

*Moving Forward With
A Strategy For Broader Frontiers*

2005 Annual Results
Presentation

23 March 2006



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.

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

Agenda

- **Key Performance Highlights**
- **Financial Results**
- **Outlook**
- **Overview of Strategic Plan from 2006 to 2011**

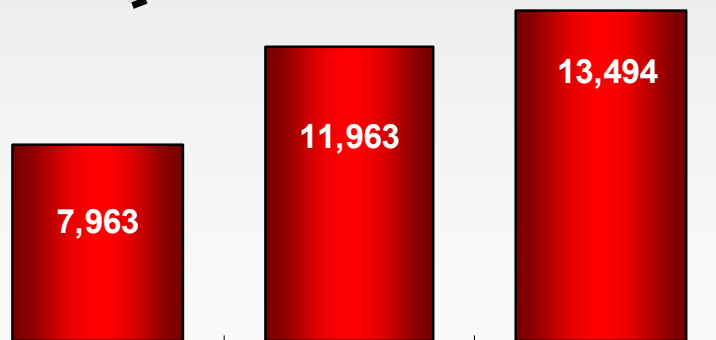
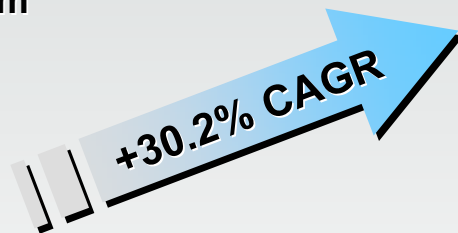
Key Performance Highlights



Record High Attributable Profit & Dividend – 3rd Consecutive Year of Double-Digit Growth

Profit Attributable to Shareholders

HK\$ m



2003

2004

2005

0.7532

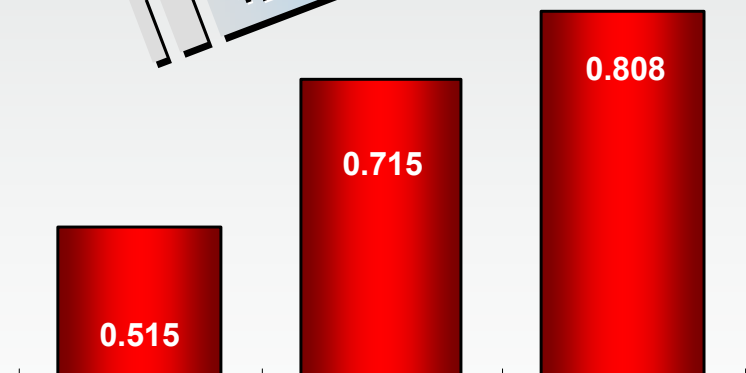
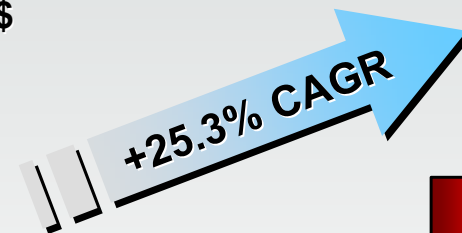
EPS (HK\$)

1.1315

1.2763

Dividend per Share

HK\$



2003

2004

2005

Operating Environment



External

- Robust economy – 2nd consecutive year of strong growth
 - ↑ Merchandize exports
 - ↑ Domestic consumption
 - ↑ Fixed asset investment } → Higher demand for credit & banking services
- Narrowing of HKD & USD interest rate differential
 - → Higher NIM for banks with strong deposit base
- Better credit environment
 - → Market average Classified Loan Ratio improved from 2.25% to 1.38%

Internal

- Enhanced management structure
- Strengthened development strategy
- Refined business model
- New corporate culture
- Improved corporate governance, risk management & internal controls
- Higher operational efficiency & productivity

Strong Growth of Operating Income & Operating Profit



HK\$ m

2005

2004

Operating income	17,896	15,857
Pre-provision profit	12,166	10,352
Operating profit	14,811	11,980
ROE (%)	18.24	18.58
ROA (%)	1.66	1.56

High Growth of Interest / Non-Interest Income & Improved Net Interest Margin

Net Interest Income

HK\$ m



11,193

12,874

2004

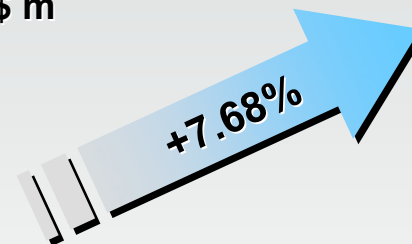
2005

NIM: 1.55%

1.71%

Non Interest Income

HK\$ m



4,664

5,022

2004

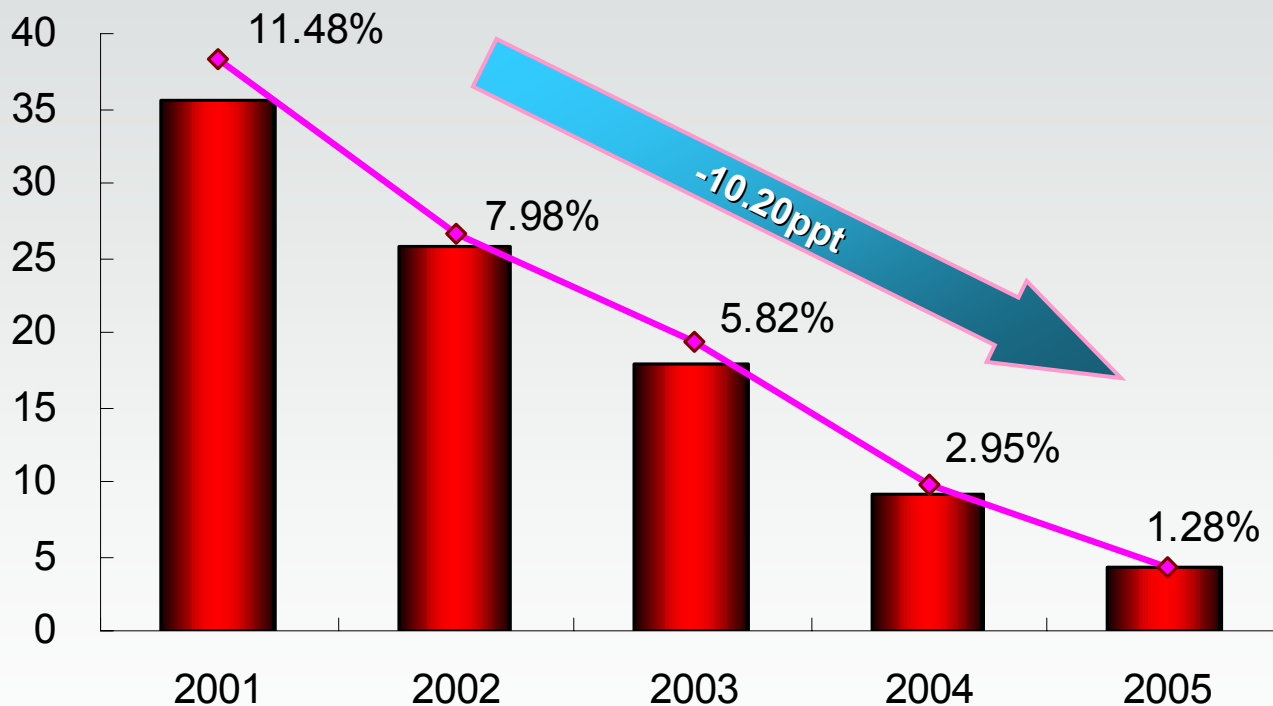
2005

Greatly Improved Asset Quality



Impaired Loan / Impaired Loan Ratio

HK\$ bn



■ Impaired Loan ◆ Impaired Loan Ratio

Highlights of Broad-Based Business Growth

- **Healthy growth in total advances to customers (+6.6%)**
 - **SME loans (+9.1%)**
 - **Trade finance & bills (+21.1%)**
 - **Advances made in Mainland branches (+61.4%)**
- **Market leader in loan syndication**
- **Market leader in residential mortgage**
- **Expansion of wealth management customer base and assets**
- **Solid growth in treasury income and profit**

Financial Results



New Accounting Standards

The new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards became effective from 1 January 2005. Some of the 2005 figures are not directly comparable to corresponding figures in the previous year.

Condensed Profit and Loss Account

Increased operating income, effective cost management and net release of loan impairment allowances contributed to net profit growth

HK\$ m	2005	2004	% YoY
Net interest income	12,874	11,193	↑ 15.02
Non-interest income	5,022	4,664	↑ 7.68
Operating income	17,896	15,857	↑ 12.86
Operating expenses	5,730	5,505	↑ 4.09
Operating profit before impairment	12,166	10,352	↑ 17.52
Loan impairment release	2,645	1,628	↑ 62.47
Operating profit	14,811	11,980	↑ 23.63
Non-operating items	1,557	2,272	↓ 31.47
Profit attributable to shareholders	13,494	11,963	↑ 12.80

Condensed Profit and Loss Account: 2H vs 1H 2005

**Strong growth in pre-provision profit in 2H
attributable to significant increase in net interest income**

HK\$ m	2H 2005	1H 2005	% HoH
Net interest income	7,013	5,861	↑ 19.66
Non-interest income	2,658	2,364	↑ 12.44
Operating income	9,671	8,225	↑ 17.58
Operating expenses	3,054	2,676	↑ 14.13
Operating profit before impairment	6,617	5,549	↑ 19.25
Loan impairment release	1,210	1,435	↓ 15.68
Operating profit	7,827	6,984	↑ 12.07
Non-operating items	618	939	↓ 34.19
Profit attributable to shareholders	6,972	6,522	↑ 6.90

Financial Impacts of New Accounting Standards

HK\$ m	2005	HKFRS impacts	Comparable 2005	2004	% YoY
Net interest income	12,874	257	13,131	11,193	17.3%
Non interest income	5,022	(559)	4,463	4,664	-4.3%
Operating Income	17,896	(302)	17,594	15,857	11.0%
Operating Expenses	(5,730)	0	(5,730)	(5,505)	4.1%
Operating Profit before impairment	12,166	(302)	11,864	10,352	14.6%

Other HKFRS Items:

IP revaluation (net of taxes)	1,043	(1,043)	-	-	
-------------------------------	-------	---------	---	---	--

Higher Net Interest Income and Improved NIM

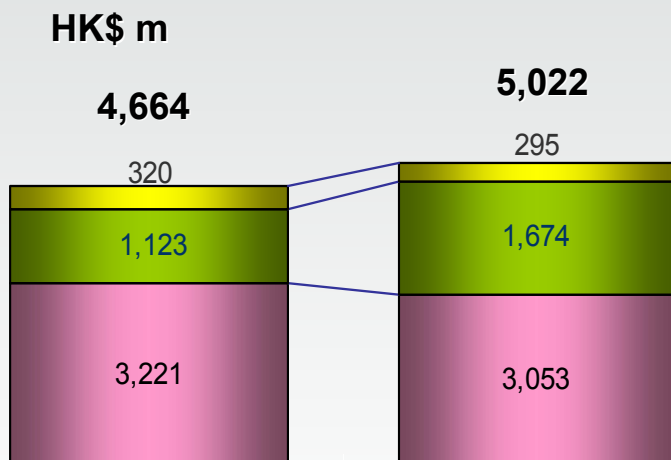
Improved NII and NIM underpinned by higher market rates, active asset liability management and active pricing strategy

HK\$ m	2005	2004
Interest Income	25,875	15,678
Interest Expense	13,001	4,485
Net Interest Income	12,874	11,193
Net Interest Income - comparable basis	13,131	11,193
<hr/>		
Average interest earning assets	752,257	721,402
Net interest spread	1.48%	1.46%
Net interest margin	1.71%	1.55%
Net interest margin - comparable basis	1.74%	1.55%

Non-interest Income

Increase in net trading income outweighed moderate decline in net fees and commission income

Non-interest Income



2004

2005

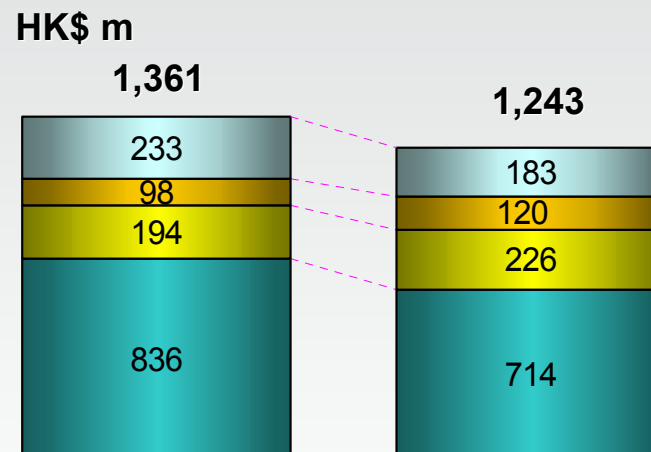
4,664

4,463

- Comparable basis

- Other Operating Income
- Net Trading Income
- Net Fees and Commission Income

Wealth Management Income



2004

2005

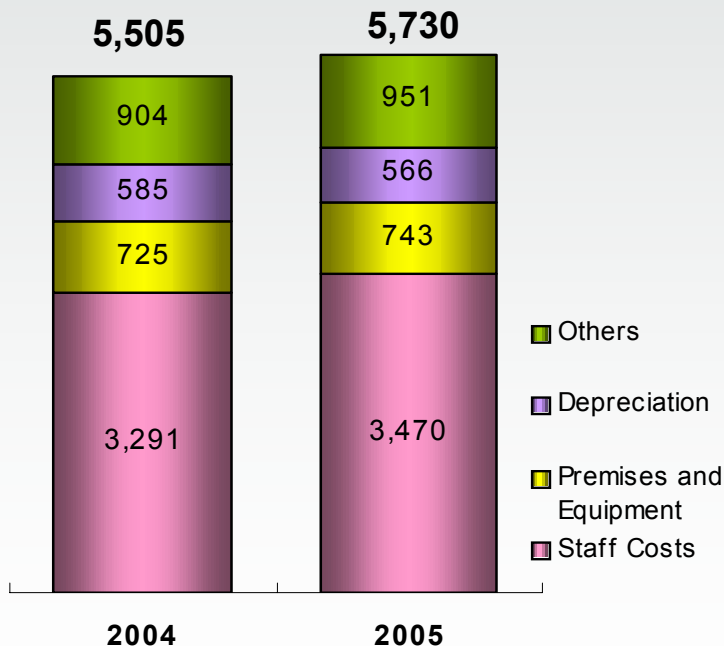
- Asset management
- Bonds (including structured notes)
- Life insurance
- Securities

Effective Cost Management

Cost-to-income ratio improved due to strong growth of operating income and modest increase in operating expenses

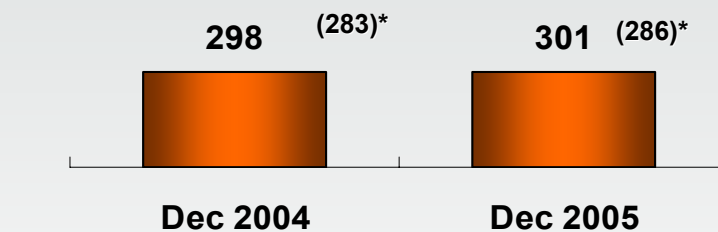
Operating Expenses

HK\$ m



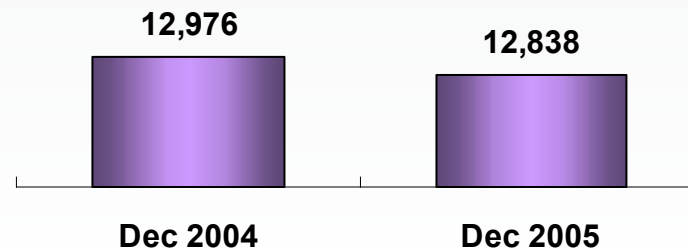
34.72% **32.02%**
Cost-to-income ratio

Branch Number



*Branches in Hong Kong

Staff Number (FTE)



Loan Impairment Release

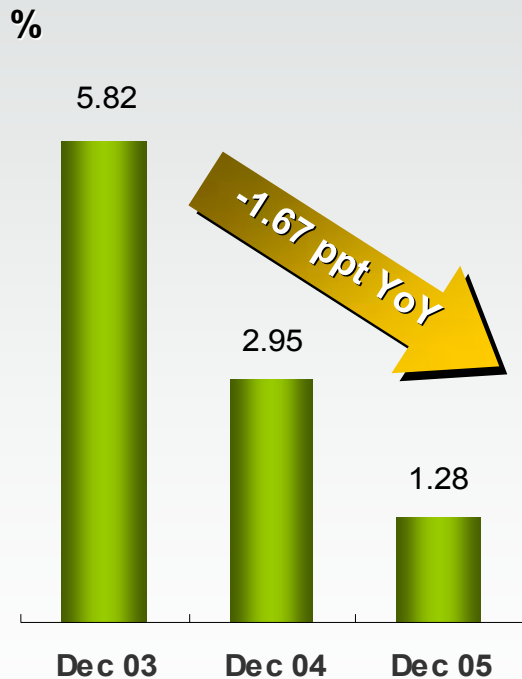
Net release of loan impairment underpinned by lower new allowances charges, higher releases and strong recoveries

HK\$ m	2005	2004
Loan impairment release/(charge)		
- New allowances	(1,315)	-
- Releases	2,321	-
- Recoveries of loans previously written off	1,639	-
Specific provisions		
- New provisions	-	(1,520)
- Releases	-	1,851
- Recoveries of loans previously written off	-	1,356
General provisions	-	(59)
Net credit to profit and loss account	2,645	1,628

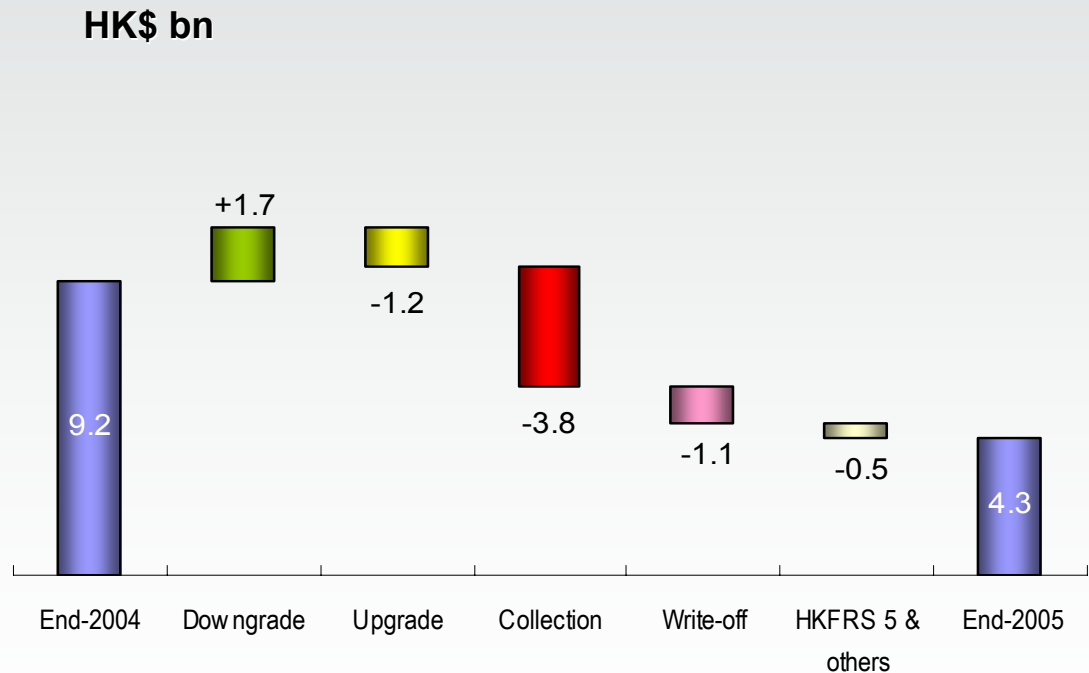
Significant Improvement in Asset Quality

Impaired loan ratio declined to historic low of 1.28%*

Impaired Loan Ratio



Migration of Impaired Loans



*Impaired loan after adjusting for HKFRS 5 impact

Condensed Balance Sheet

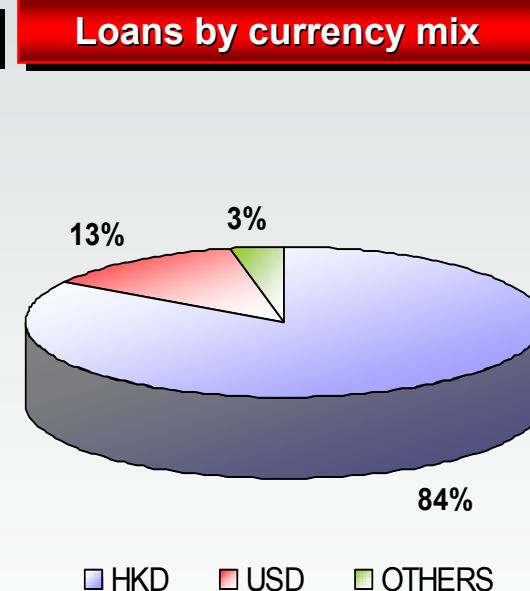
Enhanced asset mix by shifting lower-yield inter-bank placements to higher yield lendings and securities

HK\$ m	31.12.2005	31.12.2004	% Change
Total assets	822,105	796,776	↑ 3.18
Cash and short-term funds	115,575	102,647	↑ 12.60
Inter-bank placements	47,611	107,581	↓ 55.74
CDs held	19,464	22,338	↓ 12.87
Securities investment	229,568	189,388	↑ 21.22
Advances and others	335,355	309,211	↑ 8.46
Fixed assets and IP	25,855	21,877	↑ 18.18
Total liabilities	741,372	727,016	↑ 1.98
Inter-bank deposits taken	40,655	34,440	↑ 18.05
Deposits from customers	639,464	631,330	↑ 1.29
CDs issued	3,965	3,788	↑ 4.67
Shareholders' funds	79,435	68,521	↑ 15.93

Broad-based Loan Growth

Growth in all loan segments, especially strong growth in trade finance and loans for use outside Hong Kong

HK\$ m	30.12.2005	31.12.2004	% Change
Loans for use in HK - corporate	151,903	145,979	+ 4.1
Loans for use in HK - individual	127,923	124,687	+ 2.6
Residential mortgages	99,179	95,615	+ 3.7
Credit card advances	4,668	4,256	+ 9.7
Trade finance	16,080	13,279	+ 21.1
Loans for use outside HK	38,108	29,281	+ 30.1
Total advances to customers	334,014	313,226	+ 6.6
of which: SME Loans	48,788	44,739	+ 9.1

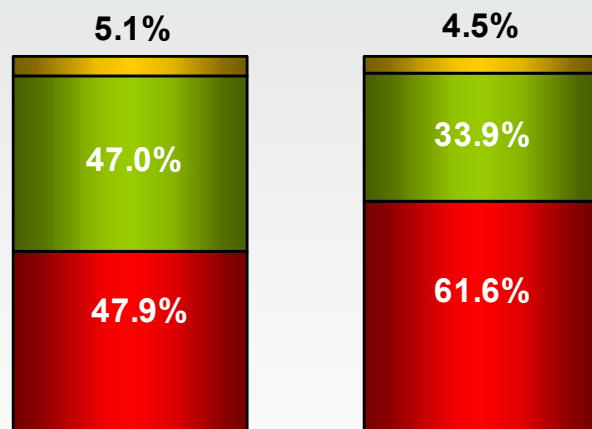


Loan-to-deposit ratio **52.23%** **49.61%**

Deposits from Customers

The increase in Fixed and Structured Deposits offset the fall in Savings

Types of deposits



Dec 2004

631,330

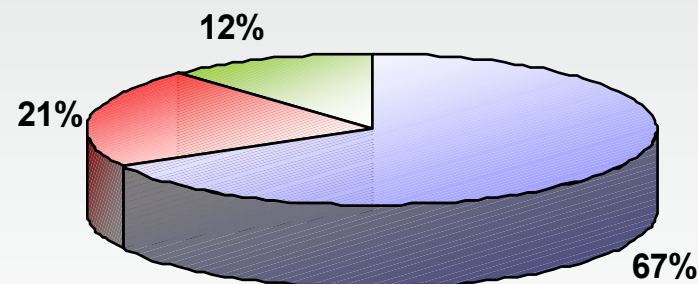
Dec 2005

639,464

HK\$ m

■ Fixed & Structured ■ Savings ■ Demand

Deposits by currency mix



■ HKD

■ USD

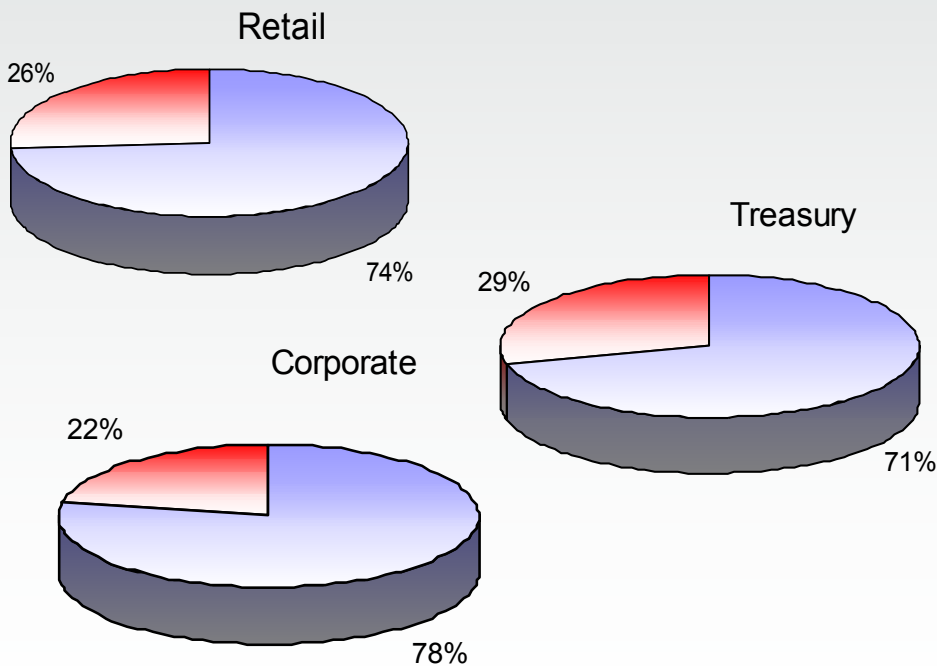
■ Others

Business Segment Contribution



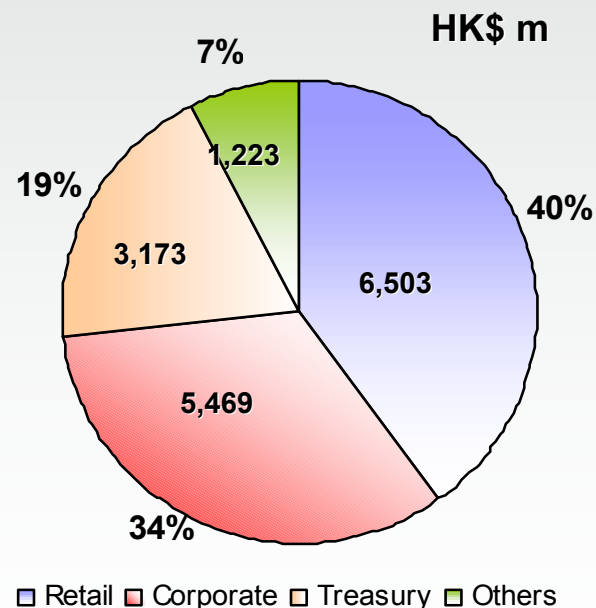
Profit growth in Retail Banking driven by widening fixed deposit spread

Operating Income



■ Net Interest Income
 ■ Non Interest Income

Segment Contribution to Pre-tax Profit



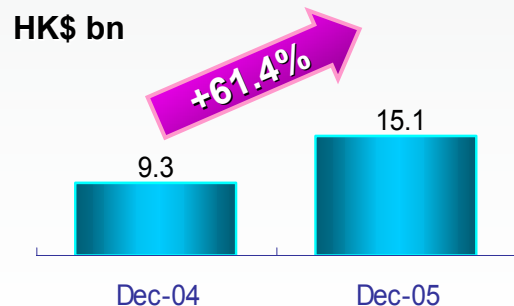
Mainland Branches Continued to Deliver Good Results

Substantial improvement in profitability and asset quality

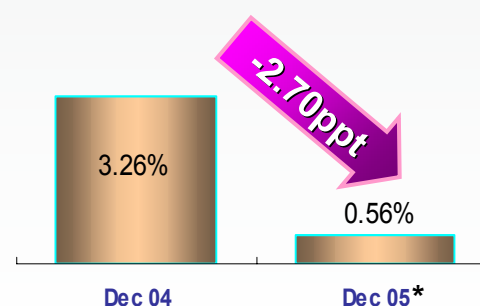
Combined profit and loss account of 14 Mainland branches

HK\$ m	2005	2004	% Change
Operating income	454	264	+ 72.0
Operating expenses	151	117	+ 29.1
Operating profit before provision	303	147	+ 106.1
Profit before taxation	335	255	+ 31.4

Gross advances to customers



Impaired loan ratio



*Dec-05 adjusted for HKFRS 5 impact

Outlook



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



Outlook

- **Global economy expected to grow at modest pace**
- **Growth momentum of local economy likely to continue**
- **Local banks to benefit from growth of Mainland China despite softening credit demand and trade finance**
- **Private consumption remains upbeat**
- **Property market expected to experience a turnaround**
- **Concern for banks' capital after Basle II implementation**

Overview of Strategic Plan 2006-2011



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



Objective: Top-Quality Financial Services Group

**To be a top-quality financial services group
with a powerful base in Hong Kong, a solid presence
in China and a strategic foothold in the region**

Strategic Focus: Five Focus Areas for Value Creation

**Strengthening the Leading Position
in Hong Kong**

**Developing New Capabilities in
Product Manufacturing / Distribution**

**Building a Stronger Presence
in China**

Seeking Regional Expansion

**Corporate Values and
Core Competencies**

**Value
Creation**

**Higher Return to
Shareholders
/ Investors**

**Customers'
Premier Bank**

**Staff's Preferred
Employer**

**Good Corporate
Citizen**

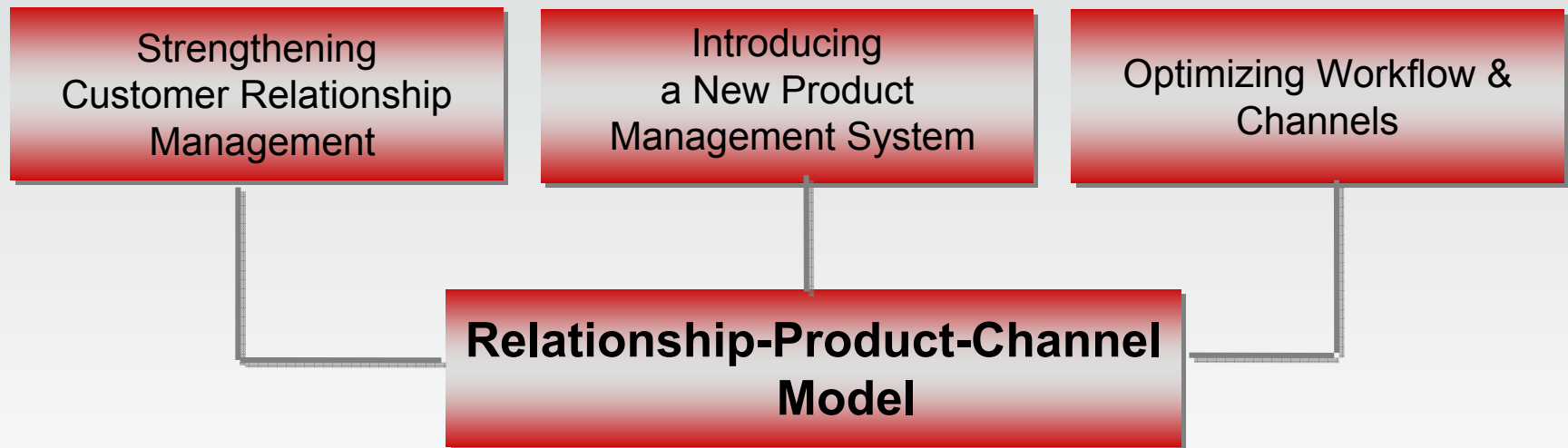
Focus 1

Strengthening the Leading Position in Hong Kong

Leverage strong customer base and well-positioned traditional core businesses for growth

- **Strong and loyal customer base:**
 - **2.5 million retail customers**
 - **250,000 corporate customers**
- **Market leader in major commercial banking businesses, such as deposit-taking, corporate lending and syndication, residential mortgage, and personal RMB banking**
- **Powerful capital base (CAR at 15.37%)**
- **Largest banking distribution network in Hong Kong with 286 branches and 456 ATMs**
- **The only RMB clearing bank in Hong Kong**
- **Strong management structure, corporate governance, risk management, internal controls and IT infrastructure**
- **Relationship-Product-Channel (RPC) Model**

Focus 1- Strengthening the Leading Position in Hong Kong: Implementation Strategy (1)



Focus 1- Strengthening the Leading Position in Hong Kong: Implementation Strategy (2)



To drive organic growth by boosting ROE lucrative segments, including wealth management, consumer lending, cash management, treasury and SME loans through cross-selling, customization, product innovation and customer targeting

■ Wealth Management

- Increase penetration into existing customer base as well as new customers by effective customer segmentation and targeting
- Expand the team personal financial planners
- Enhance wealth management platform by developing 2nd phase of wealth management system

■ Consumer Lending

- Broaden product mix for both secured and unsecured lending
- Expand marketing and servicing efforts by leveraging branch network and electronic channels

Focus 1- Strengthening the Leading Position in Hong Kong: Implementation Strategy (2) (cont.)

■ Corporates

- Support corporate clientele with a superior corporate cash management platform
- Build up strength in treasury functions to offer customized treasury solutions (products, services, advisory functions) for corporate clientele

■ Mid Caps and SMEs

- Expand sales force and leverage existing branch network to capture this market segment
- Intensify cross-selling of trade finance, treasury, insurance and investment products for fee income

■ Strengthen cross border banking services

■ Capture new opportunities in RMB banking services and maintain market leadership by building up capabilities

Focus 2 - Developing New Capabilities in Product Manufacturing & Distribution: Implementation Strategy

To move up the value chain and raise overall profit margin by building up BOCHK's full-service model

- Enter new business lines by building up new capabilities or acquiring from outside
 - Life insurance
 - Asset management
 - Stock brokerage

- Build up treasury product manufacturing capabilities
 - Develop or acquire product manufacturing capabilities to broaden corporate finance product range

Focus 3 - Building a Stronger Presence in China: Implementation Strategy



Geographical presence

- Expand in the Pearl River Delta, Yangzi River Delta, and coastal cities
- Seek out opportunities for M&A, including the acquisition of local banking assets

Growth of customer base by focusing on 3 key niche segments

- Prospective Hong Kong customers from existing customer base with banking needs in China
- Local firms with cross-broader financial services needs
- Customers referred to us by BOC

Superior cross-border service offerings by leveraging capabilities built up in Hong Kong

- Cross-border cash management, trade finance & loans, wealth management, remittance, treasury products

Cooperation with BOC

- Leverage strong ties with BOC to deepen market penetration in China, facilitate business referral and cross-sell products and services
- Leverage BOC's platform to develop unique services such as cash management, wealth management and remittances

Focus 4 - Seeking Opportunities for Regional Expansion : Implementation Strategy

To seek out and explore expansion opportunities in Asia

Aim

- **To expand into Asia for new growth opportunities by**
 - **capturing regional business opportunities**
 - **enhancing business and geographical diversification**
- **To fortify BOCHK's position in Hong Kong and China for long-term growth and development by**
 - **Supporting the banking needs of Hong Kong customers (corporate and retail); and**
 - **Supporting the banking needs of increasingly affluent Chinese population, especially sizable corporate customers seeking expansion overseas**

Basic strategy

- **By acquisition of or entering into partnership or joint venture with other financial services groups in Asia**

Focus 5

Core Values & Core Competencies

Core Values - SPIRIT

- Social responsibility
- Performance
- Integrity
- Respect
- Innovation
- Teamwork

Core Competencies

- Broad and loyal customer base and extensive branch network
- Strong capital base and second largest deposit franchise
- Superior management structure with global expertise and experience in banking and financial services with proven track records
- A dynamic workforce that is highly motivated by a well-nurtured corporate culture
- Commitment to good corporate governance, rigorous risk management and internal controls
- Close connection and mutually enhancing relationship with BOC

Conclusion



With the objective and the strengths we possess, the Strategic Plan 2006-2011 will give clear guidance to us as we move forward to:

- **Achieve healthy business growth with a broader range of top-quality financial services;**
- **Deepen our presence in China and gain a strategic foothold in the region;**
- **Create higher value for shareholders and customers in and outside Hong Kong; and**
- **Enhance our unique franchise value for the BOC Group.**

*Moving Forward With
A Strategy For Broader Frontiers*

2005 Annual Results
Presentation

2006.3.23



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

