CHIEF EXECUTIVE'S REPORT

I am pleased to report that the Group delivered another year of record results in 2012 with solid growth in income and profit. Despite a still challenging operating environment, this consistent performance was achieved on the back of our effective execution of the Group's balanced growth strategy. Our financial position remained strong while profitability of core businesses improved. We also made good progress in achieving our strategic objectives and enhancing our customer franchise. All these helped solidify our foundations to drive the Group's long-term sustainable development.

In 2012, the overall market conditions remained tough as characterised by the lack of obvious growth drivers in major economies and ongoing market uncertainties arising from the evolving European debt crisis. Growth of the Chinese economy softened for most part of the year but resumed momentum in the fourth quarter. In Hong Kong, GDP growth was modest with sluggish external trade and domestic consumption.

The operating environment for Hong Kong's banking industry was challenging as consistently low interest rates, reduced business activities and keen competition continued to affect banks' performance. On the positive side, we saw new business opportunities arising from the further development of offshore RMB market supported by a series of new government initiatives. These included the further relaxation of investment restrictions in relation to the RMB Qualified Foreign Institutional Investors (RQFII) scheme, the expansion of personal RMB services to non-Hong Kong residents and the introduction of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone.

Key Initiatives and Achievements

During the period, the Group maintained its proactive yet prudent approach in managing its balance sheet and driving business development. Our consistent investments and efforts in our strategic focuses yielded rewarding results and market recognition, especially in the offshore RMB business and the enhancement of our product and service capabilities.

Strong Financial Position

- In view of the changing market environment and keen competition, we continued to pursue our proactive strategies in managing the Group's assets and liabilities to improve profitability and solidify financial strength.

- Our strong financial position earned us recognition as the world's second strongest bank and the top one among banks in Hong Kong by Bloomberg Markets in May 2012.

- The Group's balance sheet was strong with solid capital and liquidity position. Under the volatile economic environment, we continued to adopt stringent risk management and credit control to deliver quality growth. Overall loan quality remained healthy with our classified or impaired loan ratio staying at a low level. Our investment book was prudently managed to optimise risk and return.

- Both loans and deposits recorded healthy growth with loan-to-deposit ratio staying at a decent level. Our conscious efforts to enhance the deployment of the offshore RMB funds, to improve loan pricing and to control deposit cost contributed to the net interest margin improvement.

- The Group remained focused on enhancing operational efficiency and maintaining disciplined cost control. We also continued to invest in new business platforms and Mainland operation to support long-term business growth. Investments were made judiciously with expenses well contained within our cost-to-income target.

Leading position and solid growth for offshore RMB business

- The offshore RMB market saw more favourable developments during the year. Capitalising on its core strengths, the Group acted swiftly to capture these rising opportunities. We maintained our leading positions in major RMB businesses and received a number of industry recognitions, including retail banking business, corporate banking business, insurance business and asset management business.

- We pioneered in launching new products and services to cater to the growing needs in RMB transactions around the world. We successfully arranged the first sizable 100% RMB syndicated loan in Hong Kong. Our competitiveness in the trade finance business was further strengthened with market-leading products launched. The "Multi-currency Shipping Finance (RMB and USD)" product that we offered has marked a number of milestones in the industry, including the first export shipping contract settled in RMB and issuance of the first cross-border RMB Refund Guarantee. This product also won the "Innovation Award – Business Innovation" in the Lloyd's List Global Awards 2012.

- Taking advantage of the fast expanding Dim Sum bond market, we actively participated in the RMB bond underwriting business with a substantial increase in turnover year-on-year. Leveraging the opportunities arising from the RQFII programme, we became the largest RQFII funds distributor and custody service provider in Hong Kong.

- In August, RMB banking services were further extended to non-Hong Kong residents. The Group promptly offered an array of RMB services to global customers and took the lead by enabling RMB services for non-Hong Kong residents at all our branches.

- In line with the extension of the operating hours of the RMB RTGS system in Hong Kong, we upgraded our related services and extended our service hours. This service enhancement enables both personal and corporate customers in different time zones to enjoy the convenience of our settlement services.

Enhanced franchise for sustainable growth

- Investing in the Group's franchise has always been a key management priority to bolster its long-term competitiveness. New business platforms set up over the past few years continued to deliver encouraging performance and received market recognition. Our custody business was named as the "Best Asian Bank for Cross-Border Custody" in the AsianInvestor Service Provider Awards 2012, in recognition of its outstanding cross-border custody services. The asset management team, set up in late 2010, has been granted five prestigious "2012 Best of the Best Awards" by Asia Asset Management. In November, we launched a new private banking platform to provide high-net-worth individuals and their families with unique and tailor-made wealth management services.

- In addition, we continued to build up our service capabilities and innovate products to cater to customer needs. For our securities brokerage business, we introduced a "Personalised Securities Services" to provide high-end customers with more flexible and convenient trading services. Our mobile banking platform was further enhanced by being the first bank in the market to launch mobile functions for IPO share subscriptions and IPO financing. As a leader in the mortgage market, the Group pioneered the "1 Day Approval Mortgage Services" to facilitate more efficient loan applications for customers.

- The Group further optimised its distribution channels to meet the needs of both local and cross-border customers. A brand new concept branch was opened in Causeway Bay which offers a pleasant banking environment equipped with advanced banking service technologies and paperless counter services. Our automated channels were also enhanced in terms of network coverage and service functions. We upgraded our phone banking systems and services to meet the increasing demand for cross-border phone banking services. We launched the first chip-based ATM Card in Hong Kong, which not only offers greater security but also a number of new banking service functions. The Group's electronic platform and services were highly recognised in the industry with a number of awards received in 2012. The new corporate internet banking platform, BOCNET HK, was successfully launched which greatly enhanced the linkage of our e-banking and cash management platform with those of BOC and its overseas branches.

- For our Mainland operation, we further expanded our branch coverage to a total of 36 as at end of 2012. The enhancement of the Group's e-Banking platforms proved to be successful as the number of new accounts and transaction volume increased significantly.

Financial Performance

In 2012, the Group's profit attributable to the equity holders increased by 2.4% year-on-year to HK$20,930 million, a record high since listing. Net operating income before impairment allowances was HK$35,760 million, increased by 15.9% as compared to 2011. The growth was mainly driven by the increase in net interest income and net trading gain. Total operating expenses increased by 45.0% to HK$11,402 million from a lower base in 2011 when a large net recovery from the underlying collateral of the Lehman Brothers Minibonds was recorded. Return on average total assets (ROA) and return on average shareholders' equity (ROE) was 1.24% and 14.91% respectively compared to 1.14% and 16.68% in 2011.

Excluding the impact of Lehman Brothers-related products, core operating expenses would have increased by 7.9% and cost-to-income ratio was at 32.15%. The increase reflected our investment in business expansion, annual salary adjustment and higher depreciation charges. The Group's profit attributable to the equity holders would have increased by 14.9%. ROA and ROE would have improved year-on-year by 0.23 percentage point to 1.24% and by 0.19 percentage point to 14.74% respectively.

For the period under review, net interest income rose by 12.4% year-on-year to HK$24,708 million. The growth was driven by the widening of net interest margin which was 1.60%, up 28 basis points compared to 2011. The increase was mainly attributable to higher return on the offshore RMB business and eased diluting effect of the Group's RMB clearing bank business. Average interest-earning assets contracted by HK$119.6 billion or 7.2%, mainly due to the drop in participating banks' RMB deposits with the clearing bank as a result of increased deployment of RMB funds in the market.

Net fee and commission income rose mildly by 0.9% year-on-year to HK$7,906 million. Key growth drivers included fee and commission income from loans, credit cards and funds distribution. The increase, however, was mostly offset by the decline of commission income from securities brokerage, insurance and bills commissions, reflecting the subdued investors' sentiment and trade activities.

Net trading gain grew 83.0% year-on-year to HK$3,129 million. The increase was mainly a result of higher net trading gain from interest rate instruments and items under fair value hedge, foreign exchange and foreign exchange products as well as equity instruments.

Total assets increased by 5.3% to HK$1,830.8 billion as at 31 December 2012, mainly driven by increase in customer deposits. The Group pursued a proactive deposit strategy to support business growth while maintaining a cautious control of funding costs. Customer deposits expanded by 7.2% year-on-year to HK$1,229.1 billion, driven by the increase in lower cost saving and demand deposits. Despite slower market demand, advances to customers grew healthily by 11.3% as compared with end-2011 to a total of HK$778.3 billion with broad-based growth in both corporate and personal loans. Loan-to-deposit ratio increased to 63.32%, up 2.32 percentage points from the end of 2011. Overall loan quality remained sound with classified or impaired loan ratio at 0.26%.

Throughout the year, the Group continued to manage its capital and liquidity prudently. Consolidated CAR and core capital ratio as at 31 December 2012 were 16.80% and 12.31% respectively, compared to 16.90% and 12.51% at the end of 2011. Average liquidity ratio was at 41.2%, versus 36.17% a year ago.

The Board recommended the declaration of a final dividend of HK$0.693 per share for 2012. Together with the interim dividend of HK$0.545 per share, the total dividend of HK$1.238 per share represents an increase of 4.2% year-on-year. The Group's total dividend payout as a percentage of profit attributable to the equity holders will be 62.5%.

Business Review

Personal Banking business delivered satisfactory performance in 2012 with solid growth in both loans and deposits. Net operating income before impairment allowances and profit before taxation reached HK$11,643 million and HK$5,513 million respectively.

We maintained our market leadership in new mortgage loans with 9.9% increase in residential mortgage loan balance. Our wealth management business posted solid performance with further increase in customer base. We enriched our products and services and provided more customised solutions to meet the different needs of our wealth management customers. Trading volume of the stock market in Hong Kong reduced substantially which dampened our brokerage business. Nevertheless, our other investment services performed strongly. Commission from funds distribution rose substantially by 60.2%, benefiting from the Group's strong performance in the distribution of RQFII funds and product diversification. Credit card business sustained its growth momentum in 2012. Fee income from the credit card business grew by 14.5%, driven by the increase of 10.9% in cardholder spending and 14.6% in merchant acquiring volume. Credit card advances rose by 19.5%. In the Bancassurance business, the Group strengthened its position as a prominent life insurance provider and maintained its lead in the RMB insurance market.

Corporate banking business continued to make good progress and delivered broad-based income growth. Net operating income before impairment allowances increased by 14.3% to HK$13,654 million while profit before taxation surged by 12.6% to HK$9,725 million.

Despite slower loan demand in the market, the corporate loan book grew 11.6% with encouraging growth in offshore RMB loans. The pricing of our corporate loan book improved on the back of our consistent strategy to balance growth and profitability. It strived to provide "Total Solutions" with a full range of financial services, including innovative trade-related products and "Integrated Branches for Commercial Business", to better serve the needs of major corporate and SME customers.

We also maintained our position as the top mandated arranger in Hong Kong-Macau syndicated loan market. In recognition of its long-standing support for SMEs in Hong Kong, the Group received for the fifth consecutive year the "SME's Best Partner Award" presented by the Hong Kong General Chamber of Small and Medium Business Limited.

The Group made solid progress in developing its cash management business. The linkage of the Group's e-banking platform with those of BOC and its overseas branches has been completed. This has greatly stepped up the Group's cross-border cash management capabilities. Our custody business successfully secured mandates from a number of RQFII fund products. It also continued to expand its institutional client base and secured mandates to provide global custody services to various Qualified Domestic Institutional Investors.

CHIEF EXECUTIVE'S REPORT

Treasury segment recorded outstanding financial results in 2012. Net operating income before impairment allowances increased by 30.5% year-on-year to HK$9,625 million while profit before taxation increased by 28.7% to HK$8,382 million.

We continued to focus on prudently managing our banking book investments in view of the market complications and changes. Portfolio mix was further optimised. We increased our investments in government-related bonds, high quality bonds issued by Asia-Pacific financial institutions and corporations as well as RMB-denominated bonds.

On the product development front, we introduced various innovative products to help customers better manage their exchange rate risk and financing costs, which were well-received by customers. We also made good progress in expanding our offshore RMB business. As part of its ongoing efforts to facilitate the development of the offshore RMB bond market, the Group launched three new offshore RMB bond sub-indices and remained an active participant in the underwriting of offshore RMB-denominated bonds. Capitalising on our strong RMB franchise and close collaboration with BOC, we expanded our business relationships with banks and financial institutions in different geographical regions.

Our **Mainland** business delivered encouraging performance in a challenging banking environment. We recorded satisfactory growth in both deposits and loans which increased by 12.8% and 21.2% respectively. Net operating income increased by 17.9%.

The business platform of our NCB (China) was further strengthened in terms of product offering and distribution channels. A new series of products that were linked to interest rates, exchange rates, gold and commodity prices was introduced to cater to the increasing demand for wealth management services. Leveraging the "Channel Sharing" model, which allows NCB (China)'s debit card holders to access services through BOC's branches and ATMs, it helped boost deposit growth and generate more retail banking business. During the year, eight new NCB (China) sub-branches were added.

Insurance business recorded robust profit growth and maintained its strong position in the RMB insurance market. Net operating income before impairment allowances increased by 106.1% year-on-year to HK$843 million. Profit before taxation grew substantially to HK$609 million from a low base of HK$33 million last year. The growth in profit was mainly attributable to the better investment performance as compared to an investment loss in 2011 amid the credit volatility in the financial market.

During the year, BOC Life was granted the approval to invest directly in the Mainland's interbank bond market, thus facilitating the expansion of RMB assets and the further development of its RMB insurance products. BOC Life received the honour of the "Hong Kong Offshore RMB Centre – 1st RMB Business Outstanding Awards – The Outstanding Insurance Business" organised by some local media.

Outlook

Looking into 2013, the overall operating environment looks mixed. We started the year with improved sentiment in global markets which brings along optimism to the outlook. However, some key fundamental issues in major economies are still unresolved which may continue to affect the stability of global markets. We, therefore, need to stay alert. Mainland China's economic performance, the US's fiscal cliff and the European debt crisis will remain the three major factors affecting the macroeconomic and market environment. There are still uncertainties over the pace of recovery for major economies and the growth could be fragile. Against this backdrop, the growth outlook for Hong Kong's economy would be modest.

For the local banking industry, banks may continue to face challenges coming from a fragile macro environment, persistently low interest rates and increasingly fierce competition. In addition, starting from 1 January 2013, the first phase of Basel III implementation has come into operation in Hong Kong. The new regulatory environment will require banks to operate on a higher capital base and efficiency. To adapt to the new capital requirement, banks may need to adjust their business strategies accordingly.

CHIEF EXECUTIVE'S REPORT

Despite the still challenging environment, the Group remains focused on driving its business development and capturing new opportunities, especially in the offshore RMB business. In January, leveraging the opportunities from the "Cross-boundary RMB Loan Trial Scheme in Qianhai", the Group swiftly launched its cross-border RMB loan business and signed agreements with five enterprises registered in Qianhai to provide them with cross-border RMB direct loans. BOCHK has also been designated as a market maker for the USD/CNH (offshore RMB) futures by the Chicago Mercantile Exchange Group, being the sole bank among the first group of market makers. Our asset management arm continues to expand its business through strategic partnerships with overseas financial institutions to develop RMB-related investment products. Capitalising on our strong RMB franchise, we will continue to create new growth drivers by expanding our business scope, customer base and geographical coverage. We will also continue to work closely with BOC, our parent bank, to promote the global RMB service capabilities of BOC Group.

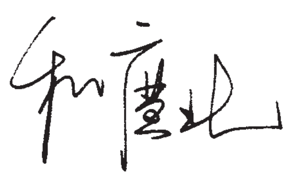
In view of the evolving market trends, the Group will continue to broaden and strengthen its business capabilities to better serve the diverse needs of customers. The investments we made over the past years proved to be very effective in supporting the development of our major business segments. Capitalising on our enhanced platforms, we successfully deepened customer relationships and attracted new customers. Our strategy will remain customer-centric. Through product and service innovation as well as channel optimisation, we aim to substantially enhance the overall customer experience. We will continue to focus on our customer segmentation strategy to provide more customised services to targeted customers.

Maintaining a strong financial position will continue to be one of the management's key priorities, especially amid current market conditions. As shown in our 2012 results, all our key financial ratios were at solid levels with strong capital and liquidity profile. With Basel III implementation to be effective this year, the Group is well prepared to meet the new capital standards while continuing our growth plans. We will continue to adopt our proactive approach in managing our assets and liabilities. While striving for income and profit growth, we will exercise rigorous risk management to safeguard our asset quality. We will also remain focused on disciplined cost control and attaining greater efficiency when growing our business.

2012 was the tenth anniversary of the Company's public listing in Hong Kong. I am pleased to see the healthy development and continuous reinforcement of our franchise over the past 10 years. For the success we achieved, I would like to express my deep appreciation to our customers and shareholders for their unwavering support and trust which enables us to realise our potential. I am also grateful to our Board of Directors for their wisdom and council. Of equal importance is the contribution of all my colleagues through their hard work and devotion.

Due to the need of the state financial work, Mr. XIAO Gang has resigned as Chairman and Non-executive Director of the Company and the Bank with effect from 17 March 2013. On behalf of the Group, I would like to take this opportunity to express our sincere gratitude and highest respect to him for his strong leadership and outstanding contributions during his tenure. We wish him every success in his new endeavour.

To support the Group's long-term development, we fully understand the importance of promoting sustainable development of the economy, society and environment where we operate. As a leading banking group in Hong Kong, we are committed to making positive contribution to the community's development and promoting CSR in every facet of our business. Going forward, I am confident that the Group will remain strongly positioned to capture quality growth opportunities and to create greater value for its stakeholders by building on its distinct competitive edges and financial strength.



HE Guangbei
Vice Chairman & Chief Executive

Hong Kong, 26 March 2013