



中銀香港(控股)有限公司

BOC HONG KONG (HOLDINGS) LIMITED

2002 Annual Results

March 20, 2003

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 favorable than those expressed or implied by these forward-looking statements which could depress the market price of our ADSs and local shares.



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BOC HONG KONG (HOLDINGS) LIMITED

Key Performance Highlights

“Delivering on our IPO Promises”

Dr. Liu Jinbao
Chief Executive

Delivering on Our Promises

Exceeding Profit Forecast



Net profit exceeded our profit forecast of HK\$6.3 billion and grew 141% from 2001

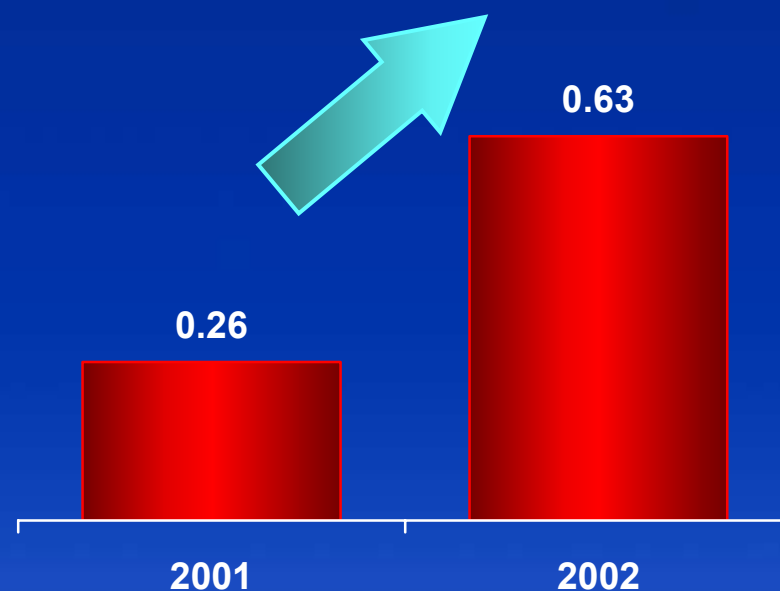
Profit Attributable to Shareholders

(HK\$ mm)



EPS

(HK\$)



Delivering on Our Promises

Meeting Medium-Term Targets



ROAA

ROAE

0.36%

0.91%

2001

2002

7.31%

12.23%

2001

2002

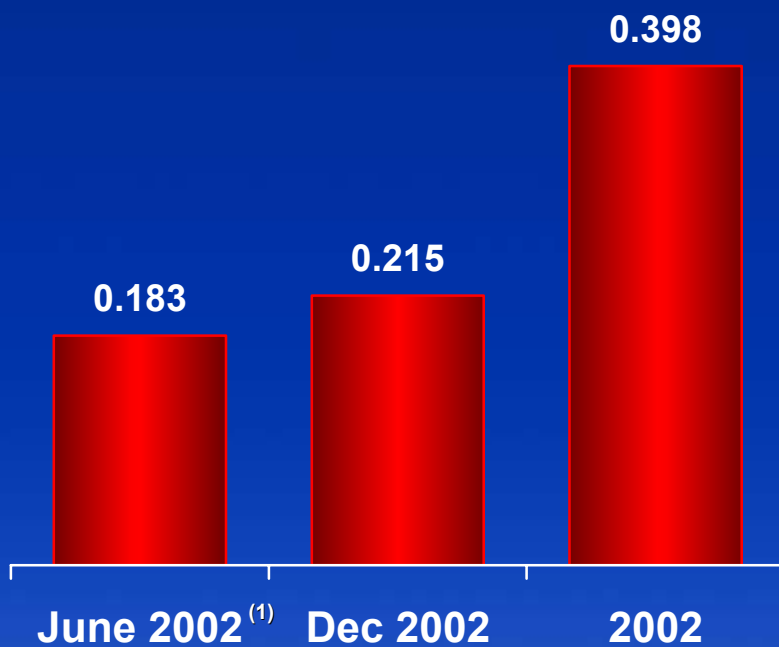


Delivering on Our Promises

Dividends to Shareholders



Dividend per Share (HK\$)



- Maintaining a dividend payout ratio of 60% - 70%
- Maximizing returns to shareholders
- Achieving optimal capital structure

(1) One-time special dividend before IPO

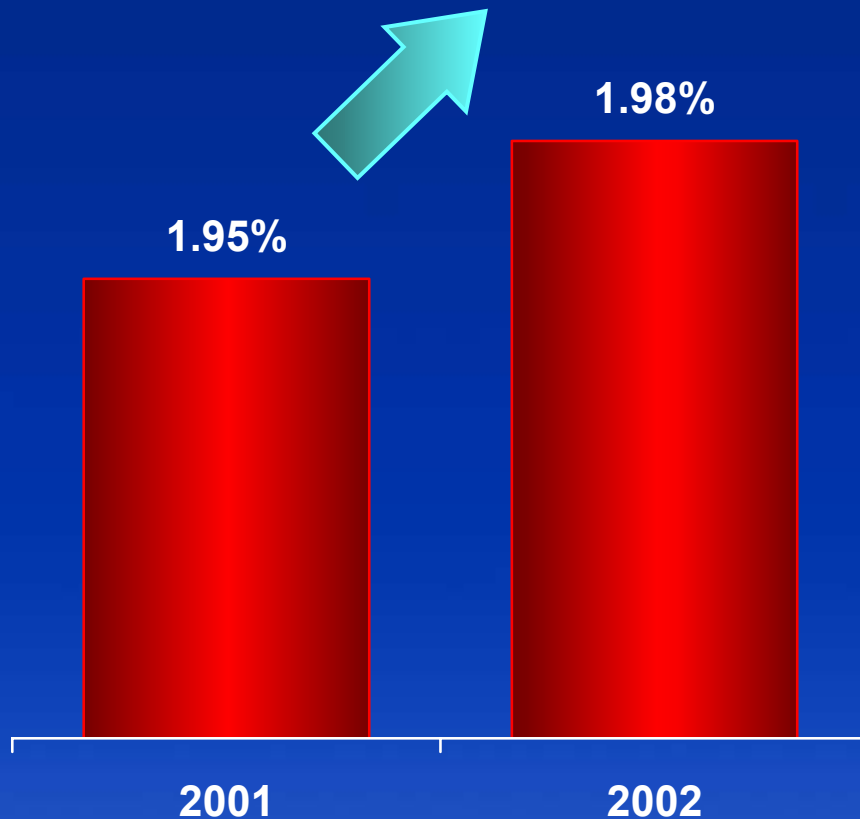
Delivering on Our Promises



#1

Improving Net Interest Margin

NIM (%)



- Increased investment in debt securities
- Lowered cost of funding
- Improved asset quality

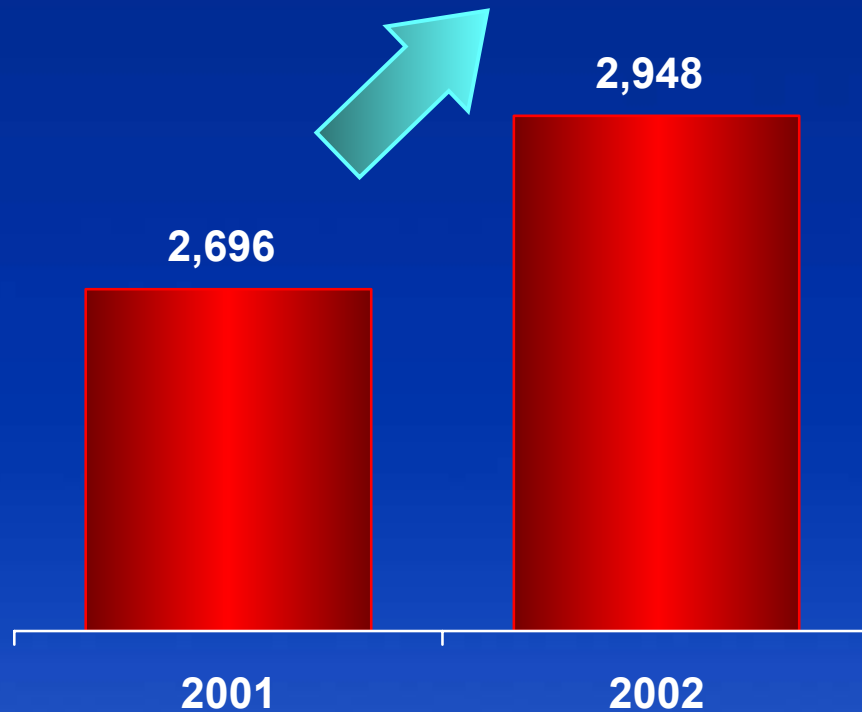
Delivering on Our Promises



#2 Increasing Net Fees and Commission Income

Net Fees and Commission Income

(HK\$ mm)



- Consumer banking and personal financial services
- Loan syndications
- Payment services
- Service fees on low-balance deposits

Delivering on Our Promises

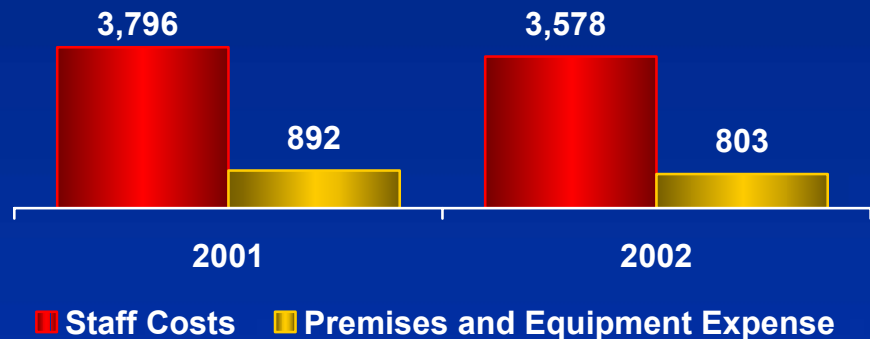


#3

Improving Efficiency

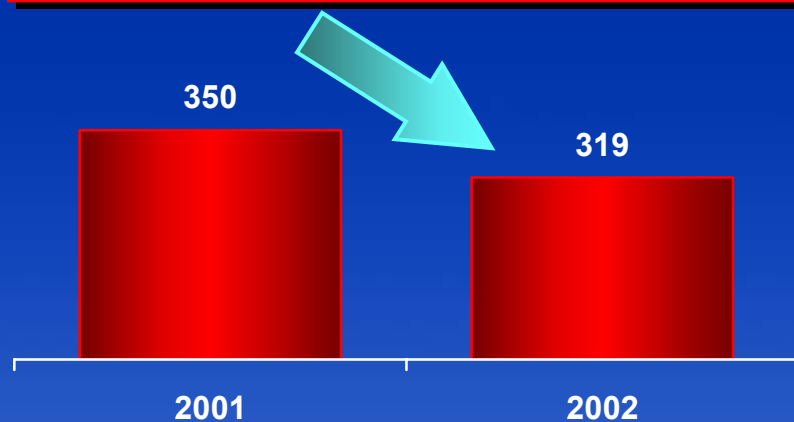
Cost-Cutting

(HK\$ mm)



- Reduced headcount by 284 to 13,439
- Consolidated business operations

Branch Rationalization



- Downsized branch network
- Streamlined workflows
- Decrease in rental expenses

Delivering on Our Promises



#4

Enhancing Asset Quality

NPL Ratio (%)



- Reduced new NPL formation
- Achieved recovery of HK\$9.55 bn
- Reduced high risk loan exposure
- Disposed HK\$7 bn NPL in June 2002



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2002 Financial and Operating Results

“Staying on course to meet our financial targets”

2002: Challenging Environment



Challenges

- Slow GDP and loan growth
- Lower loan yields and reduction in net interest income



BOCHK Initiatives

- Strengthened liability management
- Increased efforts on fee income business
- Enhanced cross-selling
- Increased investment-grade securities holdings
- Prudent credit policies

-
- Higher personal bankruptcies and credit card bad debts



- Tightened credit approval policy
- Strengthened credit control

-
- Declining property prices



- Disposal of vacant premises and investment properties
- Increased provisioning and more conservative haircut policies

Profit & Loss Account



HK\$6.7 billion in net profit, up 141%, on back of much lower provisions

HK\$ mm	2002	2001
Operating Income	18,114	19,009
Operating Expenses	6,025	5,847
Operating Profit before Provisions	12,089	13,162
Charge for Bad & Doubtful Debts	2,855	7,412
Operating Profit after Provisions	9,234	5,750
Profit Attributable to Shareholders	6,673	2,768
EPS	HK\$0.631	HK\$0.262
Dividend Per Share	HK\$0.398	—

Balance Sheet



- 3% loan growth (ex. loan carve-out)
- Reduced inter-bank placements
- Increased investments in higher yielding, investment grade securities

HK\$ mm	2002	2001
Total Assets	735,489	766,140
Inter-bank Placements & Short-term Funds	178,526	254,877
Securities Investments	190,232	145,586
Advances to Customers	321,034	323,038
Fixed Assets	20,212	21,049
Total Liabilities	677,434	712,904
Deposits from customers	600,977	606,428
Shareholders' Funds	56,941	52,170
Tier 1	13.1%	13.4%
Total CAR	14.0%	14.4%

Improved Net Interest Margin



Proactive ALCO initiatives raised NIM despite margin compression

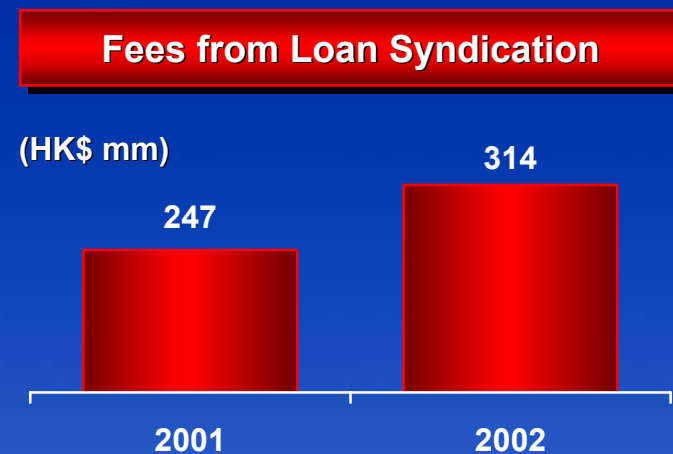
HK\$ mm	2002	2001	Initiatives
Interest Income	21,463	38,307	■ Shift from inter-bank lending to highly-rated, high-yielding debt securities
Interest Expenses	(7,521)	(23,320)	
Net Interest Income	13,942	14,987	
Net Interest Spread	1.85%	1.67%	■ Focus on higher quality borrowers
Net Interest Margin	1.98%	1.95%	

Continued Revenue Diversification



Increased fee based income sources

HK\$ mm	2002	2001
Net Fees & Commission Income	2,948	2,696
Net Gain from FX Activities	824	816
Other Income	400	510
Other Operating Income	4,172	4,022
Non-interest Income/Total Income	23%	21%



Stringent Cost Controls



Maintained a low cost to income ratio through rationalization initiatives

HK\$ mm

2002

2001

Staff Costs

3,578

3,796

Premises and Equipment Expenses

803

892

Depreciation

632

460

Other Operating Expenses

994

676

Total Operating Expenses

6,025

5,847

Cost to Income

33.26%

30.76%

Lower Provisioning Charges



Improved credit risk management and recovery efforts led to lowered new provisions and higher NPL recoveries

HK\$ mm

2002

2001

Specific Provisions

New Provisions

4,519

10,649

Releases

(582)

(645)

Recoveries

(904)

(530)

3,033

9,474

General Provisions

(178)

(2,062)

Net Charge for Bad & Doubtful Debts

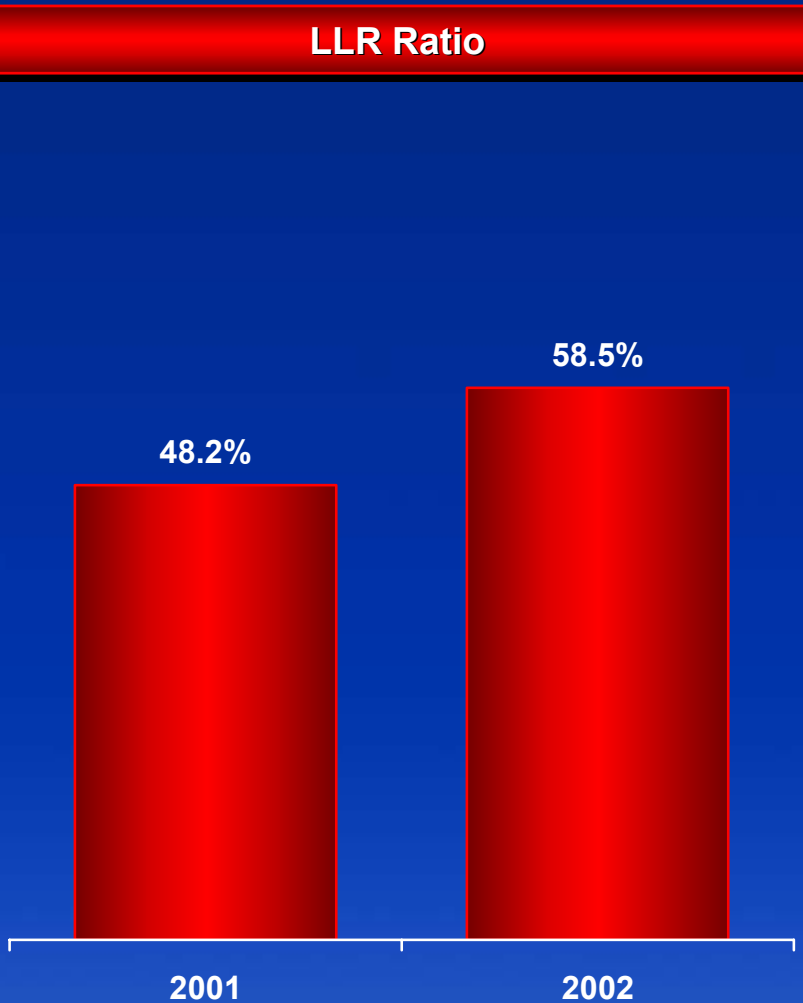
2,855

7,412

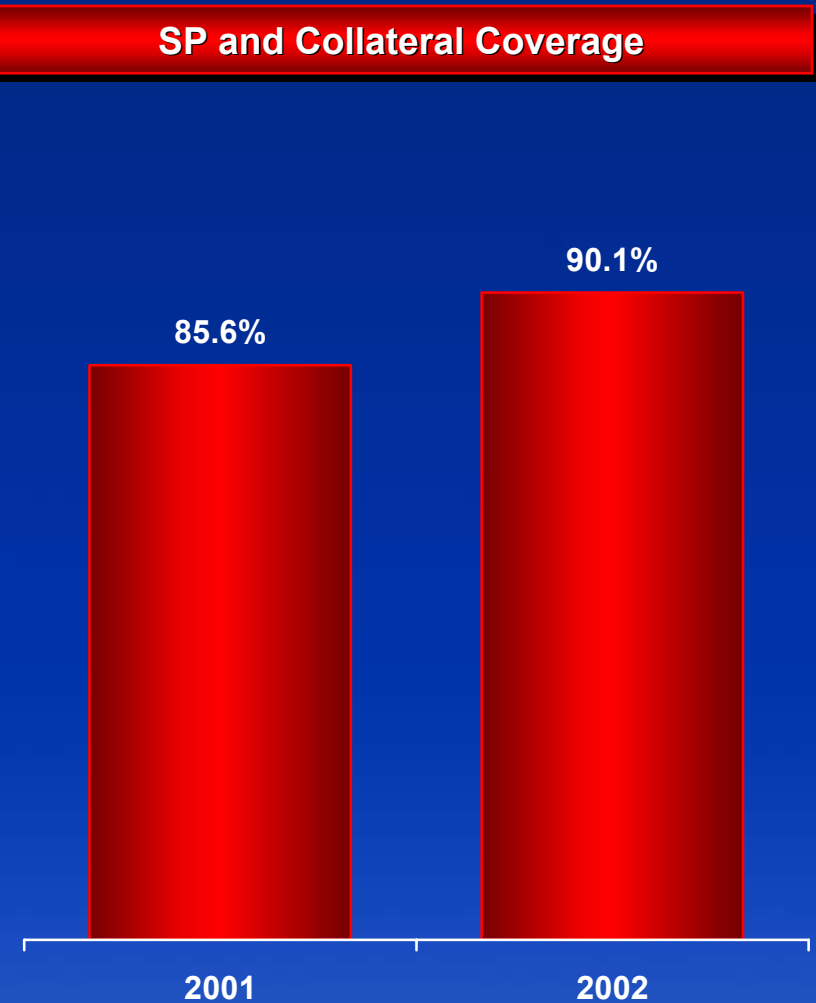
Enhanced Provisioning and Collateral Coverage



LLR Ratio



SP and Collateral Coverage



Strengthened Loan Portfolio

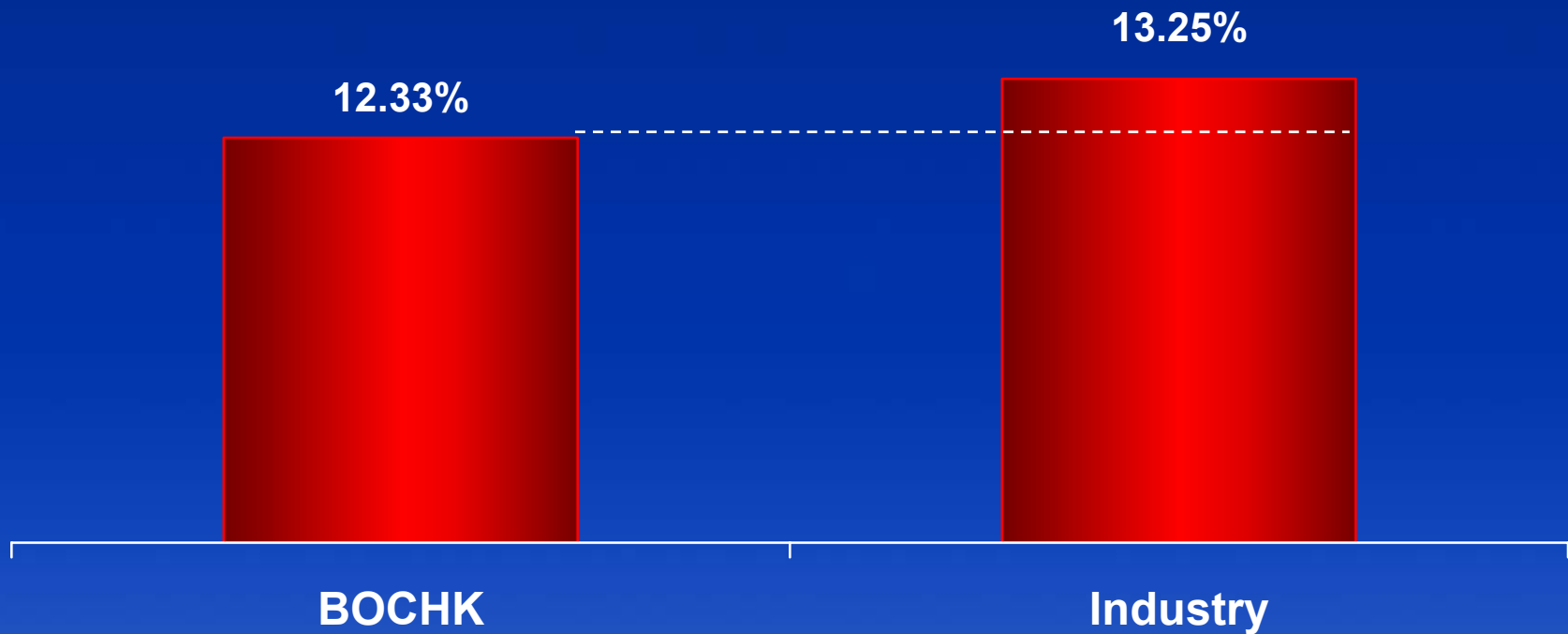


	As of Dec 2001		As of June 2002		As of Dec 2002
Total Loan Book	HK\$323.0 bn	↓	HK\$317.6 bn	↑	HK\$321.0 bn
NPL Ratio (%)	10.99%	↓	8.97%	↓	7.99%
Pass	83.0%	↑	84.4%	↑	87.2%
Special Mention	5.5%	↑	6.6%	↓	4.8%
Substandard	2.9%	↓	2.0%	↓	1.9%
Doubtful	4.5%	↓	2.2%	↓	1.6%
Loss	4.1%	↑	4.8%	↓	4.5%

Maintained Sound Credit Control



Low Charge-off Rates in Credit Cards

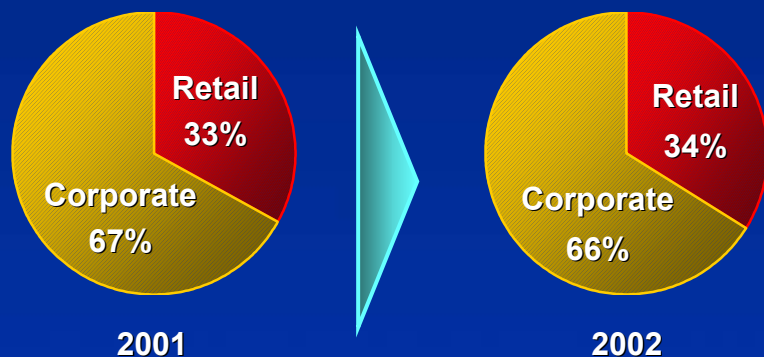


Improved Loan Mix



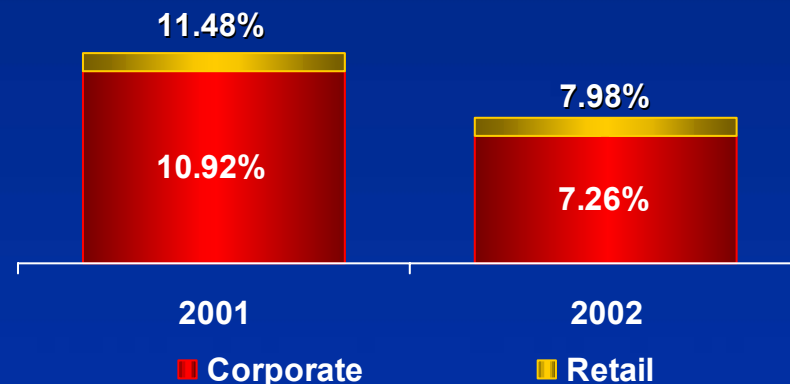
Retail Loans

Increasing Retail Loan Mix



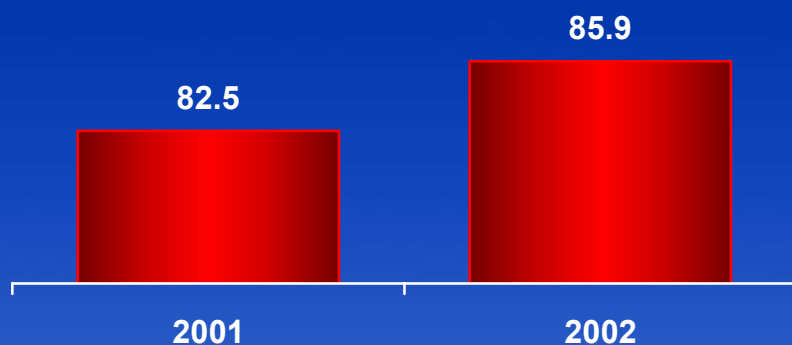
Corporate Loans

Reducing Corporate Classified Loans



Increasing Residential Mortgage

(HK\$ bn)



Leading Syndicated Loan Arrangers (2002)

(US\$ mm)

	Arranger	Volume	#
1	BOCHK ¹	3,013	48
2	HSBC	2,700	39
3	ICBC Asia	1,939	29
4	Standard Chartered	1,613	34
5	Hang Seng Bank	1,518	25

Source: Basis Point, January 11, 2002
 (1) BOCHK and BOCI Capital.

Staying On Course



- ROE ✓
- ROA ✓
- NIM ✓
- Non-interest Income ✓
- Efficiency Ratio ✓
- NPL Ratio ✓
- Provisioning and Collateral Coverage ✓



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Outlook and Strategic Focus

“Moving towards the future”

2003 Hong Kong Economic Outlook



Key Trends

■ GDP



Moderate growth of 2.8%

■ Interest rate



Stable

■ Loans



Marginal growth

■ Credit card delinquency



Stabilizing

BOCHK Outlook

Outlook and Strategic Focus



#1

Retail

#4

Operating Efficiency

#2

Corporate / Treasury

#5

Asset Quality

#3

China Opportunities

#6

Financial Management

Outlook and Strategic Focus



#1

Retail

- Customer segmentation and cross-selling
- Wealth management
- Product customization
- Channel diversification
- Tiered pricing

Outlook and Strategic Focus



Corporate/Treasury



- **Maintain leading role in syndicated lending (#1 arranger in 2002)**
- **Increase non-interest income by strengthening trade finance business**
- **Reinforce SMEs business**
- **Enhance cash management services to corporate customers**
- **Customer-driven treasury platform**
- **Market-making for government agencies' papers**
- **Upgrade electronic corporate-banking platform CBS**
- **Effective cross-selling**

Outlook and Strategic Focus



#3

China Opportunities

Expand scale and revenue contribution to become one of the best overseas bank in the Mainland China

Product

- Great Wall Credit Cards
- Merchant Acquisition
- Cross Border Payment
- Trade Service
- Corporate
- Treasury
- Prestige Banking Services

Initiatives

- Increase customer spending and number of cards
- Further expand merchant network
- HK-Mainland Remittance Express
- 2-way HK\$ check clearing agent for Guangdong Province and Shenzhen
- Agent Bank in HK for Shenzhen-HK RTGS
- Agreement with BOC to extend trade finance services
- Mutual referrals of customers and business with BOC and financial institutions in Mainland
- Strengthen relationships with financial institutions in Mainland
- Launch HK-Shanghai Prestige Banking Services & BOC-BOCHK Prestige Banking Services

Outlook and Strategic Focus



#4

Operating Efficiency

- **Continue to effect gains from**
 - **Branch rationalization**
 - **E-channel migration**
 - **Back office consolidation and automation**
 - **Staff rightsizing**
 - **Workflow reengineering**
 - **Training**
- **Infrastructure in place to launch advanced CRM**
- **Established diversified financial products settlement platform**
- **Developed Electronic Reporting System and Enterprise Data Warehouse**
- **Enhanced credit approval efficiency**
- **Implemented Check Imaging and Transaction Scheme**

Outlook and Strategic Focus



#5

Asset Quality

- **Strict compliance with new credit policies and procedures**
- **Optimize customer, asset and product mixes**
- **Comprehensive, independent and real-time monitoring system in place**
- **Dedicated NPL recovery**
- **Increased training on credit culture and practices**

Outlook and Strategic Focus



Financial Management



- **Optimize capital structure**
- **Adopt consistent dividend policy to return excess capital to shareholders**
- **Focus on increasing yield and maintaining adequate liquidity**
- **Focus on earnings protection**



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