

**Committed to Building a Better Tomorrow**  
— Achieving Growth, Quality and Excellence

## 2006 Annual Results

22 March 2007



**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

<b>Mr. Gary He</b>	<b>Vice Chairman and Chief Executive</b>
<b>Mr. David Lam</b>	<b>Deputy Chief Executive</b>
<b>Mr. Raymond Lee</b>	<b>Chief Financial Officer</b>
<b>Mr. Yingxin Gao</b>	<b>Deputy Chief Executive</b>
<b>Mr. Alex Cheung</b>	<b>Chief Risk Officer</b>
<b>Mr. Peter Liu</b>	<b>Chief Information Officer</b>

# Agenda

## ■ Key Performance Highlights

## ■ Financial Results

## ■ Outlook

# Key Performance Highlights



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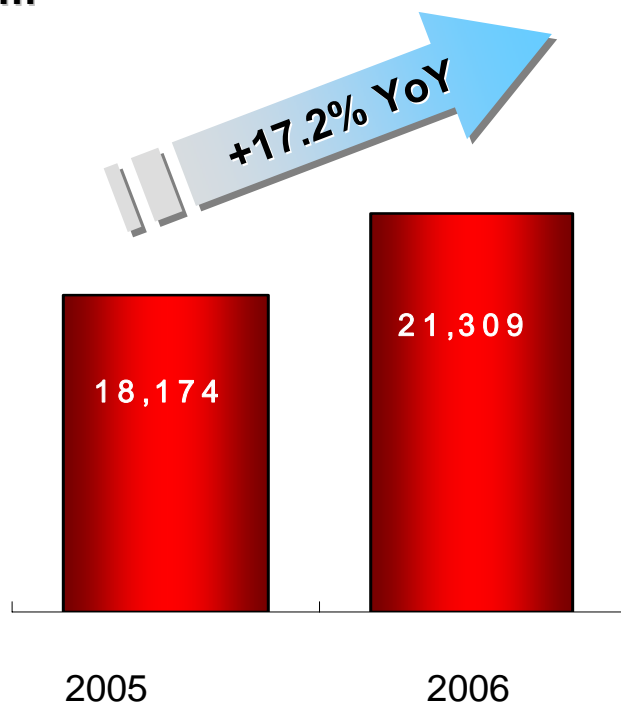


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# Solid Growth in Operating Income & Profit

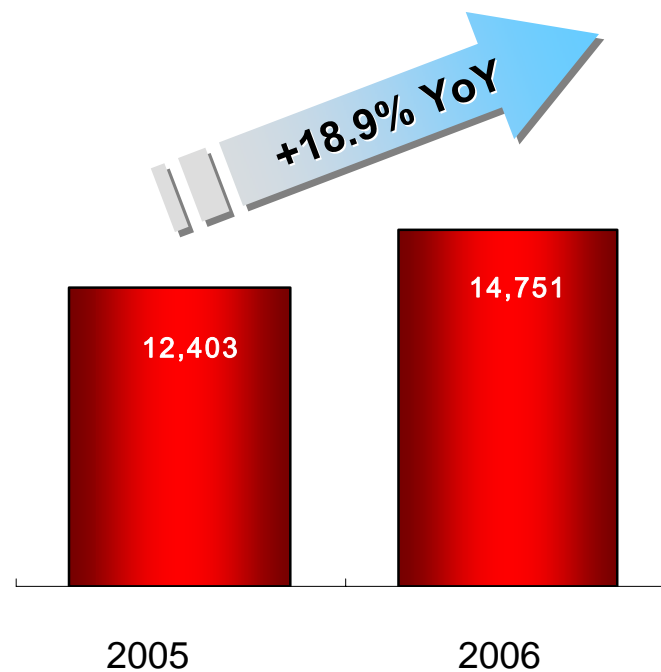
## Net Operating Income before Loan Impairment Allowances

HK\$ m



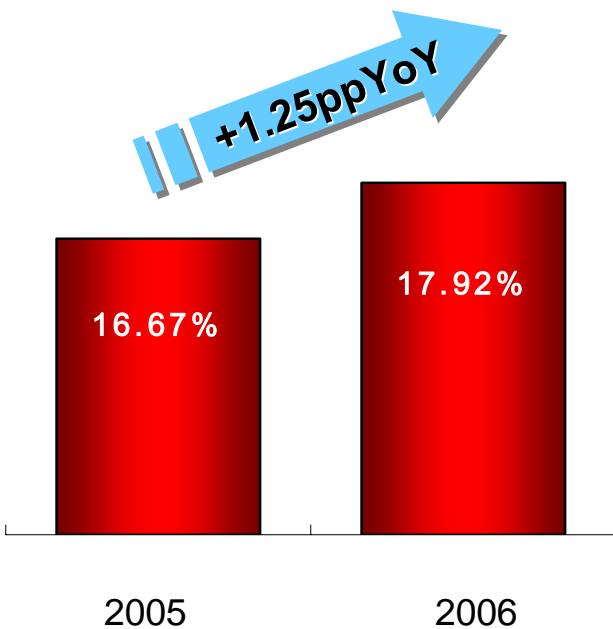
## Operating Profit before Loan Impairment Allowances

HK\$ m



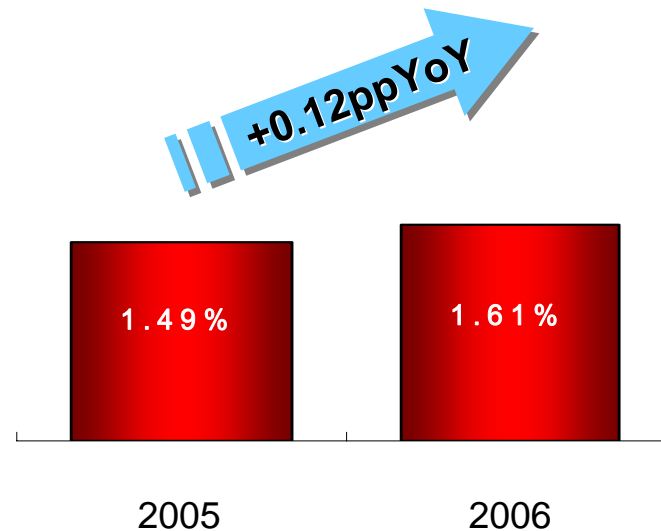
# Improved ROE & ROA

## ROE before impairment allowances



ROE	
2005	18.27%
2006	17.02%

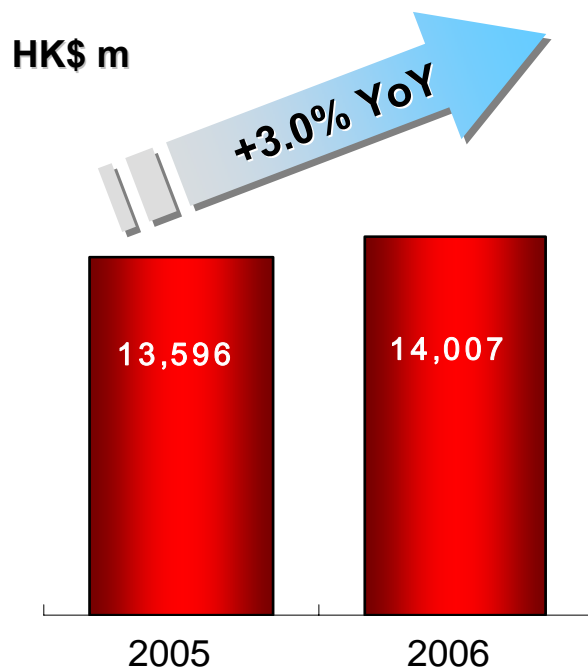
## ROA before impairment allowances



ROA	
2005	1.67%
2006	1.56%

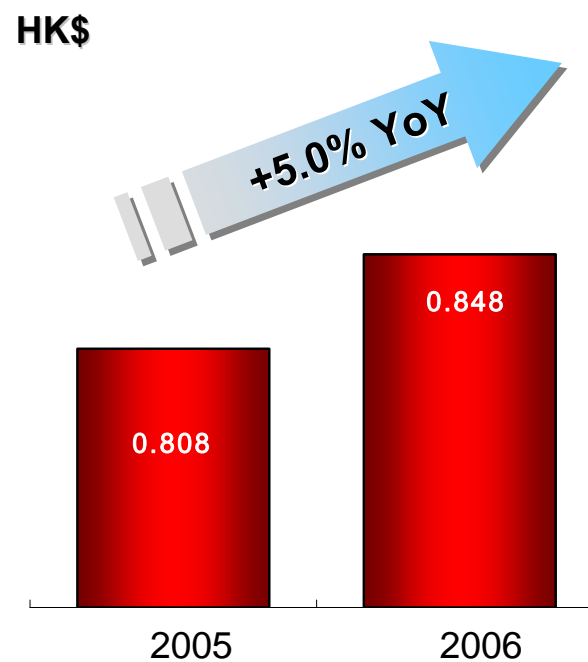
# Consistent Growth in Profit Attributable to Shareholders & Dividend

## Profit Attributable to Shareholders



**EPS (HK\$)**  
**1.2859**      **1.3248**

## Dividend per Share





# Operating Environment

## External

- **Robust economy – 3rd consecutive year of above-trend GDP growth driven by**
  - Investment
  - Domestic consumption
  - External trade
  - Financial market boom fueled by active stock trading and IPOs
  - Low unemployment rate and rising wages
  - Mild inflation
- **Widened Prime and HIBOR spread**
- **Benign credit environment**

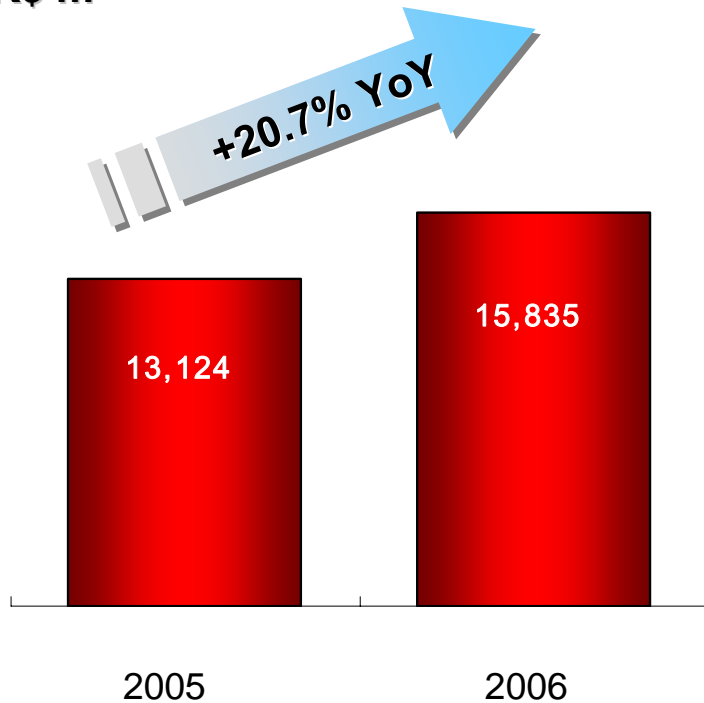
## Internal

- **Good progress made in Strategic Plan 2006-2011**
- **Growth platform strengthened under new business model**
- **Focus on high-margin segments to drive organic growth**
- **Enhancement of business capabilities**

# Broad-Based Growth in Core Earnings

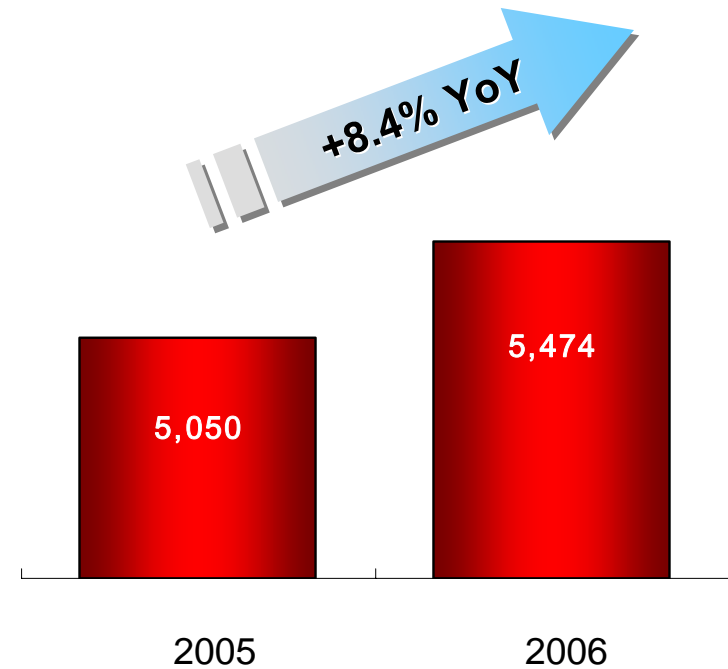
## Net Interest Income

HK\$ m



## Non-interest Income

HK\$ m

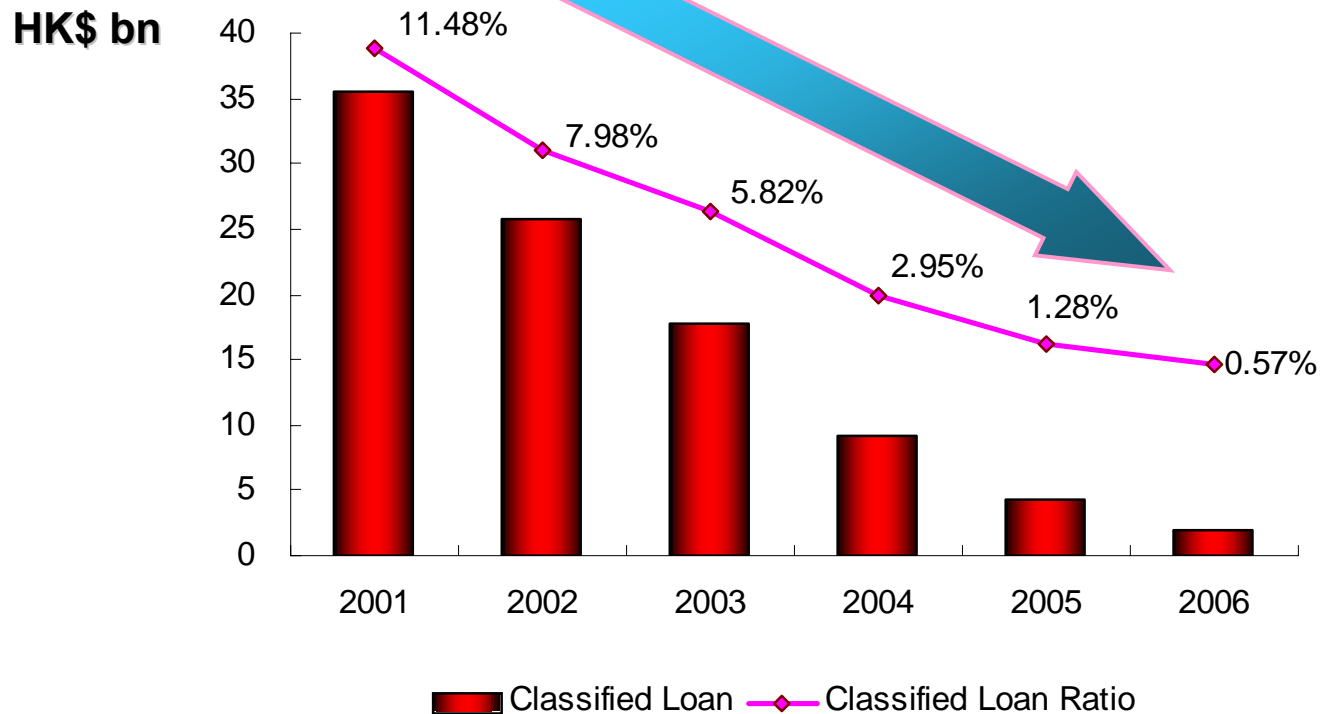


# Other Business Highlights

- Growth in customer deposits (+10.1%)
- Growth in loans and advances (+3.9%) led by broad-based rebound in 2H
  - SME loans (+10.5%)
  - Loans granted by Mainland branches (+22.7%)
  - Credit card advances (+17.6%)
- Substantial growth in net fee income (+26.2%)
- Very strong growth in stock brokerage business with increased business volume (+112%)
- Maintaining market lead in mortgages, RMB banking and loan syndication
- Strong growth in life insurance business

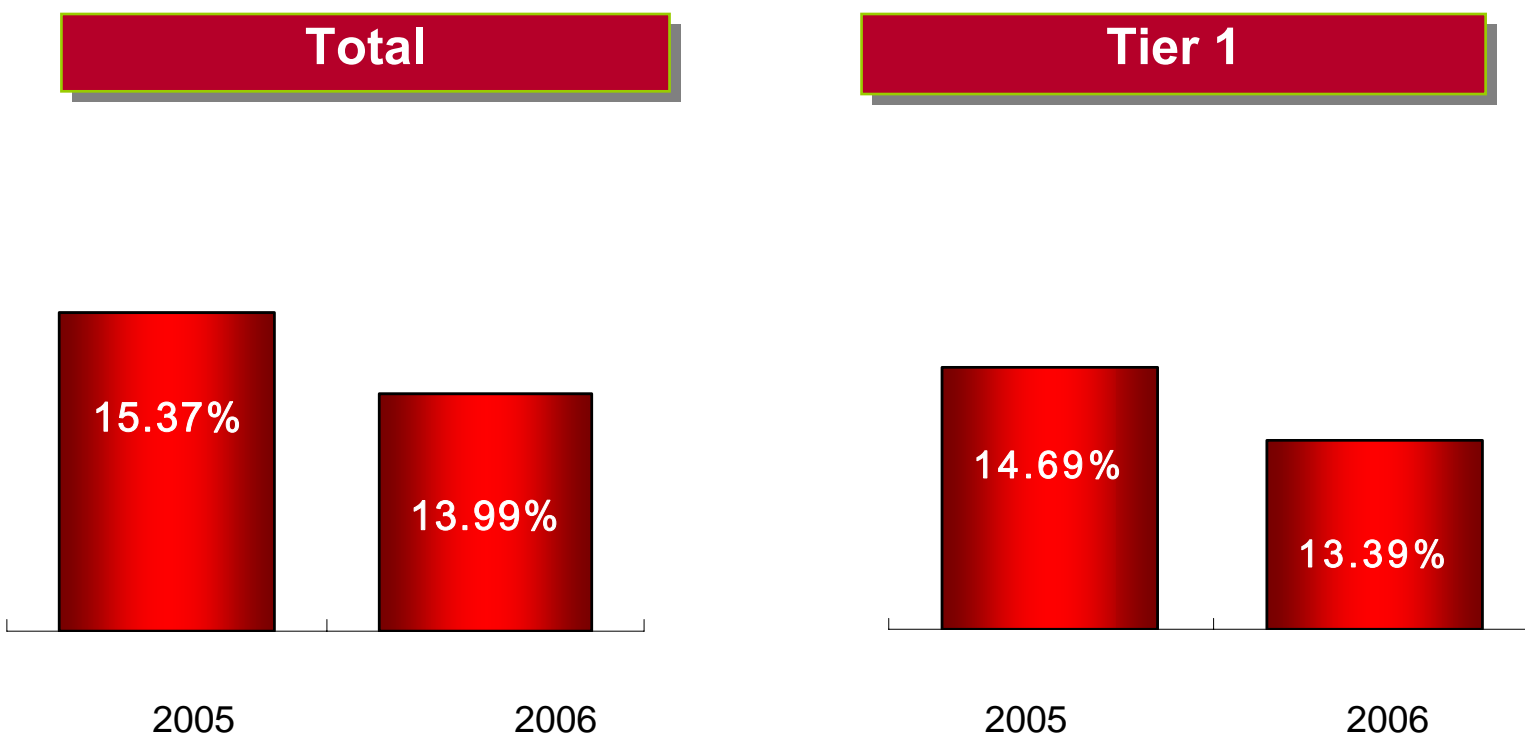
# Further Improvement in Asset Quality

Classified Loan Ratio fell to historical low of 0.57%



# Healthy Capital Strength

CAR\* remained at healthy level of 13.99%  
Lower CAR in 2006 was due to increase in risk-weighted assets



\* Basel I

# Financial Results



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# Condensed Income Statement

Strong growth in both net interest income and non-interest income leading to record high net operating income and profit

HK\$ m	2006	2005		% YoY
Net interest income	15,835	13,124	↑	20.7
Net fees and commission income	3,717	2,945	↑	26.2
Other operating income	8,412	5,467	↑	53.9
<b>Total operating income</b>	<b>27,964</b>	<b>21,536</b>	↑	<b>29.8</b>
Net insurance benefits and claims	(6,655)	(3,362)	↑	97.9
Net operating income before loan impairment allowances	21,309	18,174	↑	17.2
Loan impairment release	1,790	2,645	↓	32.3
<b>Net operating income</b>	<b>23,099</b>	<b>20,819</b>	↑	<b>11.0</b>
Operating expenses	(6,558)	(5,771)	↑	13.6
<b>Operating profit</b>	<b>16,541</b>	<b>15,048</b>	↑	<b>9.9</b>
Non-operating items	598	1,454	↓	58.9
<b>Profit attributable to shareholders</b>	<b>14,007</b>	<b>13,596</b>	↑	<b>3.0</b>

The Group adopted merger accounting method for the acquisition of BOC Life on 1 June 2006. As a result, the 2005 comparatives have been restated as appropriate.

# Key Financial Ratios

	2006	2005	Market *
ROE before impairment allowances	17.92%	16.67%	N.A.
ROE	17.02%	18.27%	N.A.
ROA before impairment allowances	1.61%	1.49%	N.A.
ROA	1.56%	1.67%	N.A.
Net interest margin	1.90%	1.72%	1.80%
Non-interest income ratio	25.69%	27.79%	38.30%
Cost-to-income ratio	30.78%	31.75%	42.70%
Classified loan ratio	0.57%	1.28%	1.11%
Impaired loan ratio	0.26%	0.56%	N.A.
CAR	13.99%	15.37%	15.00%
Loan-to-deposit ratio	49.32%	52.27%	51.78%

\* Provided by HKMA



# Higher Net Interest Income and Improved NIM

Improved NII underpinned by rising market interest rates, increase in average interest-earning assets and effective asset-liability management

HK\$ m	2006	2005		% YoY
Interest income	40,271	26,177	↑	53.8
Interest expense	24,436	13,053	↑	87.2
Net interest income	15,835	13,124	↑	20.7
<hr/>				
Average interest earning assets	835,493	760,914	↑	9.8
Net interest margin (NIM)	1.90%	1.72%	↑	0.18 pp

# Steady Rise in Non-interest Income

Non-interest income increased  
with higher net fee income and net trading income

Non-interest Income	2006	2005	% YoY
HK\$ m			
Net fee income	3,717	2,945	↑ 26.2
Other operating income	8,412	5,467	↑ 53.9
Net trading income	1,888	1,446	↑ 30.6
- Bank	1,468	1,751	↓ 16.2
- BOC Life	420	(305)	---
Net insurance premium income	6,195	3,630	↑ 70.7
Other income	329	391	↓ 15.9
	12,129	8,412	↑ 44.2
Net insurance benefits and claims	(6,655)	(3,362)	↑ 97.9
Total	5,474	5,050	↑ 8.4

# Robust Growth of Investment & Insurance Business

Segment growth driven by hefty increase in stock brokerage and asset management fee as well as income from BOC Life

Investment & Insurance Business	2006	2005	% YoY
HK\$ m			
Investment and insurance fee income			
Securities brokerage (Stockbroking)	1,383	714	↑ 93.7
Securities brokerage (Bonds)	105	120	↓ 12.5
Asset management	317	183	↑ 73.2
Life insurance	46	102	↓ 54.9
	<b>1,851</b>	<b>1,119</b>	<b>↑ 65.4</b>
Insurance and investment income of BOC Life			
Net insurance premium income	6,195	3,630	↑ 70.7
Interest income	473	318	↑ 48.7
Net trading income	420	(305)	---
Others	6	23	↓ 73.9
Gross insurance and investment income of BOC Life*	<b>7,094</b>	<b>3,666</b>	<b>↑ 93.5</b>
Less: Net insurance benefits and claims	<b>(6,655)</b>	<b>(3,362)</b>	<b>↑ 97.9</b>
	<b>439</b>	<b>304</b>	<b>↑ 44.4</b>
<b>Total Investment and Insurance Income</b>	<b>2,290</b>	<b>1,423</b>	<b>↑ 60.9</b>

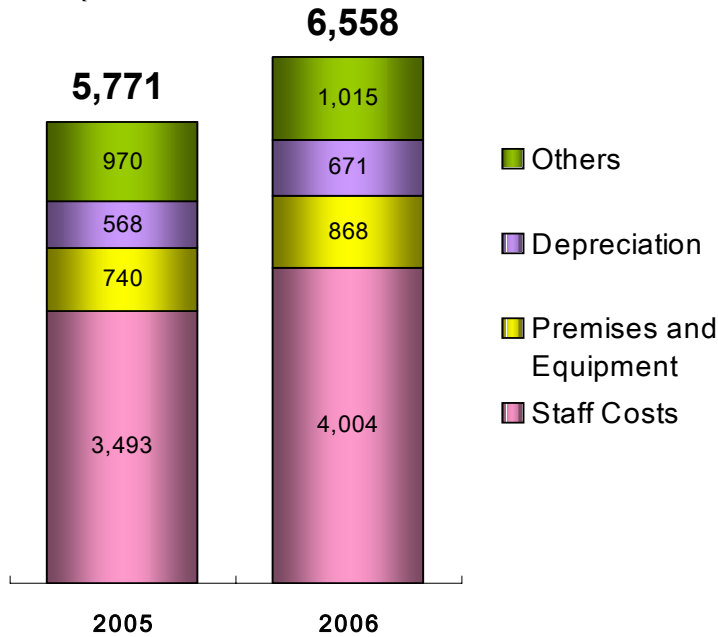
\* Before commission expenses.

# Effective Cost Management

**Cost efficiency maintained despite higher HR costs;  
Cost-to-income ratio improved further due to strong income growth**

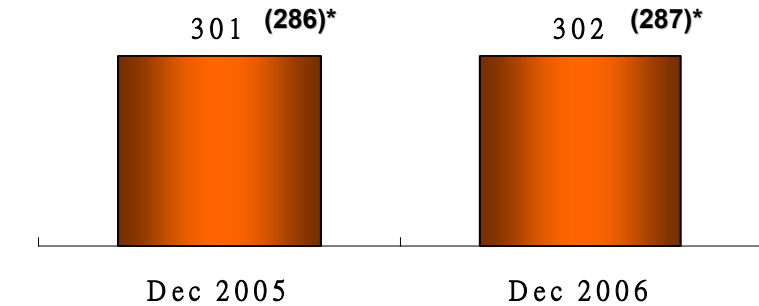
## Operating Expenses

HK\$ m



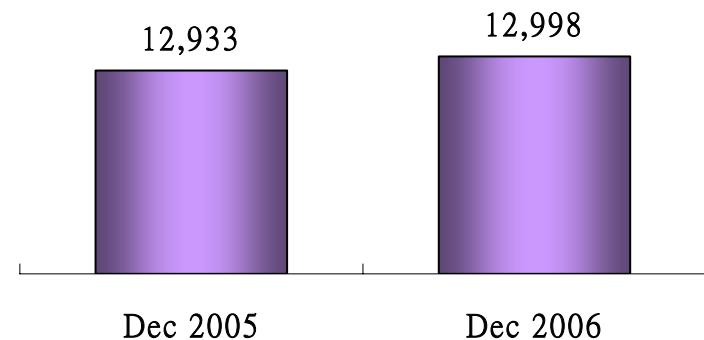
**31.75%      30.78%**  
**Cost-to-income ratio**

## Branch Number



\*Branches in Hong Kong

## Staff Number (FTE)



# Release of Loan Impairment Allowances

Reduction in releases partially offset by strong recoveries together with low new allowances

HK\$ m

Loan impairment release/(charge)

2006

2005

Individual assessment

- New allowances

(647)

(1,304)

- Releases

313

1,042

- Recoveries

2,053

1,639

Collective assessment

- New allowances

(194)

(11)

- Releases

203

1,279

- Recoveries

62

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Net credit to profit and loss account

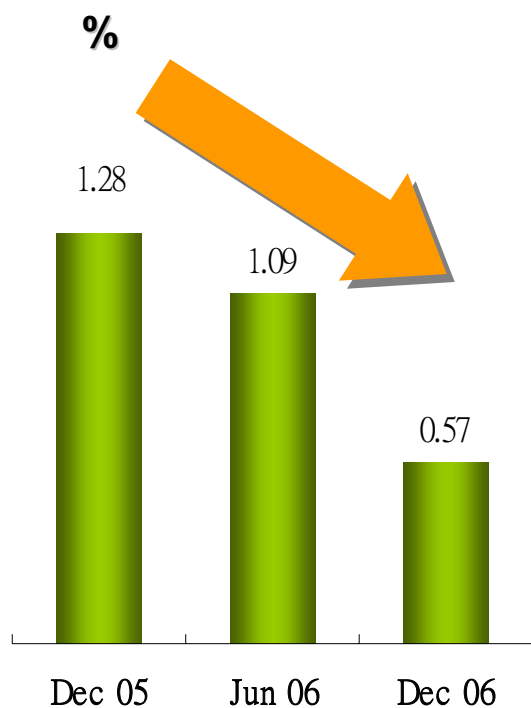
1,790

2,645

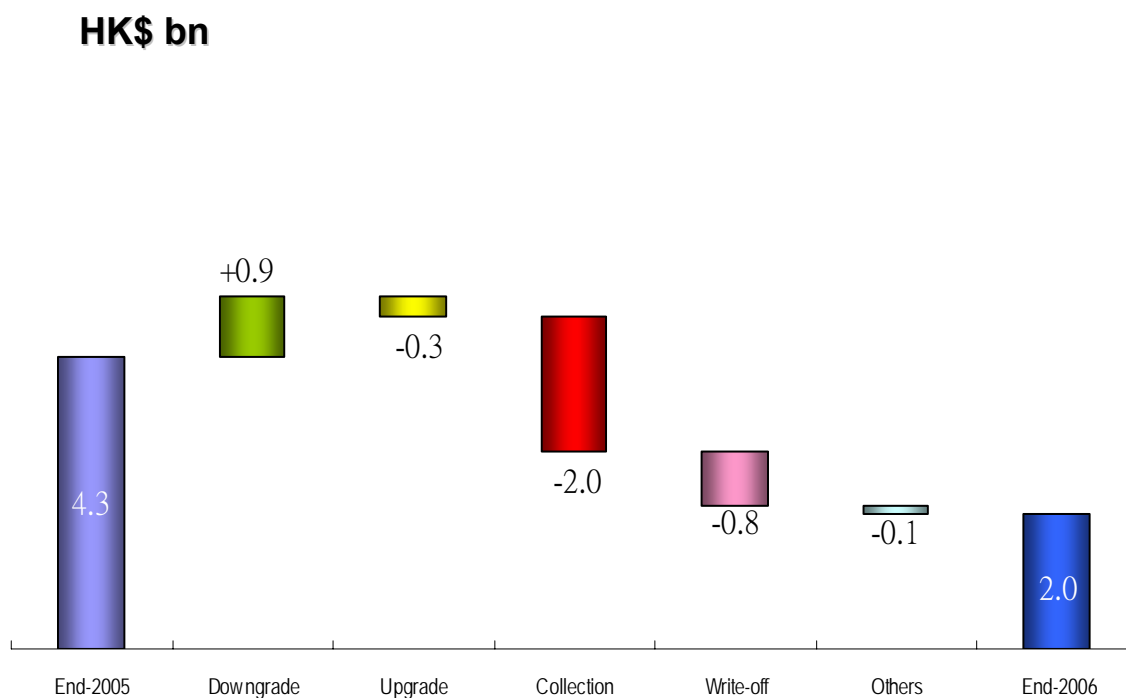
# Significantly Improved Asset Quality

Classified loan ratio declined to record low of 0.57%

## Classified Loan Ratio



## Migration of Classified Loans



# Condensed Balance Sheet

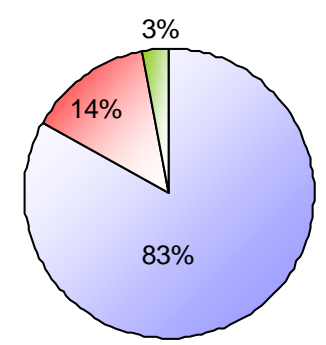
**Total assets expanded; asset deployment optimized through diversification into securities with higher yield**

HK\$ m	31.12.2006	31.12.2005	% YoY
<b>Total assets</b>	<b>928,953</b>	<b>831,002</b>	<b>↑ 11.8</b>
<b>Cash and balances with banks and other financial institutions</b>	<b>30,973</b>	<b>30,704</b>	<b>↑ 0.9</b>
<b>Placements with banks and other financial institutions</b>	<b>130,636</b>	<b>125,862</b>	<b>↑ 3.8</b>
<b>Securities investments</b>	<b>330,385</b>	<b>264,209</b>	<b>↑ 25.0</b>
<b>Advances to customers</b>	<b>347,090</b>	<b>334,023</b>	<b>↑ 3.9</b>
<b>Fixed assets &amp; IP</b>	<b>27,221</b>	<b>26,117</b>	<b>↑ 4.2</b>
<b>Total liabilities</b>	<b>842,313</b>	<b>749,289</b>	<b>↑ 12.4</b>
<b>Inter-bank deposits taken</b>	<b>49,034</b>	<b>40,655</b>	<b>↑ 20.6</b>
<b>Deposits from customers*</b>	<b>703,776</b>	<b>639,031</b>	<b>↑ 10.1</b>
<b>CDs issued</b>	<b>2,498</b>	<b>3,965</b>	<b>↓ 37.0</b>
<b>Total equity</b>	<b>86,640</b>	<b>81,713</b>	<b>↑ 6.0</b>
<b>Minority interests</b>	<b>1,985</b>	<b>1,778</b>	<b>↑ 11.6</b>
<b>Shareholders' funds</b>	<b>84,655</b>	<b>79,935</b>	<b>↑ 5.9</b>

\* included structured deposits

# Advances to Customers Rising Steadily

Loans for use outside HK and credit card advances showing double-digit growth YoY; Broad-based rebound in 2H

HK\$ m	31.12.2006	31.12.2005	% YoY	% HoH	Loans by currency mix
Loans for use in HK - corporate	148,780	146,100	+ 1.8	+ 1.0	 <p>Legend: <span style="color: blue;">■</span> HKD, <span style="color: red;">■</span> USD, <span style="color: green;">■</span> Others</p>
Loans for use in HK - individual	125,510	127,902	- 1.9	+ 2.7	
Residential mortgages*	96,953	99,171	- 2.2	+ 2.7	
Credit card advances	5,490	4,668	+ 17.6	+ 20.9	
Trade finance	16,865	16,079	+ 4.9	+ 6.7	
Loans for use outside HK	55,935	43,942	+ 27.3	+ 16.8	
<b>Total advances to customers</b>	<b>347,090</b>	<b>334,023</b>	<b>+ 3.9</b>	<b>+ 4.2</b>	

**Loan-to-deposit ratio**                      **49.32%**                      **52.27%**

\* Loans for purchase of other residential properties



# Customer Deposits Growing with Better Mix

Higher proportion of demand and savings deposits

HK\$ m

Demand deposits and current accounts

Saving deposits

Time, call and notice deposits

Structured deposits

**Total deposits from customers**

31.12.2006

31.12.2005

% YoY

% HoH

Deposits by currency mix

30,979

28,948

+ 7.0 + 8.9

256,653

216,540

+ 18.5 + 14.6

407,059

387,170

+ 5.1 + 4.8

9,085

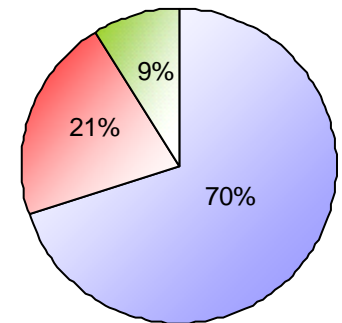
6,373

+ 42.6 - 10.1

703,776

639,031

+ 10.1 + 8.1



□ HKD

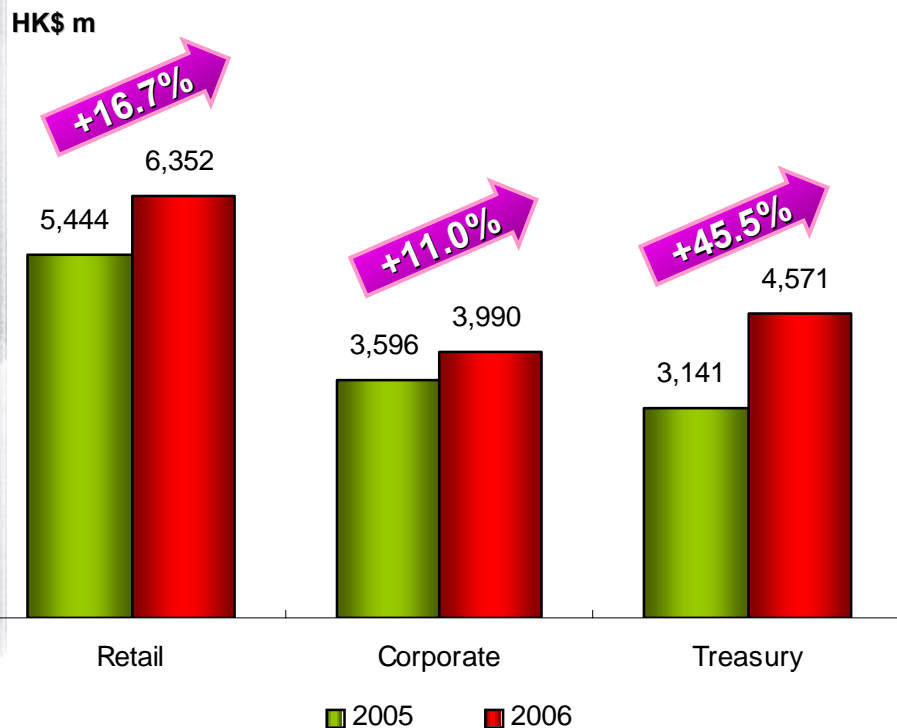
□ USD

□ Others

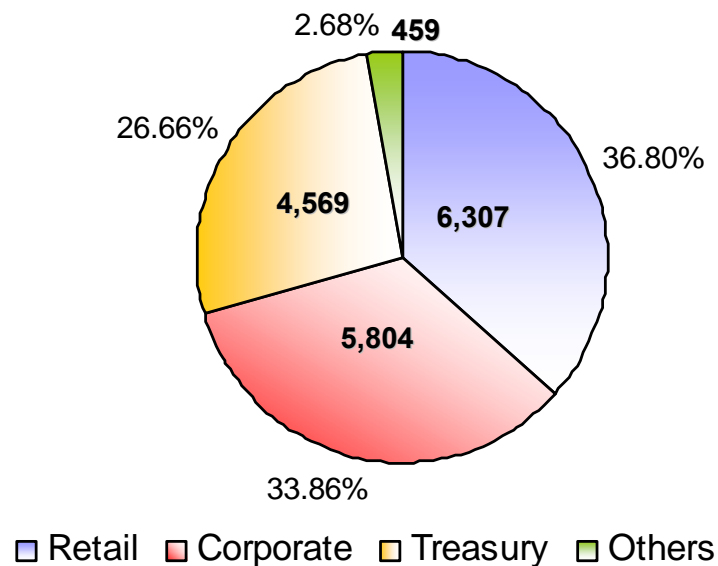
# Profit Contribution by Business Segment

Double-digit growth in operating profit for all segments

### Operating profit before impairment



### Segment contribution to pre-tax profit



# Insurance Business – Synergy with BOC Life

Significant growth in net insurance premium

HK\$ m	2006	2005	% YoY
Net interest income	473	318	+ 48.7
Net insurance premium income	6,195	3,630	+ 70.7
Net trading income/(loss)	420	(305)	---
Other income	6	23	- 73.9
<b>Total operating income</b>	<b>7,094</b>	<b>3,666</b>	<b>+ 93.5</b>
Net insurance benefits and claims	(6,655)	(3,362)	+ 97.9
Insurance and investment income	439	304	+ 44.4
Operating expenses	(65)	(56)	+ 16.1
<b>Operating profit of insurance business*</b>	<b>374</b>	<b>248</b>	<b>+ 50.8</b>
Net fees & commission paid to BOCHK & others	(200)	(106)	

\* After group eliminations

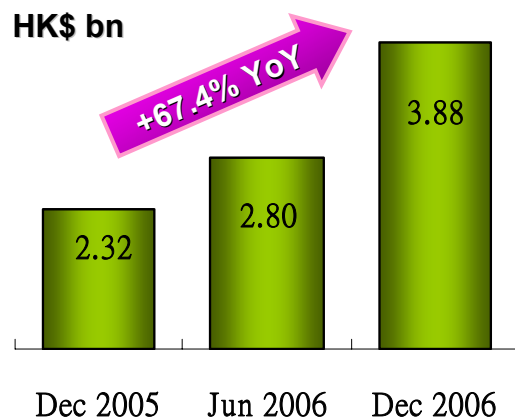
# Mainland Business Growing

Strong growth in operating profit before impairment, total advances and customer deposits; asset quality improved

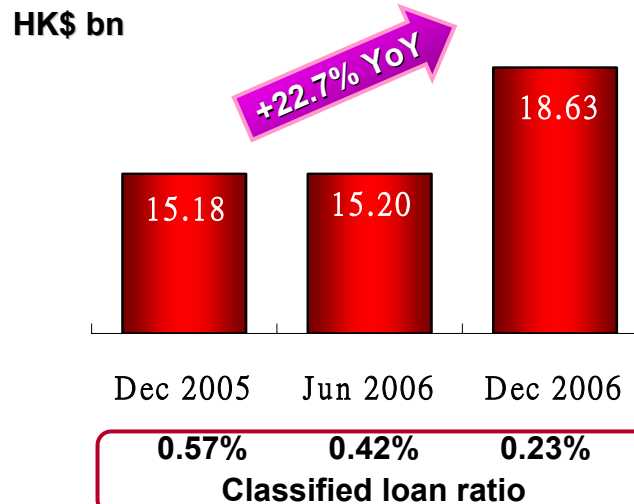
## Combined profit and loss account of 14 Mainland branches

HK\$ m	2006	2005	% YoY
Operating income	562	456	+ 23.2
Operating expenses	188	146	+ 28.8
Operating profit before impairment	374	310	+ 20.6
Profit before taxation	418	381	+ 9.7

## Deposits from customers



## Gross advances to customers



# Outlook



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- **Local economy likely to maintain its growth momentum with increased investment, internal demand and mild inflation**
- **US interest rate cut possible in 2H2007**
- **Banks to benefit from greater opportunities arising from extension of RMB banking business and further opening of China's financial services**
- **Intensifying competition for local and offshore businesses**
- **Higher volatility in international financial markets**
- **Rising operating costs**

# Strategic Focuses Going Forward

- **Business Growth**
- **China Expansion**
- **Implementation of RPC (Relationship-Product-Channel) Model**
- **Business Capabilities Enhancement**

# Strategic Focus – Business Growth

## Driving growth through diversification and boosting high-margin segments

- **Wealth management and insurance** : focus on product innovation with more customer-oriented approach and on enlargement of customer base
- **SME business** : focus on product/service enhancement, customer relationship, service network expansion, simplification of business workflow and credit approval efficiency
- **Trade finance** : focus on infrastructure, refinement of credit limit structure, flexibility and efficiency
- **Consumer lending** : focus on extension of product coverage, repackaging of relevant products and cross-selling



# Strategic Focus – China Expansion

## China Strategy

- **Dualistic model to develop retail and wholesale banking simultaneously**
  - **Retail banking : Nanyang Commercial Bank (NCB) applied for locally incorporated bank status**
  - **Corporate banking : BOCHK's and Chiyu's foreign-funded bank status to be maintained**
- **Comprehensive banking services with an emphasis on retail banking through NCB**
- **BOCHK to focus on large corporates and foreign exchange**
- **Target to more than double our outlets by 2009, focusing on major cities in Pearl River Delta, Yangzi River Delta and coastal regions**
- **Continue to build on close cooperation with BOC for mutual gains**

# Strategic Focus – RPC Model

## Implementation of RPC Model to enhance operational efficiency and competitiveness

- Focus on products and services development tailored to the needs of different customer segments
- Enhance cross-selling to achieve higher penetration rates through existing local distribution network, with a view to extending to Mainland
- Optimize channels and workflow to facilitate sales and marketing
- Maintain investment momentum in manpower and IT infrastructure

# Strategic Focus – Business Capabilities Enhancement



## In pursuit of expansion opportunities

- Target companies or business operations that are complementary to the Group's business model and can enhance its product platform and market position
- Major focus on asset management, stock brokerage and insurance

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