

2005 Interim Results

18.8.2005



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

Attendees

Title

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 and Strategic Focus**

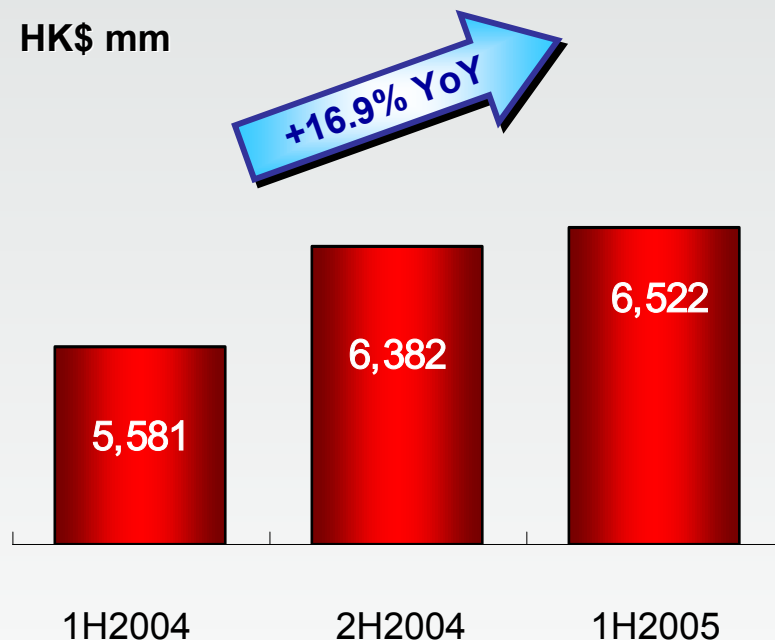
Key Performance Highlights



Higher Attributable Profit and Dividend

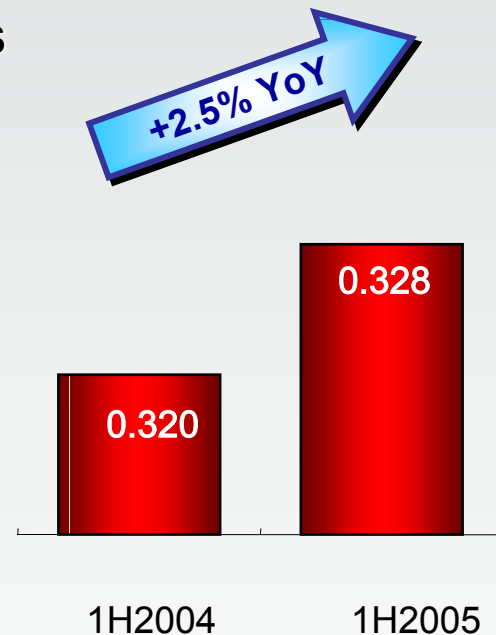
Profit Attributable to Shareholders

HK\$ mm



Dividend per Share

HK\$



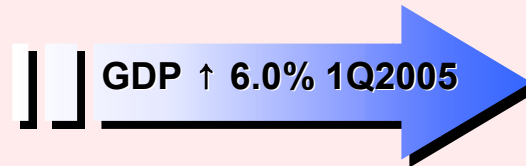
Strong Foundation, Growing Operating Results



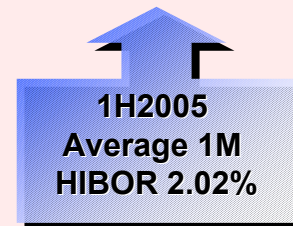
%	1H2005	2H2004	1H2004
Pre-provision profit (HK\$'m)	5,549	4,996	5,356
ROE	18.39	19.66	18.19
ROA	1.61	1.63	1.48
NIM	1.59	1.54	1.56
Non-interest income ratio	28.74	27.44	31.33
Cost to income ratio	32.53	36.23	33.24
Classified impaired loan ratio	1.89	2.95	4.12
Loan to deposit ratio	53.38	49.61	54.69
Average liquidity ratio	39.15	37.43	34.64
Capital adequacy ratio	15.74	16.14	16.52

Operating Environment

- Robust economy



- Active commercial and residential property market
- Increased credit demand from both corporates and individuals
- Market interest rates rebounded in 2Q2005



Business Growth (1)

- **Broad-based loan growth from large corporates, retail customers, SMEs and trade finance**
- **Strong performance of China-related business**

Business Growth (2)

- **Leading position maintained in mortgage, syndicated lending, personal Rmb services in HK**
- **Optimization of customer structure and expansion of high-value customer base**

Financial Results



New Accounting Standards

With effect from 1 January 2005, the Group is required to prepare its financial statements in accordance with new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards. Due to the change in accounting standards, certain 2004 comparative figures are not strictly comparable.

The unaudited interim results were reviewed by our external auditor under SAS 700.

Condensed Profit and Loss Account

Increased operating income, investment property revaluation gain and strong recoveries contributed to net profit growth

HK\$ mm	1H2005	2H2004	1H2004	% YoY	% HoH
Net interest income	5,861	5,684	5,509	↑ 6	↑ 3
Non-interest income	2,364	2,150	2,514	↓ 6	↑ 10
Operating income	8,225	7,834	8,023	↑ 3	↑ 5
Operating expenses	2,676	2,838	2,667	↑ 0	↓ 6
Operating profit before impairment	5,549	4,996	5,356	↑ 4	↑ 11
Loan impairment release	1,435	388	1,240	↑ 16	↑ 270
Operating profit	6,984	5,384	6,596	↑ 6	↑ 30
Non-operating items	939	2,092	180	↑ 422	↓ 55
Profit attributable to shareholders	6,522	6,382	5,581	↑ 17	↑ 2

Financial Impacts Arising from Adoption of New Accounting Standards

HK\$ mm	1H2005	HKFRS impacts	Comparable 1H2005	1H2004	% YoY
Net interest income	5,861	39	5,900	5,509	7.1%
Non interest income	2,364	(132)	2,232	2,514	-11.2%
Operating income	8,225	(93)	8,132	8,023	1.4%
Operating expense	(2,676)	-	(2,676)	(2,667)	0.3%
Operating profit before impairment	5,549	(93)	5,456	5,356	1.9%
<u>Other HKFRS items:</u>					
IP revaluation (net of taxes)	763	(763)	-	-	

Higher Net Interest Income and Improved NIM

Improved NIM and NII resulting from higher market interest rate and active asset and liability management

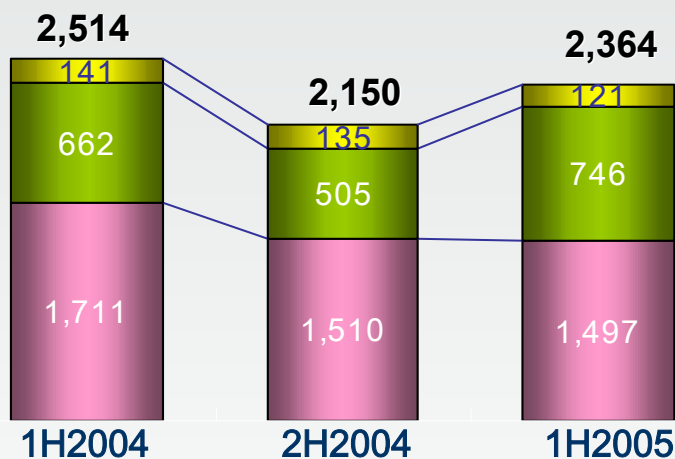
HK\$ mm	1H2005	2H2004	1H2004
Interest income	10,065	8,374	7,304
Interest expense	4,204	2,690	1,795
Net interest income	5,861	5,684	5,509
Net interest income - comparable basis	5,900	5,684	5,509
Net interest spread	1.43%	1.43%	1.49%
Net interest margin	1.59%	1.54%	1.56%
Net interest margin - comparable basis	1.60%	1.54%	1.56%

Other Operating Income

Equity funds and structured notes more popular among customers
Lower income from stockbroking

Other Operating Income

HK\$ mm

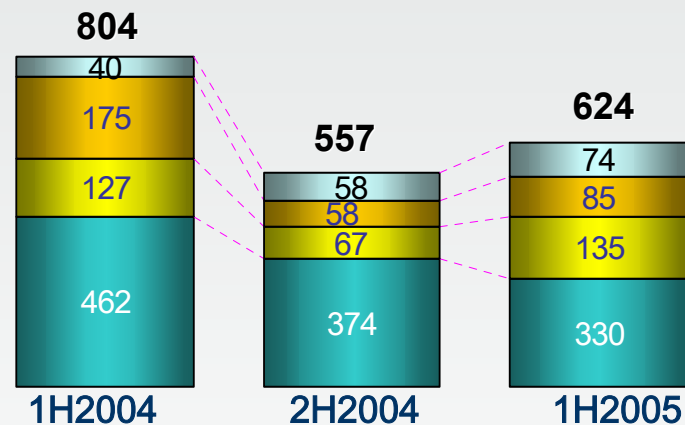


2,514 2,150 2,232
- Comparable basis

- Other income
- Net trading income
- Net fees and commission income

Wealth Management Income

HK\$ mm

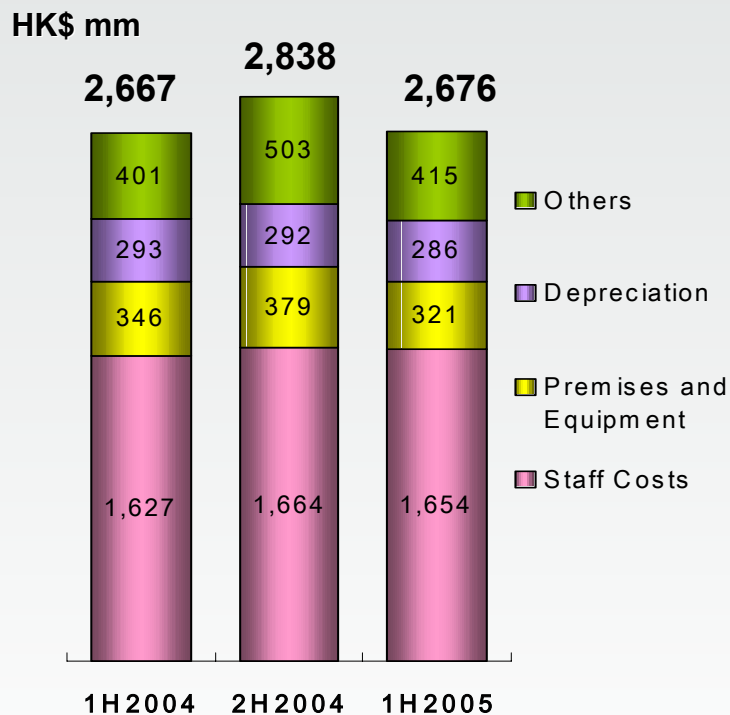


- Bonds (including structured notes)
- Asset management
- Life insurance
- Stockbroking

Operating Expenses under Control

Slight increase in operating expenses and
Improved cost-to-income ratio

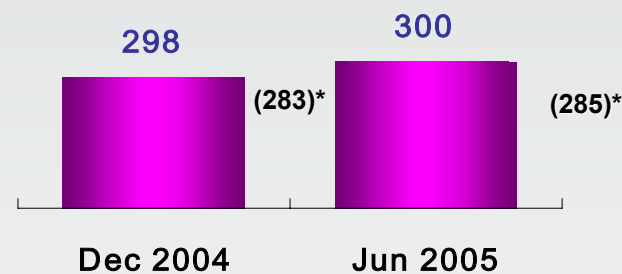
Operating Expenses



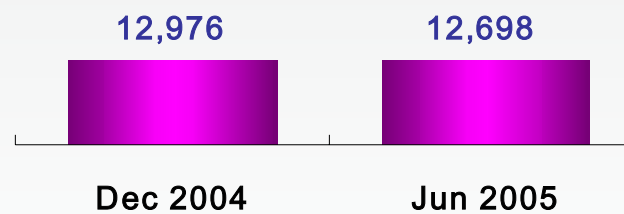
33.24% 36.23% 32.53%

- Cost-to-income ratio

Branch Number



Staff Number (FTE)



Strong Recoveries and Loan Impairment Release

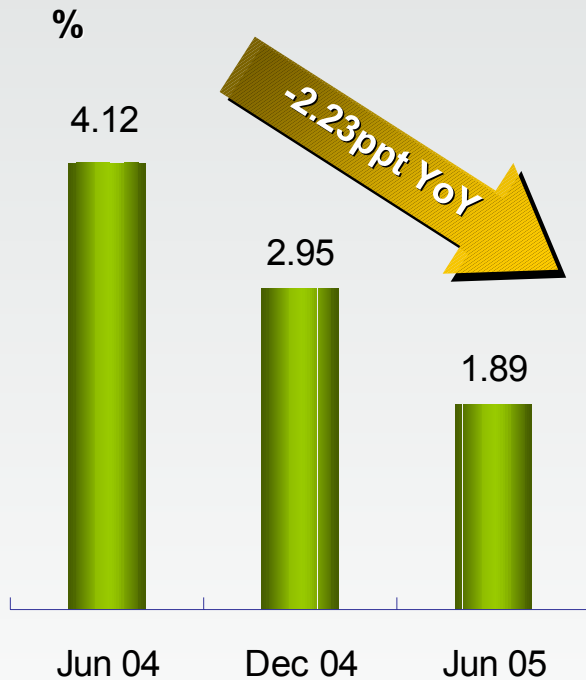
Improved asset quality, higher collateral value and strong recoveries resulted in a reversal of loan impairment allowances

HK\$ mm	1H2005	2H2004	1H2004
Loan impairment release/(charge)			
- New allowances	(796)	-	-
- Releases	1,123	-	-
- Recoveries of loans previously written off	1,108	-	-
Specific provisions			
- New provisions	-	(709)	(811)
- Releases	-	524	1,327
- Recoveries of loans previously written off	-	623	733
General provisions	-	(50)	(9)
Net credit to profit and loss account	1,435	388	1,240

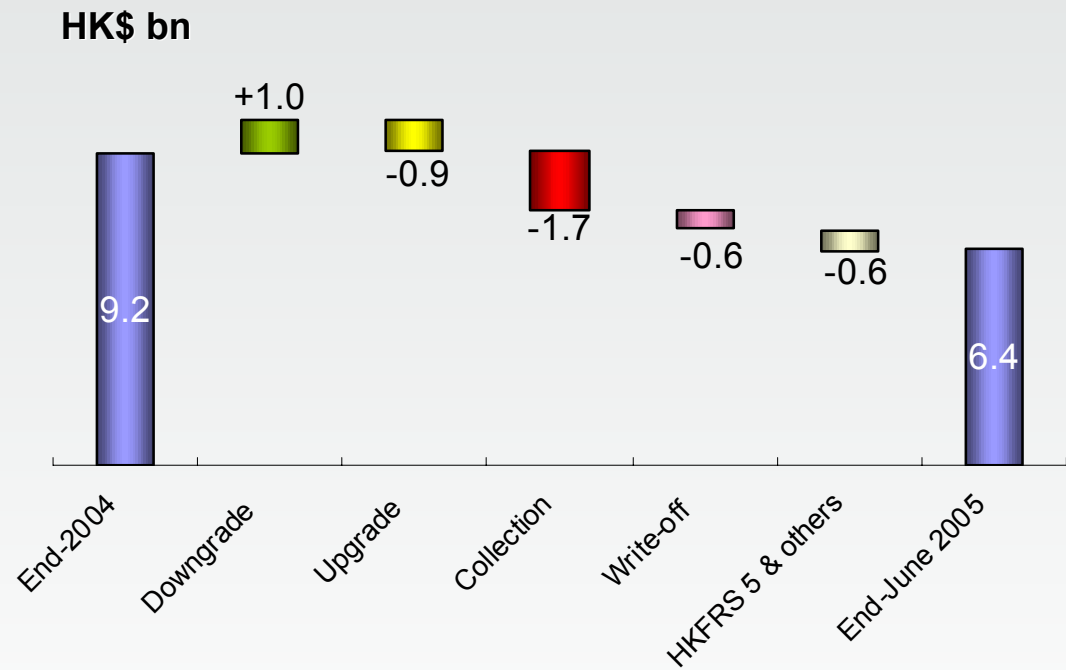
Significant Improvement in Asset Quality

Classified impaired loan ratio declined to historic low of 1.89%*

Classified Impaired Loan Ratio



Migration of Classified Impaired Loans



*After adjusting for HKFRS 5 impact

Condensed Balance Sheet

Enhanced asset mix with strong loan growth and diversified securities portfolio

HK\$ mm	30.06.2005	31.12.2004	% Change
Total assets	813,335	796,776	↑ 2.1
Cash and short-term funds	113,792	102,647	↑ 10.9
Inter-bank placements	60,196	107,581	↓ 44.0
CDs held	19,440	22,338	↓ 13.0
Investments in securities	214,376	189,388	↑ 13.2
Advances and others	336,290	309,211	↑ 8.8
Fixed assets and IP	22,195	21,877	↑ 1.5
Total liabilities	738,670	727,016	↑ 1.6
Inter-bank deposits taken	38,471	34,440	↑ 11.7
Deposits from customers	632,546	631,330	↑ 0.2
CDs issued	3,746	3,788	↓ 1.1
Shareholders' funds	73,371	68,521	↑ 7.1

Broad-based Loan Growth

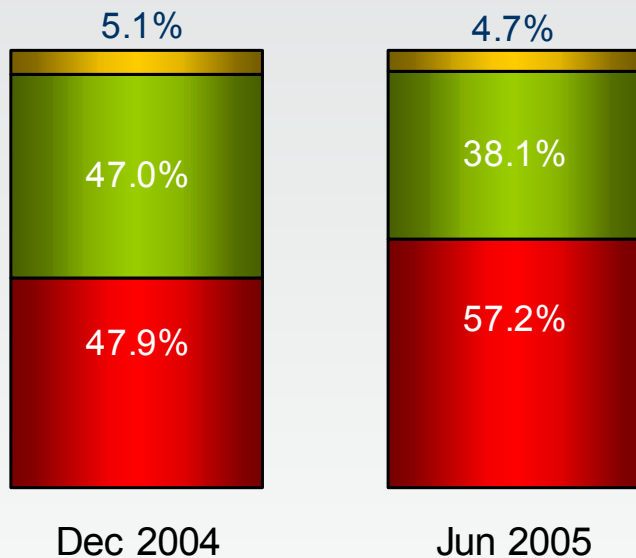
Substantial growth in SMEs, trade finance, residential mortgage and loans for use outside HK

HK\$ mm	30.06.2005	31.12.2004	% Change
Loans for use in HK - corporate	156,225	148,034	+ 5.5
Loans for use in HK - individual	132,531	124,687	+ 6.3
Residential mortgages	103,411	95,615	+ 8.2
Credit card advances	4,349	4,256	+ 2.2
Trade finance	16,049	13,279	+ 20.9
Loans for use outside HK	32,849	27,226	+ 20.7
Total advances to customers	337,654	313,226	+ 7.8
Including: SME loans	48,815	44,739	+ 9.1

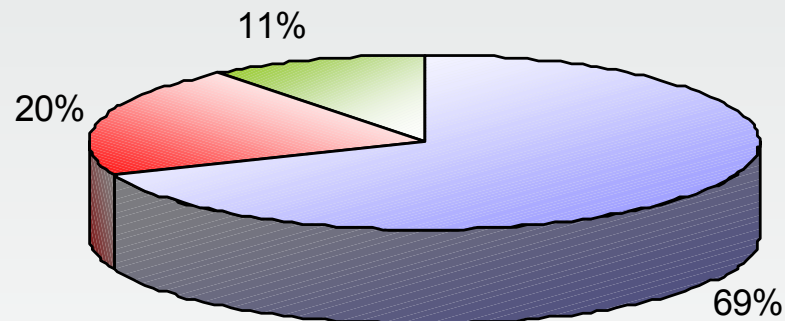
Deposits from Customers

Savings deposits shifted to time deposits amid the rising interest rate environment

Types of Deposits



Deposits by Currency Mix



■ Fixed & Structured ■ Savings ■ Demand

■ HKD

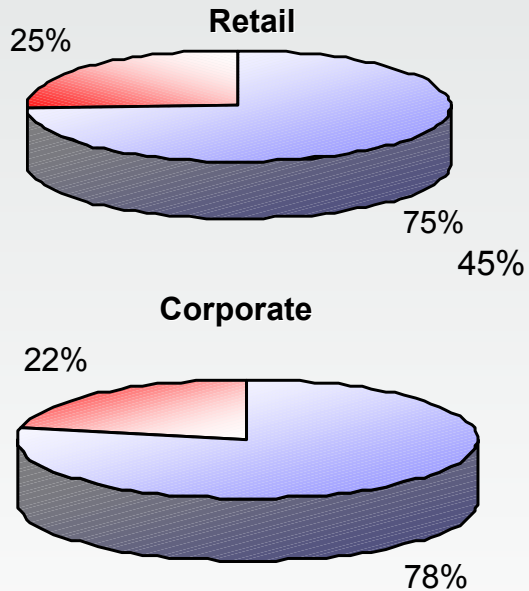
■ USD

■ Others

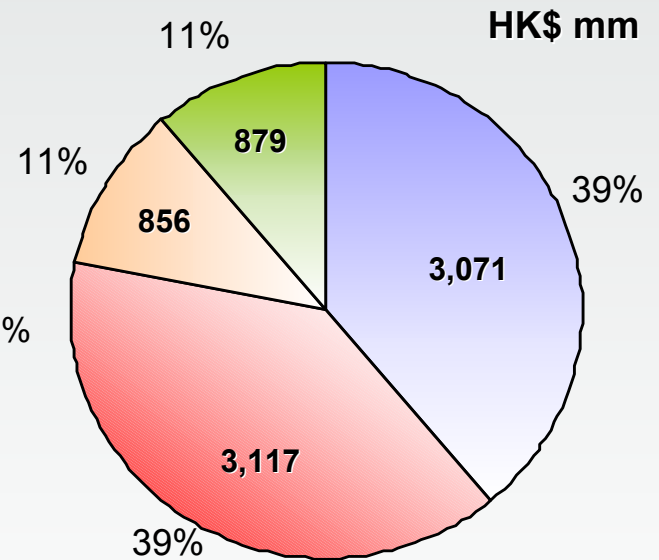
Business Segment Contribution

Retail Banking contribution increased as deposit spread widened

Operating Income



Segment Contribution to Pre-tax Profit



■ Net Interest Income
 ■ Non Interest Income

■ Retail
 ■ Corporate
 ■ Treasury
 ■ Others

Mainland Branches Continued to Deliver Good Results

Substantial growth in loans and operating profit

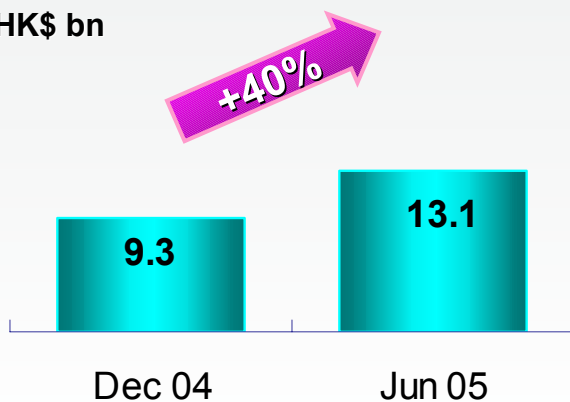
Combined profit and loss account of 14 Mainland branches

HK\$ mm	1H 2005 [#]	1H 2004		% Change
Operating income	206	127	+	62.2
Operating expenses	64	54	+	18.5
Operating profit before impairment	142	73	+	94.5
Profit before taxation	229	100	+	129.0

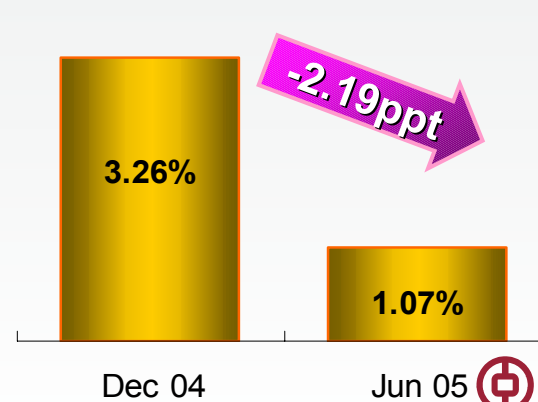
[#]1H2005 figure is based on new accounting standards and is not strictly comparable to 1H2004

Gross advances to customers

HK\$ bn



Classified impaired loan ratio *



*After adjusting for HKFRS 5

Outlook and Strategic Focus



中銀香港(控股)有限公司
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Outlook for Hong Kong Economy and Banking Sector

- **Economic upturn likely to continue, creating higher demand for banking and financial services**
- **Enormous potential for expanding the scope of China-related business and hence more opportunities for banks**
- **HKD interest rates expected to rise with USD rates**
- **Competition in the banking industry to remain intense**

Strategic Focus (1)

■ Corporate Banking

- Focus on widening loan spread
- Maintain and grow market share in corporate lending
- Expand SME loans and trade finance

■ Retail Banking

- Maintain mortgage market share with enhanced yield
- Grow other consumer lending
- Expand wealth management product offerings
- Deposit spread management

■ Treasury

- Product development to cater for changing environment
- Investment portfolio diversification to maximize return on residual funds

Strategic Focus (2)

- **China-related Business**
 - **Enrich product line to offer comprehensive cross-border banking services**
 - **Cooperate more closely with BOC to increase business volume and expand customer base**
 - **Positioned to maintain leadership and benefit from possible opening of RMB banking services**
- **Further improve asset quality**
- **Maintain optimal cost efficiency**
- **Keep perfecting business models and strategies to capture new opportunities for growth and development**

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