



BRAND-NEW
CUSTOMER
EXPERIENCE



CHAIRMAN'S STATEMENT



The operating environment for Hong Kong's banking industry in 2012 was characterised by a sluggish global economy, stringent regulatory requirements and persistently low interest rates. Nevertheless, the Group succeeded in overcoming all these macro challenges and struck a balance between revenue and cost, and growth and capital management, which enabled us to achieve once again new highs in net operating income before impairment allowances and profit attributable to the equity holders since our listing. While driving our core business development, the Group stepped up efforts to support new business initiatives of strong growth potential and strived to maintain a proper mix of capital, liquidity, loan to deposit ratio and other key management indicators. Our pursuance of a sustainable balanced growth strategy has delivered solid results.

The Group's net operating income before impairment allowances, operating profit before impairment allowances and profit attributable to the equity holders maintained growth momentum in 2012. Excluding the impact of the Lehman Brothers-related products, operating profit before impairment allowances and profit attributable to the equity holders witnessed encouraging growth performance.

Solid financial capability and a pragmatic operating strategy are crucial to the foundation of our balanced growth. During the year, we remained well capitalised with consolidated capital adequacy ratio and average liquidity ratio staying at healthy levels. Our continuous efforts in maintaining financial strength have enabled us to withstand market uncertainties and capture opportunities pre-emptively whilst meeting regulatory requirements.

During the period, thanks to the adoption of a flexible deposit strategy coupled with the bundling of suitable auxiliary products, our customer deposit grew healthily. Against the backdrop of an unstable external environment, softened loan demand as well as stronger competition from peers and other capital markets, the Group captured timely opportunities in different credit categories and grew its loans in a balanced manner, achieving top business rankings in the Hong Kong new residential mortgage market and in the Hong Kong-Macau syndicated loan market. We also strictly stuck to the stringent lending policy and prudent management of loan portfolio risks, sustaining robust loan quality. Apart from that, facing a prolonged low interest rate environment, we improved the asset and liability mix and optimised funds deployment while proactively managing the cost of funding and loan pricing. These efforts, together with the eased dilution effect of the RMB clearing bank business, led to net interest margin improvement.

While continuously deploying resources in existing businesses, we never stopped making strategic investment in the new businesses with great potential. BOCHK launched its private banking service in November 2012 for top-tier customers extending our service scope. Taking advantage of trends in new information technology, we also enhanced the mobile banking platform, which has been well received by our customers. In asset management, a vast array of investment products, including a bond fund in cooperation with the World Bank, was launched to cater to diverse customer needs and won positive comments from the market. Despite enlarged investments in the key business areas, we adhered to our policy of assessing income and spend in accordance with the adoption of



stringent cost control measures, thereby sustaining a relatively low cost-to-income ratio.

In 2012, further regulatory relaxation fostered a favourable development in the Hong Kong offshore RMB market. Leveraging our brand advantage, the Group continued to steadily develop offshore RMB business and maintained our leading position. Firstly, we enriched our RMB product range in line with regulatory development and to meet customer needs. We also upgraded the comprehensive service capabilities of our RMB business, specifically in trade settlement, investment and financing, insurance and funds distribution to strengthen customer relationships and drive potential growth opportunities from other businesses with continuous service quality enhancement. During the year, we launched three new offshore RMB bond sub-indices, which not only garnered more market recognition for BOCHK but also strengthened our position in the offshore RMB market. With the extension of offshore RMB services to non-Hong Kong residents from August 2012, we swiftly geared up ourselves and were one of the first few banks providing the most comprehensive range of RMB products, earning us positive market feedback. Our customer base expanded further on the back of our distinguished services in the offshore RMB business. In addition to following through with a flexible strategy of RMB asset and liability management focusing on asset deployment optimisation, we also proactively managed RMB funding cost and promoted RMB lending business to achieve remarkable earnings growth. Our global clearing network was further strengthened and expanded with upgraded settlement facilities, so as to enhance our long-term and sustainable competitiveness. In line with the extension of the operating hours of the RMB Real Time Gross Settlement System in Hong Kong, BOCHK, as the RMB clearing bank, extended service hours of the clearing function since June 2012. This enabled participating banks in different time zones to conduct RMB clearing services more conveniently, increasing Hong Kong's competitive edge as an offshore RMB clearing hub. More importantly, by further deepening cooperation with our parent bank, BOC, we will enhance our financial service capabilities for global customers and jointly expand an even broader offshore RMB business market.

In 2012, BOCHK was named, for the second consecutive year, one of the world's strongest banks by Bloomberg Markets magazine. The significant jump in our ranking to No.2 from No.10 in 2011 is a recognition of our outstanding performance in terms of financial position, asset quality and operating efficiency. In 2013, we will stay attuned to market changes as the pace of global economic recovery remains uncertain and the low interest rate

environment may prevail in the near term. With the ongoing economic reforms in China, we believe that more new policies and measures will create business opportunities for the Group. By keeping up our acute market sense and prudent risk management principles while at the same time capitalising on our solid financial position and prescient operating strategy, we will continue to earnestly expand our business in the areas where our competitive advantages lie and capture new business opportunities to achieve a sustainable balance among growth, risks and return.

On behalf of the Board, I would like to welcome Mr. NING Gaoning who joined us as an Independent Non-executive Director of the Company and BOCHK on 24 August 2012. I believe that Mr. NING will bring new thinking to the Group with his abundant experience in China and Hong Kong markets.

Year 2012 marked the 100th anniversary of BOC and the 10th anniversary of BOCHK's listing. We not only take great pride in the sound development of BOC Group through the years, but also embrace more focus and greater collaboration on cross-border financial services for a brighter future. The Group's achievements in the past year are attributable to the long-standing trust and support of our customers and shareholders, wise counsel from our Board and the great efforts and devotion of our employees. The Board and the Group will firmly move forward towards the goal of a long-term sustainable development with a view to continuously creating greater value to our customers, shareholders and community.

XIAO Gang
Chairman

Hong Kong, 15 March 2013