended 31 December 2008	Half-year ended 30 June 2008
Held-to-maturity securities	**(439)**	(3,099)	(962)
Available-for-sale securities	**(729)**	(6,652)	(1,187)
Net charge of impairment allowances on securities investments	**(1,168)**	(9,751)	(2,149)

The stabilisation of the capital markets in the second quarter of 2009 had a favourable impact on the Group's securities investments and hence the related provisions. The Group's total net charge of impairment allowances on securities investments decreased significantly by HK$981 million, or 45.6%, year-on-year to HK$1,168 million. The Group recorded a net charge of impairment allowances of HK$2,730 million in 2008 against its investments in The Bank of East Asia, Limited ("BEA"). The share price of BEA rose at end-June 2009 relative to end-2008. However, according to the accounting policies, the favourable change in fair value has been made through the reserve for fair value change of available-for-sale securities within equity. The table below illustrates the breakdown of the Group's net charge of impairment allowances against its investments in securities in the first half of 2009.

HK$'m	**Half-year ended 30 June 2009**	Half-year ended 31 December 2008	Half-year ended 30 June 2008
US non-agency residential mortgage-backed securities			
Subprime	**(23)**	102	420
Alt-A	**(173)**	(1,079)	(655)
Prime	**(1,016)**	(5,127)	(1,914)
	(1,212)	(6,104)	(2,149)
Other debt securities	**44**	(917)	–
Sub-total	**(1,168)**	(7,021)	(2,149)
Investment in Bank of East Asia, Limited	**–**	(2,730)	–
Total net (charge)/reversal of impairment allowances on securities investments	**(1,168)**	(9,751)	(2,149)

For details about the composition of the Group's investment securities portfolio, please refer to Note 24 to the Interim Financial Information.

Compared to the second half of 2008, the net charge of impairment allowances declined significantly by HK$8,583 million or 88.0%.

Excluding Mini-bonds, the carrying value of the Group's exposure to bonds issued by Lehman Brothers (comprising solely senior unsecured bonds) as at 30 June 2009 was HK$53 million with the accumulative impairment allowances of HK$323 million. This carrying value represented an increase of HK$14 million, or 35.9%, from the end of last year, mainly caused by a net reversal of impairment allowances due to changes in market value of the aforesaid bonds.

Property Revaluation

HK$'m	**Half-year ended 30 June 2009**	Half-year ended 31 December 2008	Half-year ended 30 June 2008
Net gain/(loss) on revaluation of premises	**4**	(16)	(8)
Net gain/(loss) on fair value adjustments on investment properties	**527**	(833)	701
Deferred tax	**(82)**	146	(53)
Net gain/(loss) on fair value adjustments on investment properties, after tax	**445**	(687)	648

The aggregate impact of property revaluation before tax on the income statement for the first half of 2009 was HK$531 million, which comprised a net gain of HK$527 million from the revaluation of investment properties and a net gain of HK$4 million from the revaluation of premises. The related deferred tax charge on revaluation of investment properties amounted to HK$82 million. As a result, the net impact of fair value adjustments on investment properties after tax for the first half of 2009 was HK$445 million. The net gain on property revaluation was in line with the increase in property prices in the first half of 2009.

Compared to a net loss of HK$687 million from revaluation of investment properties after tax recorded by the Group in the second half of 2008, the Group recorded a net gain from revaluation of investment properties in the first half of 2009.

Financial Position

HK$'m, except percentage amounts	**At 30 June 2009**	At 31 December 2008
Cash and balances with banks and other financial institutions	**113,032**	153,269
Placements with banks and other financial institutions maturing between one and twelve months	**111,655**	89,718
Hong Kong SAR Government certificates of indebtedness	**36,570**	34,200
Securities investments[1]	**329,308**	335,493
Advances and other accounts	**485,356**	469,493
Fixed assets and investment properties	**32,087**	30,522
Other assets[2]	**38,142**	34,549
Total assets	**1,146,150**	1,147,244
Hong Kong SAR currency notes in circulation	**36,570**	34,200
Deposits and balances of banks and other financial institutions	**77,116**	88,779
Deposits from customers	**820,977**	802,577
Debt securities in issue at amortised cost[3]	**136**	1,042
Insurance contract liabilities	**27,695**	28,274
Other accounts and provisions[4]	**60,351**	80,501
Subordinated liabilities[5]	**27,339**	27,339
Total liabilities	**1,050,184**	1,062,712
Minority interests	**1,817**	1,813
Capital and reserves attributable to the equity holders of the Company	**94,149**	82,719
Total liabilities and equity	**1,146,150**	1,147,244
Loan-to-deposit ratio	**57.66%**	56.74%

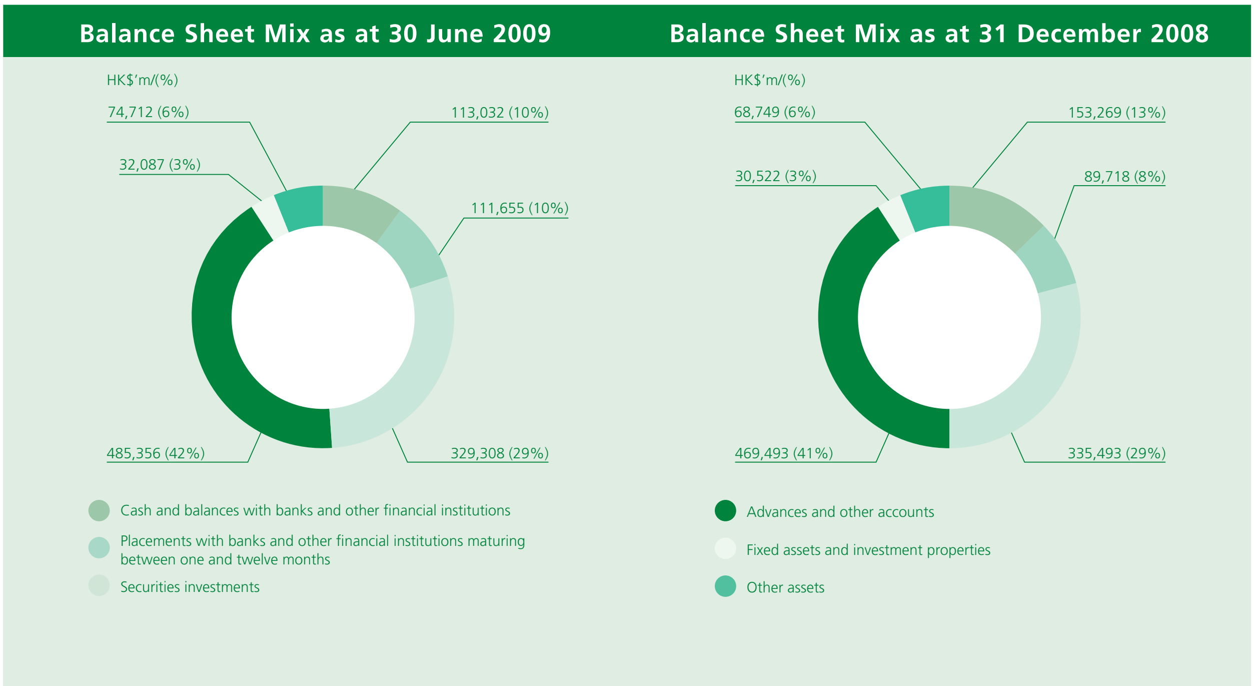
1 Securities investments comprise investment in securities and financial assets at fair value through profit or loss.

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

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

4 Financial liabilities at fair value through profit or loss, derivative financial liabilities, current tax liabilities and deferred tax liabilities are included in other accounts and provisions

5 Subordinated liabilities represents the subordinated loan granted by the Group's parent bank, Bank of China Limited.



The Group's total assets were HK$1,146,150 million as at 30 June 2009, down HK$1,094 million or 0.1% from the end of 2008. Key changes include:

- Cash and balances with banks and other financial institutions decreased by HK$40,237 million or 26.3% as funds were redeployed to grow advances to customers and placements with banks and other financial institutions maturing between one and twelve months.

- Placements with banks and other financial institutions maturing between one and twelve months increased by HK$21,937 million or 24.5%. During the period, the Group lengthened the maturity of its interbank placements for higher return.

- Advances and other accounts increased by HK$15,863 million, or 3.4%, primarily due to the growth of advances to customers by HK$15,117 million, or 3.3%.

- Securities investments decreased by HK$6,185 million, or 1.8%. The Group redeployed its residual funds by expanding its investments in debt securities of government-related and government-guaranteed securities. As of 30 June 2009, the carrying value of the Group's total exposure to US non-agency RMBS dropped to HK$14.9 billion from HK$19.3 billion as of end-2008. The Group had exposures to structured investment vehicles ("SIV"s) held by its 51% owned subsidiary, BOC Life. The carrying value of total exposure to the SIV's amounted to HK$2 million at end-June 2009 compared to approximately HK$57 million at end-2008.

Advances to Customers

HK$'m, except percentage amounts	**At 30 June 2009**	**%**	At 31 December 2008	%
Loans for use in Hong Kong	**361,272**	**75.9**	336,597	73.1
Industrial, commercial and financial	**213,386**	**44.8**	188,774	41.0
Individuals	**147,886**	**31.1**	147,823	32.1
Trade finance	**25,052**	**5.3**	24,555	5.3
Loans for use outside Hong Kong	**89,240**	**18.8**	99,295	21.6
Total advances to customers	**475,564**	**100.0**	460,447	100.0

Notwithstanding a general decline in loan balance in the Hong Kong market in the first half of 2009, the Group's total advances to customers grew by HK$15,117 million, or 3.3% to HK$475,564 million. The increase was primarily driven by the growth in corporate loans and trade finance. This was attributable to the successful implementation of the Group's business strategies, effective marketing as well as the Bank's role as the "Asia-Pacific Syndicated Loan Centre" of the BOC Group.

Loans for use in Hong Kong grew by 7.3%.

- Lending to the industrial, commercial and financial sectors increased by HK$24,612 million, or 13.0%, to HK$213,386 million, covering a wide range of industries.
- Residential mortgage loans (excluding those under the Government-sponsored Home Ownership Scheme) was up HK$1,864 million, or 1.6%, to HK$118,167 million.
- Card advances declined slightly by HK$61 million, or 0.9%, to HK$6,492 million.
- Other individual lending decreased by HK$1,051 million, or 9.1%, to HK$10,439 million mainly due to early repayment by certain large accounts.

Trade finance rose by HK$497 million or 2.0% from end-2008 despite the decline in Hong Kong's merchandised trade in the first half of 2009. Meanwhile, loans for use outside Hong Kong decreased by HK$10,055 million or 10.1%, due mainly to the early repayment by a number of large accounts and the slowdown in the Group's Mainland operation's loan business.

*Deposits from Customers**

HK$'m, except percentage amounts	**At 30 June 2009**	**%**	At 31 December 2008	%
Demand deposits and current accounts	**59,520**	**7.2**	46,042	5.7
Savings deposits	**450,060**	**54.5**	377,273	46.5
Time, call and notice deposits	**311,397**	**37.8**	379,262	46.7
	820,977	**99.5**	802,577	98.9
Structured deposits	**3,767**	**0.5**	8,939	1.1
Deposits from customers	**824,744**	**100.0**	811,516	100.0

* including structured deposits

Deposits from customers increased by HK$13,228 million, or 1.6%, to HK$824,744 million, with an improved deposit mix. Demand deposits and current accounts rose by HK$13,478 million, or 29.3%. Savings deposits increased by HK$72,787 million, or 19.3%. Time, call and notice deposits were down HK$67,865 million, or 17.9% as customers continued to seek liquidity under the low interest rate environment and switched their funds to more liquid savings deposits. Structured deposits, a hybrid of retail deposits and derivatives offering a higher nominal interest rate, decreased by HK$5,172 million, or 57.9% amid the adverse market sentiments. The Group's loan-to-deposit ratio was up 0.92 percentage point to 57.66% at the end of June 2009 as total loan growth outpaced deposits growth.

Loan Quality

HK$'m, except percentage amounts	**At 30 June 2009**	At 31 December 2008
Advances to customers	**475,564**	460,447
Classified or impaired loan ratio[1]	**0.37%**	0.46%
Impairment allowances	**2,020**	2,301
Regulatory reserve for general banking risks	**4,618**	4,503
Total allowances and regulatory reserve	**6,638**	6,804
Total allowances as a percentage of advances to customers	**0.42%**	0.50%
Total allowances and regulatory reserve as a percentage of advances to customers	**1.40%**	1.48%
Impairment allowances on classified or impaired loan ratio[2]	**38.05%**	38.96%
Residential mortgage loans[3] – delinquency and rescheduled loan ratio[4]	**0.07%**	0.05%
Card advances – delinquency ratio[4,5]	**0.35%**	0.29%

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
Card advances – charge-off ratio[5]	**3.14%**	2.14%

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. Repossessed assets are initially recognised at the lower of their fair value less costs to sell or the amortised cost of the related outstanding loans on the date of repossession. The related loans and advances are deducted from loans and advances.

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

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.

The Group's loan quality continued to improve with the classified or impaired loan ratio falling to 0.37% from 0.46% as at end 2008. Classified or impaired loans decreased by approximately HK$364 million, or 17.0%, to HK$1,774 million mainly due to write-offs and collections. New classified loans remained at a low level, representing approximately 0.1% of total loans outstanding.

Total impairment allowances, including both individual assessment and collective assessment, amounted to HK$2,020 million. Impairment allowances on classified or impaired loan ratio were 38.05%. The Group's regulatory reserve rose by HK$115 million to HK$4,618 million as advances to customers increased.

The quality of the Group's residential mortgage loans remained sound with the combined delinquency and rescheduled loan ratio rising slightly by 0.02 percentage point to 0.07% at the end of June 2009. The quality of card advances remained good with the charge-off ratio of 3.14% in the first half of 2009.

Capital and Liquidity Ratios

HK$'m, except percentage amounts	**At 30 June 2009**	At 31 December 2008
Core capital	**70,905**	65,172
Deductions	**(3,664)**	(1,536)
Core capital after deductions	**67,241**	63,636
Supplementary capital	**32,710**	32,675
Deductions	**(3,664)**	(1,536)
Supplementary capital after deductions	**29,046**	31,139
Total capital base after deductions	**96,287**	94,775
Risk-weighted assets		
Credit risk	**555,584**	545,107
Market risk	**10,873**	9,097
Operational risk	**45,676**	44,144
Deductions	**(14,080)**	(12,273)
Total risk-weighted assets	**598,053**	586,075
Capital adequacy ratios (banking group level)		
Core capital ratio	**11.24%**	10.86%
Capital adequacy ratio	**16.10%**	16.17%

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
Average liquidity ratio	**39.70%**	42.47%

The Group adopted the Standardised Approach in calculating capital adequacy ratios, in accordance with the Banking (Capital) Rules effective from 1 January 2007.

Consolidated capital adequacy ratio of the banking group at 30 June 2009 was 16.10%, down 0.07 percentage point from end-2008. Total capital base rose by 1.6% to HK$96,287 million following the increase in retained earnings and decrease in the deficit value of reserve for fair value changes of available-for-sale securities. Risk-weighted assets increased by 2.0% to HK$598,053 million, mainly driven by growth in interbank placements and advances to customers.

The average liquidity ratio in the first half of 2009 was 39.70%, 2.77 percentage points lower than that in the corresponding period of 2008. To cope with the changing business environment, BOCHK adjusted its asset structure. Because of the uncertainty in the global credit market since end of 2008, BOCHK increased holdings in high liquid government papers. Along with the liquidity injection into financial markets by central governments, global interest rates approached record low levels. On the back of the increment of high liquid assets, BOCHK extended the duration of interbank placement and therefore resulting in a slight decrease in average liquidity ratio.

BUSINESS REVIEW

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

Personal Banking

HK$'m, except percentage amounts	**Half-year ended 30 June 2009**	Half-year ended 30 June 2008	Increase/ (decrease)
Net interest income	**2,849**	3,330	-14.4%
Other operating income	**2,218**	2,532	-12.4%
Operating income	**5,067**	5,862	-13.6%
Operating expenses	**(2,771)**	(2,879)	-3.8%
Operating profit before impairment allowances	**2,296**	2,983	-23.0%
Net charge of loan impairment allowances	**(74)**	(14)	+428.6%
Others	**(6)**	(4)	+50.0%
Profit before taxation	**2,216**	2,965	-25.3%

	At 30 June 2009	At 31 December 2008	Increase/ (decrease)
Segment assets	**169,513**	165,148	+2.6%
Segment liabilities	**558,739**	523,682	+6.7%

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

Results

Personal Banking recorded a profit before taxation of HK$2,216 million in the first half of 2009. Operating profit before impairment allowances declined by 23.0% to HK$2,296 million mainly due to the fall in both net interest income and other operating income.

Net interest income decreased by 14.4% primarily due to narrower deposits spread amidst the low interest rate environment. Other operating income was down by 12.4% because of the decline in fee income from the distribution of funds and bonds coupled with the decrease in net trading income from foreign exchange activities and structured products as market sentiments were weak. However, taking advantage of the stock market's rebound in the second quarter, the Group managed to grow its income from its stock brokerage business.

Net charge of loan impairment allowances rose to HK$74 million, mainly due to increased credit card receivables compared to the same period last year and the deterioration of cardholders' debt servicing capability in the economic downturn.

Advances and other accounts, including mortgage loans and card advances, increased by 1.0% to HK$153,755 million. Customer deposits rose by 6.6% to HK$533,566 million.

Regaining growth momentum in residential mortgages in the second quarter

Seizing new business opportunities arising from the revival of the local property market in the second quarter of 2009, the Group achieved satisfactory results in the underwriting of new mortgages through effective marketing and the introduction of a wider range of mortgage products. In the first half of 2009, the Group launched the "Fixed-Rate Mortgage Schemes" with different tenors to enable customers to lock in the mortgage rate during the fixed rate period, thus protecting them from any potential interest rate fluctuations. The Group also maintained its partnership and participated in joint promotions with major property developers in most of the prime property development projects. These initiatives helped sustain the Group's market position in the underwriting of new mortgages. By the end of June 2009, the Group's outstanding residential mortgage loans grew by 1.6% from the end of 2008. In view of the economic downturn, the Group continued with rigorous risk assessment and control in its mortgage business. By the end of June 2009, the credit quality of residential mortgages remained sound with the delinquency and rescheduled loan ratio standing at a low level of 0.07%.

Growing stock brokerage and maintaining competitive edge in insurance

The investment market remained challenging in the first quarter of 2009 because of the volatility of the financial markets and the global economic downturn. In the second quarter, the situation became more stable and the rebound of the local stock market helped drive the growth of the Group's stock broking income. Given its strong distribution network and trading platform, the Group was able to capture new business opportunities from the more active stock market and attained strong business growth. The Group refined and promoted its "Monthly Stocks Savings Plan" for targeted customers by offering handling fee rebates for newly set up stock saving plans. In June 2009, the Group launched promotions on its securities margin trading service by offering commission discount and special lending rate. Meanwhile, the online share margin function has been enhanced to make it more convenient for customers to transfer and withdraw share margin deposits via e-banking. As a result, the volume of the Group's stock broking business registered a year-on-year increase of 7.9%. Its market share also rose to a record high in recent years.

Regarding its Bancassurance business, the Group continued with a customer-oriented approach by expanding its product range and tailoring new products for customers. The Group launched a new medical protection product "BOC Medical Comprehensive Protection Plan (Series 1)" which covers customers' entire family with a wide range of coverage, including hospitalisation, dental care, out-patient service, maternity and critical illnesses. In addition, the Group also promoted its brand image and market awareness through a series of marketing campaigns with the help of various attractive incentives. Meanwhile, the Group continued to provide its staff with extensive training aimed at reinforcing product proficiency, sales professionalism and market intelligence.

Enhancing relationship with high net worth customers

The Group strives to maintain long-term customer relationship with its wealth management customers. During the period, the Group introduced the "New Customer Engagement Programme" to acquire new wealth management customers and strengthen customer relationship. In addition, the Group developed an "Anti-attrition Model" for customer retention. The Group also collaborated with BOC in expanding the cross-border wealth management service. To raise the overall efficiency, the Group enhanced the operating procedure of the "Cross Border Attestation Service" with BOC branches in 17 Mainland cities. At the end of June 2009, the total number of wealth management customers* and their assets maintained with the Group grew by 3.5% and 15.7% respectively versus end-2008.

* Including wealth management VIP and wealth management Prime customers

Steady growth in credit card business

Despite the global financial crisis and the outburst of Influenza A (H1N1) that might have affected consumer spending, the Group's card business maintained satisfactory growth in the first half of 2009. The number of cards issued grew by 10.1% from the end of 2008. Cardholder spending volume registered an increase of 1.4%. Merchant acquiring volume grew by 5.8% due mainly to the increase in the acquiring business of China UnionPay ("CUP"). Meanwhile, the launch of "BOC CUP Dual Currency Credit Card" in December 2008 received overwhelming response from customers with the number of cards issued surging beyond 200,000 at the end of June 2009. At the same time, the Group continued to extend appealing merchant offer programmes to customers through its comprehensive merchant network throughout Hong Kong, Macau and the Mainland. In May 2009, the Group introduced the "CUP-Secure Internet Payment Service" to allow merchants to offer secure internet payment services to their customers particularly in the Mainland. At the end of June 2009, the Group's loan quality of card advances remained sound with the annualised charge-off ratio standing at 3.14%.

The Group's success in developing its credit card business was widely recognised in the industry, as evidenced by an array of 28 awards received from VISA International, MasterCard and China UnionPay.

Growing and maintaining market leadership in RMB banking business in Hong Kong

The Group remained the market leader in RMB banking business in Hong Kong. During the period, the Group focused on the RMB integrated services, "RMB Remittance Express" and "RMB Exchange Express" and launched promotional offers to boost its market share of RMB deposits with good results. The Group also secured its leading position in the RMB card issuing business. The number of RMB credit cards issued increased strongly by 96.4% from end-2008 while RMB cardholder spending volume registered an equally strong growth of 90.8% year-on-year. With the RMB clearing services for trade settlement in Hong Kong officially launched on 6 July 2009, the Group conducted the first RMB trade settlement transaction in Hong Kong through the clearing channel for one of its corporate clients on the same day (For details, please refer to the section on the Group's trade finance business discussed under Corporate Banking on page 32).

Channel rationalisation and e-channel development

The Group continued to rationalise its distribution channels. In response to the changing economic environment and new business opportunities, the Group revamped its branch network to meet the needs of different customer segments. At the end of June 2009, the Group's service network in Hong Kong comprised of 280 branches, 104 Wealth Management Prime centres and 21 Wealth Management VIP centres.

To encourage the customers to use automated banking facilities, the Group continuously enhanced its service network by installing new ATMs, cheque deposit machines and cash deposit machines. It also launched the payment collection feature of its cheque deposit machines.

The Group successfully seized business opportunities from the revival of the local stock market by expanding the capacity of automated stock trading telephone lines and enhancing its online stock margin trading function. At the same time, the Group launched the new online application for credit card and insurance services and extended online trading hours of certain businesses, providing customers with more efficient e-banking services. The number of personal e-banking customers increased by 3.1% from the end of last year while stock trading transactions carried out through e-channels accounting for 75.8% of total transactions in the first half of 2009.

Corporate Banking

HK$'m, except percentage amounts	**Half-year ended 30 June 2009**	Half-year ended 30 June 2008	Increase/ (decrease)
Net interest income	**2,644**	2,972	-11.0%
Other operating income	**1,197**	1,132	+5.7%
Operating income	**3,841**	4,104	-6.4%
Operating expenses	**(1,039)**	(1,081)	-3.9%
Operating profit before impairment allowances	**2,802**	3,023	-7.3%
Net release/(charge) of loan impairment allowances	**134**	(57)	+335.1%
Others	**(1)**	(3)	-66.7%
Profit before taxation	**2,935**	2,963	-0.9%

	At 30 June 2009	At 31 December 2008	Increase/ (decrease)
Segment assets	**338,687**	324,606	+4.3%
Segment liabilities	**293,447**	309,254	-5.1%

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

Results

Corporate Banking registered a profit before taxation of HK$2,935 million in the first half of 2009. Net interest income decreased but was offset by the increase in net fees and commission income and a net release of loan impairment allowances. As a result, profit before taxation declined slightly by 0.9%.

Because of narrower deposit spread resulting from the decline in market interest rates, net interest income decreased by 11.0% despite the increase in average loans and advances and the improvement in the average pricing of new corporate loans. Other operating income rose by 5.7%, primarily attributable to the growth in fee income from the lending business.

Net release of loan impairment allowances was HK$134 million in the first half of 2009, compared to the net charge of HK$57 million in the first half of 2008. The net release reflected the improved asset quality of the segment.

Advances and other accounts increased by 4.3% to HK$337,244 million. Customer deposits fell by 5.0% to HK$290,412 million.

Solid expansion of corporate lending business

Notwithstanding weak loan demand in the market in general, the Group managed to attain solid growth in its corporate lending business. At the end of June 2009, the outstanding balance of the Group's corporate loan portfolio rose by 4.5% over end-2008. Meanwhile, the Group remained the top mandated arranger in the Hong Kong-Macau syndicated loan market. The Group, in its position as the BOC Group's "Asia-Pacific Syndicated Loan Centre", further expanded its loan syndication business in the region. During the first half of 2009, the Group completed several large syndication loans, thus helping to strengthen the BOC Group's market position in the Asia-Pacific region. After the launch of the first phase of its "Loan Syndication Information Management System" last year, the Group proceeded with the second phase in the first half of this year. This new system links up similar networks of the BOC Group's major branches in the Asia-Pacific region, thus strengthening information management and enhancing overall operational efficiency in the region.

Developing SME business and receiving market recognition

In support of the HKSAR Government's initiatives to help SME businesses, the Group devoted additional resources to promoting the "SME Loan Guarantee Scheme" and "Special Loan Guarantee Scheme", which help enterprises secure loans from participating banks for meeting general business needs with the Government acting as the guarantor. In May 2009, the Group launched the "BOC Octopus Merchant Services", providing merchants with a one-stop cash management solution for customer payment and transaction settlement as well as comprehensive financial management services. The new services were well received, with over 500 merchants already enrolled at the end of June 2009. In recognition of its quality services and contribution to the SME business, the Group was, for second consecutive year, granted the "SME's Best Partner Award 2009" by the Hong Kong Chamber of Small and Medium Business Limited.

Achieving breakthrough in cross-border trade settlement and finance business

During the first half of 2009, the Group introduced a series of cross-border trade finance products and enhanced collaboration with its parent, BOC, while continuing to streamline the credit approval process and improve the credit utilisation rate via the "Trade Facilities Reform Programme" launched in 2008. Following a contraction in the first quarter, the volume of trade bills settlement and trade finance rebounded visibly as the economic environment became more stable in the second quarter. The Group also made good progress in the area of cross-border trade settlement. Following the initiation of the "Administrative Rules on Pilot Programme of Renminbi Settlement of Cross-Border Trade Transactions", the Group, being the sole RMB clearing bank in Hong Kong, signed the "Clearing Agreement in Relation to Renminbi Business" with the People's Bank of China ("PBOC") on 4 July 2009. These new RMB clearing services not only became a favourable platform for the use of RMB outside the Mainland in an orderly manner, but also broadened the scope of RMB services in Hong Kong. On 6 July 2009, the Group pioneered the first RMB trade settlement transaction in Hong Kong through the clearing channel for one of its corporate clients. By leveraging its expertise in trade services and trade finance for businesses in the Mainland and Hong Kong, the Group has established itself as a pioneer in the provision of RMB-denominated trade and finance services. On top of these, the Group has enhanced its "RMB Merchant Link" service to provide a one-stop solution for its corporate customers, facilitating their cash management while helping them hedge against exchange rate risk arising from cross-border trade.

Making good progress in cash management

The Group made good progress in developing its cash management business. Following its designation in March 2009 as the USD settlement bank in Hong Kong for the Real Time Gross Settlement System linkage between Hong Kong and the Mainland, the Group has been actively marketing this new service and BOC Remittance Plus to customers. In June 2009, the Group launched a new express collection service for its clients to collect funds from their customers who hold deposit accounts with the Group. This service not only enhances the Group's competitive edge by capturing higher transaction volume but also encourages its clients to use their accounts at the Group as their major operating accounts. At the end of June 2009, the remittance points of BOC Remittance Plus were over 2,900 while the number of CBS Online customers and BOC Wealth Master customers increased by 23.0% and 2.5% respectively.

Strengthening fundamentals in custody services for market recovery

To prepare for the recovery of both the IPO and QDII markets, the Group further strengthened its customer relationship and product fundamentals. Meanwhile, the Group continued to work closely with BOC to explore new business opportunities. At the end of June 2009, total assets under the Group's custody were valued at HK$291 billion, representing an increase of 45.5% from end-2008.

Closer business collaboration with Bank of China

The Group continued to work closely with its parent, BOC, in business development. With the latter's support, the Group began to implement the pilot scheme of "Global Relationship Manager" in April. This scheme, which will be implemented in phases, enables the Group to consolidate global credit facilities and enhance overall service capability for serving its high-end corporate customers.

Implementation of proactive measures in risk management

As the business environment basically remained uncertain in the first half of 2009, the Group continued to focus on safeguarding its asset quality by closely monitoring its corporate customers from various business segments, especially those more severely affected by the global economic downturn. Market information was shared among the three banks of the Group to strengthen overall warning and monitoring capabilities. The Group also stepped up its management of credit risks before and after credit approval. All these initiatives facilitated the Group's formulation of risk mitigation measures at an early stage.

Mainland Business

Expanding service scope and network in the Mainland

The Group continued to expand its cross-border financial services to better serve both personal and corporate customers. With the opening of NCB (China)'s Shanghai Xuhui Sub-branch in January; Beijing Jianguomen Sub-branch in May; Chengdu Branch in June together with the opening of Xiamen Jimen Sub-branch of Chiyu Banking Corporation Limited in March, the Group's total number of branches and sub-branches in the Mainland increased to 22 by the end of June 2009. Of these, twelve had been approved to conduct the full range of RMB businesses, nine had been permitted to conduct RMB businesses to non-Mainland residents and the remaining one to operate foreign exchange businesses only. The Group has established strategic alliances with a few insurance companies for the purpose of cross-selling various general and life insurance products to the customers. At the same time, the Group launched a range of deposits products such as "club deposits", "premium product" and "non-standardised fixed deposits". The Group also promoted diversified mortgage products, such as "All-You-Want Mortgage Scheme". Having obtained the approval of the China Banking Regulatory Commission ("CBRC") on 4 May 2009, Mainland branches and sub-branches of BOCHK were permitted to restructure into NCB (China). BOCHK's Shanghai Branch was restructured and renamed as Nanyang Commercial Bank, Limited's Shanghai Branch for conducting foreign currency wholesale banking business. After preparing for the above mentioned restructuring, which became effective on 1 August 2009, the related branches commenced business in their new status on 3 August 2009. This restructuring not only enables the Group to fully explore the potential of its Mainland business and capitalise on the Group's unique strengths, but also signifies a major move by NCB (China) to expand its business network.

In terms of business performance, customer deposits grew by 6.3%, of which RMB deposits increased by 10.5% during the first half of 2009. Total advances to customers fell by 9.9%, and RMB loans dropped by 13.5%, due to early repayment by a number of large accounts. Loan quality remained good, with the classified loan ratio at 0.48%, down 0.40 percentage point from 0.88% at end of 2008.

Treasury

HK$'m, except percentage amounts	**Half-year ended 30 June 2009**	Half-year ended 30 June 2008	Increase/ (decrease)
Net interest income	**2,914**	3,456	-15.7%
Other operating income	**832**	933	-10.8%
Operating income	**3,746**	4,389	-14.7%
Operating expenses	**(394)**	(431)	-8.6%
Operating profit before impairment allowances	**3,352**	3,958	-15.3%
Net charge of impairment allowances on securities investments	**(1,168)**	(2,149)	-45.6%
Profit before taxation	**2,184**	1,809	+20.7%

	At 30 June 2009	At 31 December 2008	Increase/ (decrease)
Segment assets	**581,630**	603,965	-3.7%
Segment liabilities	**169,588**	203,481	-16.7%

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

Results

In the first half of 2009, the Treasury segment's profit before taxation rose by 20.7% to HK$2,184 million. The increase was mainly driven by the decrease in net charge of impairment allowances on securities investments. Operating profit before impairment allowances decreased by 15.3% to HK$3,352 million mainly due to the fall in net interest income.

Net interest income fell by 15.7% mainly due to the decline in contribution of net free funds under the low interest rate environment and the higher funding cost of subordinated loans.

Other operating income dropped by 10.8% due to the decline in income from equity-linked instruments and net gain on investment securities.

Maintaining a stable return on residual funds by active asset and liability management

In the beginning of the year, the global financial markets remained gloomy with large and major banks recording substantial losses that caused general concern on banks' overall capital adequacies and consequently the stability of the entire financial system. Meanwhile, the global governments responded swiftly and adopted a wide range of fiscal and monetary measures. This had some stabilizing effect on the global financial market since the second quarter of the year by subduing market volatility and narrowing credit spread. The Group took advantage of the steepening yield curve by expanding its investments in high-quality fixed rate debt securities of government-related and government-guaranteed securities and extended the maturity of interbank placements, leading to a stable return amid the low interest rates environment.

In view of the uncertain market environment and economic outlook, the Group continued to implement prudent asset and liability management and proactive strategies in managing its banking book investments. The Group aimed to reduce the overall credit risk of its investment portfolio through natural runoff and selective disposal of higher risk securities. The carrying value of the Group's exposure to US non-agency RMBS dropped by HK$4.4 billion, or 23.1% from end-2008 to HK$14.9 billion at end-June 2009. The reduction in exposure was mainly attributable to disposal and consistent repayment. Of the Group's total exposure to US non-agency RMBS, about 44.7% was originated* prior to 2006, 49.4% in 2006 and 5.9% in 2007 (Further analysis of the Group's US non-agency RMBS is available in Note 3.1 to the Interim Financial Information).

Growing traditional businesses while tightening internal controls

The currency and precious metal markets remained volatile in the first half of 2009. While investors' confidence was still in the process of recovery, the Group grasped the opportunity to promote its traditional products related to foreign exchange and precious metals. The Group also focused on providing its corporate customers with hedging products linked to foreign exchange and interest rate as interest rates remained low. During the period, the Group thoroughly reviewed and updated the relevant internal regulations, selling process and risk disclosure policies for structured treasury products to better safeguard investors' interests. The Treasury Product Committee ("the Committee"), which was set up at the end of 2008, started its operation this year. The Committee is responsible for overseeing and strengthening the management of all treasury products offered by the Group. During the first half of 2009, a series of business strategies and product management guidelines have been discussed and approved by the Committee so that the Group's business development will be in line with the latest supervisory requirements and best market practices.

Insurance

HK$'m, except percentage amounts	**Half-year ended 30 June 2009**	Half-year ended 30 June 2008	Increase/ (decrease)
Net interest income	**562**	538	+4.5%
Other operating income	**573**	2,955	-80.6%
Operating income	**1,135**	3,493	-67.5%
Net insurance benefits and claims	**(919)**	(3,602)	-74.5%
Net operating income	**216**	(109)	+298.2%
Operating expenses	**(61)**	(69)	-11.6%
Profit/(Loss) before taxation	**155**	(178)	+187.1%

	At 30 June 2009	At 31 December 2008	Increase/ (decrease)
Segment assets	**31,802**	31,703	+0.3%
Segment liabilities	**30,932**	30,977	-0.1%

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

Results

The Group's insurance segment recorded a profit before taxation of HK$155 million. The capital market continued its volatility in the first quarter of 2009 but substantially recovered in the second quarter as a result of improvement in market sentiment. This has helped improve BOC Life's performance in the first half of 2009 relative to the same period last year.

Net interest income rose by 4.5% mainly driven by the increase in debt securities investments in the first half of 2009. Other operating income fell by 80.6% primarily due to lower premium income and the increase in net loss on financial instruments designated at fair value through profit or loss. In the weak market, sales of single premium products declined by 61.7%. In view of the market changes, BOC Life focused on the sales of regular

* The vintage analysis of US non-agency RMBS was based on their year of first issue.

premium products and achieved a growth of 53.3% on related premium income. Net loss on financial instruments designated at fair value through profit or loss increased mainly due to the mark-to-market loss of its debt securities investments caused by rising long-term market interest rates. At the same time, net insurance benefits and claims were down 74.5% due to changes in interest rates. The decline in net insurance benefits and claims was partially offset by the increase in net loss on financial instruments designated at fair value through profit or loss.

Expanding product offerings and developing multi-channel platform

The Group continued to extend its product range and create new products to meet the changing needs of customers. In the first half of 2009, new regular-premium products such as the "Prosperous Income Rise Insurance Plan" and "Hundred Life Insurance Plan" were introduced. At the same time, "5-Year Joyful Life Insurance Plan II", a new single-premium product, was launched. The Group also allocated more resources for selling regular-premium products to meet customers' needs and controlled its risk exposure under the uncertain investment environment. As a result, the sales of regular-premium products rose by 31% and premium income was up 53.3% year-on-year.

The Group set up a new financial planning team in April 2009 to analyze and take care of clients' needs at different life stages through a "Need-based Selling" approach. Meanwhile, a services assurance unit was also set up to ensure delivery of high-quality professional services to the Group's customers.

Capital injection into BOC Life

On 6 July 2009, BOC Hong Kong (Holdings) Limited ("the Company") injected a capital of HK$765 million into BOC Life. This followed a previous capital injection on 25 June 2008 involving HK$255 million. Both capital injections were financed by the Company's internal resources and paid in cash. After the capital injections, BOC Life remains held as to 51% by the Company and 49% by Bank of China Group Insurance Company Limited as both capital injections were on a pro rata basis. BOC Life now has a stronger capital base for development and business growth.

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.

Risk Management Governance Structure

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

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

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

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

The Group's principal banking subsidiaries, Nanyang and Chiyu, 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 that a customer or counterparty will be unable to or unwilling to meet its obligations under a contract. It arises principally from the lending, trade finance and treasury businesses, and covers inter-bank transactions as well as investments in bonds and securities. The Chief Credit Officer reports directly to the CRO and is responsible for the management of credit risk and for the formulation of all credit policies and procedures. The Chief Analytics Officer who reports directly to the CRO is responsible for the development and maintenance of internal rating models and rating criteria. Different credit approval and control procedures are adopted according to the level of risk associated with the customer, counterparty or transaction. Corporate and financial institution credit applications are generally required to be independently reviewed and objectively assessed by risk management units. For retail exposures, a credit scoring system is used to process retail credit transactions. 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 a Deputy Chief Executive or above.

The Group's internal loan grading system divides loans 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 on debt securities and securitisation assets, the external credit rating and assessment on credit quality of the underlying assets are used for managing the credit risk involved. Credit limits are established on a customer and security issuer basis. For derivatives, the Group sets customer limits to manage the credit risk involved and follows the same approval and control processes as those for loans and advances. Ongoing monitoring and stop-loss procedures are established.

The Group adopted a comprehensive methodology in determining whether a particular asset/mortgage backed security ("ABS/MBS") was impaired. Under the methodology, the Group would not only take into consideration not only the mark-to-market (MTM) price of the issue and its external credit rating, but also other factors including the FICO score, vintage, collateral location, adjustable rate mortgage ("ARM") status, delinquencies, level of collateral protection, loan to value ratio and prepayment speed of the underlying assets. Having considered these factors, the ABS/MBS issue had to further pass the required credit enhancement coverage ratio set by the Group. This ratio was 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

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

- Repricing risk – mismatches in the maturity or repricing periods of assets and liabilities
- Basis risk – different pricing basis for different transactions so that 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, e.g. steepening or flattening of 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's Asset and Liability Management Committee ("ALCO") exercises its oversight of interest rate risk and RC sanctions the interest rate risk management policies formulated by ALCO. The interest rate risk is identified and measured on a daily basis. Asset and Liability Management Department ("ALMD") manages the interest rate risk according to the established policies and the results are reported to ALCO regularly. RMD reviews the policies, guidelines and limits proposed by the ALMD.

Gap analysis is one of the tools used to measure the Group's exposure to repricing risk. As the risk is complicated by having optionality embedded in certain products, behavioural assumptions are made to reflect more accurately the interest rate risk exposures. The key assumption in gap analysis includes the replacement of contractual maturity of fixed rate mortgage-backed (US prime and Alt-A) securities by behavioural maturity. This provides the Group with a static view of the maturity and repricing characteristics of its balance sheet positions. The Group uses interest rate derivatives to hedge its interest rate exposures and in most cases, plain vanilla interest rate swaps are used.

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

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

Stress test on yield curve risk is performed to assess the impact on earnings and economic value due to the steepening or flattening of the yield curve. The impact of optionality of demand and savings deposits and prepayment of mortgage loans is also assessed under different stress test scenarios. The prepayment risk of ABS/MBS is assessed by the impact on earnings and economic value using the sensitivity of extended/contracted weighted average life.

Before launching a new product or business, the 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 management mechanism. Any material impact on interest rate risk noted during the risk assessment process will be reported to both the Chief Financial Officer and Chief Risk Officer.

Market Risk Management

Market risk is the risk of loss that results from movements in market rates and prices. The Group's market risk in the trading book arises from customer-related business and proprietary trading. Trading positions are subject to daily mark-to-market valuation. The risk includes potential losses arising from changes in foreign exchange and interest rates as well as the prices of equities and commodities.

The major market risk in the banking book arises from the Group's bond investment portfolio. The risk includes potential losses arising from changes in market parameters such as credit, liquidity, and interest rate risk. These positions are subject to monthly mark-to-market valuation.

Market risk management framework

Trading book market risk is managed within various major risk limits approved by the RC, including risk positions and/or risk factor sensitivities. Since April 2007, BOCHK has also formally applied Value-at-Risk (VAR) limit as a daily risk management tool. These overall risk limits are divided into sub-limits by reference to different risk products, including interest rates, foreign exchange rates, commodities and equities. Transactions are classified into different risk product categories according to the prominent type of risk inherent in the transactions.

Market risk arising from the banking book is managed within various risk limits such as P/L Management Alert Limit (P/L MAL) and P/L Management Alert Trigger (P/L MAT) which are approved by ALCO. The mark-to-market result is reported to ALCO on a monthly basis.

As aforesaid, the Group's risk management objective is to enhance shareholder value by maintaining risk exposures within acceptable limits. The Group's market risk management framework comprises three levels. The Board of Directors and its Risk Committee are the ultimate decision-making authorities. The formulation of risk management procedures and the implementation mechanism, and the monitoring of compliance are mainly the responsibility of the Group's senior management (including CE and CRO). RMD is responsible for overseeing the Group's market risk to ensure that overall and individual market risks are within the Group's risk tolerance. Risk exposures are monitored on a day-to-day basis to ensure that they are within established risk limits and are regularly reported to the senior management. Nanyang and Chiyu have their own independent risk monitoring units to monitor limit compliance on a daily basis.

The Group's control of market risk is done by restricting individual operations to trade only a list of permissible instruments authorised by senior management and within various market risk limits approved by the RC. The individual operations are also required to enforce rigorous new product approval procedures to ensure that all risks that arise are thoroughly identified, properly measured and adequately controlled.

The Group also uses the VAR technique to measure potential losses and market risks of its trading book for reporting to the RC and senior management on a periodic basis. VAR is a statistical technique which estimates the potential losses that could occur on risk positions taken over a specified time horizon within a given level of confidence. BOCHK, being the banking entity within the Group with the major trading positions, which are mainly foreign currency positions in major currencies, uses the VAR technique to monitor and control market risk on a daily 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 intra-day exposures

The Group recognises these limitations by augmenting its VAR limits with other position and sensitivity limit structures. Additionally, the Group applies a wide range of stress testing, both on individual portfolios and on the Group's consolidated positions. 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, 1997 Asian Financial Crisis and the 11 September event in the United States in 2001. The Group's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on the market risk exposures of the Group.

Liquidity Risk Management

The aim of liquidity management is to enable the Group to meet, even under adverse market conditions, all its maturing repayment obligations on time, and to fund all its asset growth and strategic opportunities with reasonable costs.

Liquidity management is carried out both at the Group and subsidiary level. Local bank and subsidiaries are required to maintain a strong daily liquidity position and a healthy cash flow aligning the risk-taking incentives with the liquidity exposures and to make sure all funding obligations are met when due. Subsidiaries are required to report its liquidity position to BOCHK on a frequent and regular basis. During the period under review, the Group has conducted more stress testing under different stress conditions to ensure risks were managed within the Group's tolerance level.

The risk measurement and monitoring process is set under the requirement and guidelines issued by the regulatory authorities and is stated in the policies and procedures endorsed by RC and ALCO. The primary objective of the Group's asset and liability management strategy is to achieve optimal returns while ensuring adequate levels of liquidity and capital within an effective risk control framework. ALCO is responsible for establishing these policy directives (including the liquidity contingency plan), and RC sanctions the liquidity management policies. ALMD manages the liquidity risk according to the established policies and reports to ALCO regularly. RMD reviews the policies, guidelines and limits proposed by ALMD. Liquidity risk measurements include cash flow analysis (under normal and stress conditions respectively), deposits maturity structure, concentration risk, mismatch ratios, loan-to-deposit ratio and liquidity profile of the investment portfolio.

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

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The 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 detailed 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 RMD and approved by RC.

The Group has adopted the "Three Lines of Defence" model for its operational risk management framework: individual business units are the first line of defence, responsible for managing and reporting operational risks specific to their business units by applying the respective tools such as key risk indicators, self assessment and operational risk events reporting mechanism to identify, assess and control the risks inherent in their business processes, activities and products. RMD together with certain operational risk related functions within the Bank are the second line of defence. In addition to formulating the operational risk management policy and procedure, RMD is also responsible for developing and introducing operational risk management tools, monitoring the performance and result of operational risk management in various units, assessing operational risk profile, recording operational risk data and reporting operational risk events to RC and senior management in order to assist the overall management of operational risk of the Group. Certain functional departments including the Human Resources Department, Informational Technology Department, Legal & Compliance Department, Corporate Services Department, Financial Management Department and General Accounting & Accounting Policy Department, are required to carry out the corporate-level operational risk management for the risk areas that are under their functional responsibilities and to provide other units with professional advice/training in respect of certain operational risk categories. The Audit Department is the third line of defence, responsible for conducting independent audit of the operational risk management activities regarding their compliance and effectiveness.

The Group also 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. The system entails continuous monitoring of external reputation risk incidents and published failures of risk incidents in the financial industry.

The Lehman Brothers Minibonds incident has had an adverse impact on the Group's reputation as there have been alleged cases of mis-selling. The Group is handling customer complaints cautiously so as to minimise the reputation risk.

Legal and Compliance Risk Management

Legal risk is the risk that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operation or financial condition of the Group. Compliance risk is the risk of legal or regulatory sanctions, financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with all applicable laws and regulations. Legal and compliance risks are managed by the Legal and Compliance Department headed by a General Manager who reports to the Chief Risk Officer.

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

To comply with HKMA's requirements as stated in the Supervisory Policy Manual "Supervisory Review Process", the Group has implemented its internal capital adequacy assessment process (ICAAP). Using the statutory minimum capital adequacy ratio (CAR), 8%, as a starting point, extra capital (capital add-on) needed to cover the risks not captured under Pillar I is assessed. Scorecard methodology has been used to evaluate the Group's risk profile in order to assess the capital add-on and determine the minimum CAR. An Operating CAR Range has also been established which incorporates the need for future business growth and efficiency of capital utilisation.

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, market risk and credit risk. BOC Life manages 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 with the underlying exposure of the risks underwritten. Screening processes, such as the review of health condition and family medical history, are also included in BOC Life's underwriting procedures.

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

For 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 the 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.

Market Risk Management

(i) *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 (ALM) framework that has been developed to achieve investment returns that match its obligations under insurance contracts.

(ii) *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 cashflow 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.

(iii) 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)

– Reinsurers' share of insurance unpaid liabilities

– Amounts due from re-insurers in respect of claims already paid

– Amount due from insurance contract holders

– Amount due from insurance intermediaries

BOC Life manages credit risk by placing limits on its exposure to each investment counterparty or 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 ALMD 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.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) Half-year ended 30 June 2009 HK$'m	(Unaudited) Half-year ended 30 June 2008 HK$'m
Interest income		**11,993**	18,105
Interest expense		**(3,064)**	(8,076)
Net interest income	4	**8,929**	10,029
Fees and commission income		**3,884**	3,845
Fees and commission expenses		**(937)**	(946)
Net fees and commission income	5	**2,947**	2,899
Net trading income	6	**889**	1,237
Net loss on financial instruments designated at fair value through profit or loss		**(1,395)**	(1,484)
Net gain on investment in securities	7	**67**	128
Net insurance premium income	8	**2,261**	4,501
Other operating income	9	**249**	331
Total operating income		**13,947**	17,641
Net insurance benefits and claims	10	**(919)**	(3,602)
Net operating income before impairment allowances		**13,028**	14,039
Net charge of impairment allowances	11	**(1,115)**	(2,227)
Net operating income		**11,913**	11,812
Operating expenses	12	**(4,194)**	(4,088)
Operating profit		**7,719**	7,724
Net gain from disposal of/fair value adjustments on investment properties	13	**525**	710
Net loss from disposal/revaluation of properties, plant and equipment	14	**(1)**	(8)
Share of profits less losses of associates		**1**	8
Profit before taxation		**8,244**	8,434
Taxation	15	**(1,369)**	(1,253)
Profit for the period		**6,875**	7,181
Profit attributable to:			
Equity holders of the Company		**6,691**	7,088
Minority interests		**184**	93
		6,875	7,181
Dividends	16	**3,013**	4,631
		HK$	HK$
Earnings per share for profit attributable to the equity holders of the Company	17	**0.6329**	0.6704

The notes on pages 50 to 122 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**(Unaudited) Half-year ended 30 June 2009 HK$'m**	(Unaudited) Half-year ended 30 June 2008 HK$'m
Profit for the period		**6,875**	7,181
Net change in fair value of available-for-sale securities		**3,449**	(3,214)
Revaluation of premises		**1,415**	2,173
Currency translation difference		**(6)**	199
Net deferred tax on items taken directly to equity	32	**(747)**	(27)
Reclassification adjustments			
Release upon disposal of available-for-sale securities		**(64)**	17
Net impairment charges on available-for-sale securities transferred to profit or loss	11	**729**	1,187
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities		**(37)**	(44)
Other comprehensive income for the period, net of tax		**4,739**	291
Total comprehensive income for the period		**11,614**	7,472
Total comprehensive income attributable to:			
Equity holders of the Company		**11,430**	7,354
Minority interests		**184**	118
		11,614	7,472

The notes on pages 50 to 122 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	(Unaudited) At 30 June 2009 HK$'m	(Audited) At 31 December 2008 HK$'m
ASSETS			
Cash and balances with banks and other financial institutions	20	**113,032**	153,269
Placements with banks and other financial institutions maturing between one and twelve months		**111,655**	89,718
Financial assets at fair value through profit or loss	21	**31,678**	43,812
Derivative financial instruments	22	**17,263**	19,628
Hong Kong SAR Government certificates of indebtedness		**36,570**	34,200
Advances and other accounts	23	**485,356**	469,493
Investment in securities	24	**297,630**	291,681
Interests in associates		**86**	88
Investment properties	25	**8,314**	7,727
Properties, plant and equipment	26	**23,773**	22,795
Deferred tax assets	32	**160**	154
Other assets	27	**20,633**	14,679
Total assets		**1,146,150**	1,147,244
LIABILITIES			
Hong Kong SAR currency notes in circulation		**36,570**	34,200
Deposits and balances of banks and other financial institutions		**77,116**	88,779
Financial liabilities at fair value through profit or loss	28	**10,862**	21,938
Derivative financial instruments	22	**12,767**	20,450
Deposits from customers	29	**820,977**	802,577
Debt securities in issue at amortised cost		**136**	1,042
Other accounts and provisions	30	**31,545**	34,873
Current tax liabilities		**1,498**	441
Deferred tax liabilities	32	**3,679**	2,799
Insurance contract liabilities	33	**27,695**	28,274
Subordinated liabilities	34	**27,339**	27,339
Total liabilities		**1,050,184**	1,062,712
EQUITY			
Share capital	35	**52,864**	52,864
Reserves	36	**41,285**	29,855
Capital and reserves attributable to the equity holders of the Company		**94,149**	82,719
Minority interests		**1,817**	1,813
Total equity		**95,966**	84,532
Total liabilities and equity		**1,146,150**	1,147,244

The notes on pages 50 to 122 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)								
	Attributable to equity holders of the Company								
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes of available-for-sale securities HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Retained earnings HK$'m	Total HK$'m	Minority interests HK$'m	Total equity HK$'m
At 1 January 2008	52,864	8,451	(456)	4,130	14	27,839	92,842	2,216	95,058
Comprehensive income	–	1,885	(1,773)	–	198	7,044	7,354	118	7,472
Release upon disposal of premises	–	(23)	–	–	–	23	–	–	–
Transfer from retained earnings	–	–	–	490	–	(490)	–	–	–
2007 final dividend paid	–	–	–	–	–	(5,149)	(5,149)	(107)	(5,256)
Increase in minority interests arising from capital issuance of a subsidiary	–	–	–	–	–	–	–	245	245
At 30 June 2008	52,864	10,313	(2,229)	4,620	212	29,267	95,047	2,472	97,519
Company and subsidiaries	52,864	10,313	(2,229)	4,620	212	29,216	94,996		
Associates	–	–	–	–	–	51	51		
	52,864	10,313	(2,229)	4,620	212	29,267	95,047		
At 1 July 2008	52,864	10,313	(2,229)	4,620	212	29,267	95,047	2,472	97,519
Comprehensive income	–	(2,026)	(1,896)	–	14	(3,789)	(7,697)	(442)	(8,139)
Release upon disposal of premises	–	(73)	–	–	–	73	–	–	–
Transfer from retained earnings	–	–	–	(117)	–	117	–	–	–
2008 interim dividend paid	–	–	–	–	–	(4,631)	(4,631)	(217)	(4,848)
At 31 December 2008	52,864	8,214	(4,125)	4,503	226	21,037	82,719	1,813	84,532
Company and subsidiaries	52,864	8,214	(4,125)	4,503	226	20,987	82,669		
Associates	–	–	–	–	–	50	50		
	52,864	8,214	(4,125)	4,503	226	21,037	82,719		

	(Unaudited)								
	Attributable to equity holders of the Company								
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes of available-for-sale securities HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Retained earnings HK$'m	Total HK$'m	Minority interests HK$'m	Total equity HK$'m
At 1 January 2009	52,864	8,214	(4,125)	4,503	226	21,037	82,719	1,813	84,532
Comprehensive income	–	1,216	3,566	–	(6)	6,654	11,430	184	11,614
Release upon disposal of premises	–	(1)	–	–	–	1	–	–	–
Transfer from retained earnings	–	–	–	115	–	(115)	–	–	–
2008 final dividend paid	–	–	–	–	–	–	–	(180)	(180)
At 30 June 2009	52,864	9,429	(559)	4,618	220	27,577	94,149	1,817	95,966
Company and subsidiaries	52,864	9,429	(559)	4,618	220	27,529	94,101		
Associates	–	–	–	–	–	48	48		
	52,864	9,429	(559)	4,618	220	27,577	94,149		
Representing:									
2009 interim dividend proposed (Note 16)						3,013			
Others						24,564			
Retained earnings as at 30 June 2009						27,577			

* In accordance with the requirements of the HKMA, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under HKAS 39.

The notes on pages 50 to 122 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	**(Unaudited) Half-year ended 30 June 2009 HK$'m**	(Unaudited) Half-year ended 30 June 2008 HK$'m
Cash flows from operating activities			
Operating cash (outflow)/inflow before taxation	37(a)	**(25,354)**	44,380
Hong Kong profits tax paid		**(126)**	(645)
Overseas profits tax paid		**(59)**	(67)
Net cash (outflow)/inflow from operating activities		**(25,539)**	43,668
Cash flows from investing activities			
Purchase of properties, plant and equipment		**(149)**	(217)
Proceeds from disposal of properties, plant and equipment		**4**	1
Proceeds from disposal of investment properties		**23**	98
Dividends received from associates		**3**	2
Net cash outflow from investing activities		**(119)**	(116)
Cash flows from financing activities			
Dividends paid to equity holders of the Company		**–**	(5,149)
Dividends paid to minority shareholders		**(180)**	(107)
Proceeds from capital issuance of a subsidiary		**–**	245
Proceeds from subordinated liabilities		**–**	8,144
Interest paid for subordinated loans		**(552)**	–
Net cash (outflow)/inflow from financing activities		**(732)**	3,133
(Decrease)/increase in cash and cash equivalents		**(26,390)**	46,685
Cash and cash equivalents at 1 January		**174,926**	152,070
Cash and cash equivalents at 30 June	37(b)	**148,536**	198,755

The notes on pages 50 to 122 are an integral part of this interim financial information.

1. Basis of preparation and accounting policies

Basis of preparation

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

Accounting policies

Except as described below, the accounting policies and methods of computation used in the preparation of the unaudited interim report are consistent with those used in the Group's financial statements for the year ended 31 December 2008 and should be read in conjunction with the Group's Annual Report for 2008.

The following new standard, revised standard, amendment to standard, and interpretation are mandatory for the first time for the financial year beginning 1 January 2009.

- HKAS 1 (Revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

  The Group has elected to present the performance in two separate statements: an income statement and a statement of comprehensive income. The interim financial information has been prepared under the revised disclosure requirements. The adoption of this revised standard affects the presentation of the Group's financial statements.

- HKFRS 7 (Amendment), 'Financial instruments: disclosures'. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures and requires some specific quantitative disclosures for financial instruments on the lowest level in the hierarchy. It also requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The Group will make additional relevant disclosures in its financial statements ending 31 December 2009. It is not required to provide comparative disclosures in the first year of application.

- HKFRS 8, 'Operating Segments'. HKFRS 8 replaces HKAS 14 'Segment Reporting'. It requires a 'management approach' under which segment information, that reflects the operating result of segments reviewed regularly by the management for operation decisions making and performance assessment, is presented on the same basis and in the same manner as that used for internal reporting to the management. The adoption of HKFRS 8 has no change in the number of reportable segments presented. However, there is a change in inter-segment funding, details of which are disclosed in note 41. As the impact is not significant, no restatement of prior year figure has been made.

- HK(IFRIC)-Int 13, 'Customer Loyalty Programmes'. HK(IFRIC)-Int 13 clarifies that when an entity provides customers with incentives to buy goods or services under a customer loyalty programme (for example, customers accumulate loyalty points to redeem free or discounted products or service), the fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale or service. The interpretation does not have significant impact on the Group's results of operations and financial position.

2. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that are consistent with those used in the Group's financial statements for the year ended 31 December 2008.

3. Financial risk management

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

3.1 Credit risk

A. Gross loans and advances

(a) Impaired advances

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

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

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Gross impaired advances to customers	**1,020**	1,326
Individually assessed loan impairment allowances made in respect of such advances	**632**	800
Current market value of collateral held against the covered portion of advances to customers	**554**	710
Covered portion of advances to customers	**478**	628
Uncovered portion of advances to customers	**542**	698
Gross impaired advances to customers as a percentage of gross advances to customers	**0.21%**	0.29%

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

A. Gross loans and advances (continued)

(a) Impaired advances (continued)

Classified or impaired advances to customers are analysed as follows:

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Gross classified or impaired advances to customers	**1,774**	2,138
Gross classified or impaired advances to customers as a percentage of gross advances to customers	**0.37%**	0.46%

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

(b) Advances overdue for more than 3 months

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

A. Gross loans and advances (continued)

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

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

	At 30 June 2009		At 31 December 2008	
	Amount HK$'m	**% of gross advances to customers**	Amount HK$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	**315**	**0.07%**	339	0.07%
– one year or less but over six months	**361**	**0.07%**	66	0.02%
– over one year	**553**	**0.12%**	571	0.12%
Advances overdue for over three months	**1,229**	**0.26%**	976	0.21%
Individually assessed loan impairment allowances made in respect of such advances	**547**		439	

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Current market value of collateral held against the covered portion of advances to customers	**1,416**	1,436
Covered portion of advances to customers	**759**	604
Uncovered portion of advances to customers	**470**	372

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

As at 30 June 2009 and 31 December 2008, there were no advances to banks and other financial institutions that were overdue for more than three months.

3. Financial risk management (continued)

3.1 Credit risk (continued)

A. Gross loans and advances (continued)

(c) Rescheduled advances

	At 30 June 2009		At 31 December 2008	
	Amount HK$'m	**% of gross advances to customers**	Amount HK$'m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in advances overdue for more than 3 months	**255**	**0.05%**	127	0.03%

As at 30 June 2009 and 31 December 2008, there were no rescheduled advances to banks and other financial institutions.

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

A. Gross loans and advances (continued)

(d) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

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

	At 30 June 2009					
	Gross advances HK$'m	% Covered by collateral or other security	Classified or impaired HK$'m	Overdue* HK$'m	Individually assessed impairment allowances HK$'m	Collectively assessed impairment allowances HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	22,961	34.36%	2	4	1	52
– Property investment	72,782	85.35%	274	515	25	332
– Financial concerns	12,443	6.47%	–	9	–	41
– Stockbrokers	3,449	96.26%	–	–	–	24
– Wholesale and retail trade	20,471	49.91%	211	288	90	87
– Manufacturing	19,044	55.95%	179	288	83	109
– Transport and transport equipment	25,152	14.77%	107	9	3	64
– Recreational activities	247	18.52%	–	–	–	1
– Information technology	4,138	3.26%	–	1	–	11
– Others	32,699	24.93%	53	284	16	82
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	12,788	99.91%	84	488	2	8
– Loans for purchase of other residential properties	118,167	99.89%	152	1,506	3	47
– Credit card advances	6,492	–	34	213	–	73
– Others	10,439	76.38%	111	323	59	17
Total loans for use in Hong Kong	361,272	68.05%	1,207	3,928	282	948
Trade finance	25,052	26.40%	368	500	241	109
Loans for use outside Hong Kong	89,240	24.41%	199	242	109	331
Gross advances to customers	475,564	57.67%	1,774	4,670	632	1,388

3. Financial risk management (continued)

3.1 Credit risk (continued)

A. Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

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

	At 31 December 2008					
	Gross advances HK$'m	% Covered by collateral or other security	Classified or impaired HK$'m	Overdue* HK$'m	Individually assessed impairment allowances HK$'m	Collectively assessed impairment allowances HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	19,856	40.49%	2	14	1	66
– Property investment	71,374	88.00%	294	585	30	312
– Financial concerns	11,547	8.63%	–	–	1	56
– Stockbrokers	124	10.33%	–	–	–	–
– Wholesale and retail trade	18,156	52.85%	218	300	71	98
– Manufacturing	16,410	53.67%	234	298	138	80
– Transport and transport equipment	21,590	13.82%	2	9	1	81
– Recreational activities	139	46.87%	–	–	–	–
– Information technology	6,049	2.21%	–	3	–	19
– Others	23,529	26.91%	68	213	13	83
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	13,477	99.91%	98	510	4	12
– Loans for purchase of other residential properties	116,303	99.97%	153	1,650	7	74
– Credit card advances	6,553	–	30	273	–	71
– Others	11,490	77.92%	107	333	57	20
Total loans for use in Hong Kong	336,597	70.84%	1,206	4,188	323	972
Trade finance	24,555	30.36%	560	494	355	108
Loans for use outside Hong Kong	99,295	22.38%	372	235	122	421
Gross advances to customers	460,447	58.23%	2,138	4,917	800	1,501

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

3. Financial risk management (continued)

3.1 Credit risk (continued)

A. Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

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

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

Gross advances to customers

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Hong Kong	**400,046**	374,506
Mainland China	**49,940**	55,318
Others	**25,578**	30,623
	475,564	460,447
Collectively assessed loan impairment allowances in respect of the gross advances to customers		
Hong Kong	**1,104**	1,172
Mainland China	**215**	221
Others	**69**	108
	1,388	1,501

3. Financial risk management (continued)

3.1 Credit risk (continued)

A. Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

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

Overdue advances

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Hong Kong	**4,404**	4,622
Mainland China	**221**	266
Others	**45**	29
	4,670	4,917
Individually assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	**471**	554
Mainland China	**115**	99
Others	**–**	21
	586	674
Collectively assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	**73**	50
Mainland China	**6**	6
Others	**2**	–
	81	56

3. Financial risk management (continued)

3.1 Credit risk (continued)

A. Gross loans and advances (continued)

(d) Concentration of advances to customers (continued)

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

Classified or impaired advances

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Hong Kong	**1,629**	1,792
Mainland China	**144**	323
Others	**1**	23
	1,774	2,138
Individually assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	**519**	677
Mainland China	**112**	100
Others	**1**	23
	632	800
Collectively assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	**40**	26
Mainland China	**3**	7
	43	33

Repossessed assets

The estimated market value of repossessed assets held by the Group as at 30 June 2009 amounted to HK$142 million (31 December 2008: HK$173 million). They comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the borrowers concerned) for release in full or in part of the obligations of the borrowers.

3. Financial risk management (continued)

3.1 Credit risk (continued)

B. Debt securities

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

	At 30 June 2009							
					Unrated			
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Hong Kong government and government bodies HK$'m	Other governments and government agencies HK$'m	Other HK$'m	Total HK$'m
Investment in securities								
US non-agency residential mortgage-backed								
– Subprime	640	18	19	135	–	–	–	812
– Alt-A	312	237	38	1,122	–	–	–	1,709
– Prime	2,499	310	783	8,747	–	–	–	12,339
Fannie Mae								
– issued debt securities	1,348	–	–	–	–	–	–	1,348
– mortgage-backed securities	–	–	–	–	–	70	–	70
Freddie Mac								
– issued debt securities	865	161	–	–	–	–	–	1,026
– mortgage-backed securities	–	–	–	–	–	1,388	–	1,388
Other MBS/ABS	5,638	263	42	–	–	3,076	–	9,019
Other debt securities	52,329	72,014	38,010	6,365	6,635	49,803	42,266	267,422
Subtotal	63,631	73,003	38,892	16,369	6,635	54,337	42,266	295,133
Financial assets at fair value through profit or loss								
Fannie Mae								
– issued debt securities	265	–	–	–	–	–	–	265
Other MBS/ABS	24	–	–	–	–	–	–	24
Other debt securities	1,176	7,334	13,653	836	5,801	–	174	28,974
Subtotal	1,465	7,334	13,653	836	5,801	–	174	29,263
Total	65,096	80,337	52,545	17,205	12,436	54,337	42,440	324,396

3. Financial risk management (continued)

3.1 Credit risk (continued)

B. Debt securities (continued)

	At 31 December 2008							
					Unrated			
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Hong Kong government and government bodies HK$'m	Other governments and government agencies HK$'m	Other HK$'m	Total HK$'m
Investment in securities								
US non-agency residential mortgage-backed								
– Subprime	913	–	30	104	–	–	–	1,047
– Alt-A	1,245	383	274	432	–	–	–	2,334
– Prime	9,549	1,558	2,878	1,950	–	–	–	15,935
Fannie Mae								
– issued debt securities	1,504	–	–	–	–	–	–	1,504
– mortgage-backed securities	–	–	–	–	–	88	–	88
Freddie Mac								
– issued debt securities	864	162	–	–	–	–	–	1,026
– mortgage-backed securities	–	–	–	–	–	1,633	–	1,633
Other MBS/ABS	6,874	24	63	–	–	3,807	–	10,768
Other debt securities	40,537	83,827	27,509	4,371	12,175	51,368	35,873	255,660
Subtotal	61,486	85,954	30,754	6,857	12,175	56,896	35,873	289,995
Financial assets at fair value through profit or loss								
Fannie Mae								
– issued debt securities	287	–	–	–	–	–	–	287
Other MBS/ABS	27	–	–	–	–	–	–	27
Other debt securities	2,304	15,417	10,233	1,457	11,358	–	355	41,124
Subtotal	2,618	15,417	10,233	1,457	11,358	–	355	41,438
Total	64,104	101,371	40,987	8,314	23,533	56,896	36,228	331,433

The total amount of unrated issues amounted to HK$109,213 million (31 December 2008: HK$116,657 million) as at 30 June 2009, of which only HK$5,575 million (31 December 2008: HK$8,975 million) were without issuer ratings. For details, please refer to page 62.

3. Financial risk management (continued)

3.1 Credit risk (continued)

B. Debt securities (continued)

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

	At 30 June 2009					
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m
Available-for-sale securities	13,205	49,002	4,720	400	4,256	71,583
Held-to-maturity securities	706	7,627	2,897	155	1,290	12,675
Loans and receivables	2,349	14,820	1,811	–	–	18,980
Financial assets at fair value through profit or loss	–	5,803	143	–	29	5,975
Total	16,260	77,252	9,571	555	5,575	109,213

	At 31 December 2008					
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m
Available-for-sale securities	18,180	49,408	3,293	35	5,481	76,397
Held-to-maturity securities	624	10,140	2,037	–	3,151	15,952
Loans and receivables	3,386	8,768	397	–	44	12,595
Financial assets at fair value through profit or loss	1	11,413	–	–	299	11,713
Total	22,191	79,729	5,727	35	8,975	116,657

3. Financial risk management (continued)

3.1 Credit risk (continued)

B. Debt securities (continued)

The impaired debt securities by credit rating are analysed as follows:

	At 30 June 2009						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m	HK$'m
Investment in securities							
US non-agency residential mortgage-backed							
– Subprime	514	–	19	135	–	668	362
– Alt-A	49	134	38	1,122	–	1,343	1,355
– Prime	1,338	169	334	7,816	–	9,657	6,214
Other MBS/ABS	82	–	–	–	–	82	64
Other debt securities	–	–	87	553	53	693	729
Total	1,983	303	478	9,626	53	12,443	8,724
Of which accumulated impairment allowances	883	221	252	6,968	400	8,724	

	At 31 December 2008						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m	HK$'m
Investment in securities							
US non-agency residential mortgage-backed							
– Subprime	695	–	30	104	–	829	339
– Alt-A	662	383	274	431	–	1,750	1,302
– Prime	5,162	1,295	1,312	1,825	–	9,594	6,479
Other MBS/ABS	69	–	–	–	–	69	27
Other debt securities	–	–	185	591	35	811	854
Total	6,588	1,678	1,801	2,951	35	13,053	9,001
Of which accumulated impairment allowances	4,195	1,400	976	2,078	352	9,001	

3. Financial risk management (continued)

3.1 Credit risk (continued)

B. Debt securities (continued)

Debt securities overdue for more than 3 months are analysed as follows:

	At 30 June 2009		
	Available-for-sale securities HK$'m	**Financial assets at fair value through profit or loss HK$'m**	**Total HK$'m**
Overdue for 1 year or less but over 6 months	**72**	**–**	**72**

	At 31 December 2008		
	Available-for-sale securities HK$'m	Financial assets at fair value through profit or loss HK$'m	Total HK$'m
Overdue for 6 months or less but over 3 months	35	4	39

3. Financial risk management (continued)

3.1 Credit risk (continued)

B. Debt securities (continued)

MBS/ABS

The table below represents an analysis of the Group's exposure to MBS/ABS by geographical location.

	At 30 June 2009		
	Carrying values		Of which accumulated impairment allowances
	Total HK$'m	Impaired securities HK$'m	HK$'m
US MBS/ABS			
Non-agency residential mortgage-backed			
– Subprime	812	668	362
– Alt-A	1,709	1,343	1,355
– Prime	12,339	9,657	6,214
Ginnie Mae	3,076	–	–
Fannie Mae	70	–	–
Freddie Mac	1,388	–	–
Commercial mortgage-backed	915	–	–
Others	1,995	–	–
	22,304	11,668	7,931
Other countries MBS/ABS			
Residential mortgage-backed	2,451	82	64
Commercial mortgage-backed	505	–	–
Others	101	–	–
	3,057	82	64
Total MBS/ABS	25,361	11,750	7,995

3. Financial risk management (continued)

3.1 Credit risk (continued)

B. Debt securities (continued)

MBS/ABS (continued)

	At 31 December 2008		
	Carrying values		Of which accumulated impairment allowances
	Total HK$'m	Impaired securities HK$'m	HK$'m
US MBS/ABS			
Non-agency residential mortgage-backed			
– Subprime	1,047	829	339
– Alt-A	2,334	1,750	1,302
– Prime	15,935	9,594	6,479
Ginnie Mae	3,807	–	–
Fannie Mae	88	–	–
Freddie Mac	1,633	–	–
Commercial mortgage-backed	929	–	–
Others	2,806	–	–
	28,579	12,173	8,120
Other countries MBS/ABS			
Residential mortgage-backed	2,649	69	27
Commercial mortgage-backed	454	–	–
Others	150	–	–
	3,253	69	27
Total MBS/ABS	31,832	12,242	8,147

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Increase/(decrease) in fair value taken to available-for-sale securities reserve on MBS/ABS for the period/year (net of impairment charges taken to income statement excluding deferred tax impact)	**1,443**	(1,340)
Closing balance of available-for-sale securities reserve relating to MBS/ABS (excluding deferred tax impact)	**(264)**	(1,707)

3. Financial risk management (continued)

3.1 Credit risk (continued)

B. Debt securities (continued)

MBS/ABS (continued)

The table below represents an analysis of impairment charges for the period/year for MBS/ABS held as at 30 June 2009 and 31 December 2008.

	At 30 June 2009					
	Aaa HK$'m	**Aa1 to Aa3 HK$'m**	**A1 to A3 HK$'m**	**Lower than A3 HK$'m**	**Unrated HK$'m**	**Total HK$'m**
US MBS/ABS						
Non-agency residential mortgage-backed						
– Subprime	**(10)**	**–**	**(1)**	**34**	**–**	**23**
– Alt-A	**6**	**4**	**22**	**145**	**–**	**177**
– Prime	**246**	**(4)**	**98**	**898**	**–**	**1,238**
	242	**–**	**119**	**1,077**	**–**	**1,438**
Other countries MBS/ABS						
Residential mortgage-backed	**30**	**–**	**–**	**–**	**–**	**30**
Total MBS/ABS	**272**	**–**	**119**	**1,077**	**–**	**1,468**

	At 31 December 2008					
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m
US MBS/ABS						
Non-agency residential mortgage-backed						
– Subprime	(90)	–	27	27	–	(36)
– Alt-A	394	299	157	359	–	1,209
– Prime	3,725	1,055	658	1,094	–	6,532
	4,029	1,354	842	1,480	–	7,705
Other countries MBS/ABS						
Residential mortgage-backed	27	–	–	–	–	27
Total MBS/ABS	4,056	1,354	842	1,480	–	7,732

Note: The impairment charges for MBS/ABS disposed during the period/year are excluded.

3. Financial risk management (continued)

3.2 Market risk

A. VAR

The Group uses VAR technique to measure potential losses and market risks of its trading book for reporting to the RC and senior management on a periodic basis. VAR is a statistical technique which estimates the potential losses that could occur on risk positions taken over a specified time horizon within a given level of confidence. BOCHK, being the banking entity within the Group with the major trading positions, which are mainly foreign currency positions in major currencies, uses VAR technique to monitor and control market risk on a daily basis.

The Group uses a historical simulation approach, a 99% confidence level and a 1-day holding period to calculate portfolio and individual VAR. Historical movements in market prices are calculated by reference to market data from the last two years.

The following table sets out the VAR for all trading market risk exposure[1] of BOCHK.

HK$'m		At 30 June	Minimum for the first half of year	Maximum for the first half of year	Average for the first half of year
VAR for all market risk	– 2009	11.6	9.0	16.3	12.3
	– 2008	6.3	3.0	7.8	5.2
VAR for foreign exchange	– 2009	12.3	9.2	15.8	12.5
risk products	– 2008	5.7	2.8	7.3	4.6
VAR for interest rate risk	– 2009	4.2	2.1	5.4	3.3
products	– 2008	3.3	1.0	3.8	2.1
VAR for equity risk products	– 2009	0.1	0.1	2.5	0.3
	– 2008	0.2	0.2	2.8	0.6
VAR for commodity risk	– 2009	0.0	0.0	0.0	0.0
products	– 2008	0.0	0.0	0.5	0.1

In the first half of 2009, the average daily revenue[2] of BOCHK earned from market risk-related trading activities was HK$3.9 million (first half of 2008: HK$6.0 million).

1 Structural FX positions have been excluded.

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

3. Financial risk management (continued)

3.2 Market risk (continued)

B. Currency risk

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2009 and 31 December 2008. Included in the tables are the Group's assets and liabilities at carrying amounts in HK$ equivalent, categorised by the original currency.

	At 30 June 2009							
	Renminbi HK$'m	US Dollars HK$'m	HK Dollars HK$'m	Euro HK$'m	Japanese Yen HK$'m	Pound Sterling HK$'m	Others HK$'m	Total HK$'m
Assets								
Cash and balances with banks and other financial institutions	51,170	19,949	35,403	3,822	223	557	1,908	113,032
Placements with banks and other financial institutions maturing between one and twelve months	527	59,557	39,840	4,522	–	2,280	4,929	111,655
Financial assets at fair value through profit or loss	1,184	7,673	22,766	–	–	–	55	31,678
Derivative financial instruments	–	773	16,377	68	1	–	44	17,263
Hong Kong SAR Government certificates of indebtedness	–	–	36,570	–	–	–	–	36,570
Advances and other accounts	12,946	93,933	367,487	4,592	1,191	40	5,167	485,356
Investment in securities								
– Available-for-sale securities	885	77,168	28,235	20,976	41,615	1,694	18,680	189,253
– Held-to-maturity securities	2,161	38,578	31,427	6,396	3,160	384	7,291	89,397
– Loans and receivables	–	2,045	15,222	870	–	–	843	18,980
Interests in associates	–	–	86	–	–	–	–	86
Investment properties	58	–	8,256	–	–	–	–	8,314
Properties, plant and equipment	166	–	23,607	–	–	–	–	23,773
Other assets (including deferred tax assets)	130	692	19,604	59	162	31	115	20,793
Total assets	69,227	300,368	644,880	41,305	46,352	4,986	39,032	1,146,150
Liabilities								
Hong Kong SAR currency notes in circulation	–	–	36,570	–	–	–	–	36,570
Deposits and balances of banks and other financial institutions	33,457	26,431	10,848	2,364	2,068	396	1,552	77,116
Financial liabilities at fair value through profit or loss	–	1,448	8,856	–	–	–	558	10,862
Derivative financial instruments	–	1,964	9,929	790	3	–	81	12,767
Deposits from customers	31,271	164,746	548,022	14,224	2,323	14,366	46,025	820,977
Debt securities in issue at amortised cost	–	78	58	–	–	–	–	136
Other accounts and provisions (including current and deferred tax liabilities)	867	10,778	22,929	401	40	385	1,322	36,722
Insurance contract liabilities	–	4,731	22,964	–	–	–	–	27,695
Subordinated liabilities	–	19,389	735	7,215	–	–	–	27,339
Total liabilities	65,595	229,565	660,911	24,994	4,434	15,147	49,538	1,050,184
Net on-balance sheet position	3,632	70,803	(16,031)	16,311	41,918	(10,161)	(10,506)	95,966
Off-balance sheet net notional position*	171	(56,520)	101,009	(16,853)	(41,841)	10,097	10,159	6,222
Contingent liabilities and commitments	8,852	53,555	163,902	4,218	500	773	2,019	233,819

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

3. Financial risk management (continued)

3.2 Market risk (continued)

B. Currency risk (continued)

	At 31 December 2008							
	Renminbi HK$'m	US Dollars HK$'m	HK Dollars HK$'m	Euro HK$'m	Japanese Yen HK$'m	Pound Sterling HK$'m	Others HK$'m	Total HK$'m
Assets								
Cash and balances with banks and other financial institutions	53,381	36,592	53,720	2,662	1,425	3,163	2,326	153,269
Placements with banks and other financial institutions maturing between one and twelve months	504	31,441	38,728	5,924	–	6,487	6,634	89,718
Financial assets at fair value through profit or loss	1,274	7,670	34,817	–	–	–	51	43,812
Derivative financial instruments	–	485	19,032	99	1	–	11	19,628
Hong Kong SAR Government certificates of indebtedness	–	–	34,200	–	–	–	–	34,200
Advances and other accounts	15,056	97,002	347,249	2,915	1,622	1,002	4,647	469,493
Investment in securities								
– Available-for-sale securities	828	71,883	25,396	21,160	40,652	1,651	11,051	172,621
– Held-to-maturity securities	2,165	52,352	33,652	6,132	1,823	791	9,550	106,465
– Loans and receivables	–	2,243	9,039	108	–	110	1,095	12,595
Interests in associates	–	–	88	–	–	–	–	88
Investment properties	63	–	7,664	–	–	–	–	7,727
Properties, plant and equipment	98	–	22,697	–	–	–	–	22,795
Other assets (including deferred tax assets)	121	244	13,545	596	220	19	88	14,833
Total assets	73,490	299,912	639,827	39,596	45,743	13,223	35,453	1,147,244
Liabilities								
Hong Kong SAR currency notes in circulation	–	–	34,200	–	–	–	–	34,200
Deposits and balances of banks and other financial institutions	38,131	24,191	18,558	2,251	693	2,494	2,461	88,779
Financial liabilities at fair value through profit or loss	–	1,852	19,890	–	–	–	196	21,938
Derivative financial instruments	–	513	19,622	297	1	–	17	20,450
Deposits from customers	30,518	193,952	502,199	15,584	2,135	13,445	44,744	802,577
Debt securities in issue at amortised cost	–	148	845	–	–	–	49	1,042
Other accounts and provisions (including current and deferred tax liabilities)	1,331	9,682	17,874	325	7,907	348	646	38,113
Insurance contract liabilities	–	4,447	23,827	–	–	–	–	28,274
Subordinated liabilities	–	19,394	735	7,210	–	–	–	27,339
Total liabilities	69,980	254,179	637,750	25,667	10,736	16,287	48,113	1,062,712
Net on-balance sheet position	3,510	45,733	2,077	13,929	35,007	(3,064)	(12,660)	84,532
Off-balance sheet net notional position	(4)	(33,929)	68,465	(13,826)	(34,817)	3,043	12,542	1,474
Contingent liabilities and commitments	9,132	62,401	176,092	3,032	551	303	1,878	253,389

3. Financial risk management (continued)

3.2 Market risk (continued)

C. Interest rate risk

The tables below summarise the Group's exposure to interest rate risk as at 30 June 2009 and 31 December 2008. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	At 30 June 2009						
	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances with banks and other financial institutions	108,373	–	–	–	–	4,659	113,032
Placements with banks and other financial institutions maturing between one and twelve months	–	54,895	56,760	–	–	–	111,655
Financial assets at fair value through profit or loss	3,358	3,214	1,067	9,251	12,373	2,415	31,678
Derivative financial instruments	–	–	–	–	–	17,263	17,263
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	36,570	36,570
Advances and other accounts	380,398	83,539	16,681	1,295	202	3,241	485,356
Investment in securities							
– Available-for-sale securities	38,798	26,758	28,761	69,737	22,702	2,497	189,253
– Held-to-maturity securities	22,476	35,061	10,943	11,462	9,455	–	89,397
– Loans and receivables	4,162	5,953	8,865	–	–	–	18,980
Interests in associates	–	–	–	–	–	86	86
Investment properties	–	–	–	–	–	8,314	8,314
Properties, plant and equipment	–	–	–	–	–	23,773	23,773
Other assets (including deferred tax assets)	–	–	–	–	–	20,793	20,793
Total assets	557,565	209,420	123,077	91,745	44,732	119,611	1,146,150
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	36,570	36,570
Deposits and balances of banks and other financial institutions	70,271	2,971	1,995	–	–	1,879	77,116
Financial liabilities at fair value through profit or loss	5,310	3,931	1,621	–	–	–	10,862
Derivative financial instruments	–	–	–	–	–	12,767	12,767
Deposits from customers	637,682	98,753	34,859	432	–	49,251	820,977
Debt securities in issue at amortised cost	58	78	–	–	–	–	136
Other accounts and provisions (including current and deferred tax liabilities)	8,812	4	295	136	–	27,475	36,722
Insurance contract liabilities	–	–	–	–	–	27,695	27,695
Subordinated liabilities	735	–	26,604	–	–	–	27,339
Total liabilities	722,868	105,737	65,374	568	–	155,637	1,050,184
Interest sensitivity gap	(165,303)	103,683	57,703	91,177	44,732	(36,026)	95,966

3. Financial risk management (continued)

3.2 Market risk (continued)

C. Interest rate risk (continued)

	At 31 December 2008						
	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances with banks and other financial institutions	134,723	–	–	–	–	18,546	153,269
Placements with banks and other financial institutions maturing between one and twelve months	–	38,622	51,096	–	–	–	89,718
Financial assets at fair value through profit or loss	5,103	7,473	2,311	9,415	17,136	2,374	43,812
Derivative financial instruments	–	–	–	–	–	19,628	19,628
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	34,200	34,200
Advances and other accounts	366,619	76,378	20,873	1,258	159	4,206	469,493
Investment in securities							
– Available-for-sale securities	31,282	28,066	42,437	47,155	21,995	1,686	172,621
– Held-to-maturity securities	24,837	38,406	12,514	17,371	13,337	–	106,465
– Loans and receivables	1,755	2,675	8,165	–	–	–	12,595
Interests in associates	–	–	–	–	–	88	88
Investment properties	–	–	–	–	–	7,727	7,727
Properties, plant and equipment	–	–	–	–	–	22,795	22,795
Other assets (including deferred tax assets)	–	–	–	–	–	14,833	14,833
Total assets	564,319	191,620	137,396	75,199	52,627	126,083	1,147,244
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	34,200	34,200
Deposits and balances of banks and other financial institutions	55,274	10,655	3,272	–	–	19,578	88,779
Financial liabilities at fair value through profit or loss	6,769	13,412	1,749	8	–	–	21,938
Derivative financial instruments	–	–	–	–	–	20,450	20,450
Deposits from customers	629,855	102,169	32,532	253	–	37,768	802,577
Debt securities in issue at amortised cost	459	148	435	–	–	–	1,042
Other accounts and provisions (including current and deferred tax liabilities)	8,036	116	493	136	–	29,332	38,113
Insurance contract liabilities	–	–	–	–	–	28,274	28,274
Subordinated liabilities	–	735	26,604	–	–	–	27,339
Total liabilities	700,393	127,235	65,085	397	–	169,602	1,062,712
Interest sensitivity gap	(136,074)	64,385	72,311	74,802	52,627	(43,519)	84,532

3. Financial risk management (continued)

3.3 Liquidity risk

Tables below analyse assets and liabilities of the Group as at 30 June 2009 and 31 December 2008 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2009							
	On demand HK$'m	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances with banks and other financial institutions	60,294	52,738	–	–	–	–	–	113,032
Placements with banks and other financial institutions maturing between one and twelve months	–	–	54,895	56,760	–	–	–	111,655
Financial assets at fair value through profit or loss								
– debt securities held for trading								
– certificates of deposit held	–	–	–	–	–	–	–	–
– others	–	2,966	2,634	915	912	413	–	7,840
– debt securities designated at fair value through profit or loss								
– certificates of deposit held	–	–	–	–	1,790	811	–	2,601
– others	–	392	186	224	6,846	11,174	–	18,822
– fund and equity securities	–	–	–	–	–	–	2,415	2,415
Derivative financial instruments	11,074	1,404	1,724	1,985	951	125	–	17,263
Hong Kong SAR Government certificates of indebtedness	36,570	–	–	–	–	–	–	36,570
Advances and other accounts								
– advances to customers	32,954	14,562	29,548	53,649	206,466	135,345	1,020	473,544
– trade bills	225	3,341	3,844	317	–	–	–	7,727
– advances to banks and other financial institutions	28	–	–	963	3,094	–	–	4,085
Investment in securities								
– debt securities held for available-for-sale								
– certificates of deposit held	–	1,103	515	7,604	3,249	–	–	12,471
– others	–	25,571	9,783	26,290	81,087	24,959	6,595	174,285
– debt securities held for held-to-maturity								
– certificates of deposit held	–	–	725	3,114	4,420	619	–	8,878
– others	–	4,242	6,001	16,992	37,356	10,080	5,848	80,519
– debt securities held for loans and receivables	–	4,162	5,953	8,865	–	–	–	18,980
– equity securities	–	–	–	–	–	–	2,497	2,497
Interests in associates	–	–	–	–	–	–	86	86
Investment properties	–	–	–	–	–	–	8,314	8,314
Properties, plant and equipment	–	–	–	–	–	–	23,773	23,773
Other assets (including deferred tax assets)	2,865	16,955	52	287	135	–	499	20,793
Total assets	144,010	127,436	115,860	177,965	346,306	183,526	51,047	1,146,150

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

	At 30 June 2009							
	On demand HK$'m	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Liabilities								
Hong Kong SAR currency notes in circulation	36,570	–	–	–	–	–	–	36,570
Deposits and balances of banks and other financial institutions	46,831	25,309	2,980	1,996	–	–	–	77,116
Financial liabilities at fair value through profit or loss								
– certificates of deposit issued	–	–	840	–	–	–	–	840
– others	–	5,245	1,492	3,240	–	45	–	10,022
Derivative financial instruments	6,849	1,518	694	516	2,349	841	–	12,767
Deposits from customers	514,573	172,306	97,689	35,977	432	–	–	820,977
Debt securities in issue at amortised cost	1	57	78	–	–	–	–	136
Other accounts and provisions (including current and deferred tax liabilities)	17,217	12,642	549	2,044	3,703	556	11	36,722
Insurance contract liabilities	1,510	3	2	1,511	18,328	6,341	–	27,695
Subordinated liabilities	–	735	–	15	–	26,589	–	27,339
Total liabilities	623,551	217,815	104,324	45,299	24,812	34,372	11	1,050,184
Net liquidity gap	(479,541)	(90,379)	11,536	132,666	321,494	149,154	51,036	95,966

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

	At 31 December 2008							
	On demand HK$'m	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances with banks and other financial institutions	77,935	75,334	–	–	–	–	–	153,269
Placements with banks and other financial institutions maturing between one and twelve months	–	–	38,622	51,096	–	–	–	89,718
Financial assets at fair value through profit or loss								
– debt securities held for trading								
– certificates of deposit held	–	–	–	–	–	–	–	–
– others	–	4,628	6,685	1,927	685	6	–	13,931
– debt securities designated at fair value through profit or loss								
– certificates of deposit held	–	25	–	–	2,008	1,536	–	3,569
– others	–	226	426	384	7,058	15,840	4	23,938
– fund and equity securities	–	–	–	–	–	–	2,374	2,374
Derivative financial instruments	14,844	756	1,253	1,439	1,216	120	–	19,628
Hong Kong SAR Government certificates of indebtedness	34,200	–	–	–	–	–	–	34,200
Advances and other accounts								
– advances to customers	21,980	17,656	31,084	51,336	197,399	137,684	1,007	458,146
– trade bills	–	2,910	4,022	677	–	–	–	7,609
– advances to banks and other financial institutions	27	–	–	885	2,826	–	–	3,738
Investment in securities								
– debt securities held for available-for-sale								
– certificates of deposit held	–	–	23	5,236	2,096	–	–	7,355
– others	–	19,849	13,349	40,054	58,135	26,164	6,029	163,580
– debt securities held for held-to-maturity								
– certificates of deposit held	–	2,040	2,173	2,162	6,073	–	–	12,448
– others	–	2,115	4,933	14,560	49,480	15,905	7,024	94,017
– debt securities held for loans and receivables	–	1,755	2,675	8,165	–	–	–	12,595
– equity securities	–	–	–	–	–	–	1,686	1,686
Interests in associates	–	–	–	–	–	–	88	88
Investment properties	–	–	–	–	–	–	7,727	7,727
Properties, plant and equipment	–	–	–	–	–	–	22,795	22,795
Other assets (including deferred tax assets)	2,185	12,027	11	126	157	–	327	14,833
Total assets	151,171	139,321	105,256	178,047	327,133	197,255	49,061	1,147,244

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

	At 31 December 2008							
	On demand HK$'m	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Liabilities								
Hong Kong SAR currency notes in circulation	34,200	–	–	–	–	–	–	34,200
Deposits and balances of banks and other financial institutions	61,206	13,646	10,655	3,272	–	–	–	88,779
Financial liabilities at fair value through profit or loss								
– certificates of deposit issued	–	–	–	858	–	–	–	858
– others	–	6,111	6,363	8,170	166	270	–	21,080
Derivative financial instruments	10,556	2,137	1,689	1,967	2,822	1,279	–	20,450
Deposits from customers	428,849	238,769	100,891	32,696	1,372	–	–	802,577
Debt securities in issue at amortised cost	–	459	148	435	–	–	–	1,042
Other accounts and provisions (including current and deferred tax liabilities)	16,328	16,003	204	2,341	2,857	232	148	38,113
Insurance contract liabilities	1,406	792	2	16	18,033	8,025	–	28,274
Subordinated liabilities	–	–	–	21	735	26,583	–	27,339
Total liabilities	552,545	277,917	119,952	49,776	25,985	36,389	148	1,062,712
Net liquidity gap	(401,374)	(138,596)	(14,696)	128,271	301,148	160,866	48,913	84,532

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

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

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet as at 30 June 2009 and 31 December 2008.

3. Financial risk management (continued)

3.4 Insurance risk

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

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

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

For the in-force insurance contracts, most of the underlying insurance liabilities are related to endowment and unit-linked insurance products. For most of the insurance policies issued, the Group has a retention limit on any single life insured. The Group 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, the Group conducts mortality study and lapse study in order to determine the appropriate assumptions. In these studies, consistent results are reflected in both assumptions with appropriate margins.

3.5 Capital management

(a) Capital adequacy ratio

	At 30 June 2009	At 31 December 2008
Capital adequacy ratio	**16.10%**	16.17%
Core capital ratio	**11.24%**	10.86%

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

The differences between the basis of consolidation for accounting and regulatory purposes are described in "Appendix – Subsidiaries of the Company" on page 134.

3. Financial risk management (continued)

3.5 Capital management (continued)

(b) Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratio as at 30 June 2009 and 31 December 2008 and reported to the HKMA is analysed as follows:

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Core capital:		
Paid up ordinary share capital	**43,043**	43,043
Reserves	**23,808**	18,049
Profit and loss account	**2,844**	2,956
Minority interests	**1,210**	1,124
	70,905	65,172
Deductions from core capital	**(3,664)**	(1,536)
Core capital	**67,241**	63,636
Supplementary capital:		
Fair value gains arising from holdings of available-for-sale securities	**113**	87
Collective loan impairment allowances	**1,390**	1,502
Regulatory reserve	**4,618**	4,503
Term subordinated debt	**26,589**	26,583
	32,710	32,675
Deductions from supplementary capital	**(3,664)**	(1,536)
Supplementary capital	**29,046**	31,139
Total capital base after deductions	**96,287**	94,775

Subsidiaries which are not included in the consolidation group for the calculation of capital adequacy ratios are denoted in "Appendix – Subsidiaries of the Company" on pages 131 to 134. Investment costs in such subsidiaries are deducted from the capital base.

Term subordinated debt represents subordinated loans qualified as Tier 2 Capital of BOCHK pursuant to the regulatory requirements of the HKMA.

4. Net interest income

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Interest income		
Cash and due from banks and other financial institutions	**1,733**	2,694
Advances to customers	**5,355**	8,197
Listed investments	**1,247**	1,369
Unlisted investments	**2,676**	5,626
Others	**982**	219
	11,993	18,105
Interest expense		
Due to banks, customers and other financial institutions	**(1,722)**	(7,710)
Debt securities in issue	**(16)**	(58)
Subordinated liabilities	**(546)**	(6)
Others	**(780)**	(302)
	(3,064)	(8,076)
Net interest income	**8,929**	10,029

Included within interest income is HK$8 million (first half of 2008: HK$21 million) of interest with respect to income recognised on advances classified as impaired for the first half of 2009. Interest accrued on impaired investment in securities amounted to HK$315 million (first half of 2008: HK$13 million).

Included within interest income and interest expense are HK$10,951 million (first half of 2008: HK$17,416 million) and HK$2,270 million (first half of 2008: HK$7,670 million) for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

5. Net fees and commission income

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Fees and commission income		
Securities brokerage		
– Stockbroking	**1,625**	1,289
– Bonds	**4**	220
Credit cards	**705**	663
Loan commissions	**398**	263
Bills commissions	**310**	329
Payment services	**227**	239
Insurance	**122**	132
Safe deposit box	**98**	96
Currency exchange	**87**	108
Trust services	**82**	87
Funds distribution	**38**	157
Others	**188**	262
	3,884	3,845
Fees and commission expenses		
Credit cards	**(500)**	(419)
Securities brokerage	**(255)**	(217)
Payment services	**(39)**	(38)
Others	**(143)**	(272)
	(937)	(946)
Net fees and commission income	**2,947**	2,899
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fees and commission income	**452**	288
– Fees and commission expenses	**(11)**	(14)
	441	274
– trust and other fiduciary activities		
– Fees and commission income	**201**	169
– Fees and commission expenses	**(4)**	(3)
	197	166

6. Net trading income

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Net gain from:		
– foreign exchange and foreign exchange products	**790**	875
– interest rate instruments	**28**	206
– equity instruments	**17**	135
– commodities	**54**	21
	889	1,237

7. Net gain on investment in securities

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Net gain from disposal of available-for-sale securities	**64**	129
Net gain/(loss) from redemption of held-to-maturity securities	**3**	(1)
	67	128

8. Net insurance premium income

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Gross earned premiums	**2,266**	4,511
Less: Gross written premiums ceded to reinsurers	**(5)**	(10)
Net insurance premium income	**2,261**	4,501

9. Other operating income

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Dividend income from investment in securities		
– listed investments	**2**	91
– unlisted investments	**11**	9
Gross rental income from investment properties	**179**	151
Less: Outgoings in respect of investment properties	**(23)**	(24)
Others	**80**	104
	249	331

Included in the "Outgoings in respect of investment properties" is HK$3 million (first half of 2008: HK$1 million) of direct operating expenses related to investment properties that were not let during the period.

10. Net insurance benefits and claims

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Claims, benefits and surrenders paid	**1,682**	741
Movement in liabilities	**(762)**	2,862
Gross claims, benefits and surrenders paid and movement in liabilities	**920**	3,603
Less: Reinsurers' share of claims, benefits and surrenders paid and movement in liabilities	**(1)**	(1)
Net insurance claims, benefits and surrenders paid and movement in liabilities	**919**	3,602

11. Net charge of impairment allowances

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Advances to customers		
Individually assessed		
– new allowances	**163**	142
– releases	**(87)**	(62)
– recoveries	**(142)**	(187)
Net reversal of individually assessed loan impairment allowances	**(66)**	(107)
Collectively assessed		
– new allowances	**198**	199
– releases	**(174)**	(7)
– recoveries	**(18)**	(14)
Net charge of collectively assessed loan impairment allowances	**6**	178
Net (reversal)/charge of loan impairment allowances	**(60)**	71
Available-for-sale securities		
Net charge of impairment losses on available-for-sale securities		
– Individually assessed	**729**	1,187
Held-to-maturity securities		
Net charge of impairment allowances on held-to-maturity securities		
– Individually assessed	**439**	962
Others	**7**	7
Net charge of impairment allowances	**1,115**	2,227

12. Operating expenses

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	**2,057**	2,302
– termination benefit	**5**	2
– pension cost	**194**	178
	2,256	2,482
Premises and equipment expenses (excluding depreciation)		
– rental of premises	**241**	193
– information technology	**161**	184
– others	**136**	118
	538	495
Depreciation	**496**	480
Auditors' remuneration		
– audit services	**4**	5
– non-audit services	**2**	1
Other operating expenses	**898**	625
	4,194	4,088

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

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Net (loss)/gain on disposal of investment properties	**(2)**	9
Net gain on fair value adjustments on investment properties	**527**	701
	525	710

14. Net loss from disposal/revaluation of properties, plant and equipment

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Net loss on disposal of other fixed assets	**(5)**	–
Net gain/(loss) on revaluation of premises	**4**	(8)
	(1)	(8)

15. Taxation

Taxation in the condensed consolidated income statement represents:

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Hong Kong profits tax		
– current period taxation	**1,169**	1,286
Deferred tax charge/(credit)	**127**	(111)
Hong Kong profits tax	**1,296**	1,175
Overseas taxation	**73**	78
	1,369	1,253

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2009. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2009 at the rates of taxation prevailing in the countries in which the Group operates.

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

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Profit before taxation	**8,244**	8,434
Calculated at a taxation rate of 16.5% (2008: 16.5%)	**1,360**	1,392
Effect of different taxation rates in other countries	**3**	32
Income not subject to taxation	**(39)**	(225)
Expenses not deductible for taxation purposes	**43**	54
Tax losses not recognised	**2**	–
Taxation charge	**1,369**	1,253
Effective tax rate	**16.6%**	14.9%

16. Dividends

	Half-year ended 30 June 2009		Half-year ended 30 June 2008	
	Per share HK$	**Total HK$'m**	Per share HK$	Total HK$'m
Interim dividend	**0.285**	**3,013**	0.438	4,631

At a meeting held on 27 August 2009, the Board declared an interim dividend of HK$0.285 per ordinary share for the first half of 2009 amounting to approximately HK$3,013 million. This declared dividend is not reflected as a dividend payable in this interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2009.

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

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the first half of 2009 of approximately HK$6,691 million (first half of 2008: HK$7,088 million) and on the ordinary shares in issue of 10,572,780,266 shares (2008: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the first half of 2009 (first half of 2008: Nil).

18. Retirement benefit costs

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

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

The Group's total contributions made to the ORSO schemes for the first half of 2009 amounted to approximately HK$161 million (first half of 2008: approximately HK$149 million), after a deduction of forfeited contributions of approximately HK$2.3 million (first half of 2008: approximately HK$7 million). For the MPF Scheme, the Group contributed approximately HK$18 million (first half of 2008: approximately HK$19 million) for the first half of 2009.

19. Share option schemes

(a) Share Option Scheme and Sharesave Plan

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

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

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

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the first half of 2009 (first half of 2008: Nil).

19. Share option schemes (continued)

(b) Pre-Listing Share Option Scheme

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

Details of the share options outstanding as at 30 June 2009 and 31 December 2008 are disclosed as follows:

	Directors	Senior management	Others*	Total number of share options	Average exercise price (HK$ per share)
At 1 January 2009	**6,290,100**	**1,361,200**	**–**	**7,651,300**	**8.5**
Transfer	**(1,590,600)**	**–**	**1,590,600**	**–**	**8.5**
At 30 June 2009	**4,699,500**	**1,361,200**	**1,590,600**	**7,651,300**	**8.5**
Exercisable at 30 June 2009	**4,699,500**	**1,361,200**	**1,590,600**	**7,651,300**	**8.5**
At 1 January 2008	6,651,600	2,253,100	1,446,000	10,350,700	8.5
Less: Share options exercised during the year	(361,500)	(891,900)	(1,446,000)	(2,699,400)	8.5
At 31 December 2008	6,290,100	1,361,200	–	7,651,300	8.5
Exercisable at 31 December 2008	6,290,100	1,361,200	–	7,651,300	8.5

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

No share option was exercised during the period. The weighted average share price during the year of 2008 was HK$18.65.

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

20. Cash and balances with banks and other financial institutions

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Cash	**3,886**	4,232
Balances with central banks	**50,633**	66,158
Balances with banks and other financial institutions	**5,775**	7,545
Placements with banks and other financial institutions maturing within one month	**52,738**	75,334
	113,032	153,269

21. Financial assets at fair value through profit or loss

	Trading securities		Financial assets designated at fair value through profit or loss		Total	
	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m	**At 30 June 2009 HK$'m**	At 31 December 2008 HK$'m	**At 30 June 2009 HK$'m**	At 31 December 2008 HK$'m
At fair value						
Debt securities						
– Listed in Hong Kong	**186**	412	**564**	557	**750**	969
– Listed outside Hong Kong	**714**	35	**2,993**	3,095	**3,707**	3,130
	900	447	**3,557**	3,652	**4,457**	4,099
– Unlisted	**6,940**	13,484	**17,866**	23,855	**24,806**	37,339
	7,840	13,931	**21,423**	27,507	**29,263**	41,438
Fund						
– Unlisted	**–**	–	**2,154**	2,168	**2,154**	2,168
Equity securities						
– Listed in Hong Kong	**25**	20	**164**	124	**189**	144
– Unlisted	**72**	62	**–**	–	**72**	62
	97	82	**164**	124	**261**	206
Total	**7,937**	14,013	**23,741**	29,799	**31,678**	43,812

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

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

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Sovereigns	**6,828**	13,082
Public sector entities	**1,568**	1,791
Banks and other financial institutions	**21,244**	25,668
Corporate entities	**2,038**	3,271
	31,678	43,812

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

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Treasury bills	**5,799**	12,458
Certificates of deposit held	**2,601**	3,569
Other financial assets at fair value through profit or loss	**23,278**	27,785
	31,678	43,812

22. Derivative financial instruments

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

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

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

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

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

22. Derivative financial instruments (continued)

The following tables summarise the contract/notional amounts of each significant type of derivative financial instrument as at 30 June 2009 and 31 December 2008:

	At 30 June 2009			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting* HK$'m	Total HK$'m
Exchange rate contracts				
Spot and forwards	208,956	–	659	209,615
Swaps	256,189	–	68	256,257
Foreign currency option contracts				
– Options purchased	1,606	–	–	1,606
– Options written	1,839	–	–	1,839
	468,590	–	727	469,317
Interest rate contracts				
Futures	833	–	–	833
Swaps	97,863	17,801	10,569	126,233
Interest rate option contracts				
– Swaptions written	155	–	–	155
– Bond options written	3,797	–	–	3,797
	102,648	17,801	10,569	131,018
Bullion contracts	4,682	–	–	4,682
Equity contracts	1,571	–	–	1,571
Other contracts	131	–	–	131
Total	577,622	17,801	11,296	606,719

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

22. Derivative financial instruments (continued)

	At 31 December 2008			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m
Exchange rate contracts				
Spot and forwards	182,624	–	–	182,624
Swaps	248,956	–	68	249,024
Foreign currency option contracts				
– Options purchased	2,518	–	–	2,518
– Options written	2,754	–	–	2,754
	436,852	–	68	436,920
Interest rate contracts				
Futures	4,290	–	–	4,290
Swaps	68,392	19,931	10,045	98,368
Interest rate option contracts				
– Bond options written	775	–	–	775
	73,457	19,931	10,045	103,433
Bullion contracts	3,880	–	–	3,880
Equity contracts	5,070	–	–	5,070
Other contracts	144	–	–	144
Total	519,403	19,931	10,113	549,447

22. Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2009 and 31 December 2008:

	At 30 June 2009							
	Fair value assets				Fair value liabilities			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m
Exchange rate contracts								
Spot and forwards	11,048	–	–	11,048	(6,953)	–	–	(6,953)
Swaps	4,578	–	–	4,578	(2,138)	–	(2)	(2,140)
Foreign currency option contracts								
– Options purchased	6	–	–	6	–	–	–	–
– Options written	–	–	–	–	(6)	–	–	(6)
	15,632	–	–	15,632	(9,097)	–	(2)	(9,099)
Interest rate contracts								
Futures	–	–	–	–	(3)	–	–	(3)
Swaps	1,159	30	11	1,200	(2,374)	(904)	(96)	(3,374)
Interest rate option contracts								
– Swaptions written	–	–	–	–	(3)	–	–	(3)
– Bond options written	–	–	–	–	(38)	–	–	(38)
	1,159	30	11	1,200	(2,418)	(904)	(96)	(3,418)
Bullion contracts	299	–	–	299	(119)	–	–	(119)
Equity contracts	132	–	–	132	(131)	–	–	(131)
Total	17,222	30	11	17,263	(11,765)	(904)	(98)	(12,767)

22. Derivative financial instruments (continued)

	At 31 December 2008							
	Fair value assets				Fair value liabilities			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m
Exchange rate contracts								
Spot and forwards	15,152	–	–	15,152	(10,962)	–	–	(10,962)
Swaps	1,624	–	1	1,625	(3,933)	–	(3)	(3,936)
Foreign currency option contracts								
– Options purchased	21	–	–	21	–	–	–	–
– Options written	–	–	–	–	(24)	–	–	(24)
	16,797	–	1	16,798	(14,919)	–	(3)	(14,922)
Interest rate contracts								
Futures	2	–	–	2	(6)	–	–	(6)
Swaps	1,420	–	18	1,438	(2,329)	(1,769)	(166)	(4,264)
Interest rate option contracts								
– Bond options written	–	–	–	–	(25)	–	–	(25)
	1,422	–	18	1,440	(2,360)	(1,769)	(166)	(4,295)
Bullion contracts	248	–	–	248	(91)	–	–	(91)
Equity contracts	1,142	–	–	1,142	(1,142)	–	–	(1,142)
Total	19,609	–	19	19,628	(18,512)	(1,769)	(169)	(20,450)

22. Derivative financial instruments (continued)

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

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Exchange rate contracts		
Forwards	**240**	318
Swaps	**2,341**	1,377
Foreign currency option contracts		
– Options purchased	**1**	4
Interest rate contracts		
Futures	**–**	2
Swaps	**584**	577
Bullion contracts	**1**	5
Equity contracts	**10**	37
	3,177	2,320

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

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

Approximately 69% (31 December 2008: 69%) of the Group's transactions in derivative contracts are conducted with other financial institutions.

23. Advances and other accounts

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Personal loans and advances	**153,117**	151,784
Corporate loans and advances	**322,447**	308,663
Advances to customers	**475,564**	460,447
Loan impairment allowances		
– Individually assessed	**(632)**	(800)
– Collectively assessed	**(1,388)**	(1,501)
	473,544	458,146
Trade bills	**7,727**	7,609
Advances to banks and other financial institutions	**4,085**	3,738
Total	**485,356**	469,493

As at 30 June 2009, advances to customers included accrued interest on gross advances of HK$723 million (31 December 2008: HK$1,293 million).

As at 30 June 2009 and 31 December 2008, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

24. Investment in securities

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
(a) Available-for-sale securities		
Debt securities, at fair value		
– Listed in Hong Kong	**7,212**	4,588
– Listed outside Hong Kong	**57,294**	44,692
	64,506	49,280
– Unlisted	**122,250**	121,655
	186,756	170,935
Equity securities, at fair value		
– Listed in Hong Kong	**2,016**	1,256
– Unlisted	**481**	430
	2,497	1,686
	189,253	172,621
(b) Held-to-maturity securities		
Listed, at amortised cost		
– in Hong Kong	**3,810**	4,082
– outside Hong Kong	**22,268**	21,302
	26,078	25,384
Unlisted, at amortised cost	**67,339**	85,521
	93,417	110,905
Impairment allowances	**(4,020)**	(4,440)
	89,397	106,465
(c) Loans and receivables		
Unlisted, at amortised cost	**18,980**	12,595
Total	**297,630**	291,681
Market value of listed held-to-maturity securities	**25,351**	24,354

24. Investment in securities (continued)

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

	At 30 June 2009			
	Available-for-sale securities HK$'m	**Held-to-maturity securities HK$'m**	**Loans and receivables HK$'m**	**Total HK$'m**
Sovereigns	**63,443**	**2,786**	**–**	**66,229**
Public sector entities	**14,964**	**6,754**	**–**	**21,718**
Banks and other financial institutions	**92,508**	**64,737**	**18,980**	**176,225**
Corporate entities	**18,338**	**15,120**	**–**	**33,458**
	189,253	**89,397**	**18,980**	**297,630**

	At 31 December 2008			
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m	Total HK$'m
Sovereigns	70,274	1,079	–	71,353
Public sector entities	9,202	12,481	–	21,683
Banks and other financial institutions	71,832	72,498	12,595	156,925
Corporate entities	21,313	20,407	–	41,720
	172,621	106,465	12,595	291,681

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

	Available-for-sale securities		**Held-to-maturity securities**	
	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m	**At 30 June 2009 HK$'m**	At 31 December 2008 HK$'m
Treasury bills	**47,356**	60,980	**1,398**	100
Certificates of deposit held	**12,471**	7,355	**8,878**	12,448
Others	**129,426**	104,286	**79,121**	93,917
	189,253	172,621	**89,397**	106,465

25. Investment properties

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
At 1 January	**7,727**	8,058
Disposals	**(25)**	(186)
Fair value gains/(losses) (Note 13)	**527**	(132)
Reclassification from/(to) properties, plant and equipment (Note 26)	**85**	(13)
At period/year end	**8,314**	7,727

26. Properties, plant and equipment

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Total HK$'m
Net book value at 1 January 2009	**20,105**	**2,690**	**22,795**
Additions	**–**	**149**	**149**
Disposals	**(3)**	**(6)**	**(9)**
Revaluation	**1,419**	**–**	**1,419**
Depreciation for the period (Note 12)	**(187)**	**(309)**	**(496)**
Reclassification to investment properties (Note 25)	**(83)**	**(2)**	**(85)**
Net book value at 30 June 2009	**21,251**	**2,522**	**23,773**
At 30 June 2009			
Cost or valuation	**21,251**	**6,304**	**27,555**
Accumulated depreciation and impairment	**–**	**(3,782)**	**(3,782)**
Net book value at 30 June 2009	**21,251**	**2,522**	**23,773**
Net book value at 1 January 2008	20,783	2,510	23,293
Additions	42	776	818
Disposals	(68)	(5)	(73)
Revaluation	(265)	–	(265)
Depreciation for the year	(400)	(592)	(992)
Reclassification from investment properties (Note 25)	13	–	13
Exchange difference	–	1	1
Net book value at 31 December 2008	20,105	2,690	22,795
At 31 December 2008			
Cost or valuation	20,105	6,239	26,344
Accumulated depreciation and impairment	–	(3,549)	(3,549)
Net book value at 31 December 2008	20,105	2,690	22,795

26. Properties, plant and equipment (continued)

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

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Total HK$'m
At 30 June 2009			
At cost	**–**	**6,304**	**6,304**
At valuation	**21,251**	**–**	**21,251**
	21,251	**6,304**	**27,555**
At 31 December 2008			
At cost	–	6,239	6,239
At valuation	20,105	–	20,105
	20,105	6,239	26,344

27. Other assets

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Repossessed assets	**90**	124
Precious metals	**2,014**	1,347
Accounts receivable and prepayments	**18,529**	13,208
	20,633	14,679

28. Financial liabilities at fair value through profit or loss

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Trading liabilities		
– Short positions in Exchange Fund Bills	**6,255**	12,141
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 29)	**3,767**	8,939
– Certificates of deposit issued	**840**	858
	4,607	9,797
	10,862	21,938

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

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2009 is more than the amount that the Group would be contractually required to pay at maturity to the holders by HK$7 million (31 December 2008: HK$5 million). The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the period and cumulatively, attributable to changes in credit risk is insignificant.

29. Deposits from customers

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Current, savings and other deposit accounts (per condensed consolidated balance sheet)	**820,977**	802,577
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 28)	**3,767**	8,939
	824,744	811,516
Analysed by:		
Demand deposits and current accounts		
– corporate customers	**46,576**	35,867
– individual customers	**12,944**	10,175
	59,520	46,042
Savings deposits		
– corporate customers	**128,131**	115,918
– individual customers	**321,929**	261,355
	450,060	377,273
Time, call and notice deposits		
– corporate customers	**116,348**	150,526
– individual customers	**198,816**	237,675
	315,164	388,201
	824,744	811,516

30. Other accounts and provisions

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Other accounts payable	**31,135**	34,297
Provisions	**410**	576
	31,545	34,873

31. Assets pledged as security

As at 30 June 2009, liabilities of the Group amounting to HK$6,145 million (31 December 2008: HK$12,141 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$4,875 million (31 December 2008: Nil) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK$11,427 million (31 December 2008: HK$12,243 million) included in "Trading securities" and "Available-for-sale securities".

32. Deferred taxation

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

The major components of deferred tax assets and liabilities recorded in the condensed consolidated balance sheet, and the movements during the first half of 2009 and the year ended 31 December 2008 are as follows:

	At 30 June 2009					
	Accelerated tax depreciation HK$'m	**Property revaluation HK$'m**	**Losses HK$'m**	**Impairment allowance HK$'m**	**Other temporary differences HK$'m**	**Total HK$'m**
At 1 January 2009	**545**	**3,464**	**(126)**	**(254)**	**(984)**	**2,645**
(Credited)/charged to condensed income statement (Note 15)	**(19)**	**98**	**3**	**7**	**38**	**127**
Charged to equity and minority interests	**–**	**195**	**–**	**–**	**552**	**747**
At 30 June 2009	**526**	**3,757**	**(123)**	**(247)**	**(394)**	**3,519**

	At 31 December 2008					
	Accelerated tax depreciation HK$'m	Property revaluation HK$'m	Losses HK$'m	Impairment allowance HK$'m	Other temporary differences HK$'m	Total HK$'m
At 1 January 2008	533	3,777	(15)	(169)	(182)	3,944
Charged/(credited) to income statement	12	(205)	(111)	(85)	(75)	(464)
Credited to equity and minority interests	–	(108)	–	–	(727)	(835)
At 31 December 2008	545	3,464	(126)	(254)	(984)	2,645

32. Deferred taxation (continued)

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

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Deferred tax assets	**(160)**	(154)
Deferred tax liabilities	**3,679**	2,799
	3,519	2,645

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(145)**	(154)
Deferred tax liabilities to be settled after more than twelve months	**4,062**	3,762
	3,917	3,608

The deferred tax charged/(credited) for each component of other comprehensive income during the period is as follows:

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Fair value changes of available-for-sale securities	**552**	(235)
Revaluation of premises	**195**	262
	747	27

33. Insurance contract liabilities

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Gross and net		
At 1 January	**28,274**	22,497
Benefits paid	**(1,458)**	(1,359)
Claims incurred and movement in liabilities	**879**	7,136
At period/year end	**27,695**	28,274

34. Subordinated liabilities

	Carrying amount	
Principal amount	**At 30 June 2009 HK$'m**	At 31 December 2008 HK$'m
Subordinated loans		
EUR 660m*	**7,215**	7,210
USD 2,500m**	**19,389**	19,394
HKD 735m***	**735**	735
	27,339	27,339

The Group obtained floating-rate subordinated loans from BOC, the intermediate holding company. The EUR 660 million and USD 2,500 million subordinated loans are repayable prior to maturity after the first 5-year tenure at the option of the borrower. Amounts qualified as supplementary capital for regulatory purposes are shown in Note 3.5(b).

* Interest rate at 6-month EURIBOR plus 0.85% for the first 5 years, 6-month EURIBOR plus 1.35% for the remaining tenure payable semi-annually, due June 2018.

** Interest rate at 6-month LIBOR plus 2.00% for the first 5 years, 6-month LIBOR plus 2.50% for the remaining tenure payable semi-annually, due December 2018.

*** Interest rate at applicable HIBOR plus 3.00%, fully repaid in July 2009.

35. Share capital

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Authorised: 20,000,000,000 ordinary shares of HK$5 each	**100,000**	100,000
Issued and fully paid: 10,572,780,266 ordinary shares of HK$5 each	**52,864**	52,864

36. Reserves

The Group's reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity on pages 47 to 48.

37. Notes to condensed consolidated cash flow statement

(a) *Reconciliation of operating profit to operating cash (outflow)/inflow before taxation*

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Operating profit	**7,719**	7,724
Depreciation	**496**	480
Net charge of impairment allowances	**1,115**	2,227
Unwind of discount on impairment	**(8)**	(21)
Advances written off net of recoveries	**(213)**	86
Interest expense on subordinated liabilities	**546**	6
Change in cash and balances with banks and other financial institutions with original maturity over three months	**13,201**	17,866
Change in placements with banks and other financial institutions with original maturity over three months	**(18,391)**	(627)
Change in financial assets at fair value through profit or loss	**6,001**	565
Change in derivative financial instruments	**(5,318)**	(307)
Change in advances and other accounts	**(15,582)**	(66,914)
Change in investment in securities	**193**	33,400
Change in other assets	**(5,961)**	7,689
Change in deposits and balances of banks and other financial institutions	**(11,663)**	21,026
Change in financial liabilities at fair value through profit or loss	**(11,076)**	708
Change in deposits from customers	**18,400**	25,504
Change in debt securities in issue at amortised cost	**(906)**	667
Change in other accounts and provisions	**(3,328)**	(8,471)
Change in insurance contract liabilities	**(579)**	2,573
Exchange difference	**–**	199
Operating cash (outflow)/inflow before taxation	**(25,354)**	44,380
Cash flows from operating activities included:		
– Interest received	**13,466**	19,220
– Interest paid	**4,109**	7,254
– Dividend received	**13**	100

(b) *Analysis of the balances of cash and cash equivalents*

	At 30 June 2009 HK$'m	At 30 June 2008 HK$'m
Cash and balances with banks and other financial institutions with original maturity within three months	**100,968**	173,272
Placements with banks and other financial institutions with original maturity within three months	**27,156**	10,847
Treasury bills with original maturity within three months	**19,412**	12,820
Certificates of deposit held with original maturity within three months	**1,000**	1,816
	148,536	198,755

38. Contingent liabilities and commitments

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

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Direct credit substitutes	**1,745**	1,419
Transaction-related contingencies	**7,522**	10,153
Trade-related contingencies	**26,020**	22,481
Commitments that are unconditionally cancellable without prior notice	**127,688**	103,684
Other commitments with an original maturity of		
– up to one year	**25,761**	63,252
– over one year	**45,083**	52,400
	233,819	253,389
Credit risk weighted amount	**31,290**	40,251

The credit risk weighted amount is calculated in accordance with the Banking (Capital) Rules. The amount is dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

39. Capital commitments

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

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Authorised and contracted for but not provided for	**148**	121
Authorised but not contracted for	**6**	15
	154	136

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

40. Operating lease commitments

(a) *The Group as lessee*

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

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Land and buildings		
– not later than one year	**407**	427
– later than one year but not later than five years	**479**	531
– later than five years	**6**	14
	892	972

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

(b) *The Group as lessor*

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

	At 30 June 2009 HK$'m	At 31 December 2008 HK$'m
Land and buildings		
– not later than one year	**317**	270
– later than one year but not later than five years	**292**	234
	609	504

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

41. Segmental reporting

The Group has adopted the new HKFRS 8 "Operating Segments" effective this year. After assessing the internal financial reporting process, it was concluded that the original segments classification has already complied with the new standard. However, consistent with internal management reporting, the charge on inter-segment funding has changed from the corresponding money market rates to money market rates adjusted with pre-determined margins. These margins reflect differentiation based on product features. Since the impact of this change on prior year figures is immaterial, no restatement has been made.

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

Information about the four business segments is provided in segmental reporting. They are Personal Banking, Corporate Banking, Treasury and Insurance. The classification of the Group's operating segments is based on customer segment and product type, which is aligned with the RPC (relationship, product and channel) management model of the Group.

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

Revenues, expenses, assets and liabilities of any business segment mainly include items directly attributable to the segment. In relation to occupation of the Group's premises, rentals are internally charged on market rates according to the areas occupied. For management overheads, allocations are made on reasonable bases. Inter-segment funding is charged according to the internal funds transfer pricing mechanism of the Group.

41. Segmental reporting (continued)

	Half-year ended 30 June 2009							
	Personal HK$'m	Corporate HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Net interest income/(expenses)								
– external	902	3,027	4,440	562	(2)	8,929	–	8,929
– inter-segment	1,947	(383)	(1,526)	–	(38)	–	–	–
	2,849	2,644	2,914	562	(40)	8,929	–	8,929
Net fees and commission income/ (expenses)	1,970	1,100	(4)	(124)	50	2,992	(45)	2,947
Net trading income/(expenses)	236	67	587	–	(1)	889	–	889
Net gain/(loss) on financial instruments designated at fair value through profit or loss	–	–	180	(1,575)	–	(1,395)	–	(1,395)
Net gain on investment in securities	–	–	67	–	–	67	–	67
Net insurance premium income	–	–	–	2,267	–	2,267	(6)	2,261
Other operating income	12	30	2	5	880	929	(680)	249
Total operating income	5,067	3,841	3,746	1,135	889	14,678	(731)	13,947
Net insurance benefits and claims	–	–	–	(919)	–	(919)	–	(919)
Net operating income before impairment allowances	5,067	3,841	3,746	216	889	13,759	(731)	13,028
Net (charge)/reversal of impairment allowances	(80)	133	(1,168)	–	–	(1,115)	–	(1,115)
Net operating income	4,987	3,974	2,578	216	889	12,644	(731)	11,913
Operating expenses	(2,771)	(1,039)	(394)	(61)	(660)	(4,925)	731	(4,194)
Operating profit	2,216	2,935	2,184	155	229	7,719	–	7,719
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	525	525	–	525
Net loss from disposal/revaluation of properties, plant and equipment	–	–	–	–	(1)	(1)	–	(1)
Share of profits less losses of associates	–	–	–	–	1	1	–	1
Profit before taxation	2,216	2,935	2,184	155	754	8,244	–	8,244
At 30 June 2009								
Assets								
Segment assets	169,513	338,687	581,630	31,802	38,056	1,159,688	(13,624)	1,146,064
Interests in associates	–	–	–	–	86	86	–	86
	169,513	338,687	581,630	31,802	38,142	1,159,774	(13,624)	1,146,150
Liabilities								
Segment liabilities	558,739	293,447	169,588	30,932	11,102	1,063,808	(13,624)	1,050,184
Half-year ended 30 June 2009								
Other information								
Additions of properties, plant and equipment	5	–	–	1	143	149	–	149
Depreciation	141	71	52	1	231	496	–	496
Amortisation of securities	–	–	(310)	111	–	(199)	–	(199)

41. Segmental reporting (continued)

	Half-year ended 30 June 2008							
	Personal HK$'m	Corporate HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Net interest (expenses)/income								
– external	(1,950)	3,092	8,319	538	30	10,029	–	10,029
– inter-segment	5,280	(120)	(4,863)	–	(297)	–	–	–
	3,330	2,972	3,456	538	(267)	10,029	–	10,029
Net fees and commission income/(expenses)	2,141	1,012	(2)	(164)	(22)	2,965	(66)	2,899
Net trading income/(expenses)	370	90	898	–	(121)	1,237	–	1,237
Net loss on financial instruments designated at fair value through profit or loss	–	–	(92)	(1,392)	–	(1,484)	–	(1,484)
Net gain on investment in securities	–	–	128	–	–	128	–	128
Net insurance premium income	–	–	–	4,503	–	4,503	(2)	4,501
Other operating income	21	30	1	8	977	1,037	(706)	331
Total operating income	5,862	4,104	4,389	3,493	567	18,415	(774)	17,641
Net insurance benefits and claims	–	–	–	(3,602)	–	(3,602)	–	(3,602)
Net operating income/(expenses) before impairment allowances	5,862	4,104	4,389	(109)	567	14,813	(774)	14,039
Net charge of impairment allowances	(18)	(60)	(2,149)	–	–	(2,227)	–	(2,227)
Net operating income/(expenses)	5,844	4,044	2,240	(109)	567	12,586	(774)	11,812
Operating expenses	(2,879)	(1,081)	(431)	(69)	(402)	(4,862)	774	(4,088)
Operating profit/(loss)	2,965	2,963	1,809	(178)	165	7,724	–	7,724
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	710	710	–	710
Net loss from disposal/revaluation of properties, plant and equipment	–	–	–	–	(8)	(8)	–	(8)
Share of profits less losses of associates	–	–	–	–	8	8	–	8
Profit/(loss) before taxation	2,965	2,963	1,809	(178)	875	8,434	–	8,434
At 31 December 2008								
Assets								
Segment assets	165,148	324,606	603,965	31,703	32,578	1,158,000	(10,844)	1,147,156
Interests in associates	–	–	–	–	88	88	–	88
	165,148	324,606	603,965	31,703	32,666	1,158,088	(10,844)	1,147,244
Liabilities								
Segment liabilities	523,682	309,254	203,481	30,977	6,162	1,073,556	(10,844)	1,062,712
Half-year ended 30 June 2008								
Other information								
Additions of properties, plant and equipment	4	1	–	1	211	217	–	217
Depreciation	133	65	52	2	228	480	–	480
Amortisation of securities	–	–	(73)	–	–	(73)	–	(73)

42. Significant related party transactions

Related parties are those parties that have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or other entities. The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation ("CIC"), its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests.

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

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

(a) Advances to third parties guaranteed by BOC group companies

As at 30 June 2009, BOC, the intermediate holding company, provided guarantees for loans in favour of the Group amounting to HK$8,241 million (31 December 2008: HK$6,980 million) to certain third parties. BOC held equity interests of not more than 20% in these third parties.

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies

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

		Half-year ended 30 June 2009		
	Notes	Immediate and intermediate holding companies HK$'m	Associates HK$'m	Other related parties HK$'m
Income statement items:				
Interest income	(i)	188	–	56
Interest expense	(ii)	(615)	–	(24)
Insurance premium paid (net)	(iii)	–	–	(39)
Administrative services fees received/receivable	(iv)	14	–	9
Rental fees received/receivable	(iv)	2	–	33
Credit card commission paid/ payable (net)	(v)	(23)	–	(2)
Securities brokerage commission paid/payable (net)	(v)	–	–	(195)
Rental, property management and letting agency fees paid/ payable	(v)	–	–	(50)
Funds selling commission received	(vi)	–	–	20
Correspondent banking fee received	(vii)	2	–	–
Net insurance premium income	(iii)	–	–	2
Loans services fees received		–	–	1
Net trading (losses)/gains		(8)	–	15

42. Significant related party transactions (continued)

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

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

42. Significant related party transactions (continued)

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

	Notes	Immediate and intermediate holding companies HK$'m	Associates HK$'m	Other related parties HK$'m
		At 30 June 2009		
Balance sheet items:				
Cash and balances with banks and other financial institutions	(i)	**18,765**	**–**	**43**
Placements with banks and other financial institutions maturing between one and twelve months	(i)	**38,051**	**–**	**–**
Financial assets at fair value through profit or loss		**546**	**–**	**1,661**
Derivative financial instruments assets	(viii)	**81**	**–**	**1**
Advances and other accounts	(i)	**391**	**–**	**1,653**
Investment in securities	(i)	**1,216**	**–**	**–**
Other assets	(ix)	**61**	**–**	**3,833**
Deposits and balances of banks and other financial institutions	(ii)	**19,702**	**–**	**306**
Deposits from customers	(ii)	**100**	**43**	**14,535**
Derivative financial instruments liabilities	(viii)	**73**	**–**	**6**
Other accounts and provisions	(ix)	**62**	**–**	**3,074**
Subordinated liabilities	(x)	**27,339**	**–**	**–**
Off-balance sheet items:				
Contingent liabilities and commitments	(xi)	**657**	**–**	**3,422**

42. Significant related party transactions (continued)

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

		At 31 December 2008		
	Notes	Immediate and intermediate holding companies HK$'m	Associates HK$'m	Other related parties HK$'m
Balance sheet items:				
Cash and balances with banks and other financial institutions	(i)	25,614	–	26
Placements with banks and other financial institutions maturing between one and twelve months	(i)	8,489	–	–
Financial assets at fair value through profit or loss		618	–	2,087
Derivative financial instruments assets	(viii)	782	–	4
Advances and other accounts	(i)	1	–	854
Investment in securities	(i)	1,280	–	–
Other assets	(ix)	55	–	2,050
Deposits and balances of banks and other financial institutions	(ii)	31,497	–	463
Deposits from customers	(ii)	97	46	8,019
Derivative financial instruments liabilities	(viii)	68	–	161
Other accounts and provisions	(ix)	99	–	2,210
Subordinated liabilities	(x)	27,339	–	–
Off-balance sheet items:				
Contingent liabilities and commitments	(xi)	9,037	–	4,222

42. Significant related party transactions (continued)

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

Notes:

(i) Interest income

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

(ii) Interest expense

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

(iii) Insurance premium paid/insurance commission received (net) and net insurance premium income

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

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

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

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

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

(vi) Funds selling commission received

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

(vii) Correspondent banking fee received

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

42. Significant related party transactions (continued)

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

Notes: (continued)

(viii) Derivative financial instruments assets/liabilities

In the ordinary course of business, the Group enters into foreign exchange contracts and interest rate contracts with BOC group companies. As at 30 June 2009 the aggregate notional amount of such derivative transactions amounted to HK$12,136 million (31 December 2008: HK$25,236 million) whilst the corresponding derivative financial instruments assets and liabilities amounted to HK$82 million (31 December 2008: HK$786 million) and HK$79 million (31 December 2008: HK$229 million) respectively. These transactions are executed at the relevant market rates at the time of the transactions.

(ix) Other assets and other accounts and provisions

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

(x) Subordinated liabilities

The Group entered into subordinated credit facility agreements with BOC for the purposes of capital management. Major commercial terms of the loans are stated in Note 34.

(xi) Contingent liabilities and commitments

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

(c) Key management personnel

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

The key management compensation for the six months ended 30 June 2009 and 2008 is detailed as follows:

	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m
Salaries and other short-term employee benefits	**22**	31
Post-employment benefits	**1**	1
	23	32

42. Significant related party transactions (continued)

(d) Transactions with the parent companies other than BOC ("other parent companies") and other companies controlled by Central Huijin

Central Huijin is the controlling entity of BOC. It is a wholly-owned subsidiary of CIC which is a wholly state-owned company engaging in foreign currency investment and management. Central Huijin is approved by the State Council of the PRC Government to assume the rights and obligations of the equity owner on behalf of the State.

Central Huijin has controlling equity interests in certain other entities in the PRC.

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

	2009		2008	
	Interest income/ (expense) for the six months ended 30 June HK$'m	**Outstanding balance at 30 June HK$'m**	Interest income/ (expense) for the six months ended 30 June HK$'m	Outstanding balance at 31 December HK$'m
Investment in securities	**49**	**6,286**	50	5,479
Financial assets at fair value through profit or loss	**–**	**18**	9	20
Due from banks and other financial institutions	**46**	**3,491**	28	3,780
Due to banks and other financial institutions	**(1)**	**1,597**	(16)	1,214

The Group also entered into banking transactions with the other parent companies during the six month period ended 30 June 2009 in the normal course of its business.

42. Significant related party transactions (continued)

(e) Transactions with Ministry of Finance and The People's Bank of China and other state-controlled entities

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

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

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

43. Liquidity ratio

	Half-year ended 30 June 2009	Half-year ended 30 June 2008
Average liquidity ratio	**39.70%**	42.47%

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

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

44. Currency concentrations

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

	At 30 June 2009							
	Equivalent in million of HK$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Others	Total
Spot assets	**324,249**	**46,334**	**41,630**	**31,018**	**5,272**	**70,988**	**10,066**	**529,557**
Spot liabilities	**(251,914)**	**(4,419)**	**(24,794)**	**(28,573)**	**(15,441)**	**(68,444)**	**(23,055)**	**(416,640)**
Forward purchases	**355,234**	**19,643**	**26,741**	**25,445**	**28,480**	**26,995**	**38,187**	**520,725**
Forward sales	**(412,831)**	**(61,484)**	**(44,127)**	**(28,223)**	**(18,366)**	**(26,824)**	**(25,189)**	**(617,044)**
Net options position	**254**	**–**	**(1)**	**(13)**	**(1)**	**–**	**2**	**241**
Net long/(short) position	**14,992**	**74**	**(551)**	**(346)**	**(56)**	**2,715**	**11**	**16,839**
Net structural position	**166**	**–**	**–**	**–**	**–**	**1,530**	**–**	**1,696**

	At 31 December 2008							
	Equivalent in million of HK$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Others	Total
Spot assets	329,063	45,677	39,953	26,578	13,662	69,588	11,006	535,527
Spot liabilities	(282,888)	(10,671)	(26,033)	(28,009)	(16,730)	(68,161)	(22,252)	(454,744)
Forward purchases	328,459	28,024	31,497	17,948	18,249	22,282	39,376	485,835
Forward sales	(364,547)	(62,847)	(45,720)	(16,688)	(15,190)	(22,273)	(28,126)	(555,391)
Net options position	131	2	7	8	(9)	–	3	142
Net long/(short) position	10,218	185	(296)	(163)	(18)	1,436	7	11,369
Net structural position	158	–	–	–	–	1,719	–	1,877

45. Cross-border claims

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

	Banks HK$'m	Public sector entities HK$'m	Others HK$'m	Total HK$'m
At 30 June 2009				
Asia, other than Hong Kong				
– Mainland China	**94,385**	**51,503**	**46,298**	**192,186**
– Japan	**17,208**	**43,756**	**1,591**	**62,555**
– Others	**45,861**	**–**	**16,460**	**62,321**
	157,454	**95,259**	**64,349**	**317,062**
North America				
– United States	**5,318**	**21,457**	**52,241**	**79,016**
– Others	**16,274**	**935**	**289**	**17,498**
	21,592	**22,392**	**52,530**	**96,514**
Western Europe				
– Germany	**36,342**	**1,006**	**728**	**38,076**
– Others	**120,288**	**2,064**	**6,765**	**129,117**
	156,630	**3,070**	**7,493**	**167,193**
Total	**335,676**	**120,721**	**124,372**	**580,769**

45. Cross-border claims (continued)

	Banks HK$'m	Public sector entities HK$'m	Others HK$'m	Total HK$'m
At 31 December 2008				
Asia, other than Hong Kong				
– Mainland China	62,948	52,228	47,650	162,826
– Japan	19,475	39,462	1,522	60,459
– Others	46,292	54	16,293	62,639
	128,715	91,744	65,465	285,924
North America				
– United States	8,235	29,065	62,240	99,540
– Others	20,380	686	150	21,216
	28,615	29,751	62,390	120,756
Western Europe				
– Germany	37,262	664	1,252	39,178
– Others	135,312	353	6,992	142,657
	172,574	1,017	8,244	181,835
Total	329,904	122,512	136,099	588,515

46. Non-bank Mainland China exposures

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

	At 30 June 2009			
	On-balance sheet exposure HK$'m	**Off-balance sheet exposure HK$'m**	**Total exposure HK$'m**	**Individually assessed impairment allowances HK$'m**
Mainland China entities	**80,991**	**38,678**	**119,669**	**37**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**22,472**	**16,480**	**38,952**	**66**
Other non-bank Mainland China exposures	**16,341**	**6,814**	**23,155**	**39**
	119,804	**61,972**	**181,776**	**142**

46. Non-bank Mainland China exposures (continued)

	At 31 December 2008			
	On-balance sheet exposure HK$'m	Off-balance sheet exposure HK$'m	Total exposure HK$'m	Individually assessed impairment allowances HK$'m
Mainland China entities	78,600	66,102	144,702	53
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	25,979	13,701	39,680	119
Other non-bank Mainland China exposures	14,095	7,824	21,919	56
	118,674	87,627	206,301	228

47. Events after the balance sheet date

On 22 July 2009, the Group agreed with the Securities and Futures Commission, the Hong Kong Monetary Authority and thirteen other distributing banks to make an offer to eligible customers to repurchase their holdings in all outstanding Lehman Brothers Minibonds subscribed through the Group ("the Repurchase Scheme"). Details of the Repurchase Scheme, including the definition of eligible customers and outstanding Lehman Brothers Minibonds, have been set out in the Company's announcement dated 22 July 2009 (the "Announcement").

As set out in the Announcement, under the Repurchase Scheme, the Group has, without admission of liability, made an offer to repurchase at a price equivalent to 60% of the nominal value of the principal invested for eligible customers below the age of 65 as at 1 July 2009 or at 70% of the nominal value of the principal invested for eligible customers aged 65 or above as at 1 July 2009. If any recovery is made from the enforcement of the collateral held in respect of a series, the Group will make further payments to eligible customers who have accepted the Repurchase Scheme. The Group will also make a voluntary offer to pay an ex gratia amount to customers who would have qualified as eligible customers but for their previous settlements with the Group, to bring them in line with the Repurchase Scheme offer. The Group will further make available an amount equivalent to the total commission income received as a Lehman Brothers Minibonds distributor of approximately HK$160 million to the trustee of the Lehman Brothers Minibonds to fund the trustee's expenses in realising the value of the underlying collateral in respect of the outstanding Lehman Brothers Minibonds. The aforesaid amount to the trustee is expected to be provided for in the second half of the year.

The Group estimates that, in addition to the amount that has been paid or committed to be paid in cases settled or to be settled through its complaints handling process, it will have to pay out a further sum of approximately HK$3,108 million under the Repurchase Scheme and the voluntary offer to customers who have previously settled with the Group. The Group will need to make provisions in the second half of the year for the above Repurchase Scheme and voluntary offer in accordance with its accounting policies taking into account the estimated aggregate amount paid and payable of HK$3,626 million, the provision already made of HK$867 million and the net amount which is recoverable from the Lehman Brothers Minibonds. At present, the net amount which is recoverable from the Lehman Brothers Minibonds is uncertain.

48. Compliance with HKAS 34

The interim report for the first half of 2009 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

49. Statutory accounts

The information in this interim report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2008 have been delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 24 March 2009.

ADDITIONAL INFORMATION

1. Corporate information

Board of Directors

Chairman	XIAO Gang#
Vice Chairmen	LI Lihui# (appointed on 26 June 2009) SUN Changji# (resigned on 26 June 2009) HE Guangbei
Directors	LI Zaohang# ZHOU Zaiqun# ZHANG Yanling# LEE Raymond Wing Hung (resigned on 1 June 2009) GAO Yingxin FUNG Victor Kwok King* KOH Beng Seng* SHAN Weijian* TUNG Chee Chen* TUNG Savio Wai-Hok* YANG Linda Tsao*

Non-executive Directors
* Independent Non-executive Directors

Senior Management

Chief Executive	HE Guangbei
Deputy Chief Executive	LAM Yim Nam
Deputy Chief Executive	GAO Yingxin
Chief Financial Officer	ZHUO Chengwen (appointed on 1 June 2009) LEE Raymond Wing Hung (resigned on 1 June 2009)
Chief Risk Officer	CHEUNG Yau Shing
Deputy Chief Executive	WONG David See Hong
Chief Operating Officer	LEE Alex Wing Kwai (appointed on 2 July 2009)
Company Secretary	YEUNG Jason Chi Wai

Registered Office

52nd Floor
Bank of China Tower
1 Garden Road
Hong Kong

Auditors

PricewaterhouseCoopers

Share Registrar

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

ADS Depositary Bank

Citibank, N.A.
388 Greenwich Street
14th Floor
New York, NY 10013
United States of America

Credit Ratings (Long Term)

Standard & Poor's:	A-
Moody's Investors Service:	Aa3
Fitch Ratings:	A

Index Constituent

The Company is a constituent of the following indices:
Hang Seng Index
MSCI Index
FTSE Index Series

Stock Codes

Ordinary shares:	
The Stock Exchange of Hong Kong Limited:	2388
Reuters:	2388.HK
Bloomberg:	2388 HK
Level 1 ADR Programme:	
CUSIP No.:	096813209
OTC Symbol:	BHKLY

Website

www.bochk.com

2. Dividend and closure of register of members

The Board declared an interim dividend of HK$0.285 per share (2008: HK$0.438), payable on Thursday, 24 September 2009 to shareholders whose names appear on the Register of Members of the Company on Thursday, 17 September 2009.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Monday, 14 September 2009 to Thursday, 17 September 2009 (both days inclusive), during which period no transfer of shares will be registered. In order to rank for the interim dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 11 September 2009. Shares of the Company will be traded ex-dividend as from Thursday, 10 September 2009.

3. Substantial interests in share capital

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2009, the following corporations had the following interests (as defined in the SFO) in the Company set opposite their respective names:

Name of Corporation	No. of shares of HK$5 each in the Company (% of total issued shares)	
Central Huijin	6,984,274,213	(66.06%)
BOC	6,984,274,213	(66.06%)
BOCHKG	6,984,175,056	(66.06%)
BOC (BVI)	6,984,175,056	(66.06%)

Notes:

1. Following the reorganisation of BOC in August 2004, Central Huijin holds the controlling equity capital of BOC on behalf of the State. Accordingly, for the purpose of the SFO, Central Huijin is deemed to have the same interests in the Company as BOC.

2. BOC holds the entire issued share capital of BOCHKG, which in turn holds the entire issued share capital of BOC (BVI). Accordingly, BOC and BOCHKG are deemed to have the same interests in the Company as BOC (BVI) for the purpose of the SFO. BOC (BVI) beneficially holds 6,984,175,056 shares of the Company.

3. BOC holds the entire issued share capital of BOCI, which in turn holds the entire issued share capital of BOCI Asia Limited and BOCI Financial Products Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCI Asia Limited and BOCI Financial Products Limited for the purpose of the SFO. BOCI Asia Limited had an interest in 24,479 shares of the Company and an interest in 72,000 shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 2,678 shares of the Company.

All the interests stated above represented long positions. Save as disclosed above, as at 30 June 2009, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such amount of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 30 June 2009.

4. Directors' rights to acquire shares

On 5 July 2002, the following Directors were granted options by BOC (BVI), the immediate holding company of the Company, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) existing issued shares of the Company at a price of HK$8.50 per share. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years.

Particulars of the outstanding options granted to the Directors under the Pre-Listing Share Option Scheme as at 30 June 2009 are set out below:

				Number of share options					
Name of Director	Date of grant	Exercise price (HK$)	Exercisable period	Granted on 5 July 2002	Balances as at 1 January 2009	Exercised during the period	Surrendered during the period	Lapsed during the period	Balances as at 30 June 2009
HE Guangbei	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	723,000	–	–	–	723,000
LI Zaohang	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	–	–	–	1,446,000
ZHOU Zaiqun	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,084,500	–	–	–	1,084,500
ZHANG Yanling	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	–	–	–	1,446,000
Total				5,784,000	4,699,500	–	–	–	4,699,500

Note: On 26 June 2009, Mr. Sun Changji retired and resigned as a Vice-Chairman and Non-executive Director of the Company. According to the terms of the Pre-Listing Share Option Scheme, the options of 1,590,600 granted to Mr. Sun Changji on 5 July 2002 could be exercised within three months after his retirement and resignation.

Save as disclosed above, at no time during the period was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

5. Directors' and Chief Executive's interests in shares, underlying shares and debentures

As at 30 June 2009, the Directors, the Chief Executive and their respective associates had the following interests in the shares and underlying shares of the Company, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers:

	Number of shares/underlying shares held					
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	**% of the issued share capital**
HE Guangbei	723,000[1]	–	–	–	723,000	0.007%
LI Zaohang	1,446,000[1]	–	–	–	1,446,000	0.014%
ZHOU Zaiqun	1,085,000[2]	–	–	–	1,085,000	0.010%
ZHANG Yanling	1,446,000[1]	–	–	–	1,446,000	0.014%
Total	4,700,000	–	–	–	4,700,000	0.045%

Notes:

1. Such interests represented the respective Directors' interests in underlying shares in respect of the share options granted to him/her pursuant to the Pre-Listing Share Option Scheme, details of which are set out in the section titled "Directors' rights to acquire shares" above.

2. Such interests included Mr. Zhou's interests in 500 shares and interests in 1,084,500 underlying shares in respect of the share options granted to him pursuant to the Pre-Listing Share Option Scheme, details of which are set out in the section titled "Directors' rights to acquire shares" above.

Save as disclosed above, as at 30 June 2009, none of the Directors or the Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

6. Purchase, sale or redemption of the Company's shares

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

7. Audit Committee

The Audit Committee consists only of Non-executive Directors, the majority of whom are Independent Non-executive Directors. It is chaired by Independent Non-executive Director Mr. Shan Weijian. Other members include Mr. Zhou Zaiqun, Dr. Fung Victor Kwok King, Mr. Tung Chee Chen, Madam Yang Linda Tsao, Mr. Tung Savio Wai-Hok and Mr. Koh Beng Seng.

Based on the principle of independence, the Audit Committee assists the Board in monitoring the financial reports, internal control, internal audit and external audit of the Group.

7. Audit Committee (continued)

At the request of the Audit Committee of the Company, the Group's external auditors have carried out a review of the interim financial information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial reports.

8. Compliance with the Code on Corporate Governance Practices of the Listing Rules

In pursuit of the Company's stated objective to embrace good corporate governance principles and practices, the Company has been continuously enhancing its corporate governance practices in order to attain even higher standards. In conjunction with the implementation of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules issued by the Stock Exchange of Hong Kong on 1 January 2005, the Company has further strengthened its corporate governance practices by reference to the requirements of the CG Code and international best practices. The Company is pleased to announce that it has been in full compliance with all the code provisions of the CG Code and that it has also complied with nearly all the recommended best practices set out in the CG Code throughout the period under review. For further details, please refer to the section titled "Corporate Governance" contained in the Annual Report 2008 of the Company.

9. Compliance with the Codes for Securities Transactions by Directors

The Company has adopted the "Code for Securities Transactions by Directors" (the "Company's Code") to govern securities transactions by Directors. The terms of the Company's Code are more stringent than the mandatory standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 of the Listing Rules ("Model Code"). Apart from the securities of the Company, the Company's Code applies equally to the Director's dealings in the securities of BOC which was listed on the Stock Exchange of Hong Kong in June 2006. In this connection, the Company has made specific enquiry of all directors, who confirmed that they had complied with the standards set out in both the Company's Code and the Model Code throughout the period under review. The Company's Code has been revised in January and March 2009 to reflect changes made to the Model Code, including the extended "black out" period for Directors' dealing in the Company's securities.

10. Compliance with the Banking (Disclosure) Rules and the Listing Rules

The unaudited interim report complies with the requirements set out in the Banking (Disclosure) Rules and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

11. Interim Report

This Interim Report is available in both English and Chinese. The Chinese version of this Interim Report is available by writing to the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. This Interim Report is also available (in both English and Chinese) on the Company's website at www.bochk.com and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk.

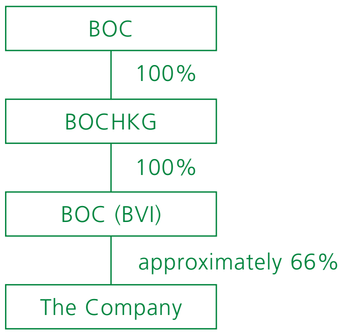
If you have any queries about how to obtain copies of this Interim Report or how to access those documents on the Company's website, please call the Company's hotline at (852) 2846 2700.

12. Reconciliation between HKFRSs vs IFRS/CAS

The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRS and CAS for which the Company and its subsidiaries will form part of the interim financial information. CAS is the new set of PRC accounting standards that has been effective for annual periods beginning on or after 1 January 2007 for companies publicly listed in PRC. The requirements of CAS have substantially converged with IFRS and HKFRSs.

The consolidated financial information of "BOC Hong Kong Group" for the periods disclosed by BOC in its interim financial information is not the same as the consolidated financial information of the Group for the periods published by the Company pursuant to applicable laws and regulations in Hong Kong. There are two reasons for this.

First, the definitions of "BOC Hong Kong Group" (as adopted by BOC for the purpose of its own financial disclosure) and "Group" (as adopted by the Company in preparing and presenting its consolidated financial information) are different: "BOC Hong Kong Group" refers to BOCHKG and its subsidiaries, whereas "Group" refers to the Company and its subsidiaries (see the below organisation chart). Though there is a difference in definitions between "BOC Hong Kong Group" and "Group", their financial results for the periods presented are substantially the same. This is because BOCHKG and BOC (BVI) are holding companies only and have no substantive operations of their own.



Second, the Group has prepared its interim financial information in accordance with HK GAAP prior to 1 January 2005 and as from 1 January 2005 onwards in accordance with HKFRSs; whereas the consolidated financial information reported to BOC is prepared in accordance with IFRS and CAS respectively. Despite the fact that HKFRSs have converged with IFRS, there is a timing difference in the initial adoption of HKFRSs and IFRS by the Group and by BOC respectively.

The Board considers that the best way to ensure that shareholders and the investing public understand the material differences between the consolidated financial information of the Group published by the Company on the one hand, and the consolidated financial information of BOC Hong Kong Group disclosed by BOC in its financial statements on the other hand, is to present reconciliations of the profit after tax/net assets of the Group prepared under HKFRSs to the profit after tax/net assets of the Group prepared under IFRS and CAS respectively for the periods presented.

The major differences between HKFRSs and IFRS/CAS, which arise from the difference in measurement basis in IFRS or CAS and the timing difference in the initial adoption of HKFRSs and IFRS relate to the following:

– re-measurement of carrying value of treasury products;

– restatement of carrying value of bank premises; and

– deferred taxation impact arising from the above different measurement basis.

12. Reconciliation between HKFRSs vs IFRS/CAS (continued)

(a) Re-measurement of carrying value of treasury products

Due to the difference in the timing of first adoption of HKFRSs and IFRS, classification and measurement of certain investment securities under HK GAAP/HKFRSs and IFRS were different. Therefore, investment securities were reclassified and re-measured to align with the accounting policies of BOC for the relevant periods. Classification and measurement under IFRS and CAS is basically the same.

(b) Restatement of carrying value of bank premises

The Company has elected for a revaluation basis rather than cost basis to account for bank premises and investment properties under HKFRSs. On the contrary, BOC has elected for the cost convention for bank premises and revaluation basis for investment properties under IFRS and CAS. Therefore, adjustments have been made to the carrying value of bank premises as well as to re-calculate the depreciation charge and disposal gain/loss under IFRS and CAS.

(c) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

Going forward, the differences relating to the restatement of carrying value of bank premises as a result of the election of the different measurement basis allowed under HKFRSs, IFRS and CAS will be recurring in the future, while the timing difference related to the measurement of investment securities will be reversed gradually and eliminated in future years.

Profit after tax/Net assets reconciliation

HKFRSs Vs IFRS/CAS

	Profit after tax		Net assets	
	Half-year ended 30 June 2009 HK$'m	Half-year ended 30 June 2008 HK$'m	**At 30 June 2009 HK$'m**	At 31 December 2008 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**6,875**	7,181	**95,966**	84,532
Add: IFRS/CAS adjustments				
Re-measurement of carrying value of treasury products	**(73)**	(51)	**(2)**	35
Restatement of carrying value of bank premises	**65**	101	**(10,660)**	(9,445)
Deferred tax adjustments	**31**	(18)	**1,741**	1,534
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRS/CAS	**6,898**	7,213	**87,045**	76,656

INDEPENDENT REVIEW REPORT

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF BOC HONG KONG (HOLDINGS) LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 44 to 122, which comprises the condensed consolidated balance sheet of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2009 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 27 August 2009

Subsidiaries of the Company

The particulars of our subsidiaries are as follows:

Name of company	Country/place and date of incorporation/ operation	Issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	Ordinary shares HK$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited*	Hong Kong 12 March 1997	Ordinary shares HK$1,368,000,000	51.00%	Life insurance business
Indirectly held:				
Nanyang Commercial Bank, Limited	Hong Kong 2 February 1948	Ordinary shares HK$600,000,000	100.00%	Banking business
Chiyu Banking Corporation Limited	Hong Kong 24 April 1947	Ordinary shares HK$300,000,000	70.49%	Banking business
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	Ordinary shares HK$480,000,000	100.00%	Credit card services
Arene Trading Limited	Hong Kong 22 August 1978	Ordinary shares HK$500,000	100.00%	Property holding and investment
Bank of China (Hong Kong) Nominees Limited*	Hong Kong 1 October 1985	Ordinary shares HK$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited*	Hong Kong 6 November 1987	Ordinary shares HK$3,000,000	100.00%	Trustee and agency services
BOC Group Trustee Company Limited*	Hong Kong 1 December 1997	Ordinary shares HK$200,000,000	64.20%	Trustee services
BOC Travel Services Limited	Hong Kong 24 August 1982	Ordinary shares HK$2,000,000	100.00%	Travel services
BOCHK Financial Products (Cayman) Limited	Cayman 10 November 2006	Ordinary shares US$50,000	100.00%	Note issuing
BOCHK Information Technology (Shenzhen) Co., Ltd.*	PRC 16 April 1990	Registered capital HK$70,000,000	100.00%	Property holding and investment
BOCHK Information Technology Services (Shenzhen) Ltd*	PRC 26 May 1993	Registered capital HK$40,000,000	100.00%	Information technology services

Subsidiaries of the Company (continued)

Name of company	Country/place and date of incorporation/ operation	Issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities
BOCI-Prudential Trustee Limited*	Hong Kong 11 October 1999	Ordinary shares HK$300,000,000	41.10%	Trustee services
Che Hsing (Nominees) Limited*	Hong Kong 23 April 1980	Ordinary shares HK$10,000	100.00%	Nominee services
Chiyu Banking Corporation (Nominees) Limited*	Hong Kong 3 November 1981	Ordinary shares HK$100,000	70.49%	Investment holding
Chung Chiat Company Limited	Hong Kong 9 April 1980	Ordinary shares HK$200	100.00%	Property holding and investment
Dwell Bay Limited	Hong Kong 19 December 1980	Ordinary shares HK$100,000	100.00%	Property holding and investment
Glister Company Limited*	Hong Kong 26 March 2001	Ordinary shares HK$2	70.49%	Investment holding
Glory Cardinal Limited*	Hong Kong 4 May 2001	Ordinary shares HK$2	70.49%	Investment holding
Grace Charter Limited*	Hong Kong 4 May 2001	Ordinary shares HK$2	70.49%	Investment holding
G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd.*	PRC 24 September 1993	Registered capital HK$40,000,000	100.00%	Property holding and investment
Hua Chiao Commercial (Nominees) Limited*	Hong Kong 28 October 1986	Ordinary shares HK$10,000	100.00%	Nominee services
Kincheng Finance (H.K.) Limited	Hong Kong 30 March 1979	Ordinary shares HK$100	100.00%	Loan financing
Kincheng Investments & Developments (H.K.) Limited	Hong Kong 15 May 1981	Ordinary shares HK$6,000	100.00%	Property holding and investment
Kincheng (Nominees) Limited*	Hong Kong 12 December 1980	Ordinary shares HK$100,000	100.00%	Nominee services
Kiu Nam Investment Corporation Limited	Hong Kong 9 November 1963	Ordinary shares HK$2,000,000	100.00%	Property holding and investment

Subsidiaries of the Company (continued)

Name of company	Country/place and date of incorporation/ operation	Issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities
Kwong Li Nam Investment Agency Limited*	Hong Kong 25 May 1984	Ordinary shares HK$3,050,000	100.00%	Investment agency
Nan Song Company, Limited*	Hong Kong 13 April 1965	Ordinary shares HK$1,000,000	100.00%	Property investment and investment holding
Nanyang Commercial Bank (China) Limited	PRC 14 December 2007	Registered capital RMB2,500,000,000	100.00%	Banking business
Nanyang Commercial Bank (Nominees) Limited*	Hong Kong 22 August 1980	Ordinary shares HK$50,000	100.00%	Nominee services
Nanyang Commercial Bank Trustee Limited*	Hong Kong 22 October 1976	Ordinary shares HK$3,000,000	100.00%	Trustee services
Nanyang Finance Company Limited	Hong Kong 16 March 1979	Ordinary shares HK$50,000,000	100.00%	Financial services
Pacific Trend Profits Corporation*	British Virgin Islands 20 April 2001	Registered shares US$1	70.49%	Investment holding
Patson (HK) Limited*	Hong Kong 18 August 1970	Ordinary shares HK$1,000,000	100.00%	Property investment
Perento Limited	Hong Kong 27 September 1983	Ordinary shares HK$10,000	100.00%	Property holding and investment
Po Hay Enterprises Limited	Hong Kong 2 October 1979	Ordinary shares HK$100,000	100.00%	Property holding and investment
Po Sang Financial Investment Services Company Limited*	Hong Kong 23 September 1980	Ordinary shares HK$25,000,000	100.00%	Gold trading and investment holding
Po Sang Futures Limited*	Hong Kong 19 October 1993	Ordinary shares HK$25,000,000	100.00%	Commodities brokerage
Rams City (Nominees) Limited*	Hong Kong 2 May 1986	Ordinary shares HK$2,000,000	100.00%	Nominee services
Sanicon Investment Limited	Hong Kong 24 January 2000	Ordinary shares HK$2	100.00%	Property holding and investment

Subsidiaries of the Company (continued)

Name of company	Country/place and date of incorporation/ operation	Issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities
Seng Sun Development Company, Limited*	Hong Kong 11 December 1961	Ordinary shares HK$2,800,000	70.49%	Investment holding
Shenstone Limited	Hong Kong 4 September 1979	Ordinary shares HK$2	100.00%	Property holding and investment
Sin Chiao Enterprises Corporation, Limited*	Hong Kong 13 September 1961	Ordinary shares HK$3,000,000	100.00%	Property holding and investment
Sin Hua Trustee Limited*	Hong Kong 27 October 1978	Ordinary shares HK$3,000,000	100.00%	Trustee services
Sin Mei (Nominee) Limited*	Hong Kong 27 April 1982	Ordinary shares HK$100,000	100.00%	Nominee services
Sin Yeh Shing Company Limited	Hong Kong 28 November 1980	Ordinary shares HK$100,000	100.00%	Property holding and investment
Sino Information Services Company Limited	Hong Kong 11 February 1993	Ordinary shares HK$7,000,000	100.00%	Information services
The China-South Sea (Nominees) Services Limited*	Hong Kong 13 February 1981	Ordinary shares HK$100,000	100.00%	Nominee services
The China State (Nominees) Limited*	Hong Kong 14 May 1982	Ordinary shares HK$100,000	100.00%	Nominee services
The China State Trustee Limited*	Hong Kong 17 July 1981	Ordinary shares HK$3,000,000	100.00%	Trustee services
Track Link Investment Limited	Hong Kong 8 February 1994	Ordinary shares HK$2	100.00%	Property holding and investment
Yien Yieh (Nominee) Limited*	Hong Kong 26 June 2001	Ordinary shares HK$2,000	100.00%	Nominee services

Arene Trading Limited, Rams City (Nominees) Limited and Yien Yieh (Nominee) Limited commenced member's voluntary winding up on 8 June 2009.

Remarks:

Name of subsidiaries which are not included in the consolidation group for regulatory purposes in respect of capital adequacy is marked with * in the above table. BOCHK and its subsidiaries specified by the HKMA form the basis of consolidation for its regulatory purposes in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with the accounting standards issued by the HKICPA pursuant to section 18A of the Professional Accountants Ordinance.

DEFINITIONS

In this Interim Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Terms	Meanings
"ABS"	Asset-backed securities
"ADR"	American Depositary Receipt
"ADS(s)"	American Depositary Share(s)
"ALCO"	The Asset and Liability Management Committee
"ATM"	Automated Teller Machine
"Board" or "Board of Directors"	the Board of Directors of the Company
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly owned subsidiary of BOCHKG
"BOC Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOC Insurance hold equity interests of 51% and 49% respectively
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of the Company
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
"BOCI-Prudential Manager"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively

Terms	Meanings
"CAR"	Capital Adequacy Ratio, 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
"CAS"	China Accounting Standards
"CBS"	Corporate Banking Services
"CE"	Chief Executive
"CIC"	China Investment Corporation
"CRO"	Chief Risk Officer
"Central Huijin"	Central Huijin Investment Ltd. (formerly known as "Central SAFE Investments Limited")
"Chiyu"	Chiyu Banking Corporation Limited, a company incorporated under the laws of Hong Kong, in which BOCHK holds an equity interest of 70.49%
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"EURIBOR"	Euro Interbank Offered Rate
"Fitch"	Fitch Ratings
"GDP"	Gross Domestic Product
"the Group"	the Company and its subsidiaries collectively referred as the Group
"HIBOR"	Hong Kong Interbank Offered Rate
"HK GAAP"	Generally Accepted Accounting Principles in Hong Kong
"HKAS(s)"	Hong Kong Accounting Standard(s)
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HK(IFRIC)-Int"	Hong Kong (IFRIC) Interpretation
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR"	Hong Kong Special Administrative Region
"IFRS"	International Financial Reporting Standards

Terms	Meanings
"IPO"	Initial Public Offering
"IT"	Information Technology
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"The Mainland" or "Mainland China" or "The Mainland of China"	The mainland of the PRC
"MBS"	Mortgage-backed securities
"MPF"	Mandatory Provident Fund
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended
"MSCI Index"	Morgan Stanley Capital International Index
"Moody's"	Moody's Investors Service
"Nanyang"	Nanyang Commercial Bank, Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCHK
"NCB (China)"	Nanyang Commercial Bank (China) Limited, a company incorporated under the laws of the PRC and a wholly owned subsidiary of Nanyang
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"PRC"	The People's Republic of China
"QDII(s)"	Qualified Domestic Institutional Investor(s)
"RC"	The Risk Committee
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMD"	The Risk Management Department
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SME(s)"	Small and medium-sized enterprise(s)

Terms	Meanings
"Share Option Scheme"	the Share Option Scheme conditionally approved and adopted by the shareholders of the Company on 10 July 2002
"Sharesave Plan"	the Sharesave Plan conditionally approved and adopted by the shareholders of the Company on 10 July 2002
"Standard & Poor's"	Standard & Poor's Ratings Services
"Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"US"	The United States of America
"VAR"	Value at Risk

中銀香港(控股)有限公司
BOC HONG KONG (HOLDINGS) LIMITED

52/F Bank of China Tower, 1 Garden Road, Hong Kong
Website: www.bochk.com

THIS REPORT IS PRINTED ON ENVIRONMENTALLY FRIENDLY AND ELEMENTAL CHLORINE FREE PAPER

DESIGN AND PRODUCTION: THE DESIGN ASSOCIATES www.tda.com.hk