

*In Pursuit of Growth
and
Excellence*

2004 Annual Results

23 March 2005



中銀香港(控股)有限公司
BOC HONG KONG (HOLDINGS) LIMITED



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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.

Management Team

Mr. Gary He	Vice Chairman and Chief Executive
Mr. David Lam	Deputy Chief Executive
Mr. Raymond Lee	Chief Financial Officer
Mr. Yingxin Gao	Deputy Chief Executive
Mr. Alex Cheung	Chief Risk Officer
Mr. Peter Liu	Chief Information Officer
Mr. Jason Yeung	Company Secretary and Head of IR

Agenda

- **Key Performance Highlights**
- **Financial Results**
- **New HKFRS**
- **2005 Outlook and Strategic Focus**

Key Performance Highlights



中銀香港(控股)有限公司
BOC HONG KONG (HOLDINGS) LIMITED

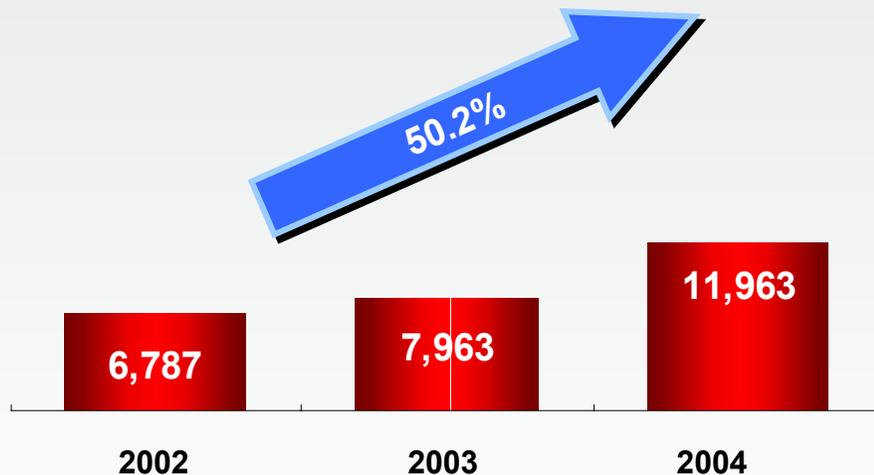


Record High Attributable Profit

Strong growth in attributable profit and dividend for 2004

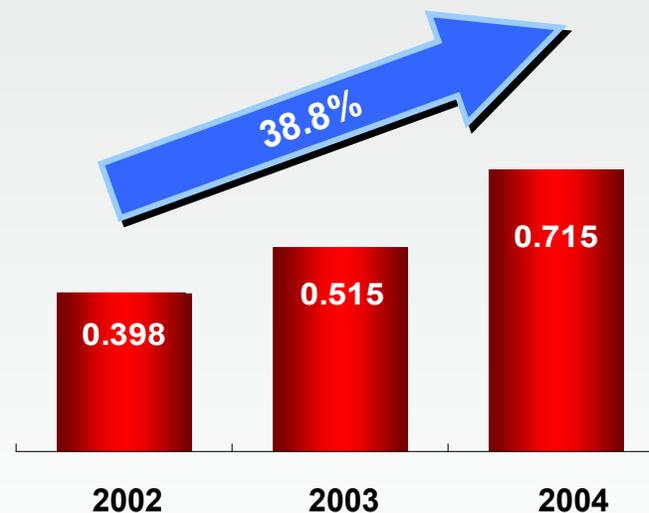
Profit Attributable to Shareholders

HK\$ mm



Dividend per Share

HK\$



Higher ROE, ROA and Asset Quality

%	2004	2003
ROE	18.58	13.62
ROA	1.56	1.08
NIM	1.55	1.82
Non-interest income ratio	29.41	25.38
Cost to income ratio	34.72	32.79
NPL ratio	2.95	5.78
Loan to deposit ratio	49.61	51.38
Average liquidity ratio	36.03	37.76
Capital adequacy ratio	16.14	15.11

Operating Environment

- Upturn of Hong Kong economy
- Improved credit environment
- Highly liquid money market  Average 1M HIBOR 0.3%
- Net interest income suppressed by persistent low HIBOR

Business Performance

- **Market leadership maintained in traditional businesses**
- **Robust growth of high-margin businesses**
- **Market leadership in new areas pioneered by the Group - RMB banking**
- **Growth momentum sustained in China-related business**



Crisis Management

- Major management crisis quickly resolved
- Enhancement of corporate governance and management structure



Business Development

- **Enhanced business strategy**
- **Refined business model**
- **Improved risk management**
- **Development of new corporate culture**

Financial Results



Profit and Loss Account (YoY)

Strong rise in net profit due to provision write-back, property revaluation gain & growth in non-interest income

HK\$ mm	2004	2003	% Change	
Net interest income	11,193	12,874	-	13.06
Non-interest income	4,664	4,379	+	6.51
Operating income	15,857	17,253	-	8.09
Operating expenses	5,505	5,658	-	2.70
Operating profit before provisions	10,352	11,595	-	10.72
Write-back of/(charge for)				
bad and doubtful debts	1,628	(1,671)		NA
Operating profit	11,980	9,924	+	20.72
Non-operating items	2,272	(1,233)		NA
Profit attributable to shareholders	11,963	7,963	+	50.23
- Excluding exceptional items*	10,303	8,325	+	23.76

* Excluding tax provision write-back in 2003, revaluation surplus/deficit and asset revaluation deferred taxation.

Profit and Loss Account (HoH)

Rise in 2H04 net profit due to stabilised net interest income, provision write-back and property revaluation gain

HK\$ mm	2H2004	1H2004	2H2003	1H2003
Net interest income	5,684	5,509	6,290	6,584
Non-interest income	2,150	2,514	2,127	2,252
Operating income	7,834	8,023	8,417	8,836
Operating expenses	2,838	2,667	2,961	2,697
Operating profit before provisions	4,996	5,356	5,456	6,139
Write-back of/(charge for) bad and doubtful debts	388	1,240	(2)	(1,669)
Operating profit	5,384	6,596	5,454	4,470
Non-operating items	2,092	180	(8)	(1,225)
Profit attributable to shareholders	6,382	5,581	4,951	3,012
- Excluding exceptional items*	4,722	5,581	4,839	3,486

* Excluding tax provision write-back in 2003, revaluation surplus/deficit and asset revaluation deferred taxation

Balance Sheet – Enhanced Asset Mix



HK\$ mm	31.12.2004	31.12.2003	% Change
Total assets	796,776	762,587	+ 4.48
Cash and short-term funds	102,647	134,106	- 23.46
Interbank placements	107,581	78,240	+ 37.50
CDs held	22,338	18,776	+ 18.97
Investments in securities	189,388	172,518	+ 9.78
Advances to customers	313,226	308,582	+ 1.50
Fixed assets	21,877	17,582	+ 24.43
Total liabilities	727,016	701,170	+ 3.69
Interbank deposits taken	34,440	41,347	- 16.70
Deposits from customers	631,330	600,642	+ 5.11
CDs issued	3,788	2,432	+ 55.76
Shareholders' funds	68,521	60,261	+ 13.71

Lower Net Interest Margin

Challenging environment with low interest rate, intense competition and modest loan growth

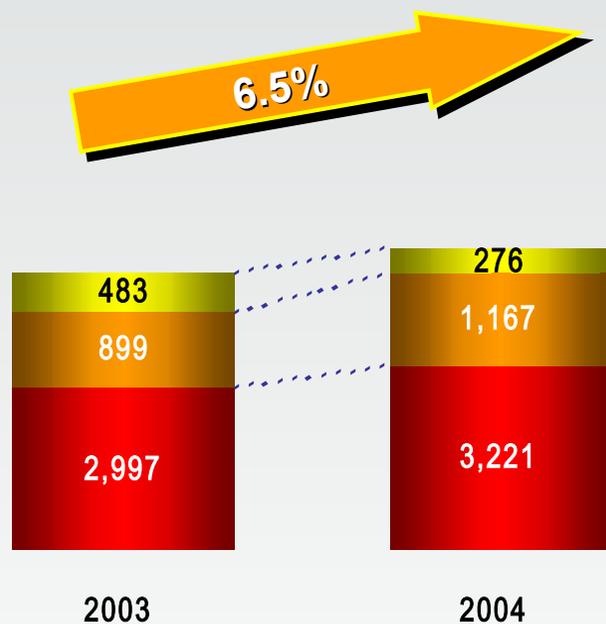
	2004	2003
HK\$ mm		
Interest income	15,678	17,759
Interest expense	4,485	4,885
Net interest income	11,193	12,874
Net interest spread	1.46%	1.73%
Net interest margin	1.55%	1.82%

- Fall in average 1M HIBOR (2004: 0.30%; 2003: 0.99%)
- Decline in yields from interbank placements, loans and debt securities
- Actively managed balance sheet
- Enhanced risk adjusted return through de-risking of loan portfolio
- Weighted average yield from residential mortgage was P-2.17% as competition intensified

Growth in Wealth Management and Treasury Income

Other operating income

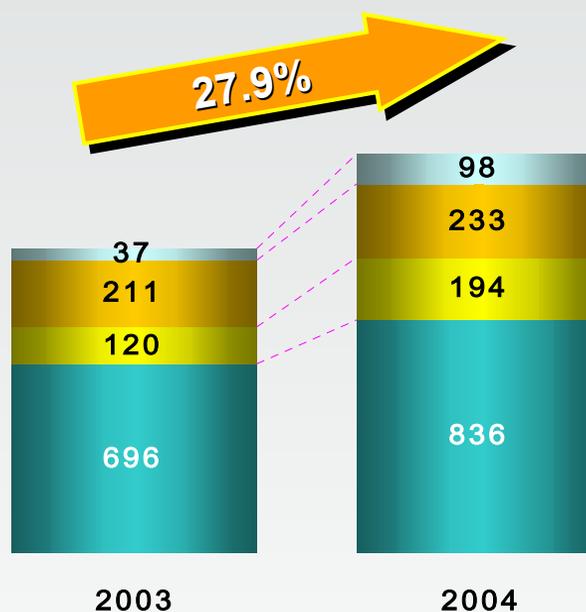
HK\$ mm



- Other income
- Treasury related income
- Net fees and commission income

Income from wealth management

HK\$ mm



- Bonds
- Asset management
- Life insurance
- Stockbroking

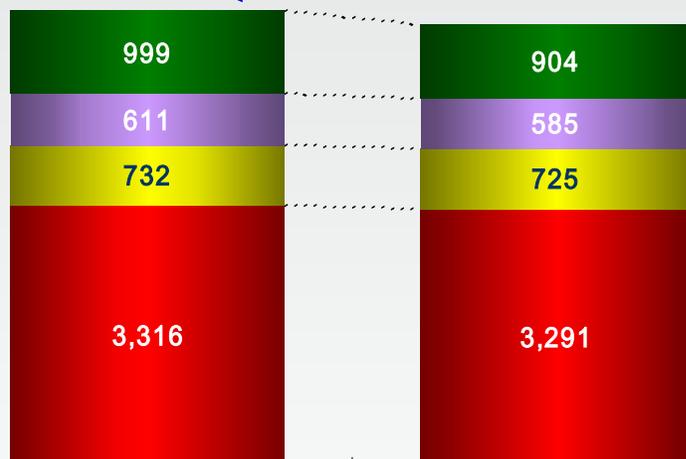
Operating Expenses under Control

Increased operational efficiency and disciplined cost management

Operating expenses

HK\$ mm

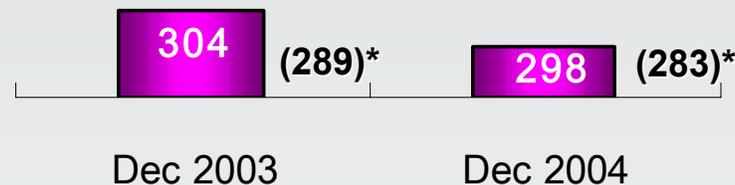
5,658 → 5,505
 32.79% ← 34.72%



- Others
- Depreciation
- Premises and Equipment (including IT expenses)
- Staff Costs

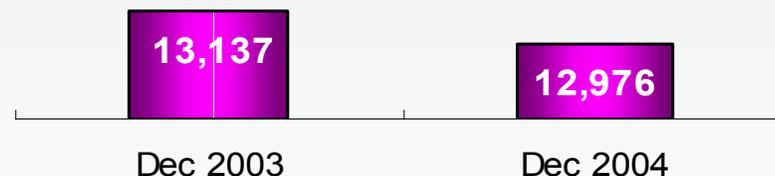
↔ Total Operating Expenses
 ↔ Cost to Income Ratio

Branch number



*Branches in Hong Kong

Staff number (FTE)

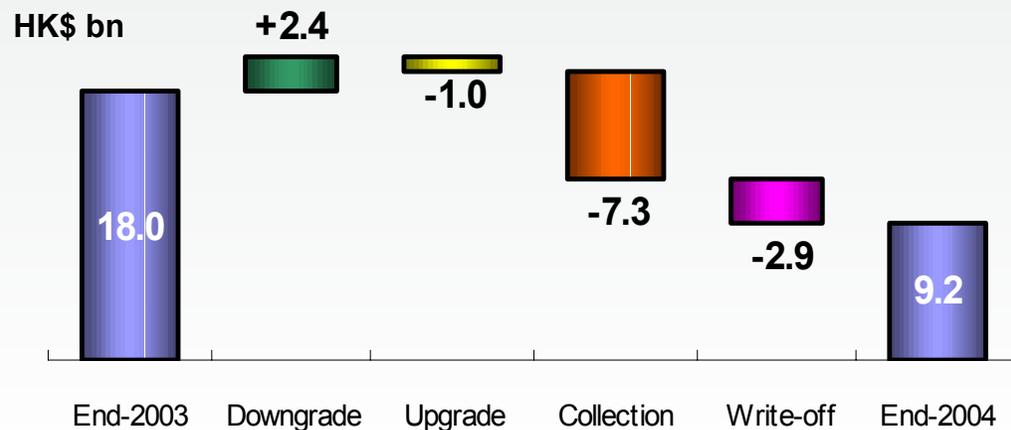


Substantial Provision Write-back

Lower classified loan formation, strong collections and recoveries reflecting continuous improvement in loan quality

HK\$ mm	2004	2003
Specific provisions		
- new provisions	(1,520)	(3,834)
- releases	1,851	768
- recoveries	1,356	438
General provisions	(59)	957
Net credit/(charge)	1,628	(1,671)

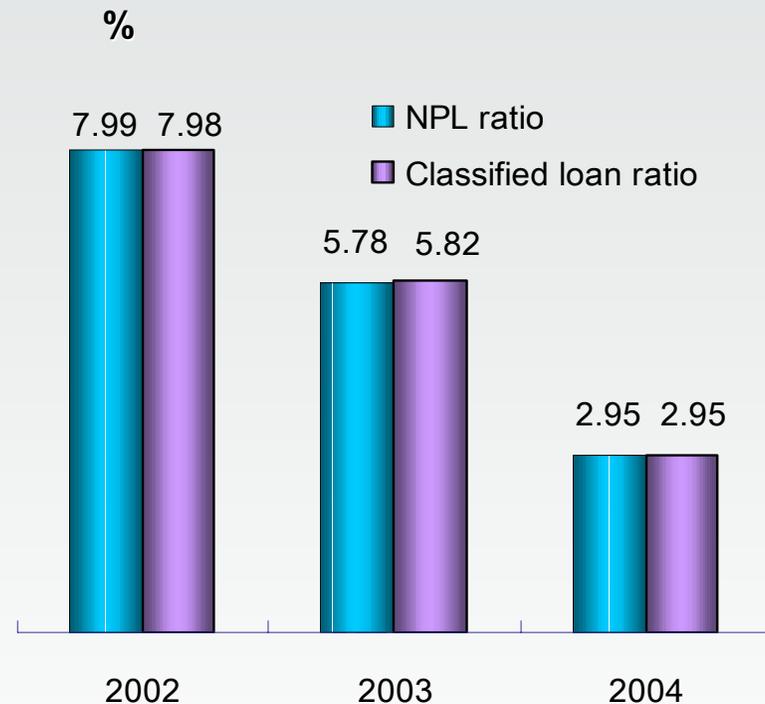
Migration of classified loans for 2004



Significant Improvement in Asset Quality

NPL ratio further declined to 2.95% - lowest level since IPO

NPL / Classified loan ratio



Asset quality

HK\$ mm

	31.12.2004	31.12.2003
General Provisions	5,465	5,406
Specific Provisions	2,320	5,507
NPLs	9,239	17,832
SP/NPLs	24.56%	30.66%
GP/Total Loans	1.74%	1.75%
LLR/NPLs	84.26%	61.20%
SP + Collateral Coverage	91.66%	90.95%

Strong Growth in Retail and Overseas Lending

Strong growth in residential mortgage, card advances and overseas lending with total performing loans increased by 4.6%

HK\$ mm	31.12.2004	31.12.2003	% Change
Loans for use in HK - corporate	148,034	155,839	- 5.0
Loans for use in HK - individuals	124,687	118,962	+ 4.8
Residential mortgages	95,615	90,003	+ 6.2
Credit card advances	4,256	3,756	+ 13.3
Trade finance	13,279	12,100	+ 9.7
Loans for use outside HK	27,226	21,681	+ 25.6
Total advances to customers (Gross)	313,226	308,582	+ 1.5
Total advances to customers (Net)*	310,906	303,075	+ 2.6
Total performing loans**	303,987	290,750	+ 4.6

* Net of specific provisions

** Total advances to customers less total NPLs

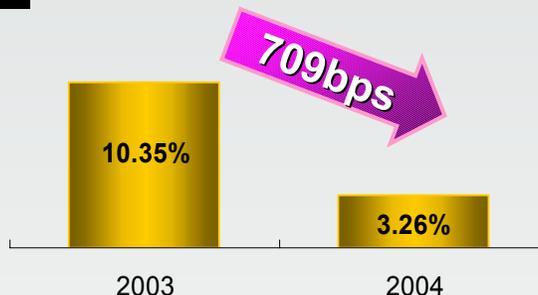
Steady Growth in the Mainland

Organic growth driven by significant increase in loans and improved asset quality

Combined profit and loss account of 14 Mainland branches and sub-branches

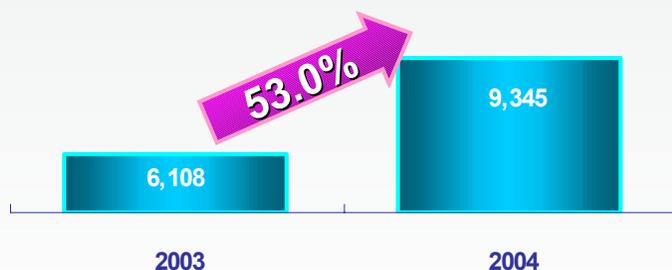
Classified loan ratio

HK\$ mm	2004	2003	% Change
Operating income	264	246	+ 7.3
Operating expenses	117	125	- 6.4
Operating profit before provisions	147	121	+ 21.5
Profit before taxation	255	170	+ 50.0



Gross advances to customers

HK\$ mm



Deposits from customers

HK\$ mm



New HKFRS



New HKFRS – Possible Implications for 2005 (1)



- **New HKFRSs – convergence with international standards**
- **More volatile P/L**
- **Reclassification of some balance sheet items**
- **Compliance with HKMA requirements**
- **Complex implementation**

New HKFRS – Possible Implications for 2005 (2)



- **Classification of financial instruments**
 - **New classification of debt securities**
 - **Change in measurement methods**
- **Accounting for derivatives**
 - **Measured at fair value**
- **Hedge accounting**
 - **Stringent requirements**

New HKFRS – Possible Implications for 2005 (3)



- **Loan impairment**
 - **Recognised on an incurred loss basis**
 - **Discounted future cash flow**
- **Investment property**
 - **Fair value model**
 - **Change in fair value of investment properties to be recognised directly in P/L**

2005 Outlook and Strategic Focus



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Outlook for Hong Kong Economy and Banking Sector

- **Economic recovery likely to extend into 2005**
- **Higher demand for loans, banking and financial services**
- **Competition for local banks to remain intense**
- **Growing importance of China-related business**

Strategic Focus (1)

■ To achieve higher top line growth and better returns

■ Corporate Banking

- Expand SME loans and trade finance
- Further de-risk corporate loan portfolio

■ Retail Banking

- Grow wealth management and consumer lending
- Strengthen development of consumer credit products and value added services
- Maintain leadership in residential mortgage market

Strategic Focus (2)

■ To achieve higher top line growth and better returns (Cont'd)

■ Treasury

- Focus on balance sheet management
- Adjust investment portfolio to maximize return on residual funds

■ China-related Business

- Leverage branch network in Hong Kong and Mainland
- Closer cooperation with BOC to expand customer base and new business
- Maintain leadership in RMB business

Strategic Focus (3)

- **To further enhance corporate development**
 - **development strategy**
 - **business model**
 - **risk management**
 - **corporate culture**
- **To further improve asset quality**
- **To invest in the future**
- **To explore other business expansion opportunities**

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