

CHAIRMAN'S STATEMENT

The global economy witnessed a slow recovery during the first half of 2013. Hong Kong registered moderate growth supported by the strong positive momentum in private consumption, which made up for the shortfall of external demand. During the period, the operating environment was complex and unpredictable amid shrinking real estate transaction volumes, rapid capital flows and volatile capital markets. Against this backdrop, our pursuance of a balanced and sustainable growth strategy continued to deliver satisfactory results, as we remained customer-centric and focused on core business development by flexibly capturing opportunities.

I am pleased to report that the Group demonstrated solid performance in all business segments. For the first six months of 2013, the Group's net operating income before impairment allowances grew by 9.4% year-on-year to HK\$19,791 million. Operating profit before impairment allowances rose by 10.4% year-on-year to HK\$14,099 million. Compared with the same period last year, profit attributable to the equity holders increased by 0.1% to HK\$11,252 million, translating into an earnings per share of HK\$1.064. The Board has declared an interim dividend of HK\$0.545 per share, representing a payout ratio of 51.2%.

As of the end of June 2013, the Group's total assets reached HK\$1,834.7 billion, representing a growth of 0.2% over the last year-end. During the period, customer deposits grew by 2.9% on the back of our flexible deposit taking as well as continuously improved products and services. Facing intensified competition, we leveraged our strong customer base and exploited business opportunities to achieve a customer loan growth of 6.7%. Meanwhile, we maintained our leading position in Hong Kong's residential mortgage market and in the Hong Kong-Macau syndicated loan market. In view of the prolonged low interest rate environment, the Group proactively optimised its asset and liability mix as well as investment strategy and widened its loan-to-deposit spread. Consequently, our net interest margin expanded to 1.67%. With ongoing uncertainties in the external environment, we adhered to our prudent credit policy with stringent customer screening and a strengthened credit approval system. Our loan quality was sound as reflected by the relatively low level of classified or impaired loan ratio of 0.26%. While we continued to make appropriate investment in businesses, our cost-to-income ratio remained at a healthy

level of 28.76%. This was as a result of our policy of assessing income and spend in accordance with stringent cost control measures.

Solid financial strength is an important competitive edge for any financial institution. Starting from 1 January 2013, the Group has adopted Basel III Accord for its capital ratio computation. We remained well-capitalised with a total capital ratio of 16.40% as of end June 2013. Our liquidity was ample with an average liquidity ratio of 38.70%. A sound financial position not only allows us to better withstand market uncertainties, but also provides good support for business development while facilitating the protection of long-term shareholders' interest.

In the first half of the year, the Group consistently implemented its operating strategy. We put customers' interests at heart with the aim to enhance customer value through product innovation and better services. For example, as the leader in the mortgage market, we responded swiftly to market changes and offered customers more choice by launching fixed-rate mortgage products. On the personal banking side, we achieved satisfactory results in meeting needs across different customer segments. This was done through optimal bundling of various wealth management products and services and thematic promotions. We increased customer loyalty by cross-selling quality services to individual customers through our corporate client relationships to suit their personal financial needs. On the corporate banking side, we enhanced customer management and leveraged the newly established Corporate Service Center to increase efficiency in serving large corporate customers. We further deepened industry specialisation to reinforce new customer development and risk management, breaking new ground in various businesses through specific sales and marketing efforts.

The size of the offshore RMB market has continued to expand. Hong Kong, being the first offshore RMB clearing hub, is leading in the areas of RMB fund pooling, trade settlement volume, operating efficiency and service experience. Since our appointment as the RMB Clearing Bank in Hong Kong, we have continued to promote the development of clearing infrastructure and services with a diverse range of products. This year, several measures were taken, including the introduction of RMB term deposit service, extension of service hours

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for RMB clearing function and increased deposit rate for participating banks. These will help shore up the competitiveness of Hong Kong as an offshore RMB hub and expedite development of RMB business locally.

The Group has been a major player in the offshore RMB market. After rigorous efforts over the years, we have further enhanced our market influence. This is attributable to our integrated RMB business platform, professional service team and continuous innovation in products with enhanced business functions. Furthermore, our proactive exploration of new customers in foreign enterprises and financial institutions has been on the back of collaboration with the overseas branches of our parent bank. Our RMB business grew healthily with significant developments in various business areas so far this year. Firstly, we completed the first loan transaction under the Qianhai pilot scheme. Secondly, we launched several pioneering products in the treasury market, including the first Certificate of Deposit with the CNH HIBOR, the first CNH/USD Cross-Currency Swap and the first USD/CNH Futures contract. Concurrently, our efforts in innovation and driving development of RMB investment products recorded outstanding results. This was illustrated by the overwhelming market response to the newly launched "BOCHK All Weather RMB High Yield Bond Fund". We partnered with FTSE Group to develop a new series of offshore RMB bond indices, enabling investors to gain access to an array of quality benchmarks. It will help foster the development of offshore RMB bond markets worldwide.

Looking forward to the second half of the year, we see uncertainties in the operating environment. The negative impact of quantitative easing measures undertaken by major economies and the sovereign debt problems originating from certain countries are likely to continue to spill over. Globally, it will be challenging to gain growth. However, the steady development of the offshore RMB market will bring new business opportunities for Hong Kong. With mixed fortunes, on one hand, we will need to stay vigilant. On the other hand, we will keep leveraging our robust financial capability, and solid customer base as well as proactive asset-liability management. We will continue to develop our business while embracing potential market changes.

On 17 March 2013, Mr. XIAO Gang resigned as the Chairman of the Company due to the need of the state financial work. On behalf of the Board, I would like to express our appreciation to Mr. XIAO for the prominent achievements of the Group under his leadership over the past decade and wish him great success in his new leadership post. At the Annual General Meeting on 28 May 2013, Mr. TUNG Chee Chen also retired as an Independent Non-executive Director, Chairman of the Nomination and Remuneration Committee and a member of the Audit Committee. Mr. TUNG served as an Independent Non-executive Director of the Company since our listing. On behalf of the Board, I would like to express my gratitude to Mr. TUNG for his valuable contributions to the Group over the past years and wish him a happy retirement.

Mr. WONG David See Hong retired as the Deputy Chief Executive (Financial Markets) of the Group with effect from 1 July 2013. Mr. HUANG Hong, who succeeded Mr. WONG, was appointed as the Deputy Chief Executive (Financial Markets) of the Group on the same day. On behalf of the Board, I wish to take this opportunity to thank Mr. WONG for his contributions to the Group during his tenure of office and welcome Mr. HUANG to join us in his new position.

The Group's solid development and outstanding results over the years would not have been possible without the diligence of our staff, the long-standing patronage of our customers as well as the wisdom and counsel of the Board. It is my honour to be appointed as the Chairman of the Company on 4 June 2013. Being entrusted with this responsibility, I will devote my best effort, work diligently with my team and colleagues and strive for even better results to reward our shareholders for their trust and support through all these years.



TIAN Guoli
Chairman

Hong Kong, 29 August 2013