CHIEF EXECUTIVE'S REPORT

In the year of 2010, the Group witnessed solid growth and development. Our business performed strongly with a broadly-based advancement in our financial results. We achieved record highs in our net operating income before impairment allowances, profit attributable to shareholders, earnings per share and annual dividend per share since our listing. After steady growth in the first half of the year, we benefitted from even greater growth momentum in our core businesses in the second half.

The Group's outstanding results in the past year were attributable to both external and internal factors. The overall operating environment continued to improve. Although the recovery of most Western economies was far from smooth, many Asian countries, in particular China, demonstrated strong growth, thus giving rise to more business opportunities for banks. Hong Kong also posted high GDP growth, led by robust private consumption, investments in business and property, inbound tourism as well as the export of goods and services. In addition, the further opening of the RMB banking business has created a new horizon of development opportunities for the banking industry. For the Group, by capitalising on our intrinsic strengths and competitive edge, we succeeded in expanding our core businesses, capturing new market opportunities, and penetrating various newly-developed business arenas with major breakthroughs. While exploiting growth opportunities, we also rose to meet various challenges and risks, including volatilities in the global financial market, persistently low interest rates, intensifying competition and escalating costs.

More importantly, being a forward-looking banking group aimed at delivering sustainable results, we focus not just on immediate prospects but possible scenarios in the longer term as well. Our strategy is to stay ahead of changes in market conditions, be they positive or negative, and take proactive measures on a timely basis. This has proven successful with the decisive initiatives we took in 2009 to seize the then emerging opportunities and to drive growth when the overall atmosphere was still pessimistic. Now again when the economy had staged a full recovery and market demand was unusually strong last year, we persisted in implementing a proactive yet prudent policy in managing business growth to ensure that: (a) our wide range of business streams would grow in a balanced manner; (b) profit growth would be sustainable over a longer period; (c) all the major risks would be taken into full account and properly contained in accordance with our stringent risk management principles; and (d) our capital base and liquidity position would be strong enough to support our growth and fend off any possible changes in our way ahead. Our foremost objective is to strike a balance among growth, return and risks.

The Group's performance last year can be taken as an accurate reflection of a company with visionary business philosophy.

Major Initiatives

- With proactive management, we continued to grow our lending business against the backdrop of exceptionally high loan demand in the market last year. It should be noted that we put more emphasis on the quality of growth and therefore adhered to prudent credit policy. We adjusted our lending strategy that aimed not merely at quantitative increase but higher yield and credit quality as well. Despite keen competition in the market, we enlarged our deposit base. Our loan-to-deposit ratio was closely monitored and maintained at a healthy level.

- Amid uncertainty in the global economy and financial markets, we safeguarded the strength of our capital base and the quality of our assets with proactive financial management. We were well capitalised, which is essential for supporting long-term development as well as ensuring a stable dividend policy. The Group's asset quality was excellent with the classified or impaired loan ratio making further improvement during the year and outshining the industry as a whole.

- We posted across-the-board growth in our core businesses. Corporate lending, including trade finance, grew by a substantial percentage. We remained the leader in loan syndication in the Hong Kong-Macau market. We also maintained our strong market position in residential property mortgage. Meanwhile, our credit card business saw impressive growth. As a result, there were marked increases in the Group's net interest income as well as net fee and commission income from traditional banking business.

- We solidified our market lead and achieved major milestones in RMB banking business. There was conspicuous growth in a wide spectrum of RMB business particularly in the second half of 2010. We pioneered a number of new RMB services in trade settlement, treasury and insurance products. We underwrote and distributed the majority of RMB bonds issued in Hong Kong, and took the lead in the distribution of RMB funds. The development of RMB-HKD dual currency credit cards went from strength to strength. We were also appointed by the People's Bank of China as the clearing bank for RMB banknotes business for the Taiwan region.

- By enhancing the business platforms for our newly developed business arenas, we made notable headway in broadening our income and profit base. Through closer collaboration with our parent, BOC, we have been able to offer a more comprehensive range of services. We have strengthened the linkage of our cash management platform with that of BOC and its overseas branches. Our custody services were extended to QDIIs in China. We also enlarged our range of wealth management solutions for both corporate and individual customers in the Mainland. Last but not least, we substantially enriched the scope of our life insurance business, boosted our market share and have become one of the top-ranked life insurers in Hong Kong.

Key Financial Results

In 2010, profit attributable to the Company's shareholders increased by 16.3% to HK$16,196 million, which was driven by a broad-based growth in income and profit among our core businesses. The Group's net operating income before impairment allowance was HK$27,508 million, up 5.6% year-on-year. Operating profit before impairment allowances was HK$17,924 million, up by a remarkable 28.8%. On a half-yearly basis, the above three items increased by 25.3%, 19.3% and 23.9% respectively, demonstrating an accelerating growth momentum in the second half of the year.

Return on average total assets (ROA) and return on average capital and reserves attributable to the equity holders of the Company (ROE) were 1.21% and 14.77% respectively, versus 1.21% and 14.83% for 2009.

Net interest income (NII) increased by 4.5% to HK$18,734 million with the growth in average interest-earning assets, which was up by 18.6% and reached HK$1,255,879 million by 31 December 2010. Owing to the low interest rates in the market throughout the year, the net interest margin (NIM) narrowed by 20 basis points to 1.49%. Despite the diluting effect of the local RMB business on our NIM, the growth of RMB business did make a positive contribution to our interest income. It should be noted that the growth in NII was also a reflection of our efforts in improving the pricing of new corporate loans.

Net fee and commission income grew by 8.2% to HK$7,044 million. Bills commission income rose by 19.8% while fee income from our credit card business increased by an even more impressive 32.6%. Fee income from currency exchange and payment services intensified by 55.9% and 14.7% respectively while commission income from loans and trust services also saw satisfactory growth.

The Group recorded a net trading gain of HK$1,369 million, down 7.8% year-on-year. The decrease was due to the foreign exchange (FX) loss on FX swap contracts, which were used for the Group's liquidity and funding activities.

As regards expenditure, we continued to exercise a high degree of prudence in cost management while driving business growth and equipping ourselves for future development. Total operating expenses amounted to HK$9,584 million, down 21.1% from 2009 when a major part of the Lehman Brothers-related expenses were incurred. The Group's cost-to-income ratio for 2010 was 34.84%, being one of the best in the industry.

CHIEF EXECUTIVE'S REPORT

Balance sheet growth was strong with total assets increasing by 37.0% over the prior year to HK$1,661,040 million by the end of 2010. This considerable rise was due mainly to the development of the Group's core banking business and the expansion of RMB business in our capacity as both a participating bank and the sole RMB clearing bank in Hong Kong. Under rigorous risk management, the quality of our assets remained excellent. The classified or impaired loan ratio was down 20 basis points to 0.14%, which was far below the industry average.

Last year we maintained the strong growth momentum of our lending business. After registering a double-digit increase in 2009 when the market as a whole was mute, total loans and advances to customers grew by 19.1% to HK$613,219 million as at the end of 2010. Of this, trade finance rose by 82.1%, loans for use in Hong Kong by 9.9% whereas loans for use outside Hong Kong were up 29.4%.

We succeeded in enlarging our deposit base to support business growth, in particular lending. In 2010, deposits from customers increased by 21.6% to HK$1,027,267 million. Our RMB deposit base grew tremendously by 304.0%. Loan-to-deposit ratio was kept at 59.69%, down 1.29 percentage points from a year ago.

The Group's capital and liquidity positions remained strong. By issuing USD subordinated notes in 2010 to pay off outstanding USD credit facilities provided by BOC, we broadened the Group's investor base and improved the costs of funding. Consolidated capital adequacy ratio (CAR) as at the end of 2010 was 16.14%, versus 16.85% a year ago. Tier 1 CAR was 11.29%. The average liquidity ratio stayed at a healthy level of 38.77%.

Business Review

Personal Banking

Last year, we focused our Personal Banking business on reinforcing our leading market positions in core businesses, expanding our high-potential customer base for long-term growth, collaborating with BOC to develop cross-border services and optimising our distribution channels.

Total operating income increased by 4.6% to HK$11,141 million. Net interest income was up 3.3% due to the growth in average loans and deposits. Other operating income grew by an even stronger 6.2% to HK$5,156 million, led by the solid growth of fee and commission from the distribution of funds as well as life insurance. Fee income from loans, payment services and credit cards also increased. Profit before tax was HK$4,656 million, up 3.4%.

We effectively expanded our high-potential customer base by broadening the range of products and services, and taking various initiatives for service enhancement, customer relationship building and promotion. As a result, we grew our wealth management customer base and their assets maintained with the Group by 15.9% and 14.3% respectively during the year.

The revival of the local residential property market gave rise to new demand from customers. By offering tailor-made mortgage plans for different customer segments, we reinforced our position in the residential property mortgage market and grew our mortgage loans by 15.9%. As a demonstration of the high credit quality of residential mortgages, the delinquency and rescheduled loan ratio stood at a low 0.02% by the end of the year.

On the back of a reviving economy, our credit card business registered remarkable growth in 2010. Card issuance, cardholder spending and merchant acquiring volume jumped by 17.5%, 22.7% and 41.0% respectively. With service enhancement, we maintained our market lead in the China UnionPay merchant acquiring business and cardholder spending volume, which surged by 57.3% and 115.5% respectively. Credit card advances rose by 12.0% while the credit quality of card advances stayed sound with the annualised charge-off ratio standing at 1.36%.

Total stock brokerage fee income declined by 9.9%, which occurred mainly in the first half of 2010, followed by a strong rebound of 17.7% in the second half. To pave the way for long-term growth, we continued to expand our stock trading customer base through various service enhancement initiatives. Encouraging growth was recorded in the distribution of funds last year with commission income derived from that soaring by 64.9%.

We made tangible progress in reinforcing our market lead in the RMB banking business by offering a more comprehensive range of RMB products covering deposits, credit cards, bonds, funds and insurance. We successfully grew our RMB deposits and maintained our leading position in the RMB credit card business. We introduced RMB-denominated life insurance product in Hong Kong that could be settled in RMB. Our RMB bond brokerage and fund distribution businesses prospered, coupled with the distribution of the initial RMB-denominated funds in Hong Kong.

During the year, we continued to upgrade and optimise our distribution channels. In particular, we strengthened our e-platform by launching the "Mobile Banking" service, which enables customers to manage their finance and investment using their mobile phones. Our e-banking platform was further enhanced for customers' convenience.

Corporate Banking

Our strategic focus for corporate banking in 2010 was to attain quality growth by leveraging our competitive advantages and expanding our cross-border services for the Mainland's large corporate entities undertaking global expansion. We also strived to offer a more comprehensive range of services, including RMB-related services, to customers on both sides of the border.

Impressive financial results were posted last year. Total operating income rose by 14.3% to HK$9,360 million while profit before taxation grew by an even stronger 17.7% to HK$6,961 million. Net interest income increased by 20.6% due to the healthy growth in loans and advances.

To capture the strong demand for cross-border loans and financial services in Hong Kong, we took full advantage of our unique market position and offered customised services and total solutions to our core corporate clients. Benefitting from the implementation of the Global Relationship Manager Programme and the Global Credit Facilities Agreement with BOC, we strengthened our relationship with large corporate customers in the Mainland. As a result, we grew our corporate loans by 20.6%. At the same time, we maintained our position as the top mandated arranger in the Hong Kong-Macau syndicated loan market, and expanded our IPO financing business by providing financing services to corporate and individual customers in connection with 32 IPOs in Hong Kong.

We registered a very robust growth of 82.1% in our trade finance last year. The thriving global trade as well as our enhanced relationship with corporate clients and strenuous effort in innovating cross-border trade finance products together accounted for our blooming business.

In RMB banking, we pioneered the granting of RMB invoice finance for both exports and imports, RMB working capital loans and RMB remittance service for dividend payout. We were appointed by the Hong Kong Securities Clearing Company Limited as the RMB agent bank for conducting RMB money settlement.

During the year, we continued to develop our SME business by means of service enhancement, including the cross-border usage of credit facility, and by actively assisting enterprises to secure loans under the HKSAR Government's SME Loan Guarantee Scheme and Special Loan Guarantee Scheme.

By enriching our product and service range, we made considerable progress in expanding our cash management business. We continued to strengthen the linkage of our cash management service platform with those of BOC and its overseas branches. With the extension of our network of remittance points to about 4,000 in the Mainland and Macau, we expanded the number of remittance transactions by 13.9%.

Meanwhile, our presence in the custody market was further reinforced. Working closely with BOC, we succeeded in enlarging our institutional client base and securing mandates to provide global custody services to QDIIs, including major banks, fund houses and securities companies in the Mainland. Total assets in our custody increased by 17.5% year-on-year to HK$460.1 billion.

Treasury

Treasury's main focus in 2010 was to proactively manage the Group's banking book and optimise the investment portfolio to guard against risk while maximising return. We adopted a more dynamic yet prudent approach in asset and liability management.

Operating income dropped by 7.2% to HK$5,941 million due mainly to the 13.2% reduction in net interest income caused by the decline in the net yield of debt securities. However, there was a strong increase of 25.7% in other operating income, driven largely by the rise in net trading gain from foreign exchange activities and net gain from the disposal of investment securities. Profit before taxation declined by 21.6% to HK$5,463 million. This was mainly the result of a drastic reduction of 76.4% in net release of impairment allowances versus 2009 when we actively de-risked our investment portfolio.

With regard to changes in the market, we adjusted our investment strategy from time to time. Investments were made in high-quality fixed-rate government-related bonds, financial institution and corporate bonds with robust fundamentals. To better manage interest rate risks and liquidity, attention was also paid to control the duration of our investment portfolio.

CHIEF EXECUTIVE'S REPORT

Last year our exposure to US non-agency RMBS was further reduced to HK$1.2 billion, versus HK$3.8 billion as at the end of 2009. The Group also reduced its exposure to European countries affected by the sovereign debt crisis, with exposure to debt securities issued by financial institutions in Ireland and Italy down from HK$3,217 million to HK$1,238 million.

Our traditional businesses related to foreign exchange and precious metals showed satisfactory growth. We provided offshore customers with hedging products linked to foreign exchange and interest rates to meet their needs. The trading volume of RMB-foreign exchange derivatives and interest rate swaps increased. BOCHK also introduced the first offshore RMB deliverable forwards in Hong Kong.

In October 2010, we formed a new wholly-owned subsidiary named BOCHK Asset Management Limited (AML) to tailor investment solutions for customers and enhance the Group's retail sales capability. On 31 December 2010, AML published the "BOCHK Offshore RMB Bond Index" – the first of its kind in Hong Kong.

Insurance

Strong growth was recorded in income and profit by our insurance segment in 2010. Profit before taxation soared by 71.2% to HK$505 million. Net operating income grew by 63.7% to HK$771 million, of which net interest income was up 17.3% and other operating income up 12.1%. With the improvement in our insurance product mix, gross regular premium income surged by a hefty 184.1%.

In 2010 we focused primarily on enhancing our service platform and product offerings to grow our income base and market share. We also strived to reinforce BOC Life's corporate image through marketing and promotion. A more comprehensive range of products was rolled out to cater to the market's diverse needs, including a series of RMB-denominated life insurance products, which received enthusiastic response from the market. Through product innovation, multi-channel distribution and diversified marketing, we effectively boosted our market share and raised our market ranking from No. 4 in 2009 to No.2 in 2010.

Mainland Business

The main emphasis of our Mainland business was to secure steady growth in the balance sheet. Deposits surged by 133.1% while advances to customers increased by 26.2%. As a result, there was a huge improvement in our loan-to-deposit ratio. Asset quality further improved with the classified loan ratio dropping to 0.23%.

Total operating income grew by 10.1%. We made much progress in enhancing our product service platform in the Mainland market. Our wealth management product offerings were enriched and well-received by customers. By partnering with a number of insurers, we provided a wider range of insurance products to both individual and corporate customers. NCB (China) stepped up its collaboration with BOC and the Group to offer more comprehensive financial services, including cross-border RMB trade settlement, and expanded its customer base with cross-border banking needs.

NCB (China)'s branch network in the Mainland was further expanded to comprise a total of 25 branches and sub-branches.

Outlook

Looking ahead, we expect economic growth in Hong Kong would continue to be fueled by consumption, investments, exports and the positive effects of the rapidly growing Mainland and Asian economies. We believe that under the Mainland's Twelfth Five-Year Plan, the Chinese economy will grow in a more balanced fashion, thus creating more healthy demand for credit and wealth management services. Having said that, we are fully aware of the challenges and risks in the economic environment. There is mounting uncertainty in the Middle East and North African region. The aftermath of the earthquake in Japan needs to be closely monitored. The global financial market is still subject to volatility. Meanwhile, low interest rates may continue to constrain interest spreads and escalating inflationary pressure has the most immediate impact on higher operating costs.

Taking into full account both the internal and external circumstances, we will continue to adopt a proactive management strategy to drive balanced and quality growth in

2011. We will leverage our strong foundations and capabilities to reinforce our leading positions in core businesses while focusing on the development of the offshore RMB banking business.

RMB banking business is one of our strategic priorities in the current year and beyond. We will reinforce our market lead and expand our RMB services. At the same time, we will leverage our competitive edge in the RMB business to enlarge our customer base and enhance our penetration of the market. To coincide with the development of the Mainland's RMB policies, we will develop integrated products and provide total solutions to our corporate and individual customers. Now that RMB has become a currency more widely used in the region and beyond, we have entered a new era and are taking a more global perspective in developing our RMB business. In this respect, we will collaborate more closely with our parent BOC and its overseas branches to expand our services and extend our reach.

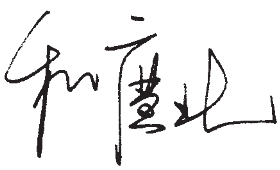
We will continue to grow our core businesses, including wealth management, corporate finance, loan syndication, residential mortgage, life insurance and credit cards. As the economy continues to revive, the demand among both individual and corporate customers for banking services and products will increase correspondingly. Capitalising on our capabilities of product innovation and service reinforcement, coupled with channel optimisation, we will enhance our service and product offerings to better serve the diverse needs of customers through an integrated service platform. As part of our continuous efforts to strengthen our customer segmentation and to tap the potential growing populations of our targeted segment, we extend our customer base to acquire high net-worth clients, including those from the Mainland that need wealth management and cross-border financial services.

With interest rates remaining compressed, we will take further proactive measures to improve our net interest margin and net interest income. More effort will be put into controlling the cost of funds and increasing return on assets, including loans and investments. In pursuit of sustainable and quality growth, we will continue to take a balanced approach in our lending business in the aim for higher risk-adjusted return.

In anticipation of mounting inflationary pressure, we will need to take an even more prudent approach in managing our costs. While driving business growth, we will continue to exercise stringent risk management and internal control, maintaining our capital strength and liquidity position. The introduction of FIRB this year will help us reinforce our capital management. To support our long-term growth and development amid fierce market competition, we will ensure sufficient investment in human resources, information technology and channels enhancement.

Last but not least, we remain committed to corporate social responsibility and will continue to play an active role in contributing to the well-being of society (for details of our efforts in this aspect, please refer to the "Corporate Social Responsibility" of the Annual Report).

2010 was a rewarding year and I wish to extend my gratitude to the Board of Directors, shareholders and customers for their guidance, trust and support. I have deep respect for all my colleagues who have given their best so that together we can deliver good results year after year. I thank each and every one of them. I firmly believe that we can continue to count on them for delivering value and performance for our shareholders, customers and the community in 2011.



HE Guangbei
Vice Chairman & Chief Executive

Hong Kong, 24 March 2011