





根深

**Solid
Foundation**

CHAIRMAN'S STATEMENT



2008 was a highly challenging year with an unusual combination of exceptionally difficult events. We were faced with the extreme volatilities in major financial markets, particularly in the second half of the year, triggered by the collapse of Lehman Brothers. The impact of the global financial turmoil on Hong Kong also became more noticeable in the latter half of the year. While the Group's traditional banking businesses continued to deliver solid performance, its investment-related businesses were negatively affected by the fallout of the financial crisis. The Group's net operating income before impairment allowances was HK\$25,526 million, down 6.3% while operating profit before impairment allowances was HK\$16,755 million, down 14.0%. The Group's profit attributable to shareholders decreased by 78.4% year-on-year to HK\$3,343 million or HK\$0.3162 per share. The substantial drop in our profit was largely due to the continued markdowns on the Group's securities investments, which resulted in total provisions of HK\$11,900 million for the period. The Board recommends no final dividend payment for 2008 (2008 interim dividend: HK\$0.4380 per share) in view of the earnings hit in the second half and the need to preserve capital strength in a turbulent market.

Throughout the year, our over-riding focus has been, and remains to be, the safeguard of the Group's financial strength and competitiveness amid this unparalleled crisis. A number of proactive initiatives have been taken, focusing on the management of our capital, liquidity and risks. We have reinforced our capital base through the subordinated loans granted by our parent bank, Bank of China Limited ("BOC"). A strong capital position provides the Group with greater operating flexibility to meet its business development needs and to weather the economic uncertainties arising from the global financial turmoil. Our consolidated capital adequacy ratio stood comfortably at 16.17% as at the end of 2008. In addition, we continued to exercise rigorous risk control and focus on liquidity management. As at the end of 2008, our financial position remained solid with total assets reaching HK\$1,147.2 billion, up 7.5% from the end of 2007. Our liquidity position remained strong at 41.74%. Loan quality was healthy with the classified or impaired loan ratio at a low level of 0.46%, edging up slightly from 0.44% a year ago.

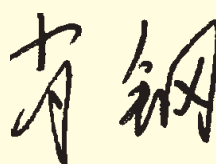
In response to the market changes and uncertainties, we swiftly adjusted our business strategies based on a more prudent approach and streamlined our expenses. We continued to grow our franchise in a tough market. Our individual and corporate customer base continued to expand, especially with good progress in new focus areas such as custody and cash management. We maintained a strong deposit base which increased compared to the end of 2007 with improved deposit mix. We continued to focus on prudent lending business and maintained our leading market positions in residential mortgage and loan syndication businesses. Our net interest income reached a new record level despite the pressure from falling interest rates. Fee income from our traditional banking services, including fee income from loans, credit cards and RMB business also posted solid growth. We continued to solidify our leadership in RMB banking business in Hong Kong.

I would also like to say a few words about the Lehman Brothers Mini-bonds issue. The consequences of the collapse of Lehman Brothers have been more profound than the market expected, which unfortunately also affected our customers who had invested in Lehman related structured products. As a responsible banking group that cares for the interests of customers, we have been deeply concerned about the distress and anxiety of those affected customers. Each customer is important to us. We have been proactively addressing their concerns and I sincerely hope that the issue would be resolved as quickly and satisfactorily as possible.

For 2009, we expect the market environment to remain highly challenging and volatile while global economies will remain under stress. The global economic crisis may continue to affect us in the near term. It is extremely important for us to stay flexible, alert and proactive in managing our risks, capital, liquidity and expenses. While business activities may slow down amid the global economic downturn, we will focus on enhancing our business capabilities and operating efficiency to better position ourselves for the market recovery. In response to the changing industry landscape, we will adjust our business strategies accordingly by capitalising on our core strength areas. We will also continue to invest judiciously in accordance with our strategic priorities for our long-term growth.

Despite the market uncertainties ahead, we see considerable business opportunities for BOCHK, especially by fostering closer collaboration with our parent bank, BOC. The setup of BOC Group's Asia-Pacific Syndicated Loan Centre last year proved to be a great success by leveraging BOCHK's expertise, BOC's network in the Asia-Pacific Region and the BOC Group's franchise. With close cooperation with BOC, BOCHK is well positioned to provide comprehensive offshore financial services to the Chinese enterprises going global. We will continue to strengthen this unique collaborative platform between BOCHK and BOC in various business areas to extend our presence in the region and to better serve the needs of our customers. I am confident that these collaborative opportunities will create value for the customers and shareholders of both BOCHK and BOC.

Last year was a particularly busy year for our Board Members as we managed our way through the challenging environment. I would like to thank them for their dedication and wise counsel. I would also like to extend my heartfelt thanks to our Management team and all associates for their wholehearted commitments and efforts during the year. On behalf of the Board, I would like to take this opportunity to thank Mr. Lee Raymond Wing Hung, who will retire as the Group's Chief Financial Officer and Executive Director of the Company effective from 1 June 2009, for his service and contributions to the Company. We have already started the search for a suitably qualified candidate to fill the position of the Chief Financial Officer of the Company and the Bank. Announcement on the progress of the recruitment will be made in due course. Last but not least, I would like to thank the continued support of our shareholders and customers, which is important to the long-term success of the Group.



XIAO Gang
Chairman

24 March 2009