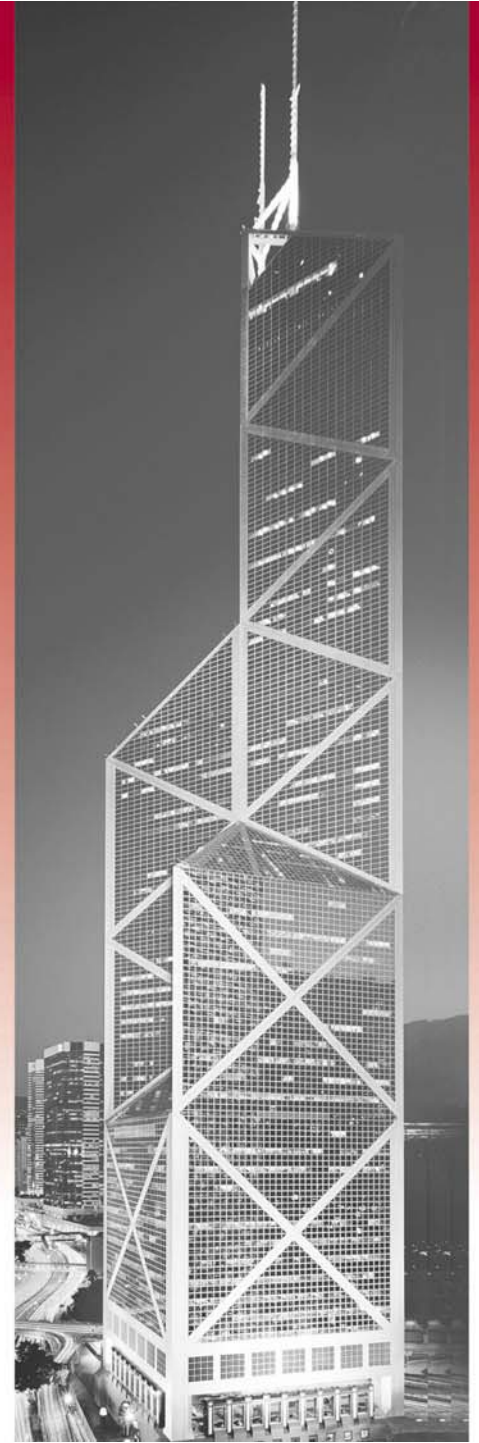


# Bank of China (Hong Kong)

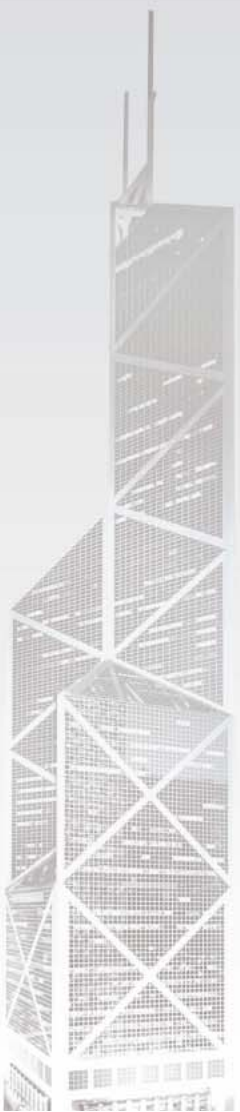
15 March 2005



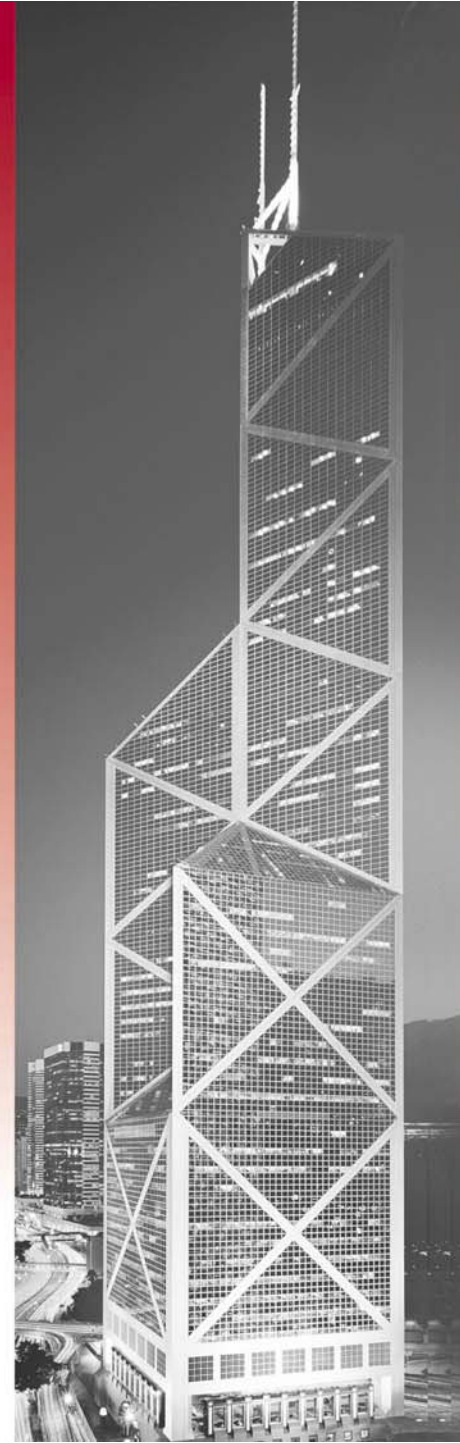
# Forward-Looking Statement Disclaimer

**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

- 
- **Banking Environment in Hong Kong**
  - **Bank of China Hong Kong (BOCHK) Business Review**
  - **Strategic Focus and Outlook for 2005**

# Banking Environment in Hong Kong



# Banking Environment in Hong Kong

## 2004 Banking Results

	2003 Inc/ Dec over 2002* (%)	2004 Inc/ Dec over 2003** (%)
Net Profit	↑ 8.1%	↑ 29.0%
Net Interest Income	↓ 3.8%	↑ 0.1%
Fee Income	↑ 19.4%	↑ 24.2%
Operating Expenses	↑ 1.9%	↑ 12.1%
Operating Profit	↑ 3.5%	↑ 6.0%
Loan Loss Provision	↓ 13.1%	↓ 90.0%

\* All major banks (13)

\*\* Banks results announced (11)

# Banking Environment in Hong Kong

## 2004 Banking Results

	2003 Inc/ Dec over 2002* (%)	2004 Inc/ Dec over 2003** (%)
Total Assets	↑ 11.2%	↑ 13.3%
Total Loans	↑ 5.4%	↑ 11.2%
- Mortgage	↓ 0.8%	↑ 1.9%
- Others	↑ 8.0%	↑ 14.0%
Total Deposits	↑ 8.7%	↑ 10.2%

\* All major banks (13)

\*\* Banks results announced (11)

## **STRONG NET PROFIT ↑29.0%**

**Historically High Profits driven by:**

- **Lower non-performing loan provisions**  
(↓ 90% compared to 2003)
- **Other non-operative revenue such as property revaluation gain**  
(↑ 6.1% compared to 2003)

**\*\*\* THE AVERAGE OF BANKS' OPERATION INCOME WAS 6.0% \*\*\***

# Hong Kong 2004

## NET INTEREST INCOME MOSTLY FLAT $\uparrow 0.1\%$

- Persistently low HIBOR  $\leftarrow 30 \text{ bp}$
- Low deposit rates  $\leftarrow 0.01\%$
- Unusually high prime-HIBOR spread
- Continuing price pressure on core loan products
  - Mortgage
  - Trade Finance

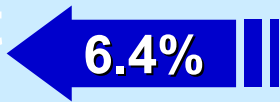

**\*\*\* HIGHER RETURNS ON LENDING ACTIVITIES BUT LOWER INVESTMENT RETURNS \*\*\***



## STRONG FEE INCOME GROWTH ↑24%

- Strong fee income growth characterized by:
  - Higher wealth management fee income
  - Treasury/ Investment products
  - Insurance products
  - Stock brokerage
  - Trade services commission
- Improve retail spending **↑10.8%**
- Increase in export trade business **↑15.9%**

## IMPROVED CREDIT ENVIRONMENT

- Improvements in property market, export/ re-exports and consumer spending
- Gradual improvement in employment situation 
- More “Turn-round” Businesses
- Reduction in personal bankruptcy 

\*\*\* LOWER CREDIT COSTS \*\*\*

## OPERATING EXPENSES UNDER PRESSURE ↑12.1%

- End to deflation
- Improved job market
- Salary adjustment pressure
- More IT Investment
  - Basel II
  - New IAS
  - Investment cycle (5 years since Y2K)

## REGULATORY AND ACCOUNTING RULE CHANGES

- **HKFRS , HKAS 39&40**  
(Adoption of international standards)
- **BASEL II (New Basel Capital Accord)**

**\*\*\* DEMAND FOR ADDITIONAL RESOURCE \*\*\***

## HKFRS, HKAS 39 & 40 ∞ Main Impact ∞

- **Loan Provision**
- **Valuation of Securities and Derivatives**
- **Property Valuation**

## HKFRS, HKAS 39 & 40

### ∞ Loan Provision ∞

- Accounting provision – individual and collective assessment
- Regulatory provision – additional prudential provision required by HKMA
- Discontinuation of general provision
- General provision to be reviewed in light of further guidance from the Basel Committee

**Direction: New accounting provision expected to be lower than the present industry actual specific and general provision.**

## HKFRS, HKAS 39 & 40

### ∞ Valuation of Securities and Derivatives ∞

- Strengthen definition of financial instruments: HTM, AFS, and FVTPL concepts
- On first adoption, permitted to designate previously recognized financial assets as FVTPL or AFS
- Market valuation of all derivatives through P&L, other than qualifying hedging instruments
- No amortization of swap points on funding swap
- Change in revenue classification

**Direction: Depending on the one time adoption methodology, impact will be one of timing of ongoing income/ expenses recognition.**

## HKFRS, HKAS 39 & 40 ∞ Valuation of Property ∞

- Change in the fair value of an investment property will be reported through P&L.
- Own-use property unaffected

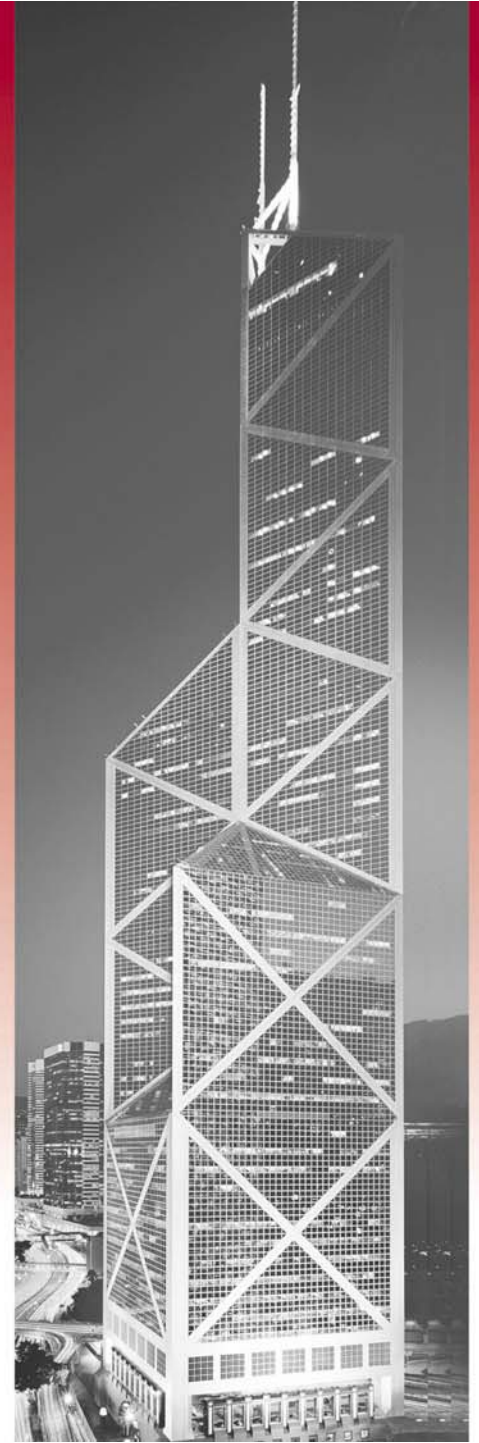
**Direction: No significant impact on banks.**



## BASEL II

- Banks in Hong Kong required to make decision on CAR calculation methodology in 2005:
  - Advanced IRB
  - Fundamental IRB
  - Standardized Approach
  - Basic Approach (Special Case)
- Most local banks expected to adopt for Standardized Approach.

# BOCHK Business Review



# A Brief Background

## Bank of China Hong Kong (BOCHK)

- Formed on 1 October 2001
- Merger of 12 Hong Kong registered banks
- Listed in the Stock Exchange of Hong Kong on 25 July 2002 (The Holding Company)
- Approximately 66% held by the Bank Of China

# A Brief Background

- One of three note issuing banks in Hong Kong
- The second largest banking group in Hong Kong
- Some vital statistics\*

- Total Assets: HKD752.0 billion

- Market Capitalization: HKD140.6 billion

- Number of Branches : Hong Kong 287

China	14
USA	1

\*As of 30 June 2004

\*\*\* Visit our websites: [www.bochk.com](http://www.bochk.com) \*\*\*

# 2004 Business Emphasis

- **De-risk loan portfolio**
- **Increase consumer market penetration**
- **Expand fee based business**
- **Focus on improving return on credit activities**
- **Maximize China business potential**
- **Improve management infra-structure**

# De-risk Loan Portfolio

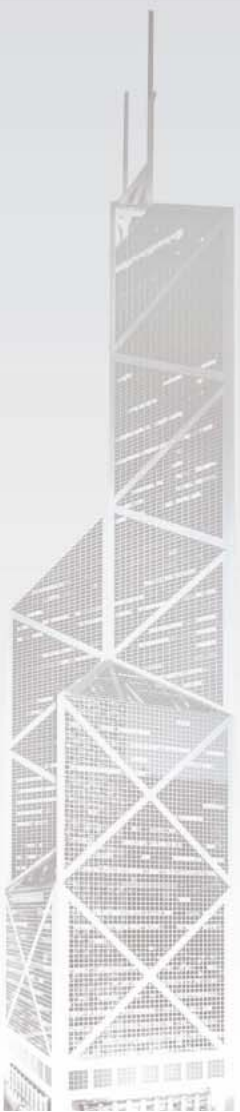
- Diversify loan portfolio
- Improve pricing strategies through RAROC and use of credit score cards
- Continual reduction in NPL ratios

4.1%

# Consumer Market Penetration

- **Increase product range**
- **Solidify market leader position in mortgage lending and deposit taking**
- **Enhance wealth management capabilities**
- **Revamp retail network**

# Fee Based Business

- 
- **Ensure dominance in retail brokerage business**
  - **Expand other investment and insurance services**
  - **Develop non-lending products with innovative features**



# Return on Credit Activities

- **Adjust corporate loan portfolio mix by expanding lending to “mid caps” and SMEs**
- **Improve and enhance current RAROC pricing methodology and use of score card**
- **Re-price selected portfolio segments using enhanced RAROC methodology**

# Maximizing Business from China Potential

- **Re-structure business model for China market**
- **Introduce product marketing concepts**
- **Leverage on relationship with major shareholder (BOC)**
- **Introduce new organization structure for China Division**
- **RMB clearing business in Hong Kong**
- **China Visa Card (Co-Branding)**

# Improve Management Infra-structure

- **Recruited new senior executives**
- **Re-organization of management responsibilities**
- **Continual progress in development of state of the art management tool**

# Financial Review

## Operating Results

Profit Attributable to Shareholders increased by 85.3%  
Dividend per Share increased by 64.1%

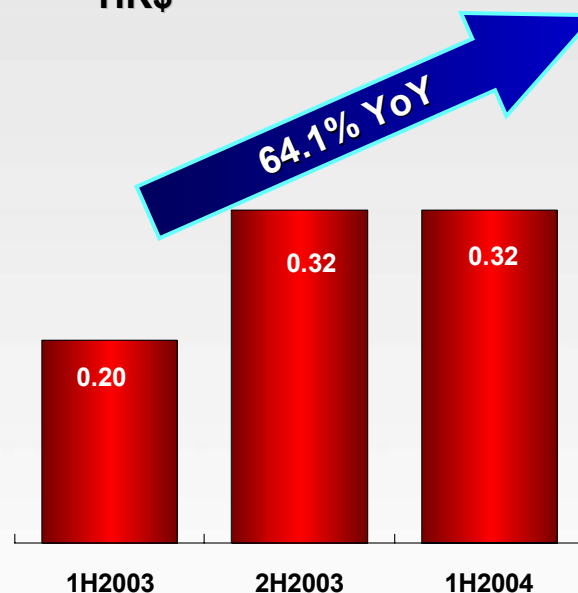
### Profit Attributable to Shareholders

HK\$ mm



### Dividend per Share

HK\$



# Financial Review

## Higher ROE & ROA

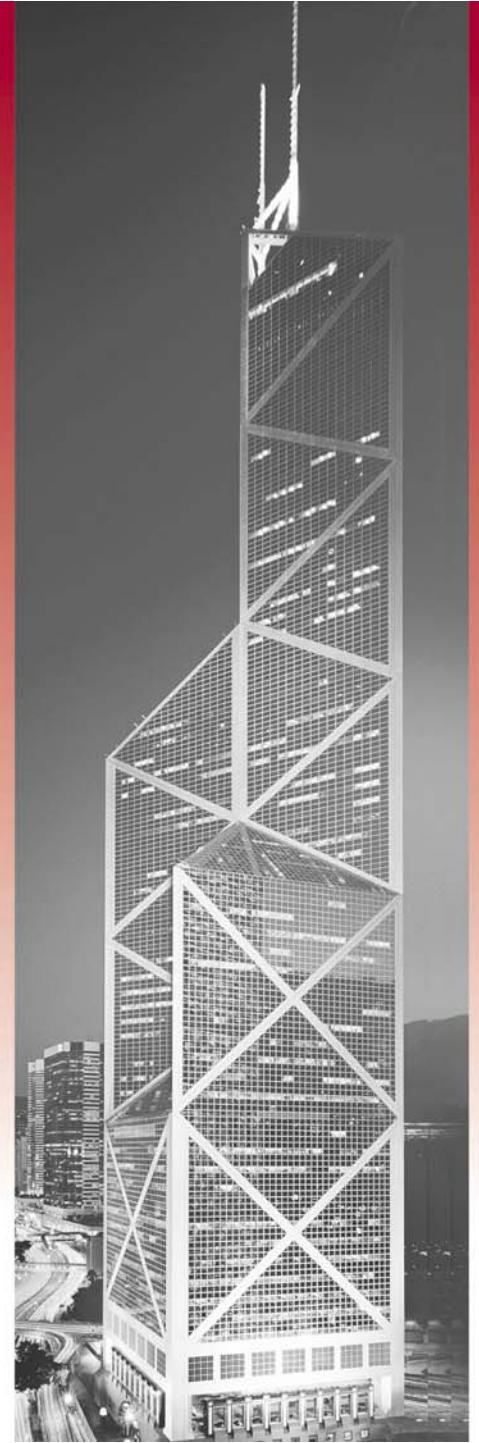
	1H2004	2H2003	1H2003
%			
ROA	1.48	1.32	0.82
ROE	18.19	16.70	10.56
NIM	1.56	1.75	1.89
Non-interest income ratio	31.33	25.27	25.49
Cost to income ratio	33.24	35.18	30.52
NPL ratio	4.11	5.78	7.80
Loan to deposit ratio	54.69	51.38	54.89
Average liquidity ratio	34.64	37.76*	37.93
Capital adequacy ratio	16.52	15.11	14.66

\* 2003 average

# 2005 Outlook And Strategic Focus




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



# Hong Kong 2005

- Property market should remain stable to modestly improved under present government policy
- Unemployment to improve further **5.8-6%**
- Moderate inflation **1.5%**
- CEPA continues to drive Hong Kong economy
- Consumer spending to continue to rise with further relaxation of tourism business from China and opening of theme parks
- Lower but still strong GDP growth **4-4.5%**

# Banking Industry 2005

- Contracting prime-Hibor spread 
- Lending growth continued to be driven by consumer loans otherwise remaining weak
- Further increase in business and profit contribution from China operations
- Completion of the NPL recovery cycle and a return to normalized loan loss provisioning
- Impact of new accounting rules will affect banks' focus



# BOCHK 2005

- **A marching theme “VISION, MISSION, and VALUE” (VMV)**
- **Increase revenue and bottom line contribution from**
  - **Wealth Management clients**
  - **Consumer lending**
  - **Mid cap and SME’s**
  - **China model**
  - **Balance sheet management**

# BOCHK 2005

- **Further improved credit culture and workflow**
- **Continue investment in selective infrastructure IT projects**
- **Continue HR reform focusing on improving staff quality and compensation structure**

# Bank of China (Hong Kong)

15 March 2005

