

Bank of China (Hong Kong) strengthens its internal ratings system for financial institutions with the assistance of Standard & Poor's Risk Solutions

Hong Kong, June 12, 2008 – Bank of China (Hong Kong) (“BOCHK”) has successfully completed a major project to enhance its internal credit-risk assessment system for financial institutions (“FI”), an important part in its implementation of Basel II regulations for estimating default probabilities (“PDs”) of financial institutions obligors. The project was supported by Standard & Poor's Risk Solutions, the risk management services arm of Standard & Poor's.

“BOCHK has taken a major step forward in the refinement of its internal credit-risk assessment system for financial institutions,” said Edwin Yuen, Chief Analytics Officer at BOCHK.

“Proactive and prudent risk management is a top priority at BOCHK. We did not just try to achieve minimum regulatory standards, but engaged Standard & Poor's Risk Solutions to develop advanced rating systems which will provide our FI Business team with a competitive advantage in strategic pricing and management of credit limits.”

The advanced FI rating model developed by Standard & Poor's Risk Solutions was tested by BOCHK's analysts on obligors in its portfolio to analyze activities of both commercial and investment banks as well as those of complex banking groups, holdings and their subsidiaries in Hong Kong, China, other parts of Asia and the world. The rating models, also called templates, provide a transparent and documented process for assessing each institution's default probability in a consistent and efficient manner. In a bank-defined User Acceptance Process, the templates went through rigorous internal testing and passed a formal internal approval process.

“Standard & Poor's Risk Solutions used a combination of quantitative and expert-based approach in line with Standard & Poor's wider experience of credit ratings and methodologies,” explained Clemens Thym, Head of Standard & Poor's Risk Solutions for Greater China and South East Asia. “We developed templates that take into consideration potential support from owners such as financial groups, mutual support schemes or governmental bodies which often play an important role in Asia.”

Mr. Thym explained that purely quantitative models are not sufficient for evaluating credit risk in the financial sector due to the lack of risk-profile homogeneity coupled with the absence of an empirically credible historical default experience. “Employing a quantitative and expert-based approach that maps to Standard & Poor's criteria, methodologies and default data is the best approach to arrive at probability of default estimates for financial institution counterparties,” he said.

About Standard & Poor's Risk Solutions

Standard & Poor's Risk Solutions provides products and services to financial institutions, corporates and public sector bodies worldwide to develop, enhance, and validate their credit assessment processes, collect and analyse data, model credit risk, and train staff. Risk Solutions is firewalled from Standard & Poor's Rating Agency and no confidential information on rated entities is made available to Risk Solutions by the Rating Agency or any other units of Standard & Poor's.

Contact between the Rating Agency and Risk Solutions follows Standard & Poor's public firewall policies, which do permit the sharing of analytic methodologies and industry or sector level credit information and opinions. For more information about Risk Solutions or a copy of Standard & Poor's firewall policy visit www.risksolutions.standardandpoors.com

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Contacts:

Clemens Thym, Vice President, Standard & Poor's Risk Solutions, Hong Kong
Clemens_Thym@standardandpoors.com

Lisa Coory, Director Communications, Standard & Poor's, Hong Kong
Lisa_Coory@standardandpoors.com