

EFFICIENT E-BANKING SERVICE





CHAIRMAN'S STATEMENT



2013 has proven to be a year of moderate recovery in the global economy. Despite weak external trade, steady economic development in the Mainland of China and a resilient local labour market created conditions for robust expansion of private consumption to be the driver of GDP growth in Hong Kong. Locally, the operating environment for the banking sector remained challenging. Banks faced headwinds from volatile financial markets, sluggish property transactions and intense competition. In the period, the Group acted on business opportunities in a timely manner and optimised its assets and liabilities proactively. Conscious efforts were put into maintaining loan quality and enhancing competitiveness, which enabled us to secure a leading position in various business areas and achieve satisfactory results.

It gives me great pleasure to report that the Group's profitability reached another record high in 2013, thanks to double-digit increases in core revenues. Commendable performance was witnessed in all business segments with earnings quality improvement. Net operating income before impairment allowances increased by 13.2% year-on-year to HK\$40,313 million. Operating profit before impairment allowances increased by 15.9% year-on-year to HK\$28,230 million. Our profit attributable to the equity holders increased by 6.3% year-on-year to HK\$22,252 million. Earnings per share were HK\$2.1046. The Board has recommended a final dividend of HK\$0.465 per share. Together with the interim dividend of HK\$0.545 per share, this will bring the full-year dividend to HK\$1.010 per share, translating into a dividend payout ratio of 48.0%.

As of 31 December 2013, the Group's total assets reached HK\$2,046.9 billion, representing an increase of 11.8% year-on-year. During the period, we employed stringent risk management controls while taking an active approach to managing liquidity. Advances to customers grew by 10.3%, with a healthy increase in loan to deposit ratio. For the ninth consecutive year, we held the top ranking in the Hong Kong-Macau syndicated loan market. Our trade finance business increased at a favourable pace despite our prudent

policy of conducting background checks on customers' transactions. Amidst low property market turnover levels, we developed products with special features to suit our customers' needs. This strategy helped us to maintain our lead in the underwriting of new mortgage loans in Hong Kong. On the back of our flexible deposit taking approach to cope with market changes, our deposits from customers increased by 8.0%. Furthermore, capitalising on market interest rate trends, we proactively optimised asset-liability structure and enhanced control on funding cost as well as loan pricing. Our net interest margin widened by 8 basis points to 1.68% as a result.

Banks in Hong Kong are required to follow Basel III standards in phases with higher capital requirements since 1st January 2013. The Group's solid capital base provided firm footing for us to capture business growth. At the end of December 2013, our total capital ratio under Basel III rules was 15.80%. Average liquidity ratio was 37.93%. During the year, we strengthened risk management in industries that required closer monitoring. Asset quality remained benign with a classified or impaired loan ratio of 0.28%.

Adhering to its customer centric principle, the Group continuously looks for new ways to serve its customers better as it grows with them. In 2013, we refined customer segmentation and launched a new wealth management service to facilitate the optimisation of customer mix. In addition, we made further improvements in customer experience through enhanced online banking functions and by providing more convenient payment methods via the "BOCHK e-Wallet Mobile Payment Services". We also promoted the sales and service capabilities of business platforms. While our credit card and securities brokerage businesses recorded steady growth in commission income, our funds distribution and insurance businesses delivered even stronger growth. Moreover, our cash management business expanded its customer base through continuous enhancement of products and services. To support the relevant measures under the "SME Financing Guarantee Scheme", the Group launched a

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privileged guarantee fee subsidy for SME customers to meet their financing needs and foster their business development. BOCHK is the recipient of the "Best SME's Partner Award" for six consecutive years.

Globally, the usage of Renminbi in trade, investment and transaction increased markedly in 2013, reflecting its rising importance in the world economy. The establishment of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, China (Shanghai) Pilot Free Trade Zone and the emergence of other offshore RMB hubs further fuelled offshore RMB business momentum. This will bring banks in Hong Kong both opportunities and challenges. During the year, the RMB liquidity requirement was optimised by the HKMA, injecting new life into local offshore RMB centre. As the sole RMB Clearing Bank in Hong Kong, BOCHK has been constantly upgrading its infrastructure. For example, we extended the service hours for cross-border RMB clearing service and introduced measures to offer participating banks more options to manage their RMB funds, enabling the RMB business to thrive locally.

The Group reinforced its leading position in the offshore RMB business. We continued to bolster integrated capabilities for RMB business and remained a key player in the offshore RMB market by developing new products and enhancing professional service platforms. During the period, we witnessed steady growth in both RMB loans and deposits, while sustaining our leadership in the local RMB insurance market. Our newly launched high-yield RMB bond fund products were well received by the market. The Group's new Offshore RMB Bond Index Series offers a unique benchmark to meet increasing demand for RMB fixed rate products. Benefiting from the opportunity offered by RQFII policy relaxation, we were well placed to grow custody business as the market leader in this segment.

In 2013, we capitalised on the business potential arising from Mainland enterprises going abroad and foreign companies investing on the Mainland, through stronger collaboration with our parent bank, BOC, and its overseas branches. With our synergies and product advantages, we jointly completed significant acquisition-related syndication and debt issuances, fulfilling the financing needs of customers with tailor-made solutions. In the meantime, a wide array of promotional events was held to market our private banking service to Mainland customers. We also provided more convenience to our customers by making our BOC Remittance Plus service available in all domestic branches of BOC. By fully leveraging the competitive edge of the BOC group, we successfully enlarged our customer base worldwide.

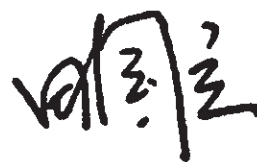
BOCHK was named "the Bank of the Year in Hong Kong 2013" by "The Banker" magazine, in recognition of the Group's success in enhancing its business capabilities and for solid development. On the other hand, we took the initiative to assimilate the values of corporate social responsibility into our growth strategy, effectively establishing a positive reputation. During the year, we launched the first voice navigation ATM in Hong Kong, expanding further our obstacle-free facilities. We also

cancelled the service charges on dormant accounts, fulfilling our pledge to support the "Treat Customers Fairly Charter". These actions demonstrate the Group's commitment to serve the community of Hong Kong where we have established deep roots.

Heading into 2014, prospects for the banking sector appear to be more favourable as the global economic recovery is expected to remain on track. We will embrace new business opportunities arising from the Renminbi's increasing role as an international currency, reforms in China gradually taking shape and steady developments in regional financial reform pilots. However, we must stay highly vigilant of the liquidity movements in the banking system given uncertain capital outflows weighing on emerging markets as the United States tapers its quantitative easing measures.

Mr XIAO Gang resigned from his position as Chairman of the Company on 17 March 2013 due to the need of the state financial work. With his leadership, the Group achieved outstanding results through a decade of extraordinary development. This has built a strong foundation for the Group's long-term prosperity. I was honoured to be appointed as the Chairman of the Company on 4 June 2013. On behalf of the Board, I would like to take this opportunity to thank Mr XIAO again for his remarkable contribution to the Group. I also extend sincere thanks to Mr TUNG Chee Chen, who retired last May as an Independent Non-executive Director, for his valuable advice to the Group over the years. Finally, I would like to express my heart-felt appreciation to our shareholders for their support and trust in our Group, to each of our Board members for their wisdom and counsel, as well as to all our staff for their diligence in the past year. Their collective efforts were essential to keeping the Group on a path of solid progress.

In the face of a changing market environment and heightening capital requirements, we will continue to manage asset-liability, capital and liquidity of the Group proactively with stringent control over risks. Leveraging our robust financial strength, the Group always puts innovation and customer experience at the heart of its business philosophy. We will stay abreast of the latest trends in information technology and provide banking products and services that suit the needs of our customers. We strive to achieve long-term goals by strengthening and deepening full-scale collaboration with our parent bank, BOC, with a view to writing a new page for BOCHK and bringing higher value to our shareholders.



TIAN Guoli
Chairman

Hong Kong, 26 March 2014