



The launch ceremony of RMB 6 billion Sovereign Bonds by the Central Government in Hong Kong was held at 70/F of Bank of China Tower.



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OUTSTANDING



CHAIRMAN'S STATEMENT



An uncertain economic environment made 2009 a challenging year for the entire banking industry but the opportunities we captured were greater than ever. During the financial turmoil, we took proactive and effective measures to safeguard our financial strengths, focusing on the management of our capital, liquidity and risks. Our solid fundamentals enabled us to capture business opportunities and to grow our franchise in a tough market during 2009. On the back of the Group's financial strengths and proactive business strategies, we managed to respond to the changing market environment with speed and success.

Despite the weak market demand and pressure from low interest rates, the Group reported a mild increase in net operating income before impairment allowances to HK\$26,055 million. Operating profit before impairment allowances declined by 17.0% to HK\$13,914 million, due to the expenses mainly in relation to the Lehman minibonds issue. If excluding the related expenses, operating profit before impairment allowances would be down modestly by 1.9%. The Group's profit attributable to shareholders increased by 310.6% year-on-year to HK\$13,725 million or HK\$1.2981 per share. The substantial increase in our profit was also helped by the improvement in the securities investment provision. The Board recommends a final dividend of HK\$0.57 per share for 2009. Together with the interim dividend of HK\$0.285 per share, this will mean a total dividend of HK\$0.855 per share for 2009.

The Group maintained a strong financial position, which provided us the flexibility to grasp the business opportunities in tough times. As at end December 2009, our consolidated capital adequacy ratio stood comfortably at 16.85% and core capital ratio of 11.64%. Our liquidity position remained solid at 40.18%. Total assets amounted to HK\$1,212.8 billion. Our loan quality remained strong with classified or impaired loan ratio further improving to 0.34% from 0.46% at end 2008. We continued to manage our treasury investments proactively and optimised our investment mix in response to the market changes.

Despite the turbulences arising from the financial crisis, we have not lost focus and remain committed to our long-term

vision "to be a top-quality financial services group with an extensive base in Hong Kong, a solid presence in China and a strategic foothold in the region". I am pleased with the continued progress we made in the past year in enhancing our franchise and business capabilities in key strategic areas. We have further strengthened our competitive position in our core businesses and deepened our relationship with customers. Our long-term growth strategy is working, as demonstrated in our 2009 performance. As at end 2009, we grew our loans by 11.8% despite the muted market demand. We expanded our market share in corporate loans and maintained our leadership in residential mortgage as well as Hong Kong-Macau loan syndication. Our net fees and commission income also grew 25.7%, driven by the strong performance in stock brokerage business and loan commissions income. When I reported our 2009 interim results, I have talked about the new sales model of our life insurance business launched in April 2009. I am pleased to share with you the remarkable progress we have achieved with substantial sales growth and enhancement in our market share.

During the year, we continued to deepen our business collaboration with our parent bank, Bank of China Limited ("BOC") with solid results, demonstrating the strength of our combined efforts. Through the Asia Pacific Syndicated Loan Centre, we enhanced our penetration in the region and related income contribution while BOC Group's ranking in the Asia Pacific loan syndication business in 2009 was enhanced to No.1. We also continued to enhance the Global Relationship Manager pilot scheme which was launched in April 2009 to provide one-stop services to cater to the global needs of our leading corporate customers. We will continue to capitalise on our fundamental strengths and foster closer collaboration with BOC to capture the emerging business opportunities in China and the Asia Pacific region for mutual gain.

2009 also marked a key milestone for the development of the offshore RMB business with the launch of the Pilot RMB Trade Settlement Scheme in July. We have launched a wide spectrum of RMB trade settlement and finance services for our corporate customers. With the increasing significance of RMB in the global economy, we believe that

there will be increasing demand for RMB as the settlement currency for cross-border trade transactions. The newly introduced RMB trade service will broaden the scope of our offshore RMB services, not just in Hong Kong but also in the Asia Pacific region. We will further strengthen our cooperation with commercial banks in ASEAN and other related countries to promote our clearing services and other banking business.

Looking forward, while there are signs of gradual economic recovery, we need to stay alert to the possible headwinds arising from the credit tightening measures by global governments. As economic conditions remain fragile, we will maintain our prudent approach and adjust our strategies in response to the economic uncertainties and the changes in the regulatory environment. In particular, it is expected that capital requirements on banks will be tightened. While I am confident in the Group's capital strength, we need to stay vigilant about the evolving development of the new capital requirements. We will maintain our proactive capital management to ensure our competitiveness and resilience. In February 2010, as part of the Group's proactive measures to manage its capital, we have successfully completed our maiden issue of subordinated notes of US\$1.6 billion to global debt investors. The proceeds were used to partly repay the subordinated credit facility provided by BOC in December 2008. The offering received very positive market response, reflecting the strong market recognition of BOCHK's strength and franchise. It also broadened our investor base and established a market benchmark to enable the Group to tap the debt market as an alternative source of future funding for its growth and development.

During the year, the Group tried its utmost to address issues arising from the Lehman Brothers minibonds incident which was largely resolved through the repurchase agreement for the eligible customers reached among the regulatory authorities and distributing banks. We are refining our strategy and business model in wealth management in response to the changing customer expectation and regulatory environment. Going forward, in developing our wealth management business, we will focus on addressing customer needs, enhancing our sales culture and strengthening our internal control mechanism.

We will also work closely together with the regulators to reinforce public confidence in the banking, financial and regulatory systems in Hong Kong.

While growing our business, we are also committed to making a positive difference to the communities we serve. Last year, we have intensified our efforts to promote the sustainable development of the economy where we operate. To ensure the long-term development of the Group, we also focus on maintaining a strong management team. On behalf of the Board, I would like to take this opportunity to welcome Mr. Li Jiuzhong who was appointed as the Group's Chief Risk Officer with effect from 1 March 2010. As we always believe, our people are the Company's greatest asset. I am very proud of our more than 13,000 employees, who contributed wholeheartedly to fortifying the solid foundation of our Company and establishing a sustainable and vibrant growth platform. I would also like to thank my fellow Board members and our management team for their efforts and commitment to ensuring the effectiveness of our strategy and maintaining our strong corporate governance structure. Lastly, I would like to express my appreciation to our shareholders and customers for their continuous support and trust, which enable us to realise our potential to deliver greater value to them.



XIAO Gang
Chairman

23 March 2010