

Growing with Stronger Foundations

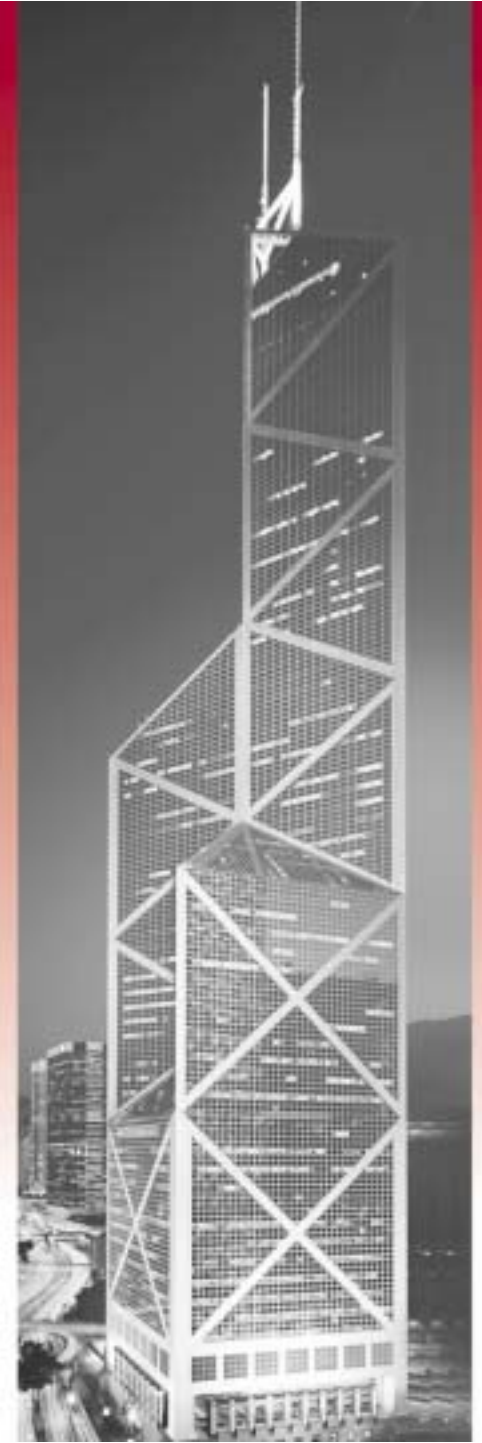
2003 Annual Results

22 March 2004



中銀香港(控股)有限公司

BOC HONG KONG (HOLDINGS) LIMITED



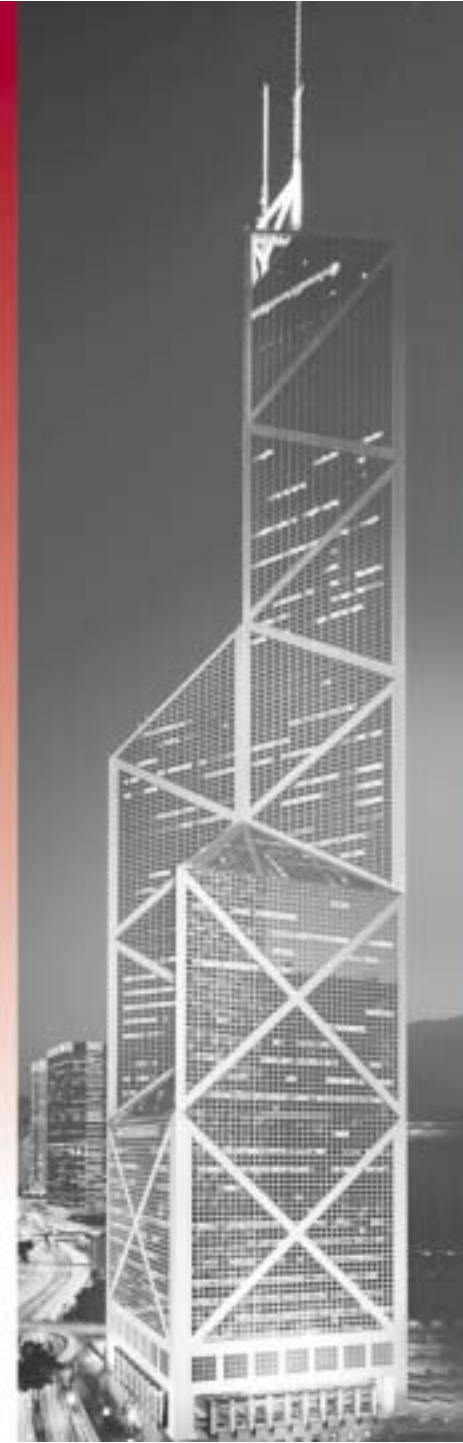
Forward-Looking Statement Disclaimer

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 Level 1 ADSs and local shares.

Agenda

- **Key Performance Highlights**
- **Financial Results and Operating Performance**
- **Strategic Focus and Outlook in 2004**

Market Analysis & Key Performance Highlights



Key Challenges in 2003

SARS impact

- Consumer spending & corporate lending seriously impacted
- Weak property market

Significant drop in HIBOR

- Average 1-month HIBOR fell to 0.99% in 2003 from 1.81% in 2002
- Pressure on NII and NIM

Subdued loan demand

- Reduced consumer loan demand and card receivables in 1H
- Sluggish loan demand in corporate lending

Positive Signs in Second Half of 2003

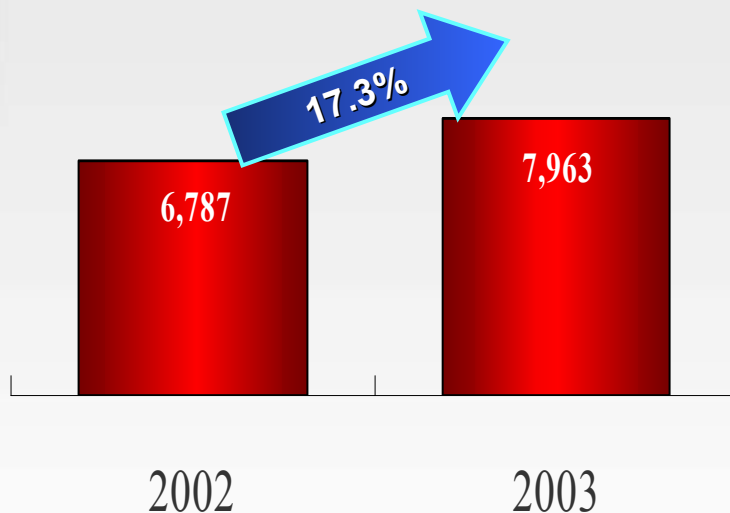
- **Signing of CEPA**
- **Implementation of individual visit scheme**
- **Stabilizing property prices**
- **Gradual return of investor and consumer confidence**
- **Improved employment figures**
- **Personal RMB banking services**

Strong Bottom Line Growth

Bottom line growth benefiting from increase in wealth management income, cost reduction and significant decrease in charge for bad and doubtful debts

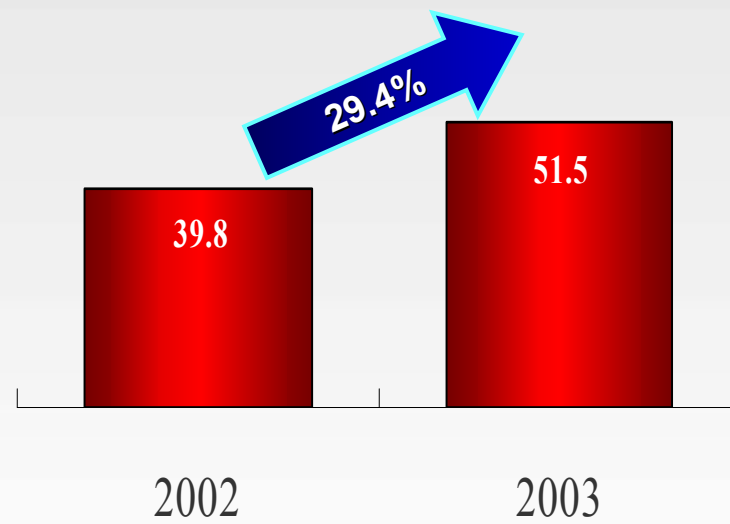
Profit Attributable to Shareholders

(HK\$ mm)

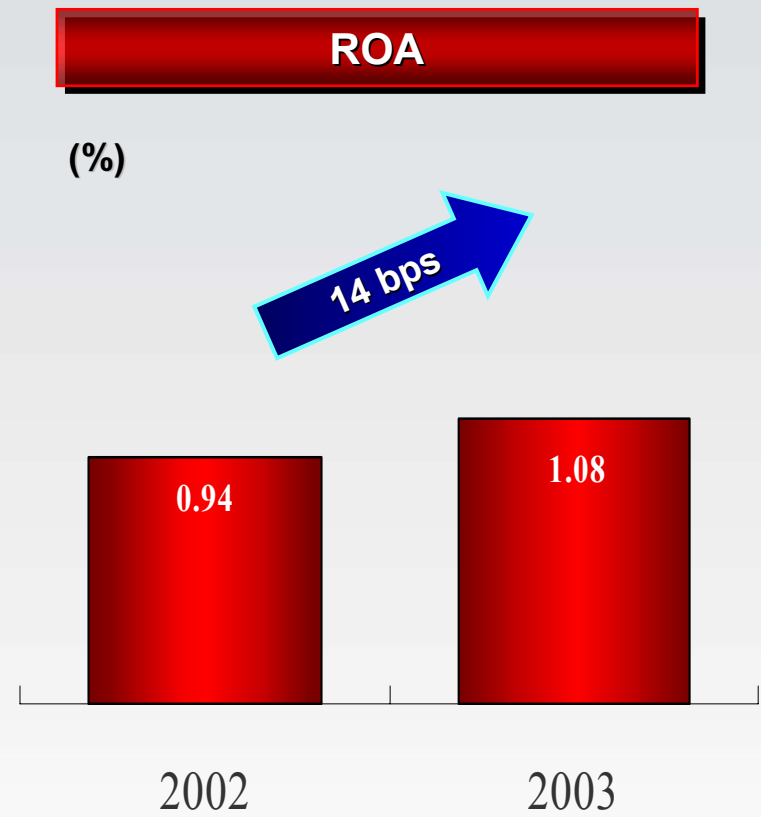
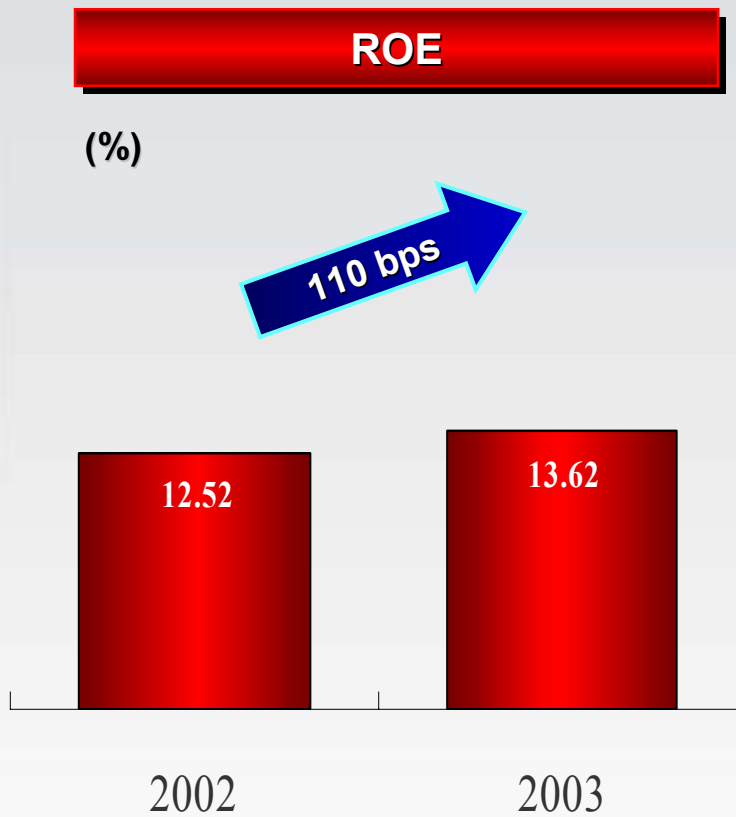


Dividend per Share

(cents)



Higher ROE & ROA



Solid Results Despite Pressure on NII

- Net interest income down **by 7.7%**
- Other operating income up **by 5.0%**
- Cost to income ratio improved **to 32.8%**
- Operating profit before provisions down **by 4.1%**
- Credit charge reduced **by 41.5%**
- NPL ratio improved **to 5.78%** (end-2002: 7.99%)

Stronger Foundations

- Corporate Governance



**Corporate
Governance**

- **Reforming corporate governance & management structure**
- **Progress of implementing Special Committee's recommendations**
- **Reform of Board Committees: Audit Committee; Risk Management Committee; Nomination & Remuneration Committee; Credit Risk Assessment Committee**
- **Appointment of INED**

Stronger Foundations

- Continuing Reforms & IT Investment



Continuing Reforms

- Redefining corporate culture
- Remuneration reforms

Leveraging IT Investment

- IT blueprint is on course
- Realigning the IT module to support business development

Financial Results and Operating Performance



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Profit & Loss Account (1)

Strong growth in profit attributable to shareholders & significant decrease in credit charges reflecting improved credit quality

(HK\$ mm)	2003	2002	% Change
Operating income	17,253	18,114	(4.8)
Operating expenses	(5,658)	(6,025)	(6.1)
Operating profit before provisions	11,595	12,089	(4.1)
Charge for bad and doubtful debts	(1,671)	(2,855)	(41.5)
Operating profit	9,924	9,234	7.5
Property revaluation	(1,111)	(977)	13.7
Profit attributable to shareholders	7,963	6,787	17.3

Profit & Loss Account (2)

(HK\$ mm)	2H03	1H03	2H02	1H02
Operating income	8,417	8,836	9,213	8,901
Operating expenses	(2,961)	(2,697)	(3,126)	(2,899)
Operating profit before provision	5,456	6,139	6,087	6,002
Charge for bad and doubtful debts	(2)	(1,669)	(1,089)	(1,766)
Operating profit	5,454	4,470	4,998	4,236
Property revaluation	112	(1,223)	(977)	-
Net profit	4,951	3,012	3,372	3,415

Balance Sheet

Continued re-deployment of funds from lower yielding interbank placements to securities investment

(HK\$ mm)	31 Dec 2003	31 Dec 2002	% change
Total Assets	762,587	735,536	4%
Cash & Short-term Funds	134,106	115,075	17%
Inter-bank Placements	78,240	80,159	-2%
CDs Held	18,776	17,528	7%
Investments in Securities	172,518	158,633	9%
Advances to Customers	308,582	321,034	-4%
Fixed Assets	17,582	20,212	-13%
Total Liabilities	701,170	677,751	3%
Inter-bank Deposits	41,347	29,957	38%
Deposits from Customers	600,642	600,977	0%
CDs Issued	2,432	-	N/A
Shareholders' Funds	60,261	56,671	6%

Key Financial Ratios

(%)	31 Dec 2003	30 June 2003	31 Dec 2002	30 June 2002
ROE	13.6	10.6	12.5	13.0
ROAA	1.08	0.82	0.94	0.94
Cost to Income Ratio	32.8	30.5	33.3	32.6
NPL Ratio	5.78	7.80	7.99	8.97
Loan / Deposit	51.4	54.9	53.4	52.0
Average Liquidity Ratio	37.8	37.9	41.2	41.3
Capital Adequacy Ratio	15.1	14.7	14.0	14.7

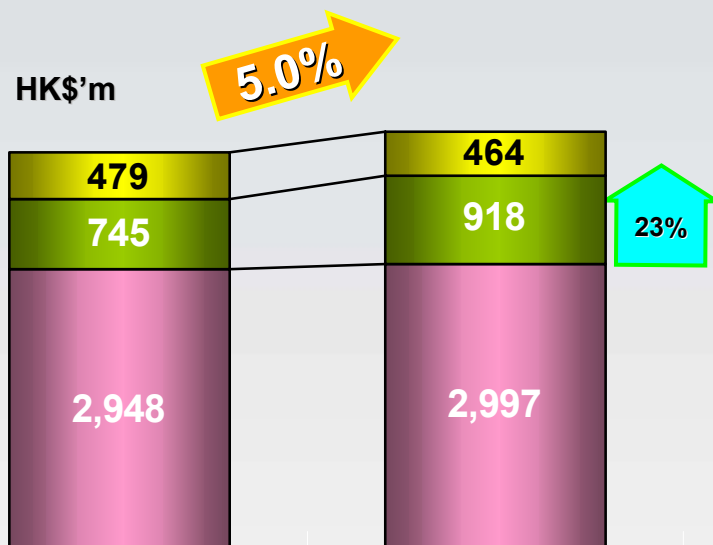
Narrowing Net Interest Margin

The combined effect of intense competition, weak loan demand and low interest rates

(HK\$ mm)	2003	2002	Challenges
Interest Income	17,759	21,463	<ul style="list-style-type: none"> ■ Impact of the significant fall in HIBOR (2003: 0.99%; 2002: 1.81%) ■ Narrowing of lending spread
Interest Expense	4,885	7,521	
Net Interest Income	12,874	13,942	
Net Interest Spread	1.73%	1.87%	
Net Interest Margin	1.82%	2.00%	

Strong Growth in Income from Wealth Management & Treasury Products

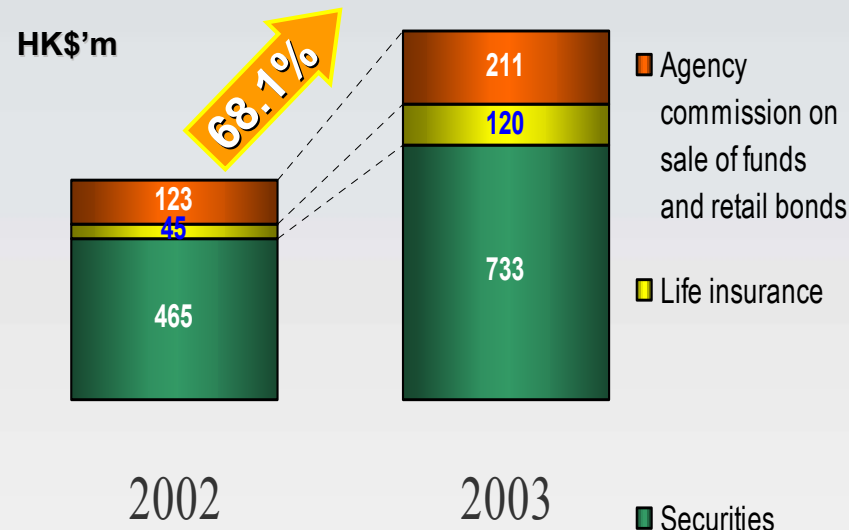
Other Operating Income



2002 2003

- Other income
- Income from treasury segment
- Net fees and commission income

Income from Wealth Management

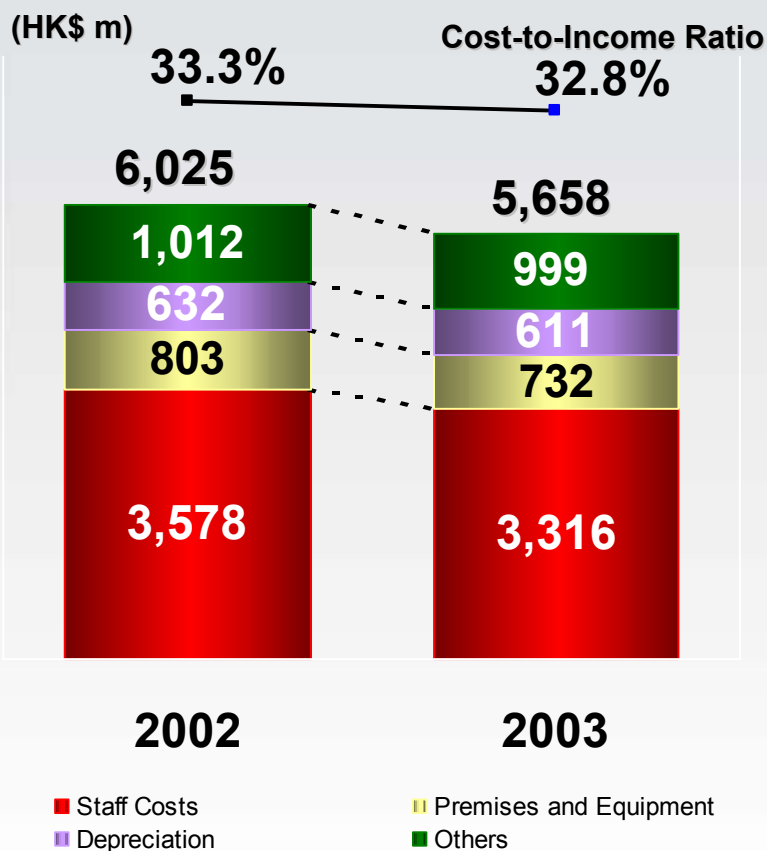


- **Securities broking turnover up 79%**
- **Investment funds and retail bond sale up 68%**
- **Life insurance premium up 114%**

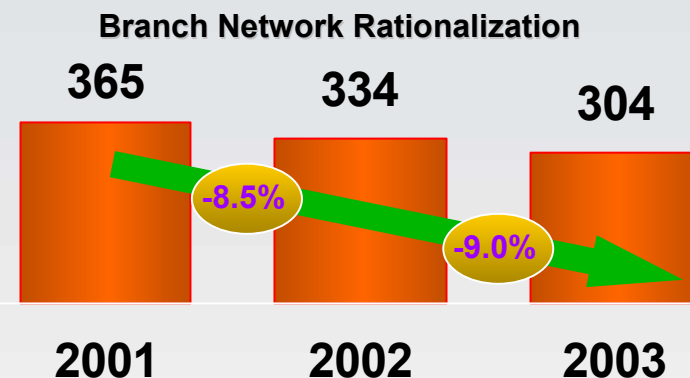
Satisfactory Progress in Bank-Wide Efficiency Program

Better cost management & higher efficiency

Operating Expenses



Reduction in Premise and Equipment Cost



- Improved staff quality and efficiency.
- Completion of Phase I of branch network re-engineering.
- Increased client base penetration through electronic distribution channels.

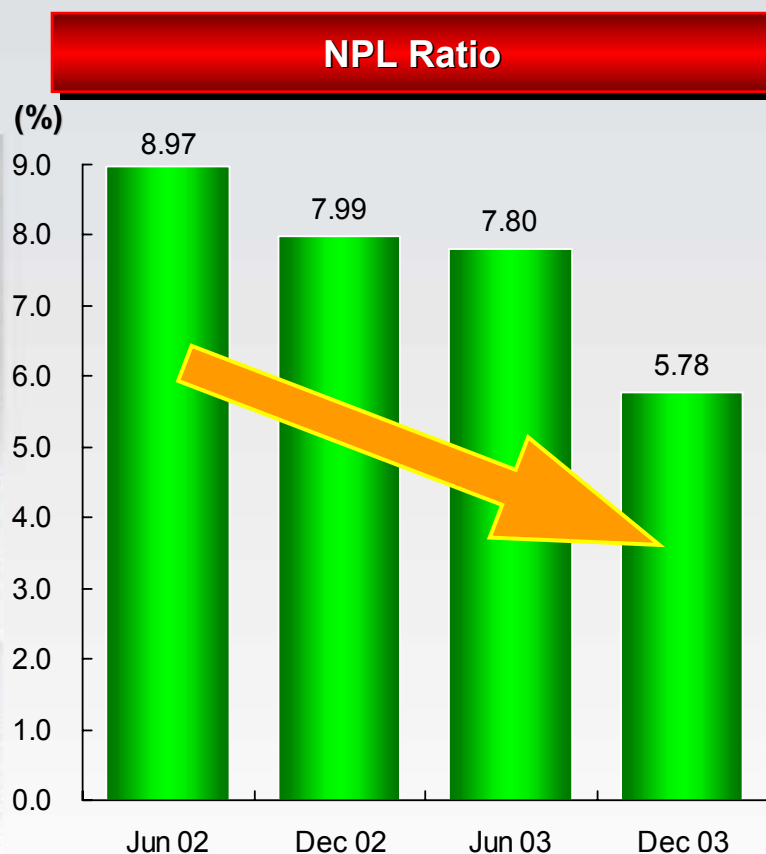
Improved Loan Portfolio

Improved loan mix through shifting of emphasis to areas with higher profitability and growth potential

(HK\$ mm)	31 Dec 2003	31 Dec 2002	% change
Loans for use in HK	277,050	292,635	-5.3%
Property development	23,162	26,591	-12.9%
Property investment	46,754	50,992	-8.3%
Wholesale & retail	18,858	23,781	-20.7%
Residential mortgages	90,003	85,853	4.8%
Credit card advances	3,756	3,554	5.7%
Trade finance	9,851	8,873	11.0%
Loans for use outside HK	21,681	19,526	11.0%
Total advances to customers	308,582	321,034	-3.9%

Significant Improvement in Asset Quality

Achieved an NPL ratio of 5.78%, lowest since IPO



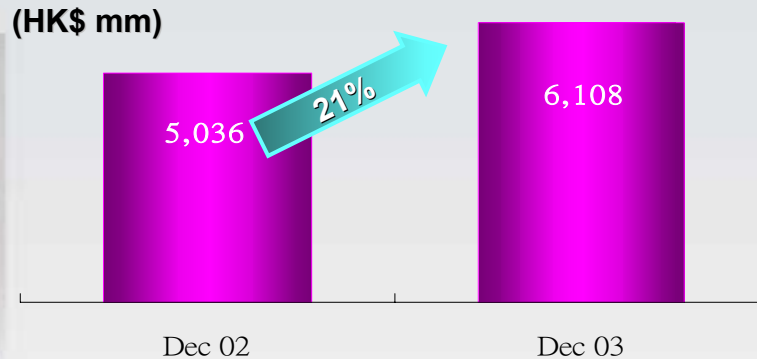
Asset Quality

	31 Dec 2003	31 Dec 2002
General Provisions	5,406	6,363
Specific Provisions	5,507	8,650
NPLs	17,832	25,659
SP/NPLs	30.66%	33.66%
GP/Total Loans	1.75%	1.98%
LLR/NPLs	61.2%	58.5%
SP + Collateral Coverage	91.0%	90.1%

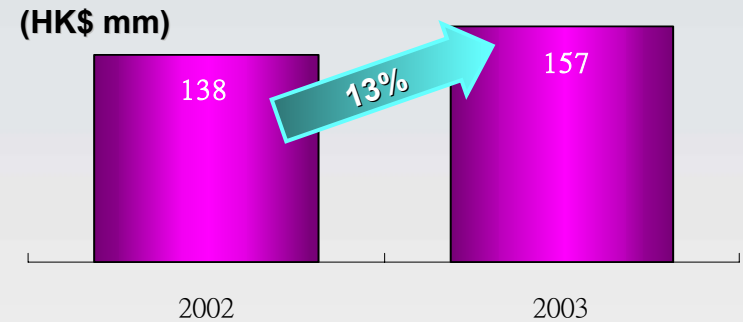
Satisfactory Performance of Mainland Branches

China business improving in volume and quality

Gross Advances to Customers



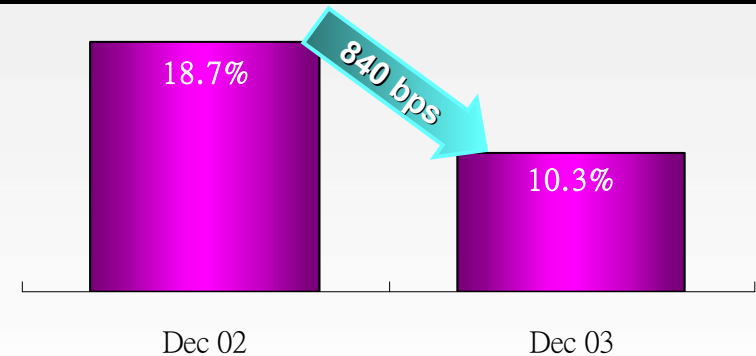
Net Profit



■ PRC branches

- Net profit increased by 13%; loan grew by 21%
- New services - Automated Fund Transfer and Replacement Loan Scheme

Classified loan ratio



Superior Position in RMB and Mainland-related Business

- The only RMB Clearing Bank in HK
- Issuance of Great Wall International Card and Great Wall RMB Card up 122% and 159% respectively. Related cardholder-spending increased by 62% and 104% respectively
- BOC Prestige Banking jointly launched with BOC, leading to increased network resources to customers
- Enhancement of service to HK customers in the Mainland

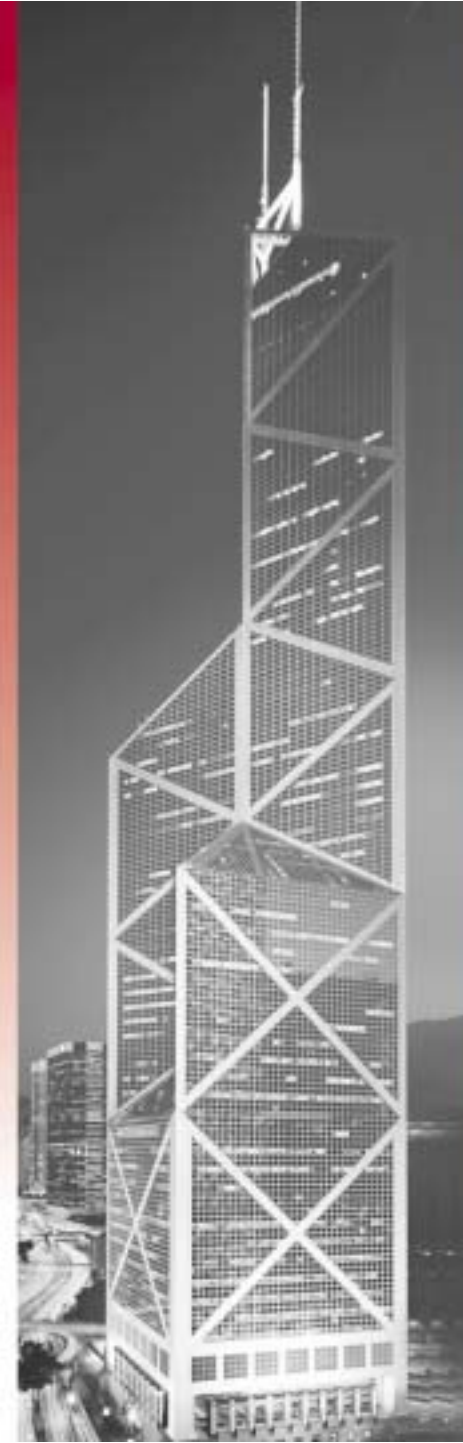


Strategic Focus and Outlook

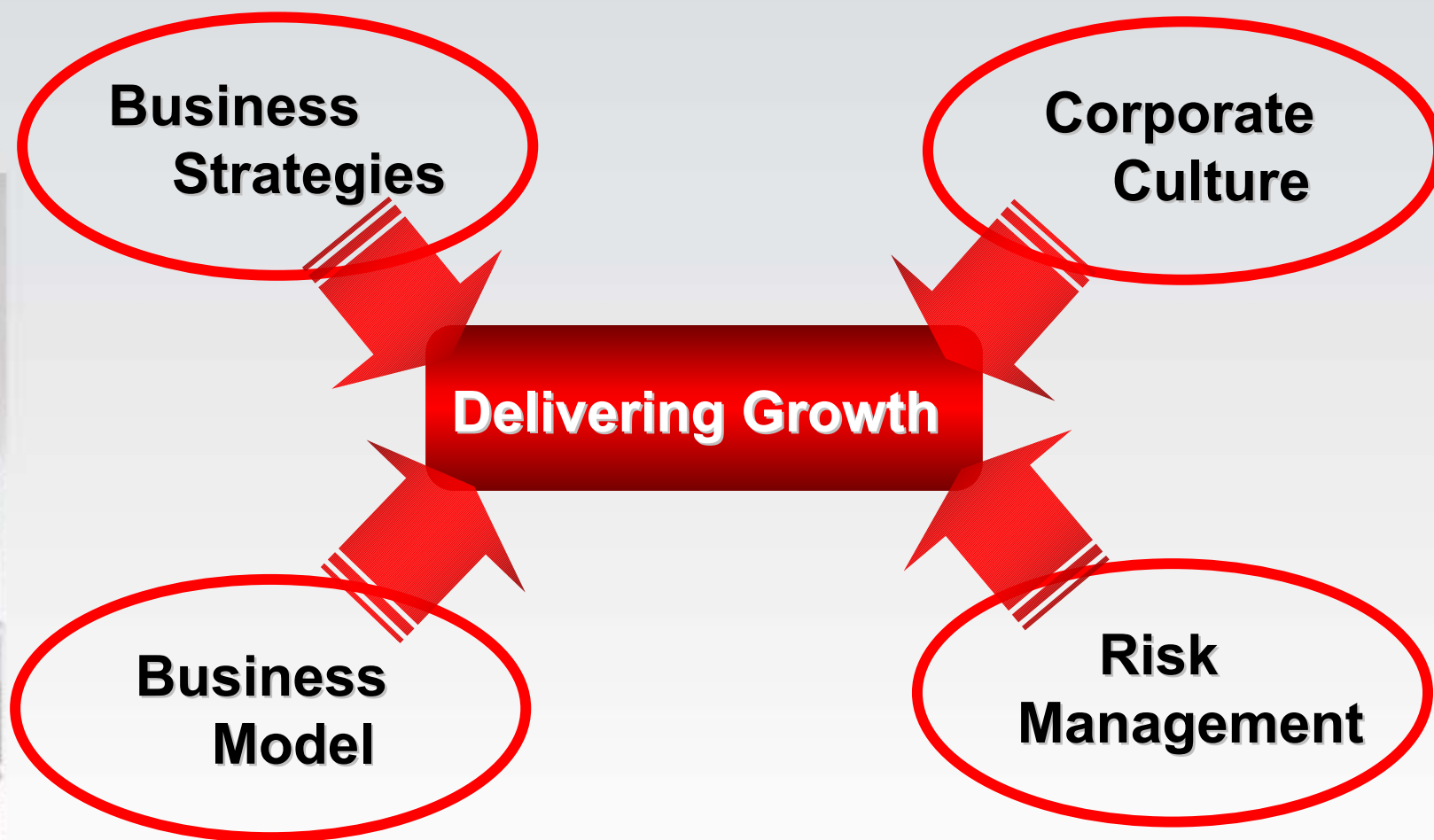


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Strategic Focus in 2004



Aligning Business Model to Support Growth (1)



Retail Banking Model

- Continue branch rationalization – 2nd phase in progress
- Centralize processing function and re-deploy staff to generate business especially in growth areas
- Centralize the processing of customer mortgage business and manage customer lending on portfolio basis
- Continue to grow credit card receivables

Aligning Business Model to Support Growth (2)



Corporate Banking Model

- **Strengthen Customer Relations Team to anticipate and meet customers' needs**
- **Product Managers Team to develop products in need**
- **Fine-tune customer segmentation**
- **Improve loan portfolio**
- **Move toward portfolio approach in managing credit risks**

Aligning Business Model to Support Growth (3)

RMB Banking Model

- Capitalize on early entry
- Make use of Mainland network resources for cross selling

China Business Model

- Leverage customer base in Hong Kong to promote products/services
- Re-organize China Business Department to become extension of Retail Banking and Corporate Banking
- Capitalise on our cooperation with BOC to explore new business opportunities
- Matrix management

Growing with Stronger Foundations

- **Cautiously optimistic despite low interest rates and acute competition**
- **2004 – a year of new opportunities**
- **Growing with stronger foundations**

Growing with Stronger Foundations

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