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CHAIRMAN'S STATEMENT



It gives me great pleasure to report that the Group delivered another year of record results in 2011, reflecting the solid performance under our balanced growth strategy. Both net operating income before impairment allowances and profit attributable to the equity holders achieved new highs. Good progress was made during the year in growing our core businesses and developing new business initiatives. We remained focused on managing our capital, liquidity and risks, as reflected in our strong financial position.

The Group's net operating income before impairment allowances increased by 12.1% year-on-year to HK\$30,846 million. Operating profit before impairment allowances increased by 28.2% to HK\$22,984 million. The Group's profit attributable to the equity holders increased by 26.1% year-on-year to HK\$20,430 million or HK\$1.9323 per share, thanks to the growth of our core businesses and the Lehman-minibonds related recovery. Excluding such recovery, our profit attributable to the equity holders was also a new high since our listing. The Board has recommended a final dividend of HK\$0.558 per share. Together with the interim dividend of HK\$0.63 per share, this will mean a total dividend of HK\$1.188 per

share, representing an increase of 22.2% year-on-year. The Group's total dividend payout as a percentage of profit attributable to the equity holders will be 61.5%. Our consistent dividend policy reflects our strong capital position and commitment to delivering sustainable return to our shareholders. We remained well-capitalised with capital adequacy ratio of 16.90% as at the end of 2011. Our loan book grew 14.1% and deposits increased by 11.6%. The Group's total assets grew 4.7% to HK\$1.74 trillion. Asset quality further improved with classified or impaired loan ratio of 0.10%, among the lowest in the market.

This result was achieved despite more challenging market conditions in 2011, including intensified deposit competition, rising inflation and increased volatility in global markets amid the Eurozone debt crisis. Against this backdrop, we strictly adhered to our prudent and proactive growth strategy to balance growth, risk and return. Various measures were taken to enhance our asset and liability management, with an aim to improve overall profitability and to contain risks. In a low interest rate and highly competitive environment, we have taken conscious efforts to mitigate margin pressure. While growing our loans, we strived to improve loan structure and pricing. To support our business growth, a flexible deposit strategy was adopted to consciously manage our funding cost. Operating expenses were carefully managed to mitigate inflationary pressure while continuing to invest in our business. With a view to proactively managing our capital and liquidity, a Medium Term Note ("MTN") Programme was set up to enhance the Group's flexibility, diversity and efficiency in funding from a medium-to-long-term perspective. We also successfully issued US\$750 million senior notes to global investors under the MTN Programme to diversify our source of funding. Amid market uncertainties, we remained highly vigilant on risk management. Our loan quality stayed solid on the back of our strong credit discipline and prudent customer selection. To contain the potential risks arising from the Eurozone debt crisis, we have actively reduced our risk exposure in Europe. All these measures not only contributed to a set of satisfactory results in 2011 but have also solidified our position to capture market opportunities in 2012.

Over the past two years, we witnessed major breakthroughs in the development of the offshore RMB business in Hong Kong. Capitalising on our strong RMB franchise, we have made good progress in capturing new business opportunities and delivered encouraging results in 2011.

CHAIRMAN'S STATEMENT

We maintained our leading positions in the offshore RMB business including deposits, trade settlements, credit cards and insurance, etc. Increased asset deployment channels of our RMB funds also enabled us to improve returns. The momentum for offshore RMB lending has picked up, especially in the second half of the year. As the sole Clearing Bank of the RMB banking business in Hong Kong, we are fully committed to the healthy and orderly development of the offshore RMB market. During the period, we have further enhanced our clearing services and network. The introduction of RMB Repo facilities and RMB Fiduciary Account Scheme served to better meet the needs of the participating banks in developing the RMB business.

The offshore RMB business is an important strategic focus of the Group's mid to long term development. Riding on these opportunities, we have successfully enhanced our customer relationships and extended our global presence, laying a good foundation for our future development. With the increasing significance of RMB in the global economy, the demand for RMB products and services will continue to grow. We will continue to deepen and broaden our platform for RMB products and services. Together with our close cooperation with our parent bank, BOC, we are well positioned to provide high quality RMB services to meet the global needs of BOC Group's customers.

Looking ahead, there are good reasons for caution, especially with regard to the uneasy Eurozone situation which may continue to threaten the stability and recovery pace of global markets. We need to stay alert for any unpredictable shocks to the market from this uncertain environment. Despite the possible headwinds ahead, the Group will continue to pursue opportunities leveraging its core competencies and solid fundamentals. While cost management is a key priority, the Group will continue to make investments tied to its longer term development plans. In view of the fast changing market conditions and more stringent regulatory requirements, we will strive to enhance the efficiency of our internal control mechanisms and to safeguard our financial position. We will also firmly adhere to our strong discipline embedded in our business model to deliver quality growth.

With effect from 15 December 2011, Madam Zhang Yanling retired from her positions as a Non-executive Director of the Company and its principal operating subsidiary, Bank of China (Hong Kong) Limited ("BOCHK"). On behalf of the Board, I would like to thank Madam Zhang for her

valuable contributions to the Group during her tenure of office. At the same time, I would also like to welcome Mr. Chen Siqing who has joined the Board as a Non-executive Director of the Company and BOCHK.

This year is the 10th anniversary of the Company's listing in Hong Kong. I am pleased with the healthy development and consistently solid performance of the Group over the past ten years. This achievement was attributable to the outstanding efforts of our people, continuous support from our customers and wise counsel from our Board. I would also like to take this opportunity to thank our shareholders for their trust and support shown to us all these years.

At the Group, sustainability is the core belief of how we manage our business and plan for our development. We will remain committed to building a solid and sustainable platform for our customers, shareholders, employees and the communities where we serve. As a leading banking group, we attach great importance to Corporate Social Responsibility ("CSR") and will continue to implement our CSR programmes in different facets of our business. We deeply value the long-term relationships we have developed with our customers. On the back of its strong financial position, the Group was able to sustain its support to customers throughout the years, even in difficult market conditions. In 2011, the Lehman Brothers Mini-bonds issue was resolved with the implementation of the final resolution, demonstrating our commitment to the interests of our customers. Going forward, we will remain customer-centric through product and service innovation to meet the needs and expectations of our customers. My colleagues and I will continue to work tirelessly to strive for continual improvement and greater value for our shareholders.



XIAO Gang
Chairman

Hong Kong, 29 March 2012