

# CHAIRMAN'S STATEMENT

In the first six months of 2011, the Group continued to adopt a proactive growth strategy and delivered satisfactory results. Our results were solid and well-balanced, with continued growth in core businesses while maintaining a strong financial position and sound risk management. As at end June 2011, the Group's total assets grew 10.2% to HK\$1,830.4 billion. Operating income before impairment allowances increased by 20.6% year-on-year to HK\$15,126 million. Operating profit before impairment allowances increased by 64.0% to HK\$13,133 million. The Group's profit attributable to shareholders increased by 66.8% year-on-year to HK\$11,993 million or HK\$1.1343 per share. The increase in net profit was mainly attributable to the growth of our core businesses and the Lehman-minibonds related recovery. The Board has declared an interim dividend of HK\$0.63 per share, representing an increase of 57.5% compared to HK\$0.40 per share for the same period last year.

During the first half of the year, loan demand in Hong Kong remained very robust but deposit growth continued to lag behind. This has raised market concerns about the continued rapid pace of credit growth and the pressure it may pose on banks' liquidity and risk management. As demonstrated in our 2010 results, our balanced growth strategy which aims at delivering sustainable results has been proven effective. During the period, we continued our business strategy and maintained a reasonable growth pace. While capturing growth opportunities, we maintained stringent risk control and proactively managed our assets and liabilities. We strictly adhered to our credit policies and focused on customer selection to ensure quality growth. As at end June 2011, we further expanded our loan book in a sustainable manner with a growth of 9.7%. In addition, loan quality remained strong with classified or impaired loan ratio slightly reduced

to 0.10% from 0.14% at end 2010. Amid intensified deposit competition, we adopted proactive deposit-taking initiatives, including product improvement and marketing campaigns, to support our business growth. Our customer deposits increased by 7.5%. Loan-to-deposit ratio was at 60.95% compared to 59.69% at end 2010 while our liquidity position remained solid at 36.38%.

2011 marked an important development of our capital management. We have migrated to the foundation internal ratings-based ("FIRB") approach under the Basel II capital adequacy framework to quantify our credit risk. Our capital adequacy ratio maintained at a solid level of 17.62% as at end June 2011. The implementation of FIRB provides an important support for the Group's credit business and risk management. We believe a strong capital base will provide us with greater flexibility to fund future business growth and offer a safeguard against market uncertainties. We will continue to pursue prudent and proactive capital and liquidity management in response to the changing market environment and more stringent regulatory requirements.

As for our business development, we continued to enhance our business platform and deepen our customer relationship for the Group's long-term sustainable growth. We see considerable business opportunities for the Group leveraging our strong customer base and business franchise. With our Global Relationship Manager Programme, we closely collaborated with BOC and offered total solutions to core corporate clients. We also broadened our high-quality and cross-border customer base by offering differentiated services to our wealth management customers. The offshore RMB business is another key area which enables us to capture more business opportunities and enhance our customer

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relationships. During the period, we continued to expand our RMB deposit base and our trade settlement and exchange transactions also recorded satisfactory growth. We also diversified the uses of RMB funds and broadened the RMB product spectrum in order to enhance profitability and service capability. As the sole Clearing Bank ("CB") of the RMB banking business in Hong Kong, we are fully committed to the healthy and orderly development of the offshore RMB market. We aim to provide comprehensive and efficient clearing services for all the RMB Participating Banks ("PBs"). In the first half, we have introduced the RMB Repo Facilities to enhance the liquidity of Hong Kong's RMB market. We have also launched the RMB Fiduciary Account Scheme which enables the PBs to better manage their exposure to CB.

Regarding the Lehman Brothers Mini-bonds issue, I am pleased with the implementation of the final resolution. Investors recovered the collaterals for the relevant series, bringing the matter to a close. I would like to take this opportunity to thank our customers, shareholders and stakeholders for their understanding and support throughout the process. We deeply value the long-term associations that we have developed with our customers over many years and look forward to further enhancing these important relationships. One of our key missions is to provide professional service to meet the needs and expectations of all our customers.

Looking into the second half of the year, we may face increasing uncertainty and volatility in the market. The slow recovery of the US economy, ever evolving European debt crisis, Japan's pending recovery from the earthquake as well as the rising inflationary pressure may lead to softening growth of the global markets. Lately, the global financial markets reeled amid concern over worsening

global economic outlook triggered by the downgrade of the US sovereign credit rating. Looking forward, we need to stay alert and be prepared. We will remain focused on proactively and prudently managing our capital, liquidity and risks. We will continue our growth in a sustainable and balanced manner. On the back of the Group's financial strengths and proactive management, we believe we will be strongly positioned to safeguard against market uncertainties while capturing the emerging growth opportunities.

The consistently solid performance of the Group reflected the dedication and diligence of our management and staff. I wish to take this opportunity to thank them for their contributions. I would also like to thank our customers and shareholders for their continuous support and the Board for their wisdom and counsel. My colleagues and I will continue to work tirelessly for continual improvement and creating greater value for our shareholders.



**XIAO Gang**  
*Chairman*

24 August 2011