BOC HONG KONG (HOLDINGS) LIMITED
(the "Company")
QUESTION AND ANSWER SESSION CONVENED IMMEDIATELY AFTER ANNUAL GENERAL MEETING AND EXTRAORDINARY GENERAL MEETING HELD ON 11 JUNE 2014

* * * * *

Present:

Executive Directors:
Mr. He Guangbei (Chief Executive)
Mr. Gao Yingxin (Deputy Chief Executive)

Senior Management:
Mr. Zhuo Chengwen (Chief Financial Officer)
Mr. Yeung Jason Chi Wai (Deputy Chief Executive)
Mr. Li Jiuzhong (Chief Risk Officer)
Mr. Lee Wing Kwai Alex (Chief Operating Officer)
Mdm. Zhu Yanlai (Deputy Chief Executive)
Mr. Huang Hong (Deputy Chief Executive)

Company Secretary:
Mr. Chan Chun Ying

Immediately upon conclusion of the Annual General Meeting and Extraordinary General Meeting held on 11 June 2014, Mr. He Guangbei, Vice Chairman and Chief Executive of the Company (together with its subsidiaries, collectively known as the "**Group**"), took the chair of the Question and Answer session. CE He together with Mr. Gao Yingxin, Executive Director and Deputy Chief Executive, and the management, as authorised by the Board and Chairpersons of the Board Committees, attended the Question and Answer session and answered the following questions raised by shareholders:

1. At the Annual General Meeting, a shareholder expressed his concern on the downward adjustment of the 2013 final dividend notwithstanding the good performance result of the Group in 2013 compared with the preceding year. Yet, the controlling shareholder of the Group, Bank of China Limited ("**Bank of China**") uplifted its dividend payout ratio. As such, he questioned on the current and future dividend policy of the Company and whether the lesser dividend payout was the result of the increase in bad debts or management's emoluments.

CE He responded that the improved business performance of the Group in 2013 was attributed to the joint efforts of management and all the staff under a relatively tough operating environment. There were two main reasons of the lower dividend payout ratio: (1) the need to satisfy a more stringent capital adequacy ratio imposed by regulators. During the 2008 financial crises, many giant international financial institutions experienced financial difficulties, where the possible fall down of such financial institutions would be highly vulnerable to the stability of the financial systems worldwide. Henceforth, financial regulators around the globe together with the BASEL Financial Stability Board joined hands to impose supervisory measures for financial institutions, in particular a higher capital adequacy ratio taking effect in 2019. Since listed, the Group has been maintaining a steady dividend payout ratio ranged from 60% to 70% in the past 10 years, and given the stringent capital adequacy ratio requirement to be committed in future, management and the Board with due consideration decided to lower the dividend payout ratio so as to meet the higher regulatory standards on capital adequacy ratio; and (2) the Group had to seize business opportunities arising from time to time on the robust economic activities of Hong Kong, Mainland China and South East Asia, in order to achieve a sustainable business growth and to strive better return for its shareholders from both short-term and long-term perspective. CE He also expressed that the bad debt ratio of the Group, as delineated in the 2013 annual report, was lower than industrial average, so it was not a factor behind the dividend payout adjustment, yet the modified dividend payout ratio as compared with our peers still remained high.

Secretary Chan Chun Ying supplemented that the Group had an incentive remuneration system in place which formulated the emoluments of the management and the staff. In addition, the Group would not be in a position to comment on the dividend policy of Bank of China as it is another separate listed company.

2. A shareholder expressed her continued support to the development of the Company and a hope for the Company to adopt a progressive dividend payout policy so as to attain a long-term steady cash return to its shareholders.

   CE He opined that the adjusted dividend payout ratio was able to support the Group's double-digit risk-weighted assets growth and to maintain a relatively stable capital adequacy ratio for supporting future business development, the Group would continue its balanced and sustainable growth which in turn substantiate a progressive dividend return for its shareholders.

3. A shareholder inquired about (1) the supervisory standards of capital adequacy ratio in 2019; and (2) the capital adequacy ratios amongst the Group, HSBC and Standard Chartered Bank.

   CE He responded that the supervisory measures on capital adequacy ratio in 2019 would be implemented in phases and be reaching the highest level in 2019. Although details of the regulatory guidelines have yet to be released, the Group has conducted its study which revealed that the capital adequacy ratio to be required in 2019 was probably closed to that of the Group in 2013 year end. In view of the more globalized landscape of HSBC and Standard Chartered Bank, whilst the Group placed a stronger presence in Hong Kong, the capital adequacy ratios amongst these banks could be made as a reference only rather than using those as a comparison. In addition, the adjusted dividend payout ratio of the Group remained competitive amongst HSBC and Standard Chartered Bank.

   CFO Zhuo Chengwen pointed out that the capital adequacy ratio of the Group as at 2013 year end was 15.8%, whilst based on public information available, HSBC (Hong Kong) recorded a 15.2%, Hang Seng Bank reached 15.8%, Bank of East Asia was 15.9%, and DBS stood at 16.1%. Given the unique business nature of each bank and different methods in calculating the capital adequacy ratio, the above figures delivered a limited reference message to shareholders and were not directly comparable.

4. A shareholder enquired (i) the supervisory level of capital adequacy ratio; and (ii) whether the upsurge of loan-to-deposit ratio and the drop in average liquidity ratio were attributed by the vigorous expansion of the Group in its loan portfolio. Moreover, he as a shareholder expressed his aspiration to receiving a higher dividend payout, and recommended the management to peg their remunerations with the dividend payout scale.

   CFO Zhuo explained that the methodology of capital adequacy ratio in 2013 were different from that of 2012, as delineated in 2013 annual report. Hong Kong formally implemented Basel III in 2013, which set a more stringent standard to derive the capital adequacy ratio, such as the introduction of "Asset Valuation Correlation Adjustment" measures to regulate risk assets; an amendment of property revaluation reserve and also the uplifting of capital requirement which excluded certain subordinated bonds as capital classification. Besides, on top of the requirement as

regulated by Basel III, Hong Kong regulator had also implemented certain discriminate requirements such as the introduction of a risk weight floor of 15% for new residential mortgages. CFO Zhou also pointed out that Basel III would set a higher threshold for capital adequacy ratio in the coming 5 years in three areas: (1) an additional of 2.5% capital conversation buffer; (2) an introduction of countercyclical buffer that might apply in booming periods to lift capital adequacy ratio of a financial institution, and this was under consultation; (3) further stringent requirement on systemically important financial institution which was still subject to consultation. He highlighted that the capital adequacy ratio of the Group in 2013 was 15.8%, with tier 1 capital ratio of 10.67%, core tier 1 capital ratio of 10.57%, which were comparatively higher amongst its peers. The Group had earned recognition from its shareholders, investors and regulators over the years on its sustainable growth and given the moderate loan growth rate in the past couple of years, therefore, the loan strategy in 2013 was not particularly aggressive. The decision to lower the dividend payout ratio would balance both the short-term benefit and long-term growth of the Group, and this adjusted dividend payout ratio ranged from 40% - 60% was still at a relatively higher market level. Such change would enhance the capital capability of the Group to support for business development which would in turn generate long-term return to its shareholders.

CE He supplemented that though there was an increase in loan-to-deposit ratio of the Group as compared to last year, it was still comparatively lower than the market average. The rising loan-to-deposit ratio did not represent a drop in its liquidity. Loan business could generate interest income as well as other non-interest incomes such as loan commissions, handling fees for trade finance and issuance of letters of credit etc. The Group stabilized its loan portfolio with a low-teen growth in recent years, balancing both deposit and loan growth. Moreover, the Company Secretary would relay the shareholder's suggestion on the remuneration mechanism of management to the Board. CE He expressed that he understood many minority shareholders and institutional investors had highly weighted not only the business development of the Group, but also keen on the dividend payout. The dividend payout of the Group was put in place in 2002 when embracing a different operating environment from the present. The adjustment in dividend payout ratio came from the due deliberation of the management and the Board, and the benefits to minority shareholders would be reflected in cash dividend payout as well as the value of the Company. Following the change in dividend payout ratio, the remaining cash would form part of the capital of the Group for supporting business development and enhance its corporate value. The Group had a collaboration mechanism and enjoyed a number of business

opportunities with Bank of China, and sufficient capital was of paramount importance. He hoped that the adjustment in dividend payout ratio would bring a higher return to its shareholders and could meet shareholders' expectation of having a progressive dividend scale.

5. A shareholder pointed out his concern on any possible impact by the slight drop of cost-to-income ratio on the sustainable growth of the Group.

   CFO Zhuo responded that the slight decrease in cost-to-income ratio in 1Q 2014 was mainly attributed to the exceeding growth in revenue than that in expense. The fee income was relatively performing well due to business growth in 1Q 2014. The recurrent expenditures facilitated the build-up of a new integrated service platform, uplifting of network image, improvement in work flow efficiency as well as the upgrading on technological information, which could enrich product portfolio and maximize customer satisfaction. The Group was satisfied with the investment returns in past years as this marked the conscientious analysis and study prior to investments and also the utmost efforts of the management and its staff in the implementation process.

6. A shareholder pointed out that some other places including Taiwan, Singapore, United Kingdom, Germany, France, etc. had or would set up RMB clearing center and she queried on the impact of such establishments on the Group's offshore RMB clearing business.

   CE He mentioned that many countries or regions had pay high importance on offshore RMB business which in turn accelerated the growth of RMB clearing business, this implied RMB internationalization was progressing in a faster manner. Hong Kong started early on RMB-related business and 70% of the cross-border RMB clearing business worldwide were conducted in Hong Kong, which meant Hong Kong had been utilized as a RMB clearing channel for other countries and places. The RMB business steered by other countries had close-tie relationship with Hong Kong which would further stimulate the offshore RMB business in Hong Kong, and increase the width and depth of RMB market. RTGS (Real Time Gross System) was a relatively efficient clearing system, combined with the experience of the Group in RMB business, he believed that with the RMB internationalization being more matured, the Group could grasp more RMB business opportunity through its premium quality products and services.

7. A shareholder asked about the benefits that would be brought to the Group upon the implementation of “Shanghai-Hong Kong Stock Connect” programme and related strategy of the Group.

   CE He expressed that the “Shanghai-Hong Kong Stock Connect” programme would boost liquidity of capital accounts related products as well as business opportunity to the Group. Besides, the Group had also started formulating relevant technical knowhow on supporting concrete implementation of the programme. In anticipation with the advanced development of “Shanghai-Hong Kong Stock Connect” programme, and the liberalization on the cap going forward, CE He envisaged that the Group would be benefited with more business opportunities therefrom.

8. With the Group’s prominent focus of offshore RMB business, a shareholder concerned on the impact of RMB depreciation on the business of the Group.

   CE He replied that the Group had mechanism in safeguarding its exchange rate risk, and it would not render substantial impact to the Group’s business if fluctuation moved within a certain range. On the contrary, the ups and downs of RMB exchange rate would stimulate business opportunity. According to the figures as announced by Hong Kong Monetary Authority, RMB deposits increased as at year end of 2013 despite RMB depreciation. This highlighted that the RMB internationalization was progressively mature, public was more informative on various features of RMB products and would not just focus on RMB appreciation.

9. Given the current fragile property market under the rigorous property policy implemented by the Hong Kong Government, a shareholder expressed his concern on the mortgage business of the Group and its market position.

   DCE Yeung Jason Chi Wai pointed out that the transaction volumes of Hong Kong properties had been hard-hit by the stiff measures. From the mortgage applications received by the Group so far, the figure had been bottomed out in 2013 year end and had gradually gained its momentum starting from 2014. Demand for properties still existed, nevertheless mortgage applications were far behind the peak due to the rigid measures. According to the information published by real estate agents in May 2014, mortgage business of the Group ranked the first but the gap with the second were narrowed. The Group had to balance the growth of mortgage business in association with the risk embedded in order to formulate relevant business strategy.

10. A shareholder noticed that (i) final dividend in past years were higher than interim dividend and wondered if there be a further cut in 2014 interim dividend; and (ii) other banks had raised dividend payout ratios and he conveyed his expectation that the lower dividend payout ratio would bring more business opportunities and a better share price return.

    CE He responded that the 2014 interim dividend would be determined based on the performance result of the Group at that time and also the Board's decision. The shareholders' wishes were well understood and he would strive to attain shareholders' expectation. With the adjusted dividend payout, the Group could maintain more capital for business expansion with the hope of bringing a higher return to its shareholders. Some of the banks had modified their dividend payout policies much earlier subsequent to the 2008 financial crises, yet the Company had been cautious in adjusting its dividend payout ratio until this year for the sake of maintaining a sound capital adequacy ratio in order to boost business development as well as to generate a higher yield for its shareholders in long run.

11. A shareholder thanked the management for addressing shareholders' opinions, and her past issues related to foreign currency exchange had been fully resolved. She suggested the Group to further enrich branch facilities in Bank of China Tower and enhance its service efficiency during peak hours, so as to reinforce the branding name of "BOCHK Wealth Management".

    DCE Yeung responded that the Bank would strengthen its staff training in branches to reduce the unnecessary waiting time of bank customers, and would further study on the revamp of branch facilities and furnishings. Yet the design theme of Bank of China Tower was originated by Mr. Pei Ieoh Ming, with little room for extensive renovation and also need cautious study. The outlook perception of branches in Causeway Bay, Tsimshatsui and Mongkok etc. had been face-lift and the Group would continue to modernize other branches.

    CE He thanked the shareholder for her suggestion and welcome further recommendation to strengthen the Group's business.

12. Further, certain shareholders had conveyed their valuable opinions and left their contact details to the Company for taking follow-up actions.