

# Bank of China (Hong Kong)

November 2009

Stock code : 2388 HK



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

## ■ Strengthening Our Business Platform

## ■ 2009 Third Quarter Update

## ■ 2009 Interim Results Highlights

**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.



# Strengthening Our Business Platform

# Close Collaboration with BOC

To capture emerging business opportunities  
in China and the Asia-Pacific Region for mutual gains

## ■ Asia Pacific Syndication Loan Centre

- A proven success leveraging BOCHK's expertise in loan syndication, BOC's distribution network in the region and the strong BOC Group franchise
- Solidifying BOCHK's leading position in loan syndication and extending our reach in the region

## ■ Pilot Global Relationship Manager Scheme

- Targeting BOC and BOCHK's leading corporate customers
- Enhance our global service capability to provide one-stop services

## ■ Extending our cooperation to other areas

- Promoting several cross-boundary products in trade finance
- Expanding our remittance network in the Mainland
- BOC Global Wealth Management Services
- Seek to function as BOC Group's product manufacturing centre and service supporting centre in the region

# Enhancing Our Business Platform

**Focused on enhancing our franchise and business capabilities for long-term sustainable growth**

## ■ Consolidation of Mainland operation

- Completed consolidation of BOCHK's Mainland branches into Nanyang Commercial Bank (China)
- Enables the Group to fully explore the potential of its Mainland business by capitalizing on the consolidated resources and capital strength

## ■ Enhancing our Total Solution Services

- Remarkable progress in our cash management business
- Enhanced "RMB Merchant Link" service

## ■ Strengthening life insurance business platform

- Refined our distribution and product strategies
- Establishment of a new professional sales team

# Strong Franchise

**Growing on our strong franchise  
and core competitiveness in traditional banking business**

## ■ Personal Banking

- Strong deposit franchise and distribution network
- Leading position in residential mortgages and retail stock brokerage
- Solid market position in credit card business with wide industry and customer recognition

## ■ Corporate Banking

- Leading market position in corporate lending business including loan syndication, lending to major corporates, SMEs and trade finance
- Strong cross-border service capabilities

## ■ Best Choice for RMB services

- The only RMB Clearing Bank in Hong Kong
- No. 1 in local RMB deposits-taking business
- Unique edges in RMB trade settlement and finance business





# 2009 Third Quarter Update

## Major operating trends for 3Q09

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- Continued loan growth with solid loan quality maintained
- Loans at Mainland branches increased satisfactorily
- Insurance segment saw continued progress with encouraging sales growth
- Net interest margin continued to narrow but at a slower pace in recent months
- A net reversal of impairment allowances and net realized gain on impaired securities investments
- Capital adequacy ratio remained at a high level



# First nine months of 2009

**Core operating profit\* increased YoY  
Impairment charges on securities were down substantially**

HK\$m	Year to Sep 2009	Year to Sep 2008	%YoY
Net operating income before impairment allowances	19,834	19,547	↑ 1.5%
Operating expenses <sup>#</sup>	9,250	6,269	↑ 47.6%
Operating profit before impairment allowances	10,584	13,278	↓ 20.3%
Net (charge) of impairment allowances on securities investments	(107)	(5,348)	↓ 98.0%

\* Excluding expenses mainly related to the Lehman Brothers Minibonds

# Including Lehman Brothers Minibonds related expenses of HK\$3,242m for the first nine months of 2009

# 3Q09 - Key Financial Highlights

**Net operating income decreased QoQ  
on lower contribution from net trading income and insurance segment**

HK\$m	3Q2009	%QoQ	%YoY
Net operating income before impairment allowances	6,806	↓ 3.7%	↑ 23.6%
Operating expenses*	5,056	↑ 126.3%	↑ 131.8%
Operating profit before impairment allowances	1,750	↓ 63.8%	↓ 47.4%
Net writeback of impairment allowances on securities investments	1,061	↑ 8062%	n.a.

\* Including Lehman Brothers Minibonds related expenses  
n.a.= net charge was recorded in 3Q08

## Advances to Customers (as at end June 09)

HK\$ m	30.06.2009	31.12.2008	% Change
Loans for use in HK - corporate	213,386	188,774	↑ 13.0
Loans for use in HK - individual	147,886	147,823	↑ 0.0
Residential mortgages*	118,167	116,303	↑ 1.6
Credit card advances	6,492	6,553	↓ 0.9
Trade finance	25,052	24,555	↑ 2.0
Loans for use outside HK	89,240	99,295	↓ 10.1
<b>Total advances to customers</b>	<b>475,564</b>	<b>460,447</b>	<b>↑ 3.3</b>

<b>Loan-to-deposit ratio</b>	<b>57.66%</b>	<b>56.74%</b>
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### 3Q09 update : Loan growth continued and solid loan quality maintained

- Corporate loans, trade finance, loan syndication and residential mortgages continued to grow
- Mainland branches registered satisfactory loan growth, positive growth year-to-September ( vs a decline of 9.9% in 1H09)

# Net Interest Income (1H09)

Net interest income declined mainly due to lower NIM

HK\$ m	1H2009	2H2008	1H2008	% YoY	% HoH
Interest income	11,993	17,176	18,105	↓ 33.8	↓ 30.2
Interest expense	3,064	7,048	8,076	↓ 62.1	↓ 56.5
Net interest income	8,929	10,128	10,029	↓ 11.0	↓ 11.8
Average interest earning assets	1,023,452	1,024,038	988,746	↑ 3.5	↓ 0.1
Net interest margin (NIM)	1.76%	1.97%	2.03%	↓ 0.27pp	↓ 0.21pp

## 3Q09 update :

- 3Q09 (QoQ) : rose mildly due to higher average interest earning assets; NIM continued to narrow but at a slower pace in recent months
- Year to September : declined YoY mainly due to the significant narrowing of NIM

# Net Fees and Commission Income (1H09)

Moderate YoY growth in income despite slowdown in business activities  
Strong growth in stock brokerage and loans commissions

HK\$ m	1H09	% YoY	% HoH
Securities brokerage (Stockbroking)	1,625	↑ 26.1	↑ 48.9
Securities brokerage (Bonds)	4	↓ 98.2	↓ 89.7
Funds distribution	38	↓ 75.8	↓ 37.7
Life insurance	74	↓ 3.9	↑ 146.7
	<b>1,741</b>	<b>↓ 0.1</b>	<b>↑ 42.6</b>
<i>Traditional banking businesses</i>			
Bills commissions	310	↓ 5.8	↓ 12.4
Loan commissions	398	↑ 51.3	↑ 59.2
Trust services	82	↓ 5.7	↓ 4.7
Payment services	227	↓ 5.0	↓ 8.1
Credit cards	705	↑ 6.3	↓ 6.5
Account services	132	↓ 9.6	↑ 14.8
Currency exchange	87	↓ 19.4	↓ 9.4
IPO-related	1	↓ 96.7	---
Others	201	↓ 15.2	↓ 18.3
	<b>2,143</b>	<b>↑ 2.0</b>	<b>↓ 0.2</b>
<b>Total Fees and Commission Income</b>	<b>3,884</b>	<b>↑ 1.0</b>	<b>↑ 15.3</b>
<b>Less: Fees and Commission Expenses</b>	<b>(937)</b>	<b>↓ 1.0</b>	<b>↓ 14.0</b>
<b>Net Fees and Commission Income</b>	<b>2,947</b>	<b>↑ 1.7</b>	<b>↑ 29.3</b>

## 3Q09 update :

- 3Q09 : mild growth QoQ, driven by loan commissions and credit cards
- Year to September increased YoY, driven by stock brokerage & loan commissions



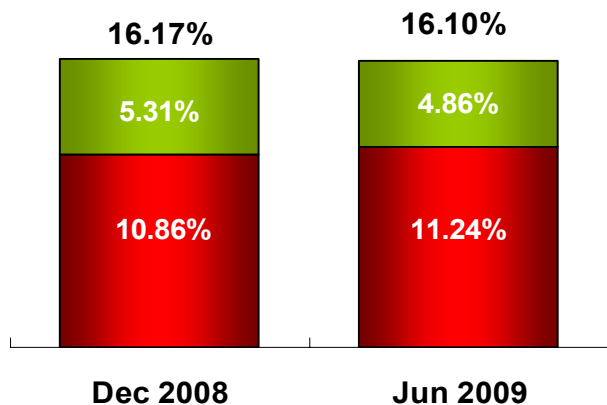
## 2009 Interim Results Highlights



# Strong Financial Position

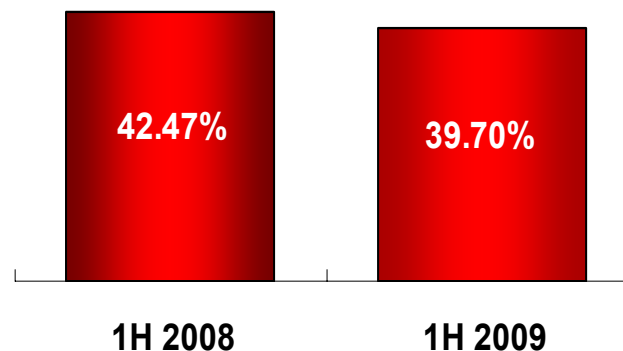
## Well Capitalized

■ Tier 1 ■ Tier 2



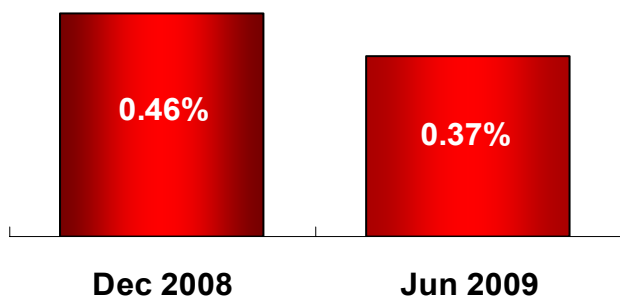
## Highly Liquid

Liquidity remained solid at 39.70%



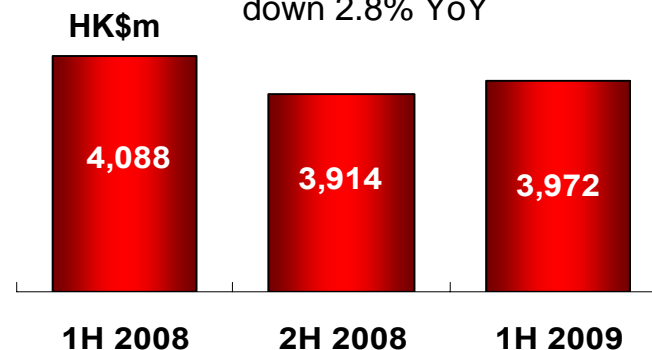
## Solid Loan Quality

Classified or impaired loan ratio  
-9 bps to 0.37%



## Disciplined Cost Control

Core operating expenses\*  
down 2.8% YoY



# Condensed Income Statement

Both operating income and bottom-line performance improved significantly from 2H08

HK\$ m	1H2009	2H2008	1H2008	% YoY	% HoH
Net interest income	8,929	10,128	10,029	↓ 11.0	↓ 11.8
Net fees and commission income	2,947	2,280	2,899	↑ 1.7	↑ 29.3
Other operating income	1,152	(921)	1,111	↑ 3.7	---
<b>Net operating income before impairment allowances</b>	<b>13,028</b>	<b>11,487</b>	<b>14,039</b>	<b>↓ 7.2</b>	<b>↑ 13.4</b>
Net (charge)/reversal of impairment allowances	(1,115)	(10,346)	(2,227)	↓ 49.9	↓ 89.2
<b>Net operating income</b>	<b>11,913</b>	<b>1,141</b>	<b>11,812</b>	<b>↑ 0.9</b>	<b>↑ 944.1</b>
Operating expenses	(4,194)	(4,683)	(4,088)	↑ 2.6	↓ 10.4
<b>Operating profit</b>	<b>7,719</b>	<b>(3,542)</b>	<b>7,724</b>	<b>↓ 0.1</b>	<b>---</b>
Non-operating items	525	(814)	710	↓ 26.1	---
<b>Profit attributable to shareholders</b>	<b>6,691</b>	<b>(3,745)</b>	<b>7,088</b>	<b>↓ 5.6</b>	<b>---</b>
<b>HK\$</b>					
Earnings per share	0.6329	(0.3542)	0.6704	↓ 5.6	---
Dividend per share	0.2850	-	0.4380	↓ 34.9	---

# Non-interest Income

Non-interest income improved  
mainly due to lower operating loss of BOC Life

HK\$ m

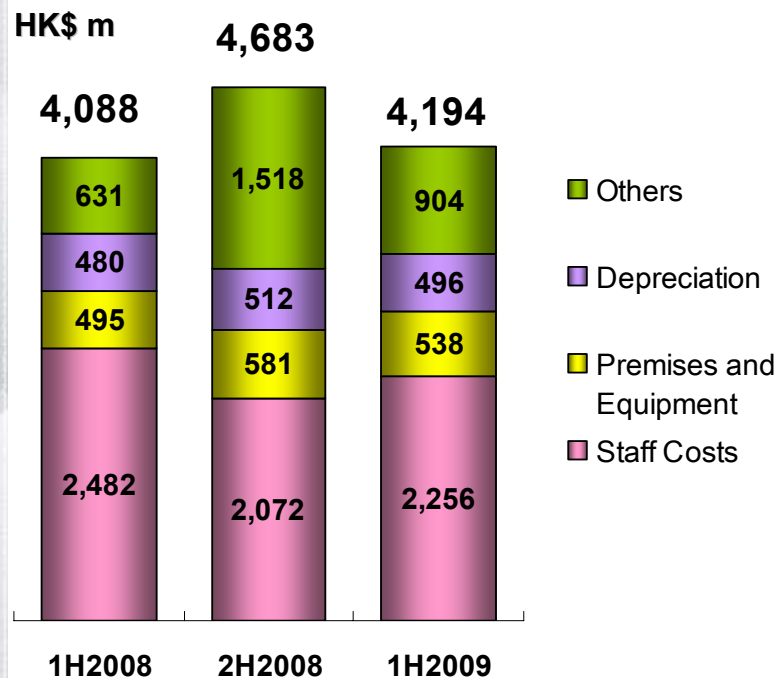
	1H2009	2H2008	1H2008	% YoY	% HoH
Net fees and commission income	2,947	2,280	2,899	↑ 1.7	↑ 29.3
Other operating income - Banking operation	1,380	531	1,596	↓ 13.5	↑ 159.9
Net trading income	889	677	1,237	↓ 28.1	↑ 31.3
Net gain/(loss) on financial instruments designated at FVTPL	180	(224)	(92)	---	---
Other income	311	78	451	↓ 31.0	↑ 298.7
BOCL <sup>#</sup> non-interest income	(228)	(1,452)	(485)	---	---
Net gain/(loss) on financial instruments designated at FVTPL - BOCL <sup>#</sup>	(1,575)	1,256	(1,392)	---	---
Net insurance premium income	2,261	1,390	4,501	↓ 49.8	↑ 62.7
Net insurance benefits and claims	(919)	(4,107)	(3,602)	↓ 74.5	↓ 77.6
Other income	5	9	8	↓ 37.5	↓ 44.4
<b>Total</b>	<b>4,099</b>	<b>1,359</b>	<b>4,010</b>	<b>↑ 2.2</b>	<b>↑ 201.6</b>

<sup>#</sup> BOCL= BOC Group Life Assurance Company Limited

# Operating Expenses

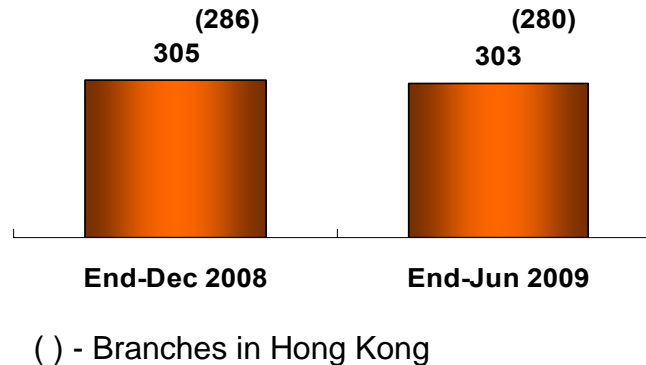
Core operating expenses\* well contained  
on the back of disciplined cost control measures

## Operating Expenses



29.12%    40.77%    32.19%  
Cost-to-income ratio

## Number of Branches



## Staff Number



# Net (charge) / reversal of Impairment Allowances

Net reversal of loan impairment allowances as release increased  
Lower securities investments provisions as capital markets stabilized

HK\$ m	1H2009	2H2008	1H2008	% YoY	% HoH
<b>Advances to customers</b>					
Individual assessment					
- New allowances	(163)	(671)	(142)	↑ 14.8	↓ 75.7
- Releases	87	21	62	↑ 40.3	↑ 314.3
- Recoveries	142	535	187	↓ 24.1	↓ 73.5
Collective assessment					
- New allowances	(198)	(492)	(199)	↓ 0.5	↓ 59.8
- Releases	174	3	7	---	---
- Recoveries	18	14	14	↑ 28.6	↑ 28.6
<b>Net (charge)/release of impairment on advances</b>	<b>60</b>	<b>(590)</b>	<b>(71)</b>	<b>---</b>	<b>---</b>
<b>Securities Investments</b>					
US non-agency RMBS	(1,212)	(6,104)	(2,149)	↓ 43.6	↓ 80.1
Other debt securities	44	(917)	0	---	---
Investment in BEA	0	(2,730)	0	---	---
<b>Net charge of impairment on securities investments</b>	<b>(1,168)</b>	<b>(9,751)</b>	<b>(2,149)</b>	<b>↓ 45.6</b>	<b>↓ 88.0</b>
<b>Others</b>	<b>(7)</b>	<b>(5)</b>	<b>(7)</b>	<b>---</b>	<b>↑ 40.0</b>
<b>Total (charge)/release to income statement</b>	<b>(1,115)</b>	<b>(10,346)</b>	<b>(2,227)</b>	<b>↓ 49.9</b>	<b>↓ 89.2</b>

# Condensed Balance Sheet

Maintained prudent approach in balance sheet management

HK\$ m	30.06.2009	31.12.2008	% Change
<b>Total assets</b>	<b>1,146,150</b>	<b>1,147,244</b>	↓ 0.1
<b>Cash and balances with banks and other financial institutions</b>	<b>113,032</b>	<b>153,269</b>	↓ 26.3
<b>Placements with banks and other financial institutions</b>	<b>111,655</b>	<b>89,718</b>	↑ 24.5
<b>Securities investments</b>	<b>329,308</b>	<b>335,493</b>	↓ 1.8
<b>Advances and other accounts</b>	<b>485,356</b>	<b>469,493</b>	↑ 3.4
<b>Fixed assets &amp; IP</b>	<b>32,087</b>	<b>30,522</b>	↑ 5.1
<b>Total liabilities</b>	<b>1,050,184</b>	<b>1,062,712</b>	↓ 1.2
<b>Inter-bank deposits taken</b>	<b>77,116</b>	<b>88,779</b>	↓ 13.1
<b>Deposits from customers*</b>	<b>824,744</b>	<b>811,516</b>	↑ 1.6
<b>Subordinated liabilities</b>	<b>27,339</b>	<b>27,339</b>	---
<b>Total equity</b>	<b>95,966</b>	<b>84,532</b>	↑ 13.5
<b>Minority interests</b>	<b>1,817</b>	<b>1,813</b>	↑ 0.2
<b>Shareholders' funds</b>	<b>94,149</b>	<b>82,719</b>	↑ 13.8



# Customer Deposits

Recorded moderate deposit growth  
with further improvement in mix

HK\$ m

	30.06.2009	31.12.2008	% Change
Demand deposits and current accounts	59,520	46,042	↑ 29.3
Saving deposits	450,060	377,273	↑ 19.3
Time, call and notice deposits	311,397	379,262	↓ 17.9
Structured deposits	3,767	8,939	↓ 57.9
<b>Total deposits from customers</b>	<b>824,744</b>	<b>811,516</b>	<b>↑ 1.6</b>

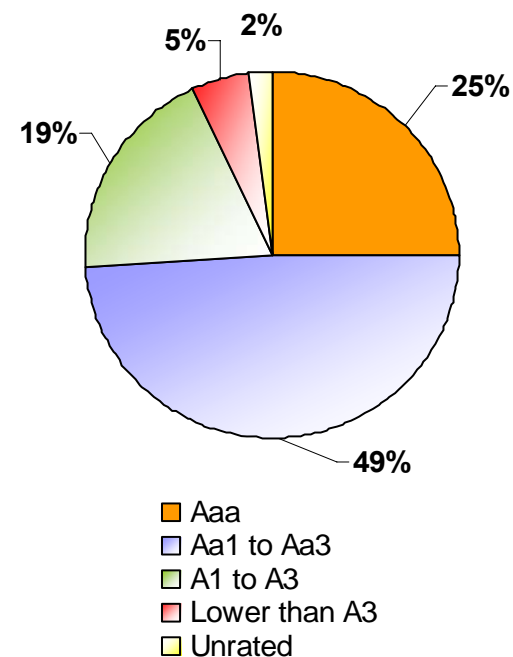
# Securities Investments

Maintained prudent investment strategy  
Continued reduction in US RMBS exposure

HK\$ m	30.06.2009	31.12.2008	% Change
Sovereign	73,057	84,435	↓ 13.5
Public Sector	23,286	23,474	↓ 0.8
Corporate entities	35,496	44,991	↓ 21.1
Banks and other FIs	197,469	182,593	↑ 8.1
<b>Total</b>	<b>329,308</b>	<b>335,493</b>	<b>↓ 1.8</b>

US non-agency RMBS			
Subprime	812	1,047	↓ 22.4
Alt-A	1,709	2,334	↓ 26.8
Prime	12,339	15,935	↓ 22.6
<b>Total</b>	<b>14,860</b>	<b>19,316</b>	<b>↓ 23.1</b>
<b>As % of total investments</b>	<b>4.5%</b>	<b>5.8%</b>	

Debt securities by credit rating



Note: Including issuer rating distribution for issues with no issue rating

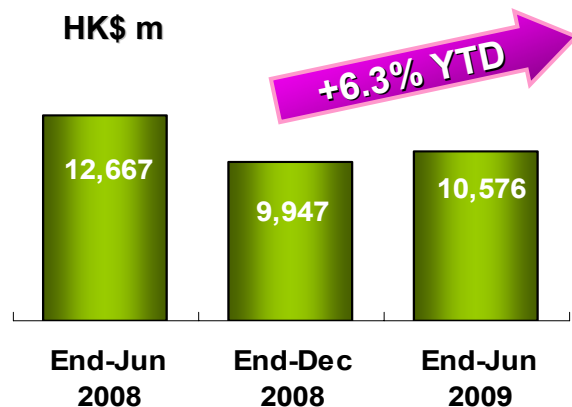
# Mainland Business

Enhanced Mainland platform  
through network expansion and consolidation

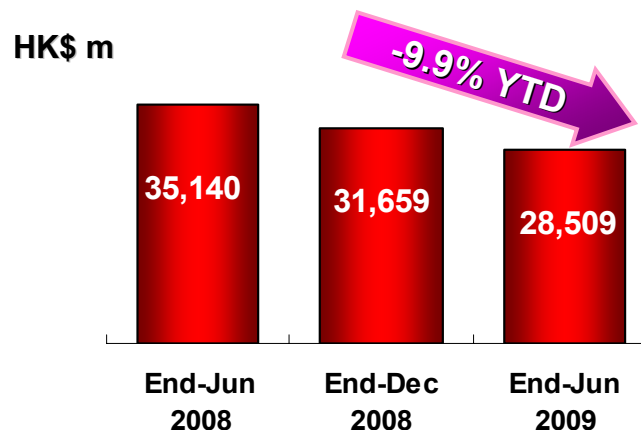
HK\$ m	1H2009	1H2008	% YoY
Operating income	466	405	↑ 15.1
Operating expenses	237	187	↑ 26.7
Operating profit before impairment	229	218	↑ 5.0
Profit before taxation	308	236	↑ 30.5

Remark: Higher profits YoY mainly due to lower exchange loss of capital funds recorded in 1H09

## Deposits from customers



## Gross advances to customers



0.78%      0.88%      0.48%  
Classified loan ratio



# Thank you

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