

2006 Interim Results

29.8.2006



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**

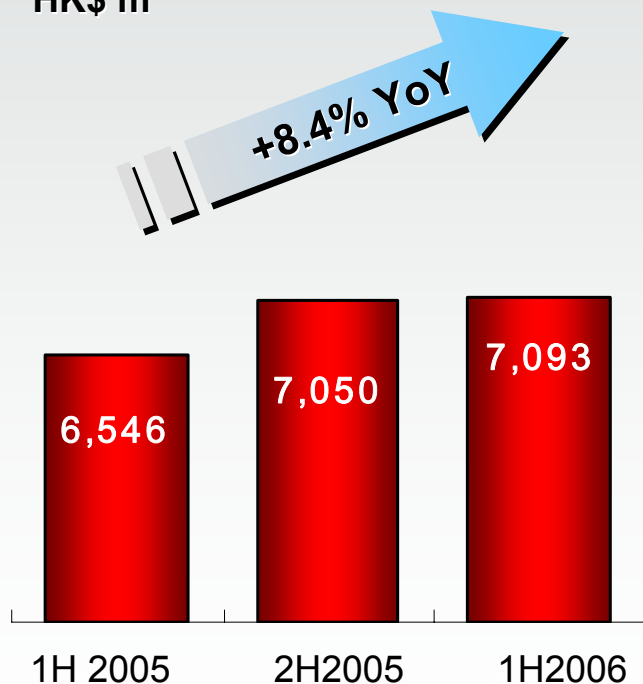
Key Performance Highlights



Another Record High Interim Attributable Profit & Dividend

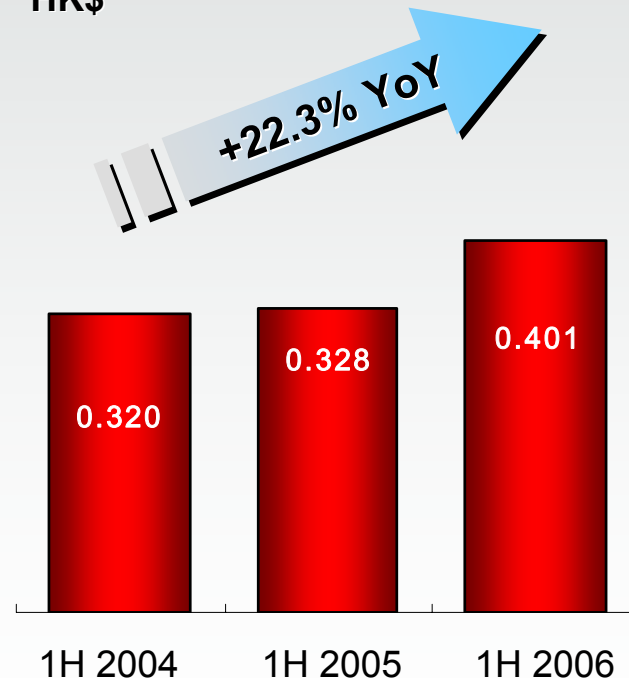
Profit Attributable to Shareholders

HK\$ m



Dividend per Share

HK\$



Operating Environment



External

- Buoyant economy driven by investment & domestic spending
- Active stock market and robust export trade
- Lackluster residential property market
- Continuous widening of Prime and HIBOR spread
- Benign credit environment

Internal

- Commencement of Strategic Plan 2006-2011
- Implementation of Relationship-Product-Channel (RPC) Model
- Focus on high-yield segments and overall profitability
- Continued collaboration with BOC
- More committed and motivated workforce with enhanced HR management

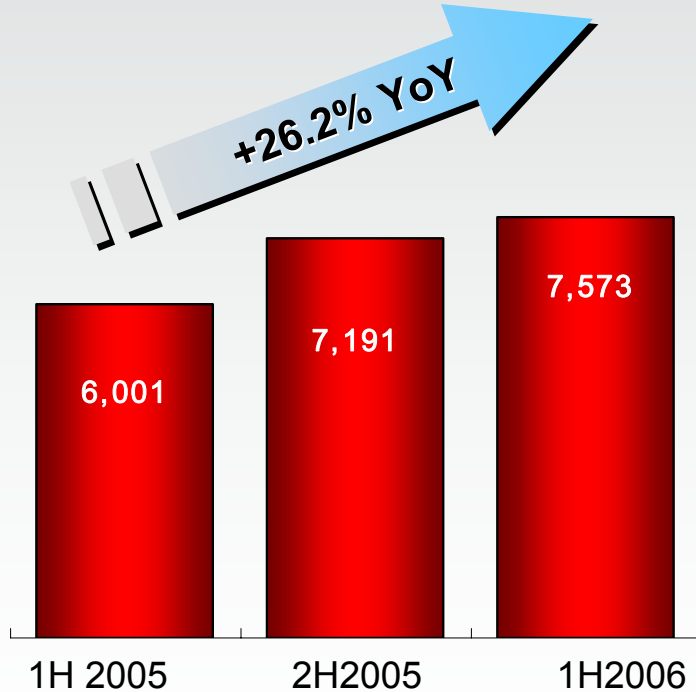
Strong Growth in Operating Results

HK\$ m	1H 2006	2H 2005	1H 2005
Net operating Income before loan impairment allowances	10,517	9,863	8,311
Operating profit before loan impairment allowances	7,546	6,785	5,618
Operating profit	8,188	7,995	7,053
ROE (%)	17.63	18.34	18.35
ROA (%)	1.59	1.72	1.62
	30.06.2006	31.12.2005	30.06.2005
CAR (%)	14.61	15.37	15.74

Broad Based Revenue Growth

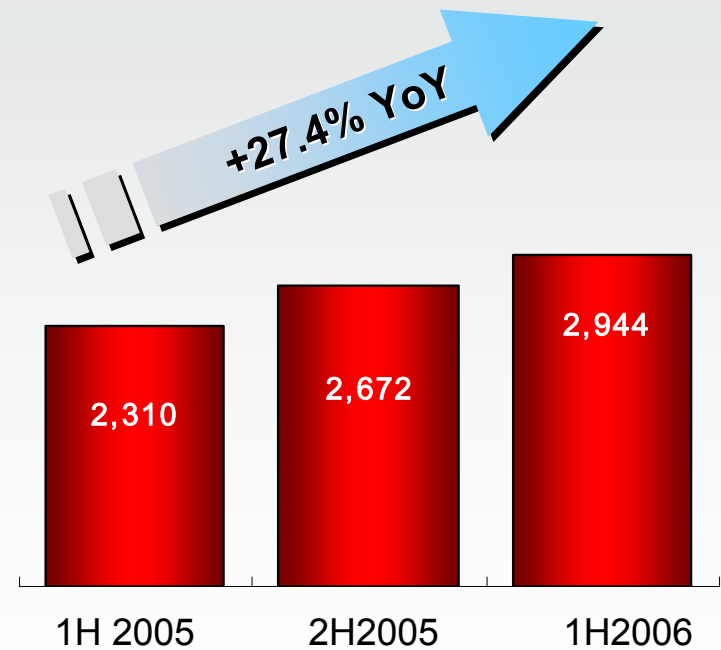
Net Interest Income

HK\$ m



Non-interest Income

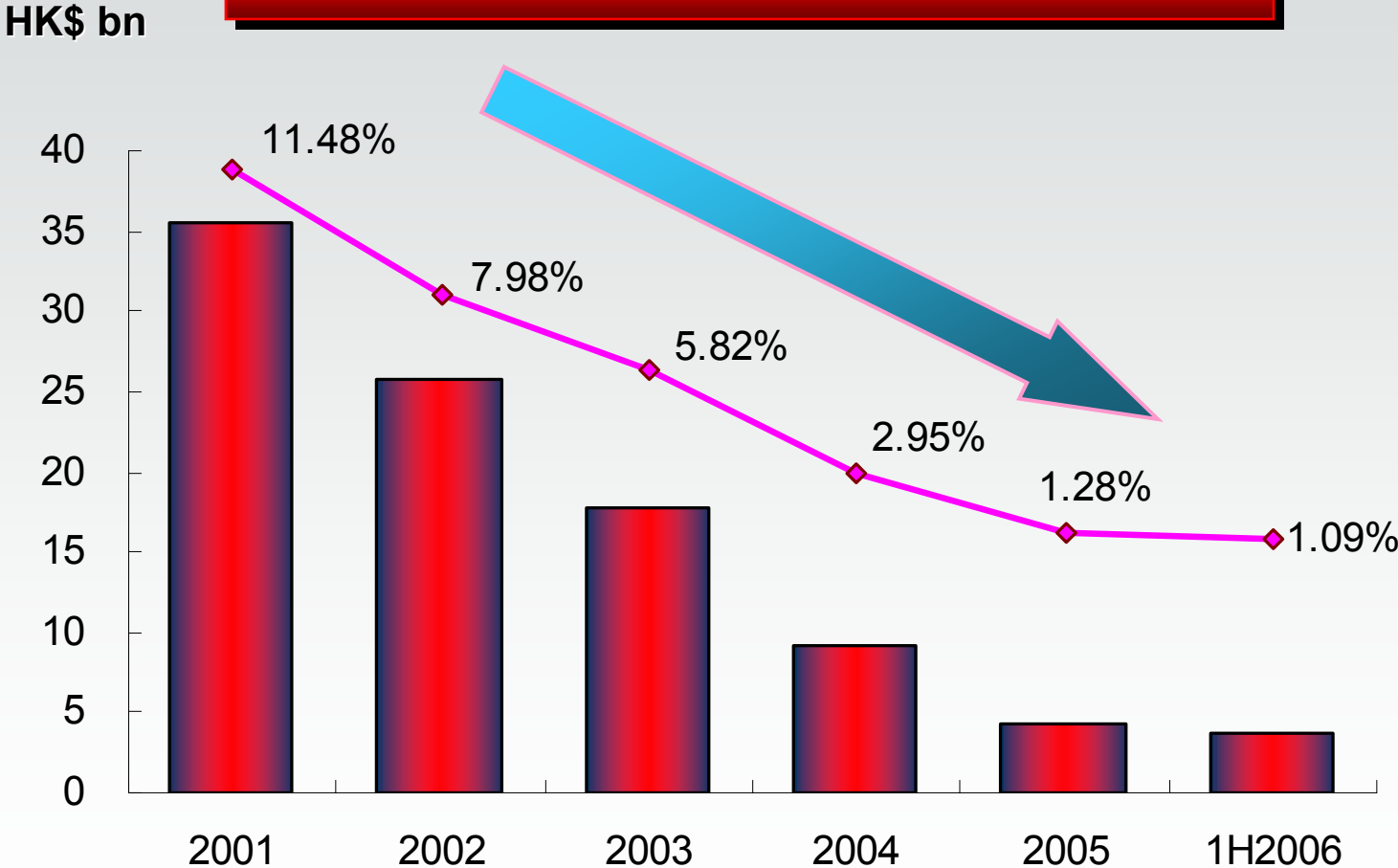
HK\$ m



Further Improvement in Asset Quality



Impaired Loan / Impaired Loan Ratio



Impaired Loan Impaired Loan Ratio

Other Business Highlights

- **Growth in customer deposits (+1.9%)**
- **Strong growth in net fee income (+21.2%)**
- **Expansion of wealth management customer base (+24.7%) and assets under management (+20.1%)**
- **Leading position in HK RMB business maintained**
- **Successful acquisition of BOC Life**

Financial Results



中銀香港(控股)有限公司
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Condensed Income Statement

Continued growth in both net interest income and non-interest income leading to strong operating results

HK\$ m	1H 2006	2H 2005	1H 2005	% YoY	% HoH
Net interest income	7,573	7,191	6,001	↑ 26.20	↑ 5.31
Net fees and commission income	1,761	1,493	1,453	↑ 21.20	↑ 17.95
Other operating income	4,243	2,781	2,617	↑ 62.13	↑ 52.57
Total operating income	13,577	11,465	10,071	↑ 34.81	↑ 18.42
Net insurance benefits and claims	(3,060)	(1,602)	(1,760)	↑ 73.86	↑ 91.01
Net operating income before loan impairment allowances	10,517	9,863	8,311	↑ 26.54	↑ 6.63
Loan impairment release	642	1,210	1,435	↓ 55.26	↓ 46.94
Net operating income	11,159	11,073	9,746	↑ 14.50	↑ 0.78
Operating expenses	(2,971)	(3,078)	(2,693)	↑ 10.32	↓ 3.48
Operating profit	8,188	7,995	7,053	↑ 16.09	↑ 2.41
Non-operating items	485	537	917	↓ 47.11	↓ 9.68
Profit attributable to shareholders	7,093	7,050	6,546	↑ 8.36	↑ 0.61

The group has applied merger accounting to account for the combination with BOC Life on 1 June, 2006. As a result, the 2005 comparative figures were restated as appropriate.

Higher Net Interest Income and Improved NIM

Improved NII and NIM (YoY +23 bps) underpinned by rising market interest rates, funding cost control and active asset-liability management

HK\$ m

1H 2006

2H 2005

1H 2005

Interest income	19,403	15,980	10,197
Interest expense	11,830	8,789	4,196
Net interest income	7,573	7,191	6,001
<hr/>			
Average interest earning assets	827,948	767,189	749,754
Net interest margin (NIM)	1.84%	1.86%	1.61%

Non-interest Income

Strong growth in net fees and commission income and net insurance premium income

Non-interest Income

HK\$ m	1H 2006	2H 2005	1H 2005
Net fees and commission income	1,761	1,493	1,453
Net trading income	606	666	699
Net insurance premium income	3,476	1,856	1,774
Net insurance benefits and claims	(3,060)	(1,602)	(1,760)
Other income	161	259	144
Total	2,944	2,672	2,310

Investment & Insurance Business

Substantial growth in stockbrokerage, asset management fee, and insurance income of BOC Life

Investment & Insurance Business

HK\$ m

	1H 2006	2H 2005	1H 2005
Investment and insurance fee income			
Securities brokerage (Stockbroking)	644	384	330
Asset management	167	98	85
Life insurance	18	29	73
Bonds	29	46	74
	858	557	562
Insurance income of BOC Life			
Net insurance income *	416	254	14
Fee income	-	3	20
Interest income	208	177	141
Net trading income	(415)	(260)	(45)
	209	174	130
Total Investment and Insurance Income	1,067	731	692

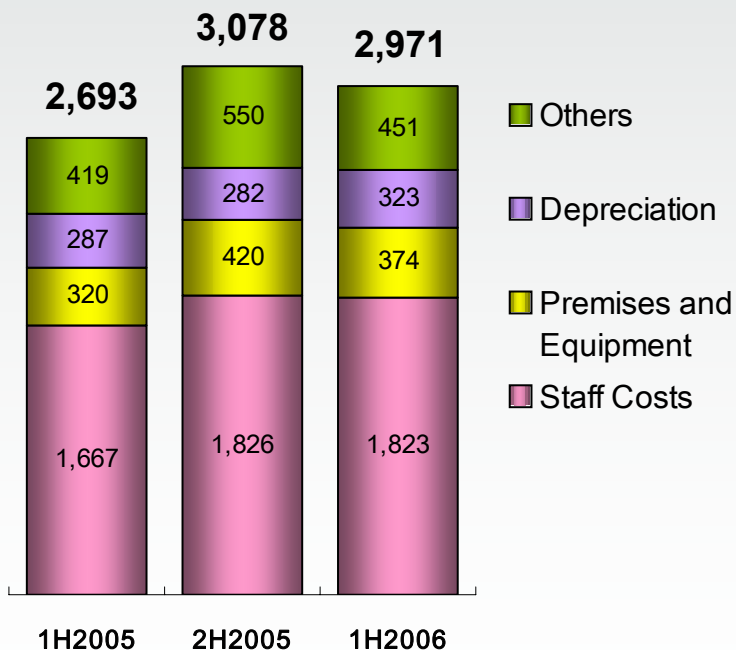
* Net insurance income represents net insurance premium income deducted by net insurance benefits and claims.

Effective Cost Management

Cost-to-income ratio improved despite considerable investment in HR and IT

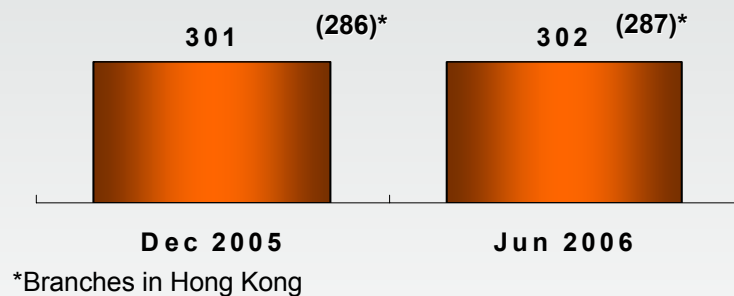
Operating Expenses

HK\$ m



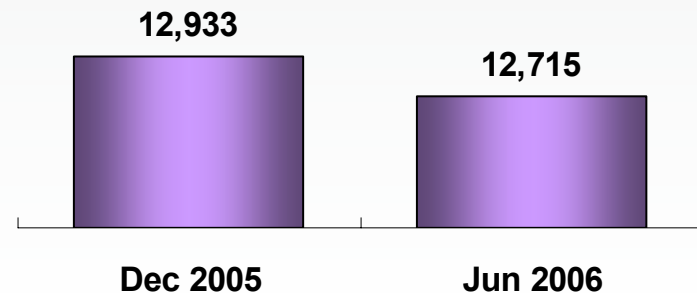
32.40% 31.21% 28.25%
Cost-to-income ratio

Branch Number



*Branches in Hong Kong

Staff Number (FTE)



Release of Loan Impairment Allowances

Net release of loan impairment as a result of improved asset quality and effective collection

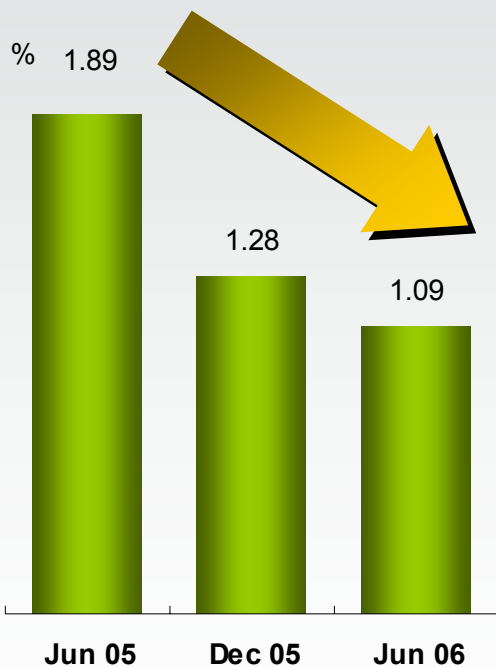
HK\$ m	1H 2006	2H 2005	1H 2005
Loan impairment release/(charge)			
Individual assessment			
- New allowances	(366)	(609)	(695)
- Releases	99	834	208
- Recoveries of loans previously written off	676	552	1,087
Collective assessment			
- New allowances *	(2)	90	(101)
- Releases	219	364	915
- Recoveries of loans previously written off *	16	(21)	21
Net credit to Income Statement	642	1,210	1,435

* New allowances and recoveries for the half-year ended 31 December 2005 included adjustments resulted from a change in the classification of individual assessment and collective assessment of certain loans in the second half of 2005.

Continued Improvement in Asset Quality

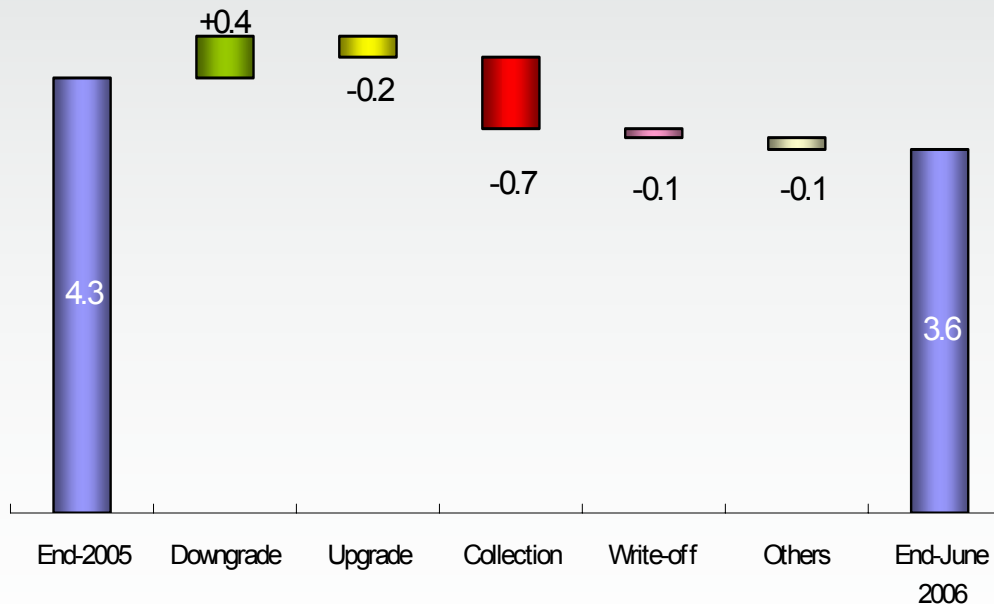
Impaired loan ratio declined to historic low of 1.09%

Impaired Loan Ratio



Migration of Impaired Loans

HK\$ bn



Condensed Balance Sheet

Continued to enhance asset mix by shifting short-term funds to higher yield securities

HK\$ m	30.06.2006	31.12.2005	% Change
Total assets	860,335	831,002	↑ 3.5
Cash and short-term funds	80,391	108,955	↓ 26.2
Inter-bank placements	55,993	47,611	↑ 17.6
Securities investments	310,979	264,209	↑ 17.7
Advances to customers	333,208	334,023	↓ 0.2
Fixed assets & IP	27,108	26,117	↑ 3.8
Total liabilities	777,384	749,289	↑ 3.8
Inter-bank deposits taken	46,802	40,655	↑ 15.1
Deposits from customers*	650,994	639,031	↑ 1.9
CDs issued	3,935	3,965	↓ 0.8
Total equity	82,951	81,713	↑ 1.5
Minority interests	1,917	1,778	↑ 7.8
Shareholders' funds	81,034	79,935	↑ 1.4

* included structured deposits

The group has applied merger accounting to account for the combination with BOC Life on 1 June, 2006. As a result, the 2005 comparative figures were restated as appropriate.

Advances to Customers

Growth in total corporate loan offset by decline in residential mortgages due to sluggish property market

HK\$ m

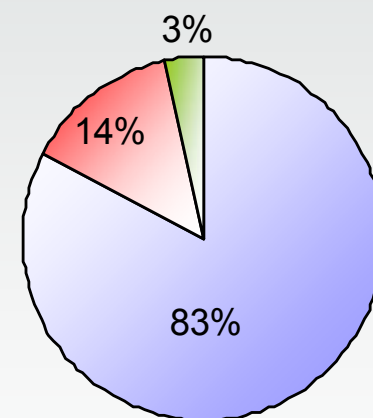
30.06.2006

31.12.2005

% Change

Loans by currency mix

	30.06.2006	31.12.2005	% Change
Loans for use in HK - corporate	153,300	151,903	+ 0.9
Loans for use in HK - individual	122,297	127,932	- 4.4
Residential mortgages	94,450	99,179	- 4.8
Credit card advances	4,540	4,668	- 2.7
Trade finance	15,809	16,080	- 1.7
Loans for use outside HK	41,802	38,108	+ 9.7
Total advances to customers	333,208	334,023	- 0.2
of which: SME Loans	47,783	46,337	+ 3.1



Loan-to-deposit ratio

51.18%

52.27%

□ HKD

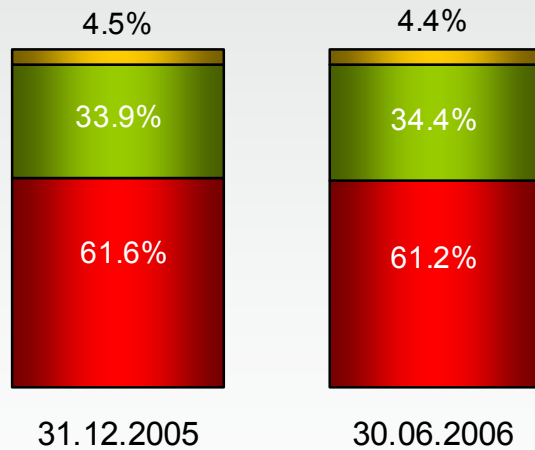
□ USD

□ Others

Deposits from customers

Steady growth and stable mix of deposits

Types of deposits



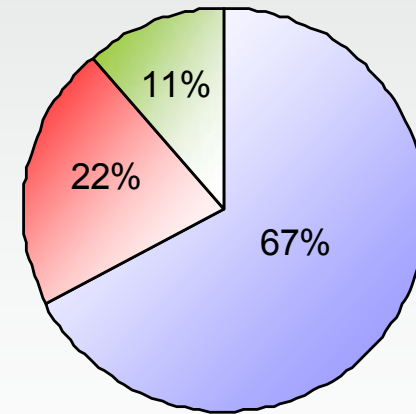
■ Fixed & Structured ■ Savings ■ Demand

HK\$ m

639,031

650,994

Deposits by currency mix



□ HKD

□ USD

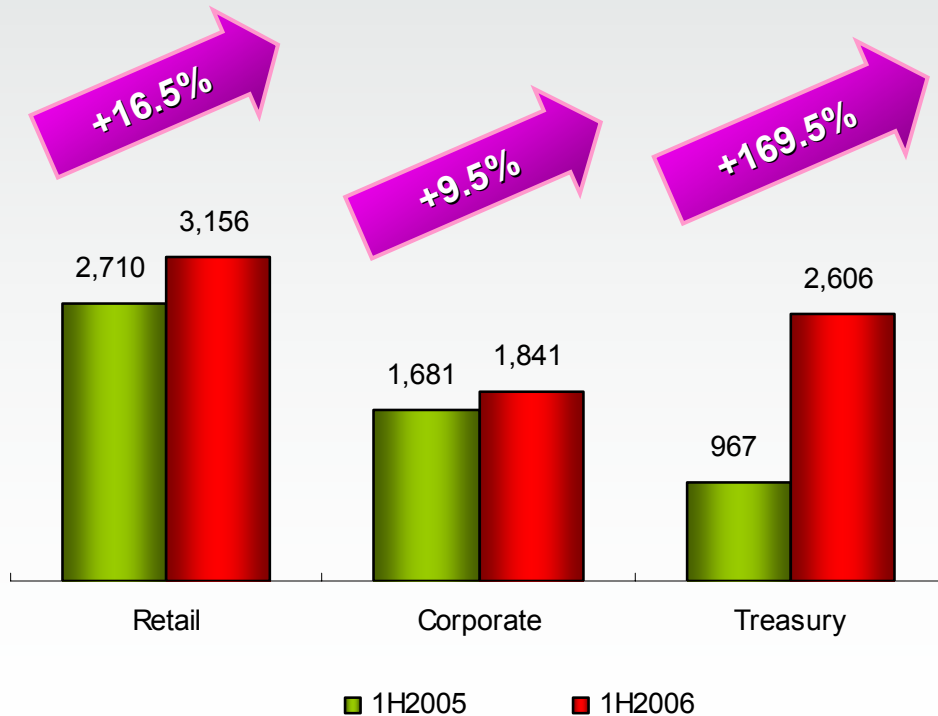
□ Others

Business Segment Contribution

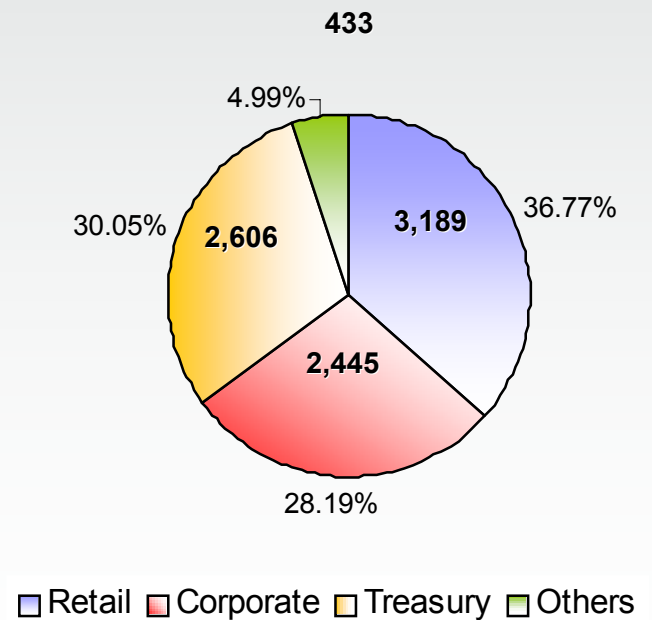
All businesses reported increasing operating profit before impairment

Operating profit before impairment

HK\$ m



Segment contribution to pre-tax profit



Successful Acquisition of BOC Life

Enhances capability in insurance business and solidifies client base

Insurance Segment

HK\$ m

	1H2006	1H2005		% Change
Net interest income	208	141	+	47.5
Net insurance premium income	3,478	1,775	+	95.9
Other operating income	(520)	(86)	+	504.7
Total operating Income	3,166	1,830	+	73.0
Net insurance benefits and claims	(3,060)	(1,760)	+	73.9
Operating expenses	(27)	(23)	+	17.4
Profit before taxation	79	47	+	68.1

* Merger accounting method adopted

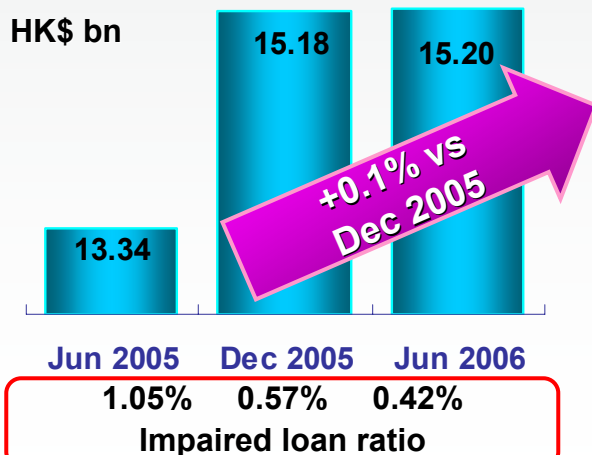
Mainland branches

Growth in total operating income and operating profit before impairment

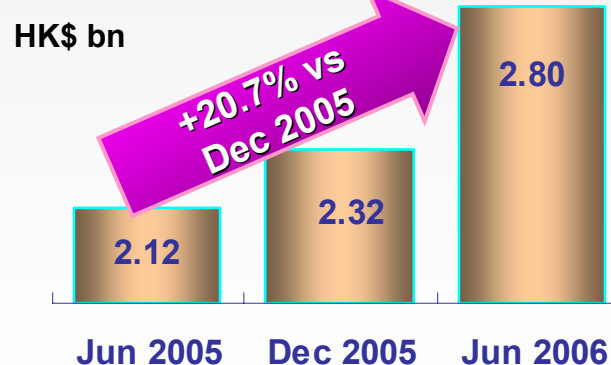
Combined profit and loss account of 14 Mainland branches

HK\$ m	1H2006	1H2005	% Change
Total operating income	242	206	+ 17.5
Operating expenses	92	64	+ 43.8
Operating profit before impairment	150	142	+ 5.6
Loan impairment release	34	87	- 60.9
Profit before taxation	182	229	- 20.5

Gross advances to customers



Deposits from customers



1.05% 0.57% 0.42%
Impaired loan ratio

Outlook and Strategy



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- **Signs of US interest rate hike peaking out**
- **Uncertainty over oil prices and geopolitical conflicts may dampen trade and investment**
- **Local economic climate expected to stay positive**
- **Property market may resume up trend**
- **Fierce competition in the banking sector**

Strategies Going Forward (1)

■ Forge ahead with Strategic Plan 2006-2011

- To drive organic growth by focusing on higher-yielding segments.
- To seek out new expansion opportunities after acquisition of BOC Life.
- To build a stronger presence in the Mainland.
- To continue with corporate culture building and HR reforms.

Strategies Going Forward (2)

■ Enhance RPC Model to drive organic growth

- To strengthen Customer Relationship Management
- To introduce new Product Management System
- To optimize Workflow & Channels

■ Invest in infrastructure to prepare for QDII and CIBM

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