

A white wireframe structure of a tall tower, resembling the Bank of China Tower, is positioned on the left side of the slide. The background is a gradient of red and orange with light streaks.

Driving Excellence on New Grounds

2014 Annual Results

2015.03.25

▶ **Forward-Looking Statement Disclaimer**

This presentation and subsequent discussions may contain forward-looking statements that involve risks and uncertainties. These statements are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may, will or may be expressed to be results of actions that may or are expected to occur in the future. You should not place undue reliance on these forward-looking statements, which reflect our belief only as of the date of this presentation. These forward-looking statements are based on our own information and on information from other sources we believe to be reliable. Our actual results may be materially less favourable than those expressed or implied by these forward-looking statements which could depress the market price of our Level 1 ADSs and local shares.

▶ **Management Team**

Mr Yue Yi **Vice Chairman & Chief Executive**

Mr Li Jiuzhong **Chief Risk Officer**

Madam Sui Yang **Chief Financial Officer**

Madam Zhu Yanlai **Deputy Chief Executive**

Mr Huang Hong **Deputy Chief Executive**

Mrs Ann Kung **Deputy Chief Executive**

▶ Agenda

- **Key Performance Highlights**
- **Financial Results**
- **Outlook and Strategy**

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Key Performance Highlights

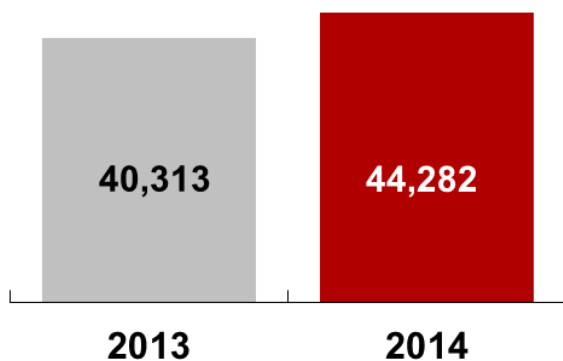
▶ Operating Environment

- Global economy recovered at a divergent pace
- Subdued external and domestic demand hindered local economic growth
- Keen competition coupled with an increasingly stringent regulatory environment
- Accelerated RMB internationalisation opened up new opportunities

▶ Another Record High Performance

Net operating income*

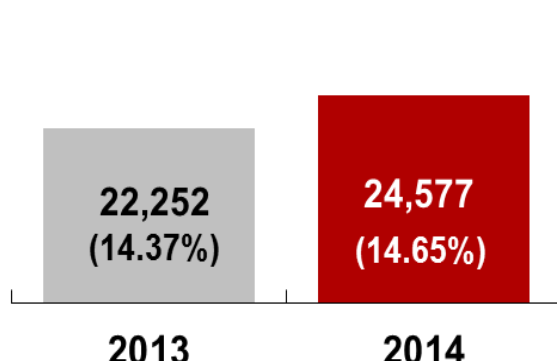
HK\$ m +9.8% YoY



*Before impairment allowances

Profit attributable to the equity holders of the Company

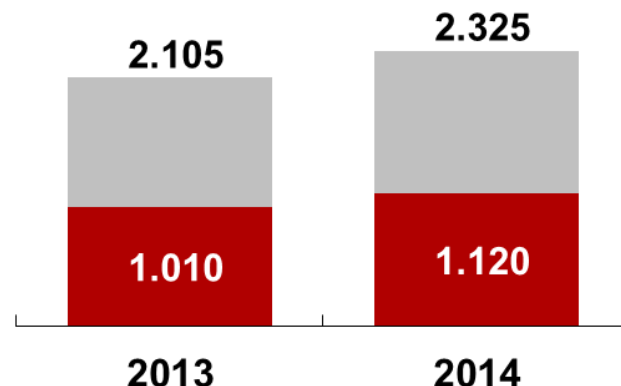
HK\$ m + 10.4% YoY



() - Return on average shareholders' equity

Earnings per share and Dividend per share

HK\$ + 10.4% / + 10.9% YoY



■ Dividend per share ■ Earnings per share

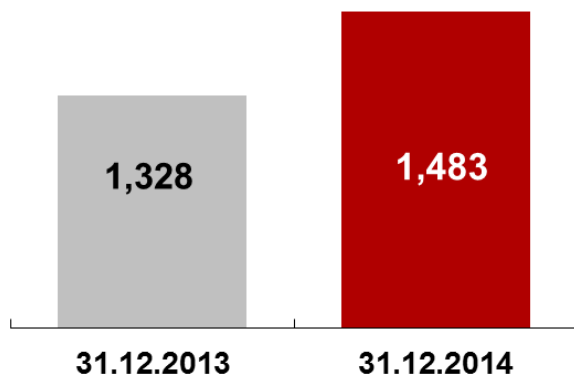
■ Record high in revenue and profit, driven by core businesses

- Net interest income up 14.3%
- Net fee and commission income over HK\$10 billion, up 12.9%

▶ Healthy Growth in Deposits and Loans

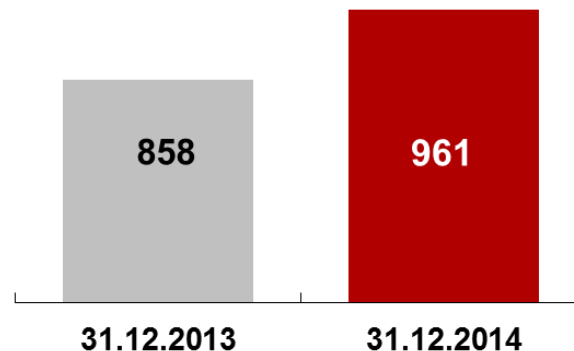
Strong Deposit Base

HK\$ bn +11.7% YoY



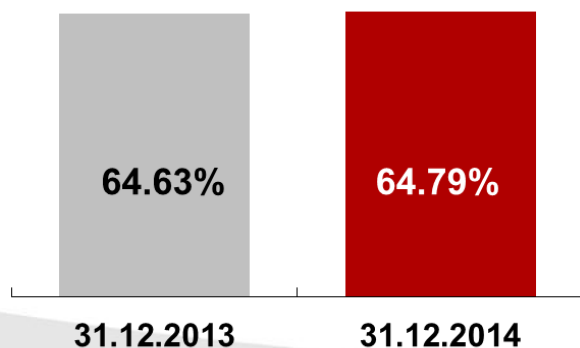
Robust Loan Growth

HK\$ bn + 12.0% YoY



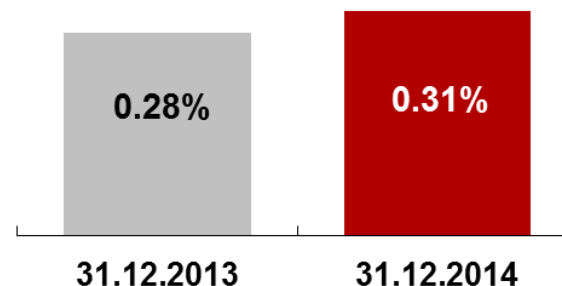
Healthy LDR

Loan-to-deposit Ratio



Benign Loan Quality

Classified or Impaired Loan Ratio

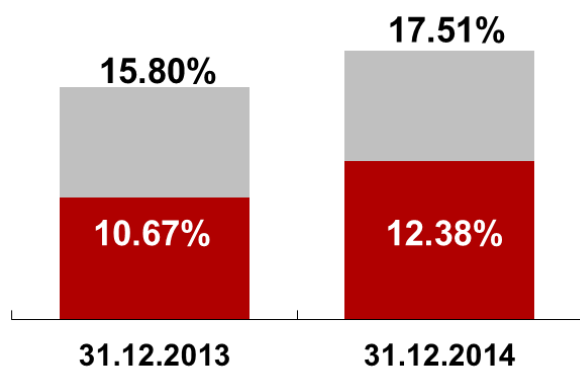


► Strong Financial Position

Solid Capital Position

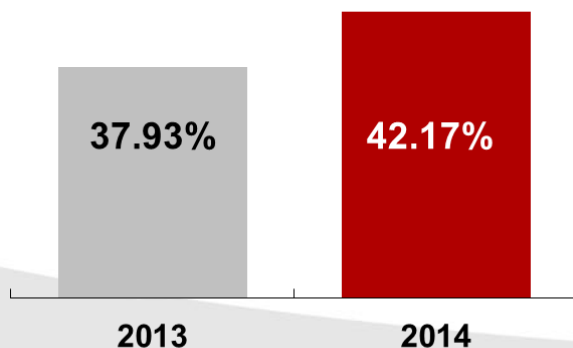
Total Capital Ratio

■ Tier 1



Sound Liquidity

Average Liquidity Ratio



■ Proactive management in capital and liquidity

- Improved capital efficiency and optimised risk-weighted asset management
- Both Total capital ratio and Tier 1 capital ratio increased by 1.71 percentage points
- Launched US commercial paper programme for enhancing liquidity management and diversifying funding sources

▶ Enhanced Competitive Edge, Captured Emerging Opportunities

- Deepened collaboration with BOC to reinforce global solution capabilities
- Leveraged strong RMB franchise to capture emerging opportunities
- Enhanced professional and high quality total solution capabilities to satisfy customer needs

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Financial Results

Condensed Income Statement

Solid growth in core income and profits

HK\$ m	2014	2013	% YoY
Net interest income	31,919	27,916	14.3
Net fee and commission income	10,122	8,965	12.9
Other operating income	2,241	3,432	(34.7)
Net operating income before impairment allowances	44,282	40,313	9.8
Net charge of impairment allowances	(1,050)	(737)	42.5
Net operating income	43,232	39,576	9.2
Operating expenses	(12,972)	(12,083)	7.4
Operating profit	30,260	27,493	10.1
Non-operating items	403	300	34.3
Profit attributable to the equity holders	24,577	22,252	10.4

▶ Net Interest Income

Strong net interest income growth on higher AIEA and NIM expansion

HK\$ m	2014	2013	% YoY
Interest income	47,952	39,379	21.8
Interest expense	16,033	11,463	39.9
Net interest income	31,919	27,916	14.3

Average interest earning assets (AIEA)	1,860,620	1,657,215	12.3
Net interest margin (NIM)	1.72%	1.68%	4bps

► Non-interest Income

Broad-based growth in net fee and commission income
Other operating income undermined by lower net trading gain and insurance segment income

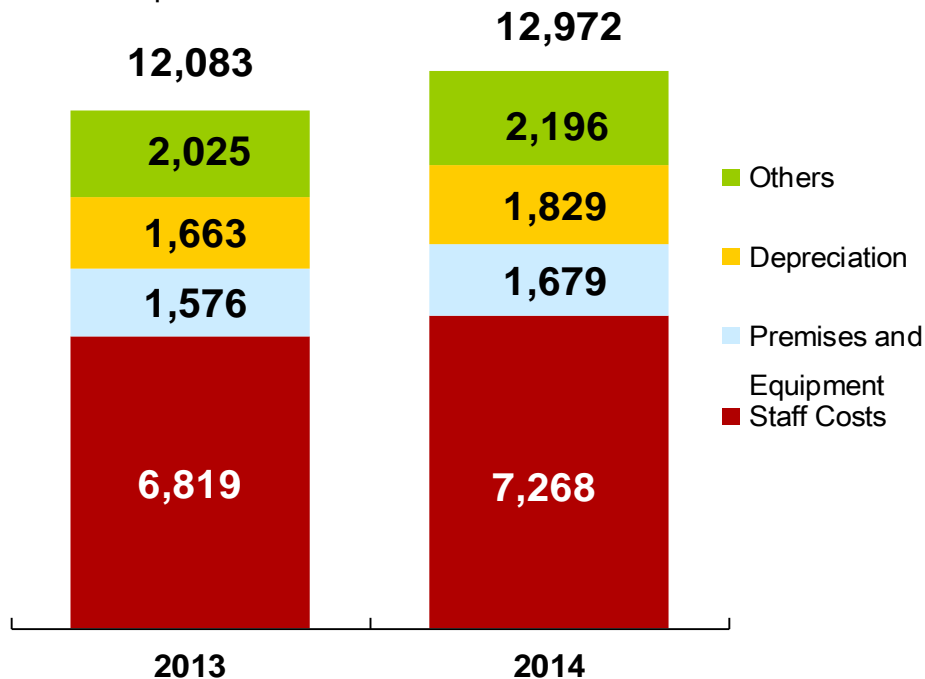
HK\$ m	2014	2013	% YoY
Fee and commission income			
Credit card business	3,673	3,516	4.5
Securities brokerage	2,676	2,432	10.0
Loan commissions	2,185	1,900	15.0
Insurance	1,562	1,285	21.6
Funds distribution	1,035	821	26.1
Bills commissions	810	819	(1.1)
Payment services	604	665	(9.2)
Trust and custody services	450	387	16.3
Currency exchange	231	197	17.3
Others	779	694	12.2
Net fee and commission income	10,122	8,965	12.9
Net trading gain	2,162	2,957	(26.9)
Net gain/(loss) on financial instruments designated at FVTPL	25	(159)	---
Others	54	634	(91.5)
Other operating income	2,241	3,432	(34.7)
Total	12,363	12,397	(0.3)

Operating Expenses

Maintained high cost efficiency while enhancing our service capabilities and business platforms

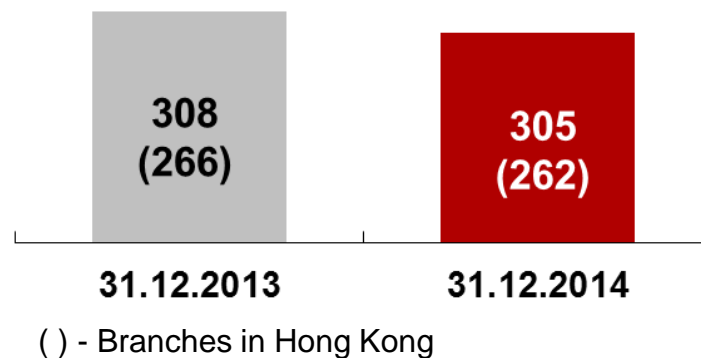
Operating Expenses

HK\$ m +7.4% YoY

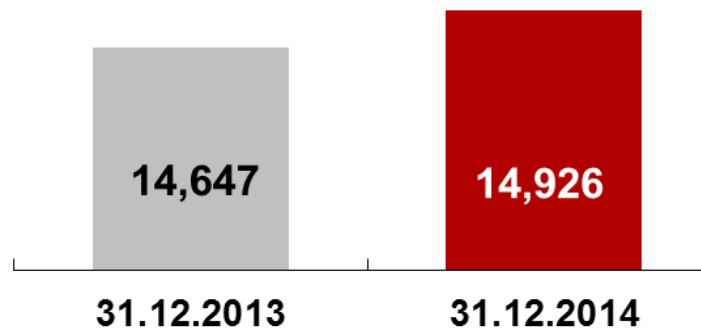


29.97% 29.29%
Cost-to-income ratio

Number of Branches



Staff Number



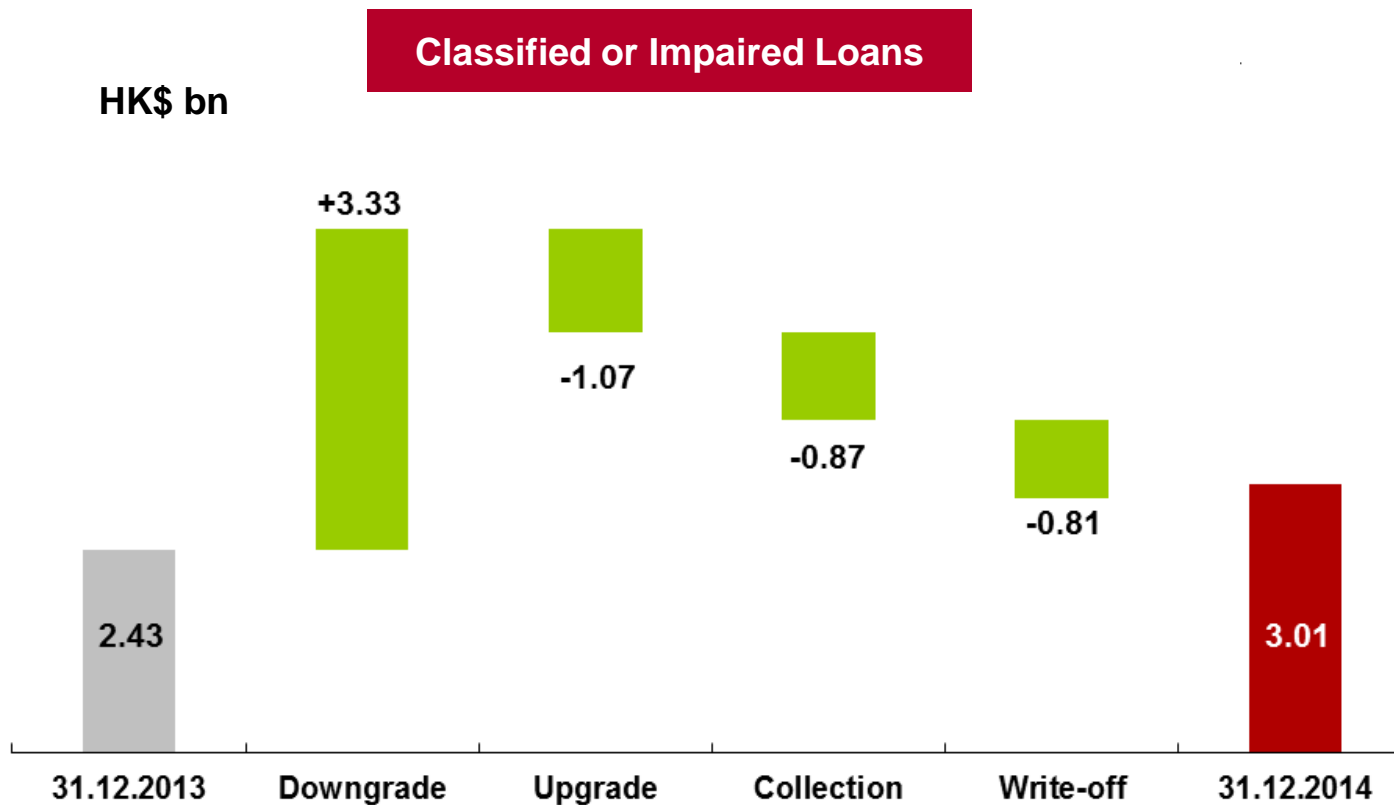
▶ Net Charge of Impairment Allowances

Net charge of IA impairment allowances increased mainly due to the downgrade of a few corporate loans

HK\$ m	2014	2013	% YoY
<u>Advances to customers</u>			
Net charge of allowances before recoveries			
- individual assessment	(748)	(313)	139.0
- collective assessment	(485)	(705)	(31.2)
Recoveries	202	288	(29.9)
Net charge of loan impairment allowances	(1,031)	(730)	41.2
<u>Securities Investments</u>			
Net reversal of impairment on securities investments	2	5	(60.0)
<u>Others</u>	(21)	(12)	75.0
Total charge to income statement	(1,050)	(737)	42.5

▶ Loan Quality

Quality of overall loan portfolio remained sound
Classified or impaired loan ratio stayed at a low level of 0.31%



▶ Condensed Balance Sheet

Proactive asset and liability management to achieve encouraging profit growth

HK\$ m	31.12.2014	31.12.2013	% Change
Cash and balances with banks and other financial institutions	398,673	353,741	12.7
Placements with banks and other financial institutions	37,436	46,694	(19.8)
Securities investments	492,820	484,213	1.8
Advances and other accounts	1,014,129	924,943	9.6
Total assets	2,189,367	2,046,936	7.0
Inter-bank deposits taken	235,780	278,273	(15.3)
Deposits from customers*	1,483,224	1,327,980	11.7
Subordinated liabilities	19,676	19,849	(0.9)
Total liabilities	2,007,895	1,883,928	6.6
Total equity	181,472	163,008	11.3

* Including structured deposits

Customer Deposits

Flexible deposit strategy to support lending business

HK\$ m

	31.12.2014	31.12.2013	% Change
Demand deposits and current accounts	116,361	104,784	11.0
Saving deposits	672,826	636,137	5.8
Time, call and notice deposits	690,922	583,227	18.5
Structured deposits	3,115	3,832	(18.7)
Total deposits from customers	1,483,224	1,327,980	11.7

▶ Advances to Customers

Healthy loan growth with prudent risk control

HK\$ m	31.12.2014	31.12.2013	% Change
Loans for use in HK - corporate	308,141	267,632	15.1
Loans for use in HK - individual	267,260	240,339	11.2
Residential mortgages*	203,744	190,031	7.2
Credit card advances	13,021	12,223	6.5
Trade finance	86,316	85,413	1.1
Loans for use outside HK	299,272	264,948	13.0
Total advances to customers	960,989	858,332	12.0
Loan-to-deposit ratio	64.79%	64.63%	

*Loans for purchase of residential properties other than flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme

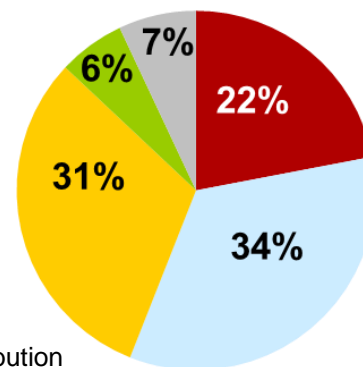
Securities Investments

Optimised portfolio mix to enhance return
while remaining vigilant of risks

HK\$ m	31.12.2014	31.12.2013	% Change
Sovereigns	89,543	73,344	22.1
Public Sector entities	43,402	46,601	(6.9)
Corporate entities	111,527	93,118	19.8
Banks and other FIs	248,348	271,150	(8.4)
Total	492,820	484,213	1.8

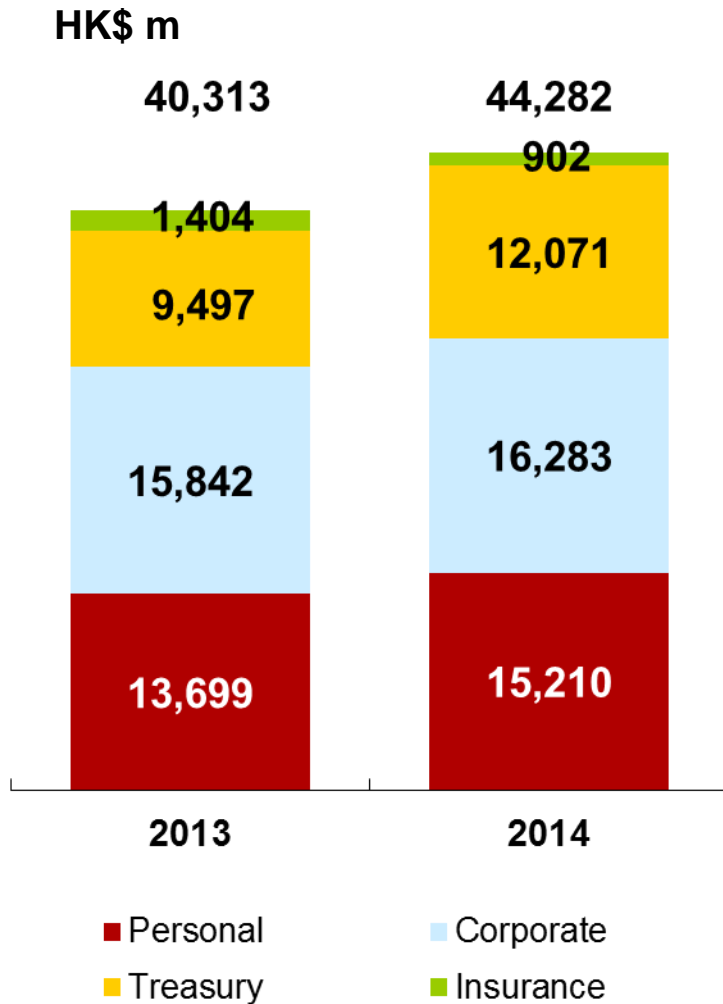
Credit rating distribution

- Aaa
- Aa1 to Aa3
- A1 to A3
- Lower than A3
- Unrated



Note: Including issuer rating distribution for issues with no issue rating

▶ Operating Income by Segments



Note: In 2014, liquidity term premium was introduced into inter-segment funding. No adjustment has been made to the comparative figures

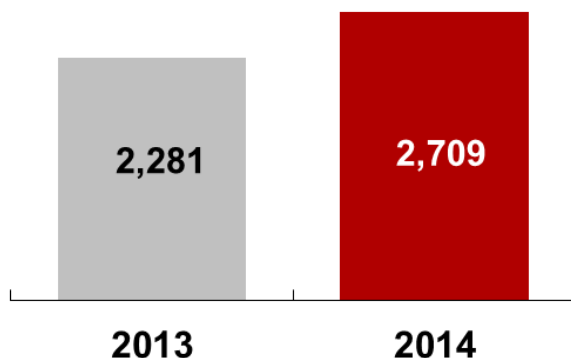
- Personal:** Maintained market leadership in residential mortgages. Broad-based growth in commission income from investment & insurance businesses
- Corporate:** Quality loan growth with further enhancement in service capabilities and extension in geographical presence
- Treasury:** Proactive investment strategy and good growth in RMB FX-related businesses
- Insurance:** Diversified product offerings and sustained leadership in the RMB insurance market

Mainland Business

Healthy income growth amid our prudent development under a challenging operating environment

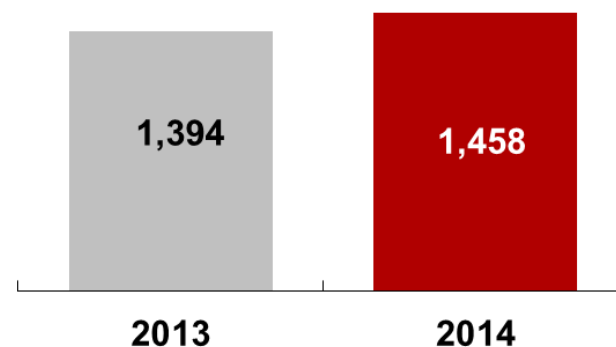
Operating Income

HK\$ m + 18.8% YoY



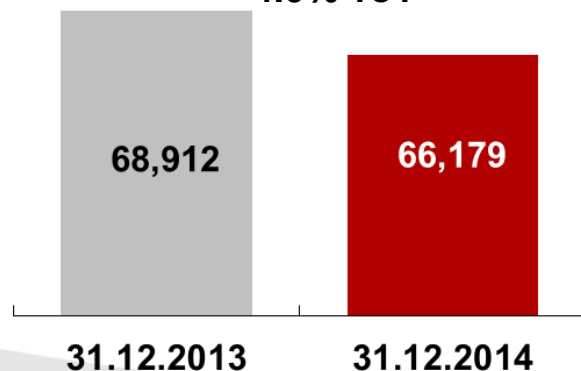
Operating Expenses

HK\$ m + 4.6% YoY



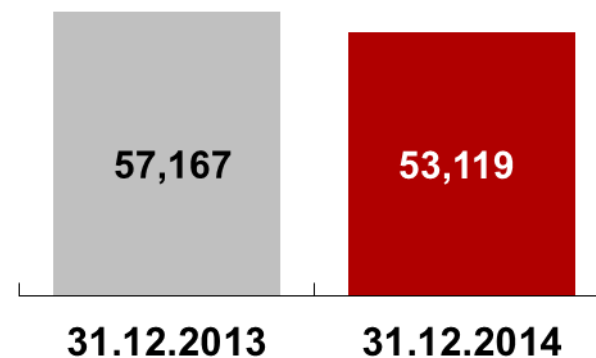
Deposits from Customers

HK\$ m - 4.0% YoY



Gross Advances to Customers

HK\$ m - 7.1% YoY



0.61% 1.99%
Classified or Impaired Loan Ratio

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Outlook and Strategy

▶ Outlook and Strategy

Enhanced competitiveness to support sustainable development

- The global recovery may be uncertain and divergent across different economies
- Captured opportunities to sustain our continued business development and profit growth
 - ✓ “One Belt, One Road”, RMB internationalisation, the "going global" of enterprises, the establishment of Free Trade Zones
 - ✓ Hong Kong’s status as a major hub for international financial services, trade, shipping, and offshore RMB business
- Deepen our collaboration with our parent bank, BOC
 - ✓ Expand our regional business scope, introduce innovative financial products and services, and expand customer base

▶ Outlook and Strategy

Enhanced competitiveness to support sustainable development

■ Corporate Banking

- ✓ Strengthen synergy in our cross-border business and other business areas to enhance our global integration capabilities in financial services with the aim of becoming the main bank of our customers

■ Personal Banking

- ✓ With the most extensive branch network in Hong Kong and a robust customer base to enrich our product and service offerings and to meet the needs of our personal customers for a wider range of personalised and diversified financial services

▶ Outlook and Strategy

Enhanced competitiveness to support sustainable development

■ Financial Market

- ✓ Closely monitor market changes and new policies while staying ahead of economic trends and changes in interest rates and exchange rates to enhance our innovation and trading capabilities in treasury products

■ RMB Business

- ✓ Capitalise on our franchise and extensive experience in this area and further launch RMB products and services to become the best choice in RMB services for different customer segments

▶ Outlook and Strategy

Enhanced competitiveness to support sustainable development

■ Capital management

- ✓ Designated as one of the D-SIBs in Hong Kong, strictly comply with Basel III regulatory requirements
- ✓ Proactive management in capital and liquidity
- ✓ Optimise balance sheet mix

■ Risk management

- ✓ Strengthen our credit risk management and follow the prudent lending policies to safeguard our healthy and continuous growth

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