CHIEF EXECUTIVE'S REPORT

The year of 2009 was a fruitful year for the Group amid an unusually challenging environment. Despite persistent uncertainty and volatility in the global financial market, we achieved very strong business growth and outperformed the industry in our core business segments. This is a reflection of our solid foundations and unique competitiveness which enabled us to capture new opportunities and sustain growth throughout the year.

Hong Kong's operating environment began to stabilise in the second quarter of 2009 as witnessed by the revival of the financial and property markets as well as domestic demand and inbound tourism. Although external trade was still sluggish, domestic consumption recovered with an improved labour market.

Riding on the growth momentum regained by us in the first half, we took full advantage of the reviving economy to drive business and earnings growth. We maintained our leading positions and enlarged our market shares in various core businesses. Through closer collaboration with our parent BOC, we established a stronger presence in the Mainland market. We further expanded our service scope and extended our reach to markets in the Asia-Pacific region.

In response to changes in the operating and regulatory environment, we took decisive steps to maintain capital strength and liquidity, fortify risk management and safeguard asset quality. At the same time, a comprehensive policy has been formulated for us to fulfil corporate social responsibility in a more cohesive manner.

Business Highlights

The following is a summary of the Group's major business initiatives and achievements in 2009:

- Our profit attributable to shareholders grew more than three times.
- The performance of our lending business was particularly impressive. We achieved double-digit growth in total loans to customers while the market as a whole was muted over the year.
- We grew our market shares and maintained our leading market positions in corporate lending, loan syndication, residential mortgage, stock brokerage and RMB-related services.
- We pioneered cross-border RMB trade settlement and finance in Hong Kong with the advancement of a comprehensive range of RMB services. Since then we have extended our RMB trade settlement services to ASEAN countries with very positive response.
- The Group acted as the joint lead manager, bookrunner and placing bank for the first RMB sovereign bond issued in Hong Kong. The success of the issuance, as reflected by the overwhelming response from the market, laid a solid foundation for the Group in the development of RMB bond business in Hong Kong.
- We achieved important breakthroughs in our collaboration with our parent BOC for mutual gains, thus expanding our business in such areas as loan syndication, wealth management, cash management and custody while extending our foothold to the Asia-Pacific region.

- The Group's stock brokerage service saw exceptionally robust growth in related fee income and market share. This was supported by our enhanced service platform, especially the efficient e-channel.
- BOC Life, our life insurance subsidiary, secured a conspicuous turnaround in business by increasing both its income and profit substantially. It also advanced its market share and ranking.
- We improved our investment portfolio and reduced our credit risk exposure while gaining better returns. Meanwhile, on account of improved sentiment in the capital market, we registered a net write-back of impairment allowances on securities investment.
- The Group's loan quality was excellent. We led the industry by maintaining our classified or impaired loan ratio at an extremely low level.
- Our capital base remained strong for sustaining our growth and development.

Financial Performance

Benefiting from the robust performance of the Group's core businesses in a reviving market, we achieved spectacular financial results in 2009.

The Group's net operating income before impairment allowances increased by 2.1% year-on-year to HK$26,055 million as a result of higher net fees and commission income and net operating income recorded by the Group's insurance segment. Profit attributable to the Company's shareholders surged strongly by 310.6% to HK$13,725 million. Return on average total assets (ROA) and return on average capital and reserves attributable to the equity holders (ROE) were 1.19% and 14.79% respectively, improving significantly from 0.27% and 3.81% respectively for 2008.

Net interest income decreased by 11.0% to HK$17,932 million. As interest rates remained exceptionally low throughout the year, net interest margin narrowed by 31 basis points to 1.69%. However, there was a growth of 5.4% in the Group's average interest-earning assets, which reached HK$1,060,961 million by end-2009.

Net fees and commission income grew substantially by 25.7% to HK$6,508 million. A main driver of this growth was our stock brokerage business which generated a fee income of HK$3,638 million, up 52.9%. Another main driver is the lending business which contributed HK$922 million in loan commissions, representing an even more striking growth of 79.7%. Our credit card business experienced healthy growth with fee income rising by 6.6% to HK$1,511 million.

Net trading income dropped by 22.4% to HK$1,485 million with lower net trading income from foreign exchange and related products. This was mainly due to a reduction in business volume of structured deposits and the decline in RMB-related foreign exchange transactions as the market's expectation for RMB appreciation cooled down. However, there was an increase in income from interest rate instruments due to the mark-to-market gain from interest rate swap contracts, versus a mark-to-market loss in 2008.

We remained highly prudent over expenditure and took initiatives to contain expenses where possible. But, to ensure that we would be in a better position to capture business opportunities in the recovering economy, we continued to invest in product development, human resources, brand building and marketing. In 2009, total operating expenses increased by 38.4% to HK$12,141 million, of which HK$3,278 million was mainly incurred for the Lehman Brothers minibonds ("Minibonds") repurchase scheme. In July 2009, we worked together with the regulatory authorities and other banks to implement a comprehensive repurchase of the Minibonds. Over 99% of the Group's customers eligible for the repurchase have responded positively by the end of the year. If not for the Minibonds-related expenses, total operating expenses would have increased by 10.8%. The Group's cost-to-income ratio stood at 46.60%, versus 34.36% a year ago. Excluding the Minibonds expenses, the cost-to-income ratio would have been 34.02%.

By proactively disposing of higher-risk securities, the Group recorded a net write-back of HK$1,302 million in impairment allowances on its investment in securities. Meanwhile, the stabilisation of the credit environment led to a significant drop of 84.4% in the net charge of loan impairment allowances to HK$103 million.

At end-2009, our total assets were valued at HK$1,212,791 million, representing an increase of 5.7% versus end-2008. Our asset structure continued to improve with a greater proportion of assets bearing higher yield. Total advances to customers grew strongly by 11.8% to HK$514,972 million. Total deposits from customers increased by a total of 4.1% to HK$844,453 million and the deposit mix also improved. The loan-to-deposit ratio at the end of 2009 was 60.98%, versus 56.74% at end-2008.

The Group's loan quality improved further. Our classified or impaired loan ratio dropped by 0.12 percentage point to 0.34%, which was far below the industry average of 1.35% (for classified loans) in 2009.

We maintained a sound financial position in 2009. The Group's consolidated capital adequacy ratio rose by 0.68 percentage point to 16.85% at end-2009 as its total capital base expanded by 10.2% to HK$104,435 million. Core capital ratio stayed solid at 11.64%. The average liquidity ratio for 2009 was at 40.18%.

In early February 2010, BOCHK successfully completed the issue of US$1,600 million 10-year Subordinated Notes ("the Notes"), which is the largest ever single-tranche bank capital deal in Asia except Japan (in any currency) and the only global bond transaction by a Hong Kong-based bank. The proceeds from the issue were used to partly repay the Subordinated Credit Facility provided by BOC in December 2008. The creation of a new type of listed securities has broadened our investor base and provided an alternative for investing in our securities. As the Notes were offered to institutional investors globally, it has established a market benchmark, diversified our future funding channels for development, and enhanced our international profile.

Business Review

Personal Banking

Our main focus for Personal Banking was on driving business growth, maintaining our market leadership in core areas, adjusting to changes in the operating and regulatory environment, expanding our customer base and establishing a distinctive position for offshore RMB service. Total operating income was stable at HK$10,648 million whereas profit before tax was HK$4,504 million, down 7.9%.

The local property market turned active again after the first quarter. Through an aggressive business strategy, we led the market in the underwriting of new residential mortgages and grew our mortgage loans by 9.4% year-on-year. The credit quality of residential mortgages remained solid with the delinquency and rescheduled loan ratio dropping further to 0.04%.

We expanded our investment and insurance business by a large extent in 2009. Our stock brokerage volume and fee income surged by 45.0% and 52.9% respectively. We enlarged our market share and reinforced our position in the retail stock market. In the same vein, by acting as the receiving bank for 22 IPOs in Hong Kong, we grew our IPO-related business and consolidated our leading position in the market. As for the Bancassurance business, we made much headway in upgrading our service and broadening our product range.

Our customer segmentation strategy enabled us to broaden our high net-worth customer base and strengthen our relationship with customers by tailoring wealth management solutions for their diverse needs. We also expanded our cross-border wealth management services. As a result, our wealth management customer base and assets under our management grew by 11.9% and 31.2% respectively.

Our credit card business flourished with the improvement in consumer sentiment and domestic spending. There was very encouraging growth in card advances, card issuance, cardholder spending and merchant acquiring volume. We maintained our lead in the merchant acquiring business of China UnionPay Card and remained the market leader in RMB-HKD dual currency credit cards.

In 2009, we solidified our leading position in RMB business in Hong Kong and further expanded our scope of service. We were mandated by the Ministry of Finance of the Central Government as the joint lead manager, bookrunner and placing bank for the first RMB sovereign bond issued in Hong Kong. We acted in the same capacity for the majority of RMB bonds issued in Hong Kong during the year. By working closely with BOC, we started conducting RMB-related business with some of the BOC branches in the Asia-Pacific region and kick-started a number of other projects, such as the "Asia-Pacific Personal Finance Product Centre", "Overseas Banking Card Business" and "Customer Hotline Centre". In other words, we have covered considerable mileage toward the goal of becoming the BOC Group's major production platform and servicing support centre in the Asia-Pacific region.

Our efforts in maximising the use of e-platform by customers paid off. The number of Internet Banking customers increased by 10.1%. Stock trading transactions through e-channels accounted for 76.2% of total transactions.

Corporate Banking

Corporate Banking's strategic focus in 2009 was to drive growth and develop comprehensive customer relationships by offering a full range of products and services. We also aimed at ensuring the Group's outstanding position in offshore RMB banking through closer cooperation with BOC and the enhancement of system connectivity. Profit before tax increased by 7.1% to HK$5,915 million.

By focusing on the financing needs of both local and Mainland enterprises, we outperformed the market as a whole by growing corporate loans by 14.5%. We also succeeded in capturing a larger market share and maintaining our position of top mandated arranger in the Hong Kong-Macau syndicated loan market for the fifth consecutive year. In our role as BOC's Asia-Pacific Syndicated Loan Centre, we expanded our business in the region and contributed to BOC's advancement to the region's top mandated arranger in 2009. At the same time, we further enhanced our services for SMEs and grew our SME loans by actively assisting enterprises to secure loans under the HKSAR Government's SME Loan Guarantee Scheme and Special Loan Guarantee Scheme.

In 2009 we made major breakthroughs in the trade settlement and finance business. We initiated the first cross-border trade settlement in RMB in July, which was followed by a comprehensive range of related services. We extended our RMB trade settlement service to ASEAN countries with very positive response. We also outperformed the market by growing our trade finance by 19.4% against the backdrop of an overall decline in Hong Kong's external trade and trade finance.

During the year, we deepened our collaboration with our parent BOC for service enhancement and business growth. The Group's cash management service platform was linked up with those of BOC and its overseas branches to facilitate customers in transferring funds between Hong Kong, the Mainland and a number of countries in the region. We also strengthened our capability in serving large corporate clients around the world through the launching of the Global Relationship Manager Programme and the Global Unified Facilities Arrangement, introduced by BOC in conjunction with the Group as a partner.

The Group's custody business made notable progress last year. We extended our custody service to various Central Government entities and state-owned banks while penetrating the Taiwan market. Our custody business now covers MPF assets. In cooperation with BOC, we opened accounts in Hong Kong for a considerable number of high net-worth Mainland customers for providing escrow services. At end-2009, total assets in our custody were valued at HK$392 billion, up 95.9% from a year ago.

Mainland Business

Our Mainland operation witnessed healthy growth in loans and greater improvement in loan quality. Total advances to customers increased by 14.9% year-on-year. RMB loans were up by 5.1%. Customer deposits increased by 48.8%, of which RMB deposits were up 58.7%. There was a rise in net fees and commission as well as other operating income whereas net interest income dropped. Loan quality was sound.

We continued to drive the development of cross-border services for both corporate and individual customers in the Mainland. With a focus on establishing NCB (China) as the main brand, we progressively expanded our branch network which now comprises a total of 23 branches and sub-branches. For developing personal banking in the Mainland, we devoted more resources for product and service innovation and rolled out a wide range of products in deposits, wealth management, mortgage and debit card business.

Treasury

During the year under review, Treasury's main focus was to manage the Group's banking book more prudently, de-risk the Group's investment portfolio and secure better returns. With a substantial net release of impairment allowances on securities investment, we achieved a profit before tax of HK$6,964 million in 2009.

In view of volatility in the market, we adopted a proactive yet prudent approach in managing banking book investments and made timely adjustments to our portfolio in response to market changes. We reduced our exposure to credit and interest rate risks and secured stable and higher returns. We invested more in high-quality government-related/guaranteed fixed-rate debt securities with slightly longer duration. Through selective disposal, we reduced the exposure of our investment portfolio to US non-agency RMBS substantially by 80.4% to HK$3.8 billion.

Our main focus in business development was on traditional products related to foreign exchange and precious metals to individual customers. Hedging and investment products linked to foreign exchange and interest rates were offered to corporate customers with good response. The trading volume of RMB non-deliverable forward contracts conducted with corporate customers reached a record high.

Insurance

BOC Life achieved significant turnaround in its business and financial results. We followed a need-based approach, enriched our product range and started offering professional financial planning service. We also intensified our effort in selling regular premium products to improve our product mix. These strategies enabled us to establish a stronger presence in the local insurance market.

Net operating income grew sturdily by 143.5% to HK$471 million. Net interest income increased by 13.3% while other operating income grew by 17.9%. During the year, we introduced a total of 23 new products, primarily focused on the retirement and wealth management needs of our customers. Premium income from regular-premium products jumped up by 141.8% year-on-year.

Outlook

While the global financial market is gradually stabilising, we cannot afford to ignore the volatility and potential risks that still exist in individual markets. We therefore remain cautious as to the economic outlook for 2010 especially with regard to the possible effects of the "Exit Policy" to be taken by major economies. For Hong Kong, we should be heartened by the upward trend of GDP growth since the last quarter of 2009. The Hong Kong economy is likely to recover further this year by deepening its economic integration with the Mainland which, given its strong fundamentals and momentum, should remain one of the major growth engines for the Asia-Pacific and global economies.

For the Group, we consider 2010 to be an important year for accelerating our growth momentum and consolidating our leadership in core areas.

We will capitalise on our core competencies and competitive advantages to grow our major businesses, diversify our sources of income, and build a more balanced and sustainable revenue platform. Through service enhancement and product innovation, coupled with better use of our distribution network, we will further consolidate our leading position and capture bigger market shares specifically in our traditionally strong business areas, including corporate lending, residential mortgage, RMB business and stock brokerage. Meanwhile, we will boost the growth of promising areas like wealth management, life insurance, cash management and custody. We will enhance our efforts to offer a "Total Solution" to meet the demand of our customers through an integrated service platform and reinforced service capabilities.

In light of the further development of offshore RMB business, we will continue to leverage our unique advantage as the sole RMB clearing bank in Hong

Kong. We will fortify our market leadership in RMB deposits, exchange, remittance, dual-currency cards, trade settlement and finance as well as bond issuance and distribution by diversifying our RMB products and services for both individual and corporate customers. We will also broaden the scope of our RMB trade settlement service and explore the development of other new products, and seek to expand our RMB business in the region.

The Mainland being a main driver for the regional and global economies, we will grow our Mainland business through closer collaboration with our parent BOC on the one hand and reinforcing the role played by NCB (China) on the other. BOC's extensive network and strong franchise in the Mainland have allowed us to increase our presence there so that we can better serve our customers, maximise cross-selling efforts and expand our product range. At the same time, we will continue to build up the brand and branch network of NCB (China), an integral part of the BOC Group, to grow its business in the Mainland and expand its cross-border services.

Together with BOC, we can capture emerging business opportunities not only in the Mainland but also in the Asia-Pacific region for mutual benefits. We will continue to play our prominent role as BOC's Asia-Pacific Syndicated Loan Centre. It is expected that we can be further benefited to a greater extent from the implementation of the Global Relationship Manager Programme. The interconnection between the Group's cash management service platform and that of BOC and its overseas branches will give us an added advantage in serving major corporate clients around the world. We will exploit our expertise and experience to support BOC in developing wealth management products for the Mainland market and for penetrating the regional market. All these will enable us to establish a stronger strategic foothold in the Asia-Pacific region and ensure our unique function in the BOC Group's global strategy.

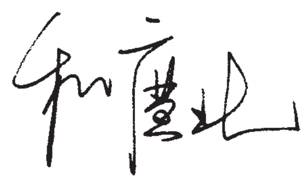
While focusing on business growth, it is important that we continue to safeguard our capital strength and asset quality. Rigorous risk management and internal control measures will also be adopted to avoid any potential pitfalls.

Corporate Social Responsibility

As a leading banking group in Hong Kong with a long history, we are committed to playing an increasingly active role as good corporate citizens and contributing to the community's well-being and development. To integrate this fine tradition into our long-term development strategy for creating greater value for the Group, we formulated a comprehensive corporate social responsibility (CSR) policy which was approved by the Board earlier this year. This policy is applicable to the Group as a whole and guides us in fulfiling our commitment to CSR and in contributing to the sustainable development of the economy, society and environment.

The scope of the CSR policy encompasses the Group's responsibility toward society, shareholders, customers, employees, and the environment respectively. For the purpose of implementation, the Group has set up the CSR Committee chaired by me and comprising our senior management as members. The Committee will decide on the Group's CSR strategies and policies and oversee their execution. Details of the Group's CSR-related work accomplished last year are covered in a separate section in this annual report.

In concluding, I am very grateful to the Board of Directors, shareholders and customers for their continued trust and support. Of equal importance is of course the indispensable contribution of all my colleagues through their talent, devotion and hard work. We have once again demonstrated our ability to grow and rise to challenges through different phases of the economic cycle. Going forward, I am confident that we are able to implement our development strategy in a proactive and sustainable manner.



HE Guangbei
Vice Chairman & Chief Executive

23 March 2010