

CHAIRMAN'S STATEMENT

I am delighted to report that the Group delivered once again a set of satisfactory results for the first half of 2012, with core income and profits achieving new highs. During the period, we proactively managed our assets and liabilities to improve profitability and to contain risks amid a more volatile market environment. Core businesses posted solid growth while financial position remained sound.

For the first six months of 2012, the Group's net operating income before impairment allowances grew by 20.1% year-on-year to HK\$18,165 million with broad-based growth. Compared to the same period last year, operating profit before impairment allowances decreased by 2.7% to HK\$12,774 million while profit attributable to the equity holders declined by 6.3% to HK\$11,243 million or HK\$1.0634 per share. The decline in profits was mainly due to the net recovery from the underlying collateral of the Lehman Brothers Minibonds recorded in the first half of 2011. Excluding such impact, operating profit before impairment allowances and profit attributable to the equity holders registered encouraging increase of 24.0% and 16.2% respectively. As at end June 2012, the Group's total assets declined by 3.1% to HK\$1.68 trillion, mainly due to the decrease in RMB funds deposited by participating banks with the clearing bank. The Board has declared an interim dividend of HK\$0.545 per share, compared to HK\$0.63 per share for the same period last year which included the impact of the Lehman-related recovery.

During the first half, global markets experienced increased volatilities as the Eurozone debt crisis intensified while economic growth in major markets was losing steam. Against this backdrop, we focused on safeguarding our solid financial position and proactively managing our risk exposure while capturing growth opportunities within the Group's risk limits. Loan demand softened amid slowing

growth in global economies, but we managed to capture quality growth opportunities capitalising on our strong customer franchise and financial position. As at end June 2012, loan growth was 6.8% compared to last year end. The Group strictly adhered to stringent lending policy and vigilantly managed its loan portfolio. The loan quality was healthy with classified or impaired loan ratio staying at a low level of 0.10%. The loan growth was supported by our solid deposit base which increased by 3.4%. Loan-to-deposit ratio increased to 63.0% from 61.0% as at end 2011. In managing our investment portfolio, we further optimised the mix to contain the potential risks arising from unpredictable market disruption. Net interest margin improved notably, reflecting the effectiveness of our proactive asset and liability management. Our capital and liquidity positions remained strong with capital adequacy ratio of 17.43% and average liquidity ratio of 39.87% as at end June 2012.

As for business development, the Group continued to make good progress, especially in the offshore RMB business. We maintained leading market positions and enhanced our RMB product and service capabilities in areas such as Dim Sum bonds underwriting, cash management and custody. Income contribution from RMB business increased further driven by enhanced deployment of our RMB funds. Riding on the momentum achieved in the second half of 2011, the Group's RMB lending business recorded satisfactory growth. We have also arranged the first sizable 100% RMB syndicated loan in Hong Kong. In addition to loans, we also deployed our RMB funds in bond investment and interbank activities. Capitalising on our RMB franchise and close collaboration with parent bank, BOC, we further enhanced our customer relationship and extended our services to other geographical regions. This will pave the way for further development of our offshore RMB business and also create other business opportunities for the Group. As the RMB

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clearing bank in Hong Kong, BOCHK gives full support to the further development of the RMB market in Hong Kong as well as in other offshore locations. In June, we have extended the service hours of the clearing function to enable participating banks in different time zones to enjoy the convenience of our settlement services. The new measure is implemented in line with the extension of the operating hours of the RMB Real Time Gross Settlement system in Hong Kong.

Recent macro trends have shown that global economies may face further downward pressure. The overall market environment in the near term will remain challenging and difficulties may persist for a while. We need to stay agile in adjusting our strategies and taking prompt measures in response to any shifts in the market. On a brighter note, to celebrate the 15th anniversary for Hong Kong's return to Chinese sovereignty, the Central Government has further deepened the economic cooperation between Hong Kong and the Mainland. The new measures and policies introduced will give rise to more business opportunities for Hong Kong in the mid-to-longer term.

Given the prevailing market conditions and the more stringent regulatory requirements, having a solid capital position will be a distinct competitive advantage for financial institutions. In this respect, the Group is strongly positioned. We will maintain proactive capital management to solidify our capital strength. Despite the slowdown in overall economic activities, investing in our franchise remains a key priority for us to enhance the Group's long-term competitiveness. Over the past years, we have never stopped investing in our business even during tough times of the financial crisis in 2008 and 2009. This strategy proved to be prescient as today, they have enabled us to capture many new business opportunities. We will continue to upscale our capabilities to better serve our customers and create new growth drivers.

In May 2012, BOCHK was ranked as the world's second strongest banks by Bloomberg Markets Magazine in terms of financial strength, asset quality and operating efficiency. This recognition reflected once again the results of the determined efforts of our people. 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.

2012 is a special year for BOC Group as it is the 100th anniversary of BOC and the 10th anniversary of the Company's listing. We take great pride in witnessing the solid development of BOC Group throughout the years. Looking forward, we will strive to maximise the strength of the BOC Group franchise, especially in promoting our capabilities in cross-border financial activities and global services to meet customers' needs. We will endeavour to safeguard our solid foundation to support the Group's long-term growth and create greater value for our customers, employees, shareholders and the community as a whole.



XIAO Gang
Chairman

Hong Kong, 23 August 2012