



中銀香港(控股)有限公司

BOC HONG KONG (HOLDINGS) LIMITED

***Solid Operating Performance
in a Challenging Environment***

**2003 Audited Interim Results
Presentation**

5 September 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.

Agenda



- **Key Performance Highlights**
- **1H2003 Financial Results and Operating Performance**
- **Outlook and Strategic Focus**



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Key Performance Highlights

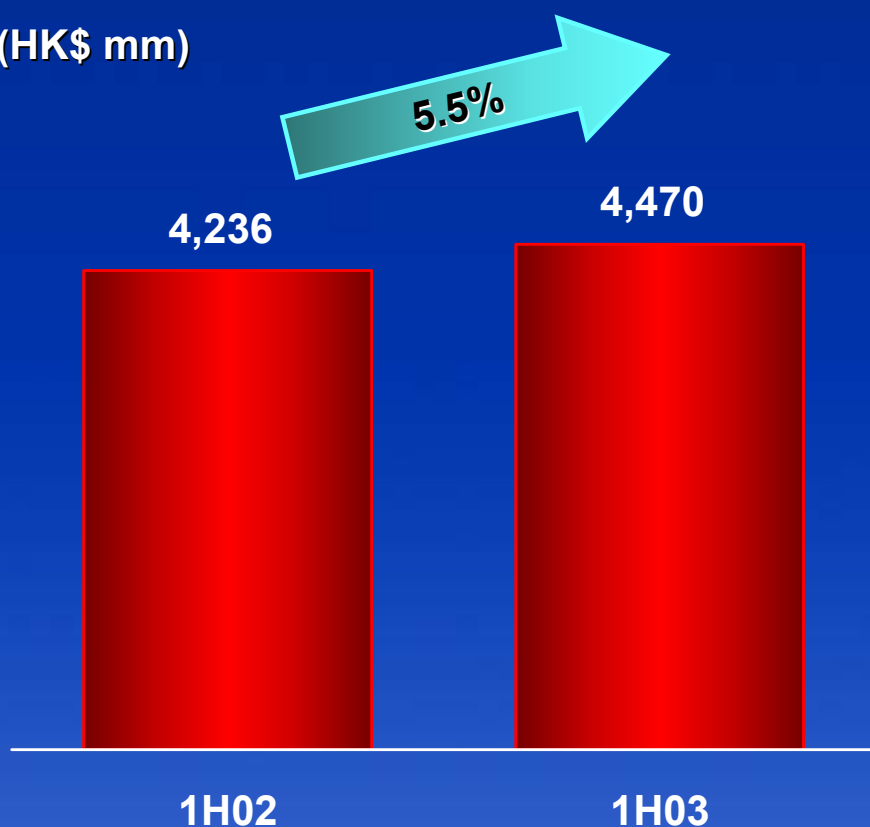
Key Interim Results Highlights (1)



Solid growth in operating profit, impact of property revaluation loss fully reflected

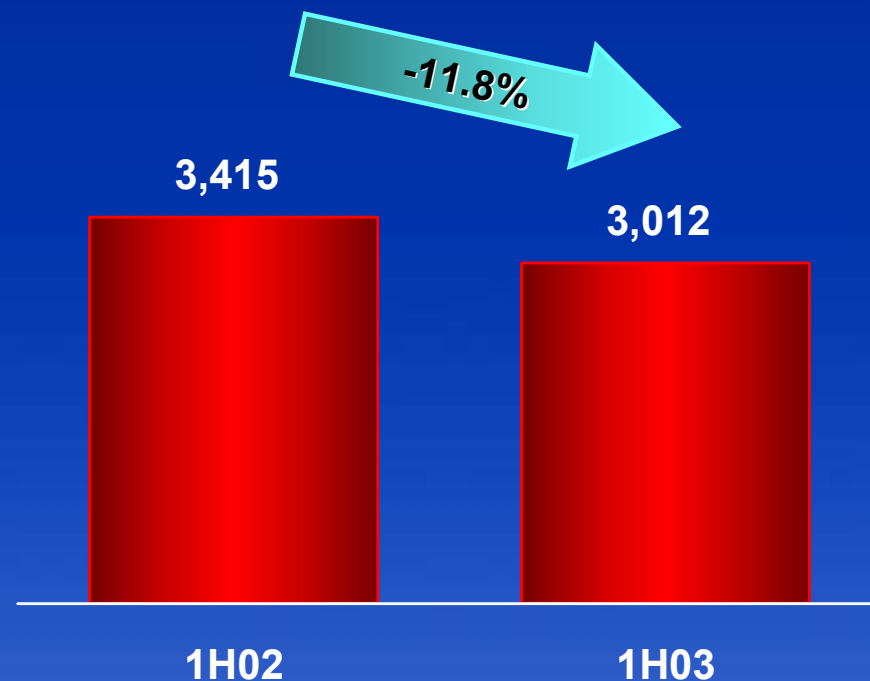
Operating Profit

(HK\$ mm)



Profit Attributable to Shareholders

(HK\$ mm)



Key Interim Results Highlights (2)



- **Achieved EPS of HK\$ 28.5 cents (1H 02: HK\$ 32.3 cents)**
- **Increased interim dividend to HK\$ 19.5 cents (1H 02: HK\$ 18.3 cents)**
- **Achieved ROE of 10.6% and ROAA of 0.82%**
- **Increased other operating income by 12.0% to HK\$2.3 billion**
- **Reduced cost-to-income ratio to 30.5%, one of the lowest in the industry**
- **Lowered NPL ratio to 7.8% (Dec 02: 8.0%)**

Managing Change



- **Modify board composition and enhance high level control**
- **Develop bank-wide Vision, Mission & Core Values to embed corporate culture change**
- **Recruit world class management personnel, including Chief Operating Officer and Director of Risk**
- **Prioritise and implement incremental improvements recommended by KPMG**

Overall Business Strategy

Diversification & Capitalise on Opportunities



- Increase revenue from retail lending
- Expand our China business to contribute up to 10% of total revenues in the medium term
- Focus on profitability and asset quality of corporate loans
- Exit high risk lending

Deliveries

Business-Driven Strategies



- **Reorganise middle and back offices to support front office business strategies**
- **Middle and back office management has to be business driven**
- **Align IT projects with business strategies and ensure early delivery of revenue generating IT projects**



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Financial Results and Operating Performance

Profit & Loss Account



**Solid growth in operating profits;
Impact of property revaluation loss fully reflected**

(HK\$ mm)	30 Jun 2003	30 Jun 2002	% Change
Operating Income	8,836	8,901	(0.7)
Operating Expenses	(2,697)	(2,899)	(7.0)
Operating Profit before Provisions	6,139	6,002	2.3
Charge for Bad and Doubtful Debts	(1,669)	(1,766)	(5.5)
Operating Profit after Provisions	4,470	4,236	5.5
Property Revaluation	(1,223)	-	-
Profit Attributable to Shareholders	3,012	3,415	(11.8)
EPS (HK\$)	0.285	0.323	(11.8)
DPS (HK\$)	0.195	0.183	6.6

Balance Sheet



Shifting to More Efficient Asset Mix; Robust Capital Position with Prudent Capital Adequacy Ratio

(HK\$ mm)	30 Jun 2003	31 Dec 2002
Total Assets	735,494	735,536
Inter-bank Placements & Short-term Funds	186,518	195,234
Securities Investments	167,636	158,633
Advances to Customers	321,181	321,034
Fixed Assets	17,921	20,212
Total Liabilities	677,010	677,751
Deposits from Customers	585,135	600,977
Shareholders' Funds	57,367	56,671
Tier 1	13.8%	13.1%
Total CAR	14.7%	14.0%

Key Financial Ratios



(%)	30 Jun 2003	31 Dec 2002	30 Jun 2002
ROE	10.6	12.5	13.0
ROAA	0.82	0.94	0.94
Cost to Income Ratio	30.5	33.3	32.6
NPL Ratio	7.8	8.0	9.0
Loan / Deposit	54.9	53.4	52.0
Average Liquidity Ratio	37.9	41.2	41.3
Capital Adequacy Ratio	14.7	14.0	14.7

Net Interest Margin



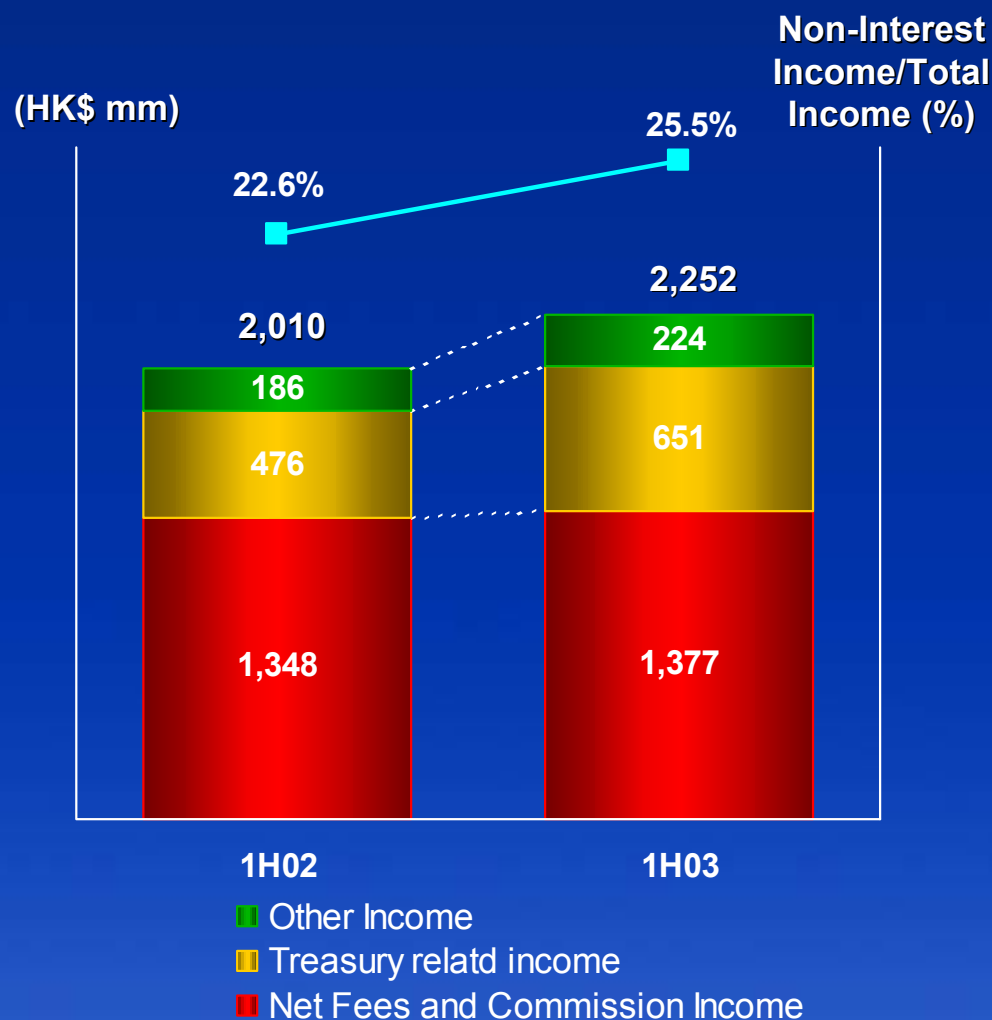
Challenging environment with intense competition, weak loan demand and low market interest rate

(HK\$ mm)	30 Jun 2003	30 Jun 2002	Challenges
Interest Income	9,358	10,958	<ul style="list-style-type: none">■ Narrowing of spreads on lending■ Fall in contribution from net free funds
Interest Expense	2,744	4,067	
Net Interest Income	6,584	6,891	
Net Interest Spread	1.79%	1.85%	
Net Interest Margin	1.89%	1.99%	

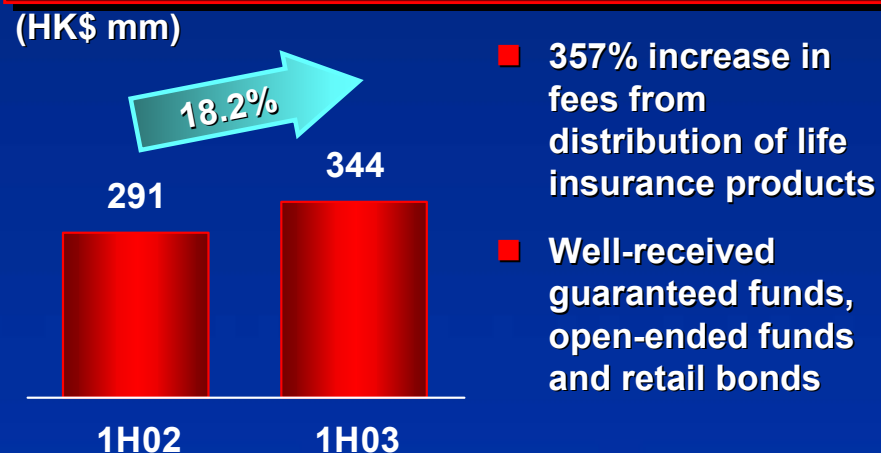
Solid Growth in Other Operating Income



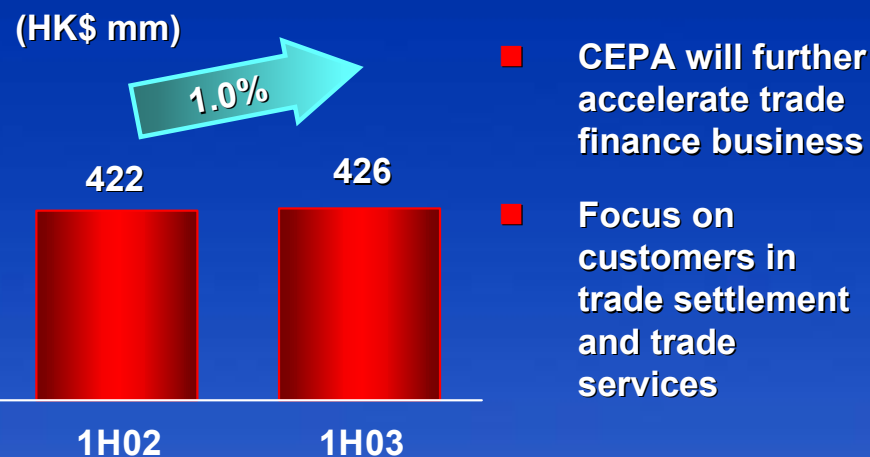
Other Operating Income



Fees from Wealth Management



Commission from Bills and Payment Services



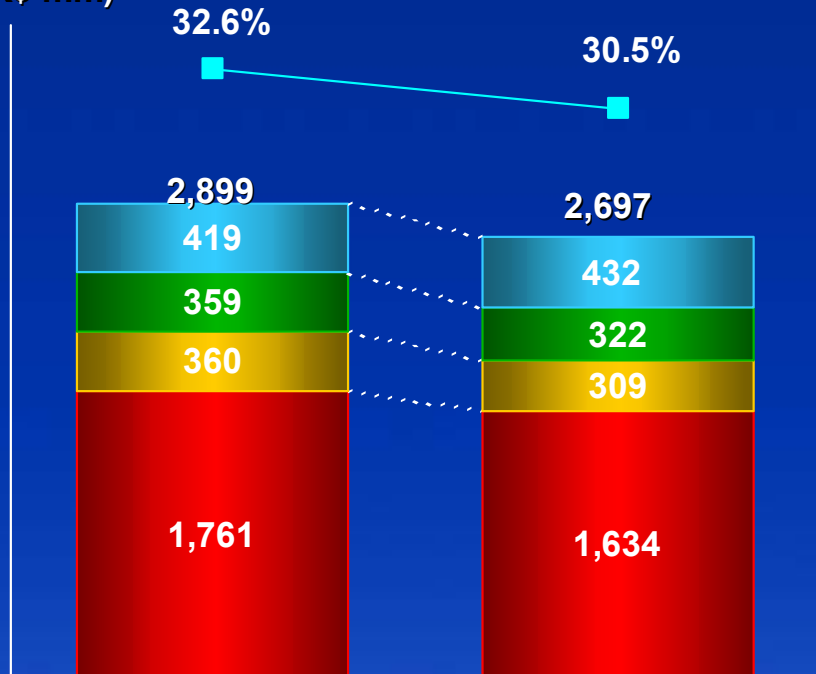
Achieving Cost Efficiency Gains



Continued progress in staff and branch reduction

Operating Expenses

(HK\$ mm) Cost-to-Income Ratio



1H02

1H03

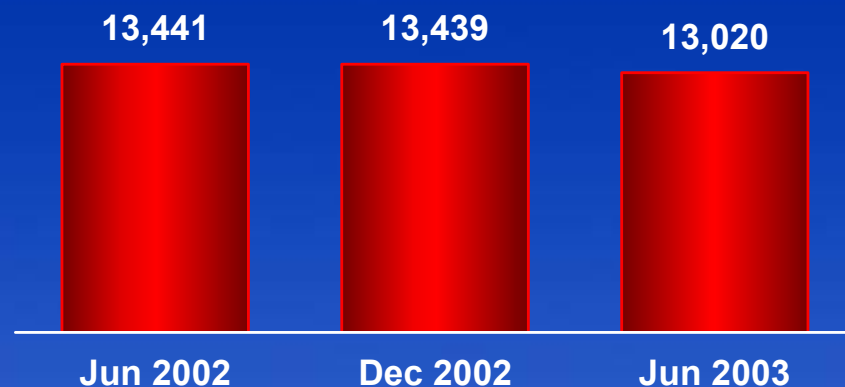
- Others
- Depreciation
- Premises and Equipment Costs
- Staff Costs

Reduction in Premises and Equipment Costs

Branch Network Rationalisation



Staff Rightsizing



Prudent Provision Charges and Coverage



Charges for Bad & Doubtful Debts

	1H 2003	1H 2002
Specific Provisions		
New Provisions	2,537	3,289
Releases	(482)	(1,173)
Recoveries	(220)	(350)
General Provisions	(166)	–
Net Charges for Bad & Doubtful Debts	1,669	1,766

Asset Quality

	30 Jun 2003	31 Dec 2002
General Provisions	6,197	6,363
Specific Provisions	8,973	8,650
NPLs	25,049	25,659
SP/NPLs	33.74%	33.66%
GP/Total Loans	1.93%	1.98%
LLR/NPLs	60.6%	58.5%
SP + Collateral Coverage	90.9%	90.1%

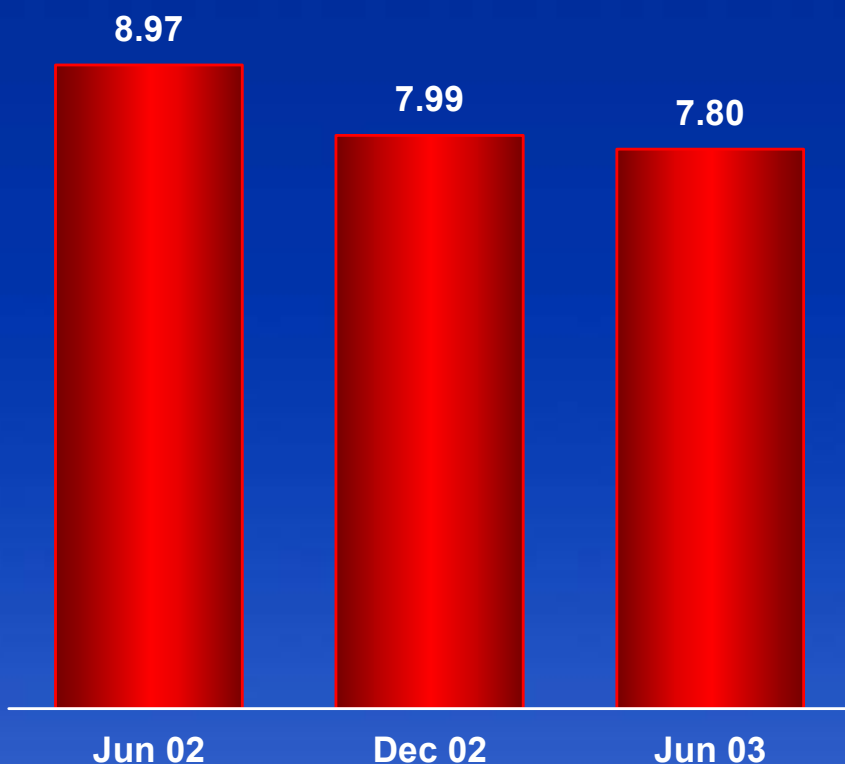
Continue to Improve Asset Quality



Achieved an NPL ratio of 7.80%

NPL Ratio

(%)



- Write off of HK\$1.7 billion
- Lower NPL origination
- Delinquency and rescheduled loans ratio of residential mortgages improved from 1.75% to 1.51%
- Delinquency ratio of credit card advances fell from 1.34% to 1.28%



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Outlook and Strategic Focus

Looking Forward



Revenue Enhancement

- Increasing fee income due to cross-selling of high ROE products
- Products include credit cards, insurance products, investment funds, treasury products, trade services, cash management, syndicate loans

Synergies and Efficiency Gains

- Decreasing operating expenses due to back office efficiency and staff productivity improvement
- Significant IT investment program in progress

Capitalising on China Opportunities

- Leading international issuer of credit cards in the Mainland
- Key player in underwriting China property mortgages for Hong Kong residents
- RMB business opportunities

Asset Quality and Risk Management Improvements

- Improving NPL ratios
- Lowering delinquency rates
- Established comprehensive and systematic credit monitoring



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End

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