CHAIRMAN'S STATEMENT

The first half of 2014 saw the continuation of a modest growth trend in the global economy. In Hong Kong, the pace of economic growth decelerated with stagnant external trade and weakening private consumption. On the positive side, the strong local labour market, stabilisation of economic development on the Mainland and further Mainland policy relaxation of cross-border activities lent support to the increasing financing needs of enterprises in the Mainland and Hong Kong, driving a solid credit expansion in the local market. Meanwhile, banks in Hong Kong still faced various challenges, such as sluggish property transaction volume and intense competition. During the period, the Group stepped up efforts to manage capital and optimise asset structure. We capitalised on opportunities to drive growth on all fronts and witnessed encouraging results in key business areas.

It is with great pleasure that I report the Group's profitability once again achieved an interim record high in the first six months of 2014, mainly driven by the sustained good performance of core revenue. Net operating income before impairment allowances grew by 9.4% year-on-year to HK$21,649 million. Operating profit before impairment allowances rose by 9.5% year-on-year to HK$15,433 million. Compared with the same period last year, profit attributable to the equity holders increased by 7.4% to HK$12,083 million, translating into an earnings per share of HK$1.1428. The Board has declared an interim dividend of HK$0.545 per share, representing a payout ratio of 47.7%.

As at 30 June 2014, the Group's total assets reached HK$2,085.2 billion, representing a growth of 1.9% from the end of last year. During the period, we took advantage of business opportunities while adhering to stringent risk control. Our advances to customers increased by 10.5%. We managed to grow our syndicated loan and trade finance at a favourable pace. In view of the market changes, we launched a mobile application offering one-stop mortgage service, strengthening our position as a "mortgage expert" and enhancing customer experiences. We increased cooperation with property developers to offer different mortgage products for new residential projects, reinforcing our leading position in the underwriting of new mortgage loans. In order to balance loan and deposit growth, we grew our deposits from customers by 8.5% which supported solid loan expansion and maintained a healthy increase in loan to deposit ratio. While continuing to optimise asset structure, the Group strived to deploy its assets in a more efficient manner. This, coupled with proactive control of funding cost, helped improve our net interest margin to 1.74%.

In the first half, we adopted various measures to manage our risk-weighted assets, focusing on risk-adjusted return in order to effectively strike a balance among growth, risk and return. Both our capital strength and deployment efficiency were further enhanced. As at end June 2014, the Group's total capital ratio and Tier 1 capital ratio were 16.90% and 11.84% respectively. Deploying effective liquidity management, we achieved an average liquidity ratio at a solid level of 39.58%. During the period, we ensured the effectiveness of lending procedures and strengthened risk management in industries that required closer monitoring. Our asset quality remained benign with a classified or impaired loan ratio of 0.31%.

With continuous enhancements to our business platforms over the years, we met the emerging demands of customers. This was accomplished by providing high quality service to address the needs of different customer segments and pursuing potential business opportunities. We further optimised the brand propositions of "Enrich Banking" and "Wealth Management", which led to promising growth in both customer base and total relationship balance. In addition to offering a diversified range of products, the Group also caters to customer needs with tailor-made investment products. The transaction volume of our funds distribution and the asset size of our asset management platform both increased steadily. We also solidified the market positioning of our insurance business and remained among the top insurers in Hong Kong in terms of market share, with the implementation of effective sales and marketing campaigns and broader distribution channels. Meanwhile, we continued to expand our customer coverage by establishing new business relationships with financial institutions and central banks in overseas countries and territories.

So far this year the usage of the RMB in global trade, investment and financing has risen significantly, reflecting a wider international acceptance of the RMB. In the same period, the China (Shanghai) Pilot Free Trade Zone ("Shanghai Free Trade Zone") expanded its scope of services, bringing new momentum to the development of offshore RMB and cross-border business. Recently, Mainland regulatory authorities issued new policies to simplify the process for cross-border borrowings and guarantees, which will also benefit cross-border financing transactions going forward. This April, China Securities Regulatory Commission on the Mainland and Securities and Futures Commission in Hong Kong jointly announced the pilot program "Shanghai-Hong Kong Stock Connect" to establish mutual stock market access between the two cities. These new developments will continuously expand the deployment channels of offshore RMB funds and bolster Hong Kong's position as an offshore RMB centre.

The Group continued to enhance the competitiveness of its offshore RMB service capabilities, further reinforcing its market leadership in this business. During the period, our offshore RMB loans and deposits maintained healthy growth. Capitalising on opportunities created by the Shanghai Free Trade Zone, we successfully introduced cross-border cash pooling services to a number of corporate customers. With emerging customer demand for management of RMB exchange rate and interest rate movements, we launched relevant products to the market on a timely basis and achieved noteworthy growth in transaction volume. We also made good progress in extending our footprint in providing custody services to non-Hong Kong based Renminbi Qualified Foreign Institutional Investors institutions. As the sole RMB clearing bank in Hong Kong, BOCHK has continuously improved its clearing infrastructure. During the first half of this year, we focused on providing system support to BOC's overseas units, reinforcing the BOC Group's position as a leading provider of clearing services for offshore RMB business in a global context.

Our collaboration with parent bank, BOC, and its overseas branches has continued to deepen as we capitalised on opportunities that arose from Mainland enterprises going global and foreign enterprises investing in China. The strength of the product and service proposition provided by the whole of BOC Group is apparent. During the period, we participated with Bank of China in various syndicated loans meeting the financing needs of Mainland corporate customers in mergers and acquisitions projects. We broke new ground in the development of centralised RMB cross-border transaction management solutions with innovative cash management products and services for sizable multinational corporations. Through stronger business cooperation, the number of successful private banking customer acquisitions through business referrals recorded meaningful growth. In addition, we strengthened our collaborative mechanism to foster closer partnership with the Guangdong Branch, Shenzhen Branch and Macau Branch of Bank of China, embracing the business opportunities arising from increasing demand for cross-border financing within the region.

During the first half, Mr LI Lihui resigned from his post as the Vice Chairman of the Company, Mr ZHOU Zaiqun retired from his post as a Non-executive Director, and Dr FUNG Victor Kwok King retired as an Independent Non-executive Director of the Company at the 2014 Annual General Meeting. On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to them for their valuable contributions to the Group in the past years and wish them well. In addition, I would like to welcome Mr CHEN Siqing, who has assumed his role as the Vice Chairman, and Mr ZHU Shumin and Mr YUE Yi, who have joined as Non-executive Directors of the Company. With their wealth of banking experience, I believe that they will bring new thinking to the Group. I would also like to extend my appreciation to our Board Members for their tireless contributions as well as our entire staff force for their remarkable effort, without which it would not be possible for the Group to consistently deliver promising results. Last but not least, I thank our customers and shareholders for their long term support and trust in us.

For the remainder of the year, we expect the global economic recovery to proceed at a moderate pace. The impact of fine-tuning of economic policy by the Chinese government will be gradually felt, creating further headroom for Hong Kong's economy to grow. Against this backdrop, more business opportunities are forthcoming from the continuous development of the offshore RMB market, the official operation of the pilot program of "Shanghai-Hong Kong Stock Connect" as well as continued progress with regional financial pilot schemes in China. Nevertheless, we need to stay aware of uncertainties associated with the local property market, the impact of industrial structure adjustment in the Mainland and rising domestic funding costs.

Whilst there have been abundant opportunities in the market, regulatory requirements and competition are escalating too. In an increasingly complex operating environment, the Group maintains an ongoing commitment to proactively manage capital, assets and liabilities as well as liquidity, while strengthening control on all types of risk in order to generate quality business growth. Adhering to our corporate culture of "Be Passionate, Stay Committed and Pursue Excellence" and supported by solid financial capability and increasingly stronger and deeper collaboration with our parent bank, we will strive to explore new business areas and build new business platforms with an aim to achieving greater strides in customer and geographical coverage. We will continue to offer quality products and premium services to our customers to sustain the growth of the Group and to maximise value for our shareholders.

TIAN Guoli
Chairman

Hong Kong, 19 August 2014