

## 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