

## CHAIRMAN'S STATEMENT

For the first six months of 2010, the Group maintained its growth momentum in its core businesses and a strong financial position. Despite continued improvement in the economic environment, overall operating conditions remained challenging, especially in the competitive landscape. We remained focused on executing our strategy and managed to capture quality growth opportunities by capitalising on our core strengths. The Group's operating income before impairment allowances decreased mildly by 3.7% year-on-year to HK\$12,541 million. Operating profit before impairment allowances declined by 9.4% to HK\$8,007 million. The Group's profit attributable to shareholders increased by 7.5% year-on-year to HK\$7,190 million or HK\$0.68 per share. The increase in our profit was helped by the improvement in the impairment allowances of securities investments compared to the same period last year. The Board has declared an interim dividend of HK\$0.40 per share, representing an increase of 40.4% compared to HK\$0.285 per share for the same period last year.

During the period, we continued to manage our balance sheet prudently. As at end June 2010, total assets grew 7.4% to HK\$1,302.2 billion. Our loan book grew 11.0% while loan quality remained strong with classified or impaired loan ratio further improving to 0.23% from 0.34% at end 2009. We continued to manage our treasury investments proactively as the global markets remained volatile. We adopted a flexible deposit strategy to support the growth of our business. As at end June 2010, our customer deposits grew 5.7% and loan-to-deposit ratio increased to 64.02% from 60.98% as at end 2009. We maintained a solid capital base with our consolidated capital adequacy ratio standing comfortably at 16.17% and a core capital ratio of 11.33%. Our liquidity position remained solid at 37.81%.

With China's increasing importance in the global economy, we believe the offshore RMB market will continue to expand in an incremental and orderly manner. The RMB business will become an important growth driver for the banking industry in Hong Kong in the longer term. The launch of the Pilot RMB Trade Settlement Scheme in July 2009 marked an important milestone in the development of the RMB business. By enabling the use of RMB in global trades, it has extended the scope of RMB business beyond personal transactions in Hong Kong which was first started in 2004. To further enhance the flexibility of Hong Kong banks to conduct RMB businesses, the Hong Kong Monetary Authority elucidated supervisory principles and operational arrangements regarding RMB business in February 2010. In June, the trade settlement scheme was further expanded to cover the major economic regions of the Mainland and its global trading partners beyond the ASEAN countries. Lately, the use of RMB in foreign direct investment into the Mainland is also allowed, subject to relevant regulatory approval. Moreover, BOCHK was appointed by People's Bank of China as the Clearing Bank of RMB cashnotes business for Taiwan. This new service will further facilitate exchanges between people and businesses across the strait and strengthen economic and commercial ties between the Mainland and Taiwan. All these positive developments will enhance the use and circulation of RMB offshore. As the Clearing Bank of RMB business in Hong Kong, we will continue to work closely with the regulators and are committed to supporting and contributing to the steady and healthy growth of the offshore RMB market.

The RMB business is an important strategic focus for the Group. With the increasing significance of RMB in the global economy, we believe there will be increasing demand for RMB products and services. We will focus on

developing a wide spectrum of RMB products and services to meet the needs of our customers. We will also closely collaborate with BOC, our parent bank, to enhance the Group's overall RMB service capability and to consolidate the Group's leading position.

Over the past years, we have been strengthening our franchise and demonstrated our ability to grow and steer our business through different phases of the economic cycle. On a positive note, the global financial crisis in 2008 provided BOCHK a valuable opportunity to deepen our relationship with customers. This was demonstrated in our 2009 performance, especially in our corporate lending business. Capitalising on our strong balance sheet, we were able to support our customers through tough times. Our efforts and support were greatly appreciated by our customers and we continued to explore new business opportunities with them. We also invested judiciously in our strategic focuses to maintain our core competitiveness and to enhance our capabilities to better serve our customers. Looking ahead, we will continue to capitalise on our fundamental strengths and strong cooperation with BOC to capture the emerging growth opportunities in China and the Asia Pacific region.

The global economy is gradually recovering from the financial crisis but there are still uncertainties about the shape and pace of the recovery. Taking into account the magnitude of this unprecedented crisis, headwinds should still be expected across the path to recovery. We have already seen some volatility in the global financial market since the second quarter, triggered by the sovereign debt crisis in Europe. As for the Chinese economy, it is maintaining respectable growth via domestic growth impetus, which in turn provides solid support to the Hong Kong economy. We will closely monitor the market

developments and take proactive measures to safeguard our financial strengths, so we can respond swiftly and continue to lead. Amid market uncertainties and volatilities, prudent and efficient risk management is key to ensure the Group's quality growth. We remain confident that given our capital strength and enhanced business capabilities, this will allow us to deliver sustainable growth and create greater values for our shareholders in the long term.

While we are pleased with our progress to date, we are aware that there is still a lot more we can achieve. My colleagues and I are deeply committed to our vision to be our customers' premier bank and to striving for continual improvement. I also wish to thank our customers and shareholders for their continuous support and the Board for their wisdom and counsel. Lastly, with effect on 21 May 2010, Madam Yang Linda Tsao has retired as an Independent Non-Executive Director of the Company and its principal operating subsidiary, Bank of China (Hong Kong) Limited. On behalf of the Board, I would like to take this opportunity to thank Madam Yang Linda Tsao for her valuable contributions to the Group during her tenure of office since 2003 and wish her a happy retirement.



**XIAO Gang**  
*Chairman*

26 August 2010