



Solid Foundations for Sustainable Growth

2009 Annual Results

2010.03.23



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

Forward-Looking Statement Disclaimer

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Management Team

Mr. Gary He	Vice Chairman & Chief Executive
Mr. David Lam	Deputy Chief Executive
Mr. Yingxin Gao	Executive Director & Deputy Chief Executive
Mr. Chengwen Zhuo	Chief Financial Officer
Mr. David Wong	Deputy Chief Executive

Agenda

■ **Key Performance Highlights**

■ **Financial Results**

■ **Outlook**



Key Performance Highlights

Operating Environment

- Operating environment remained challenging despite signs of recovery
- Market interest rates stayed low amid ample liquidity
- Intense competition in the local banking sector amid muted market demand
- Strong local stock and property markets spurred by stabilizing economy

Performance Overview

Strong financial position provided us greater business flexibility

- Captured quality growth opportunities in a tough market
- Further strengthened core competitiveness and deepened customer relationship
- Maintained market lead and enlarged market share in major business areas

Business Highlights

Captured business opportunities and grew our franchise in a tough market

- Strong loan growth with solid loan quality, outperforming subdued market performance
- Encouraging fees income growth driven by stock brokerage, loans and credit card
- Life insurance business saw notable improvement in sales and market share
- Further enhanced business platform e.g. collaboration with BOC, RMB business

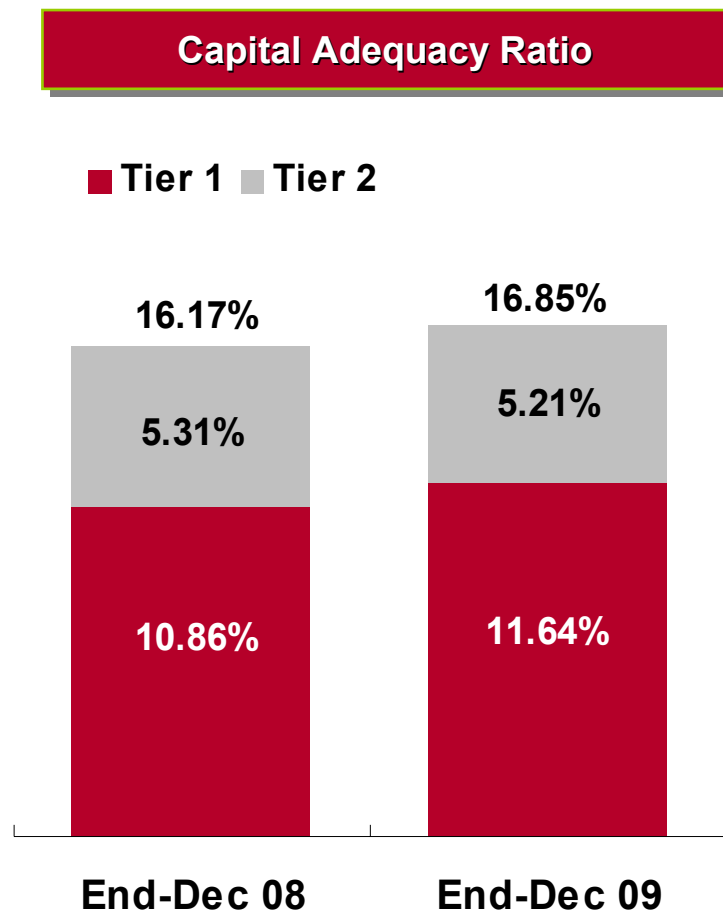
Key Financial Highlights

HK\$m	2009	2008	Change YoY
Net operating income before impairment allowances	26,055	25,526	↑ 2.1%
Operating profit before impairment allowances	13,914	16,755	↓ 17.0%
Profit attributable to shareholders	13,725	3,343	↑ 310.6%
Earnings per share (HK\$)	1.2981	0.3162	↑ 310.6%
Dividend per share (HK\$)	0.855	0.438	↑ 95.2%
ROE	14.79%	3.81%	↑ 10.98pp
ROE before impairment allowances	14.99%	19.09%	↓ 4.10pp
ROA	1.19%	0.27%	↑ 0.92pp
ROA before impairment allowances	1.18%	1.52%	↓ 0.34pp

- Strong performance in core businesses despite pressure from low interest rates on net interest income
- Net operating income recorded mild growth in a challenging environment
- Dividend per share increased by 95.2% to HK\$0.855, representing an annual dividend payout of 65.9%

Strong Capital Position

Proactive capital management ensures competitiveness and resilience

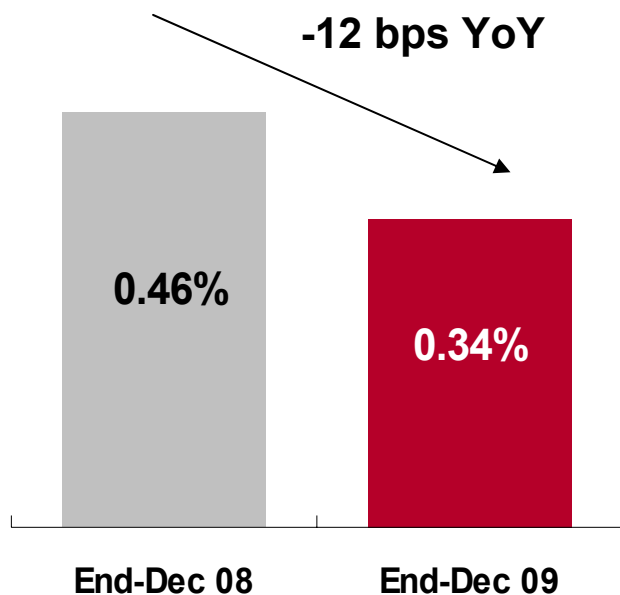


- Well capitalized with solid Tier 1 ratio of 11.64%
- Successful issue of US\$1.6bn Sub-Notes in February 2010, qualified as lower Tier 2 capital
- Transition to FIRB in progress
- Strong capital base supports sustainable business growth and dividend policy

Solid Loan Quality

Sound risk management and customer optimisation
translate into solid loan quality

Classified or Impaired Loan Ratio



- Further improvement in classified or impaired loan ratio by 12 bps to 0.34%
- Maintain prudent risk management to ensure quality growth
- Focus on customer optimisation

Financial Results

Condensed Income Statement

Solid earnings growth amid challenging operating environment

HK\$ m	2009	2008	% YoY
Net interest income	17,932	20,157	↓ 11.0
Net fees and commission income	6,508	5,179	↑ 25.7
Other operating income	1,615	190	↑ 750.0
Net operating income before impairment allowances	26,055	25,526	↑ 2.1
Net (charge)/reversal of impairment allowances	1,190	(12,573)	---
Net operating income	27,245	12,953	↑ 110.3
Operating expenses*	(12,141)	(8,771)	↑ 38.4
Operating profit	15,104	4,182	↑ 261.2
Non-operating items	1,620	(104)	---
Profit attributable to shareholders	13,725	3,343	↑ 310.6

Net Interest Income

Net interest income dropped mainly due to lower NIM
NIM decline moderated into 2H09

HK\$ m	2009	2008	% YoY
Interest income	21,684	35,281	↓ 38.5
Interest expense	3,752	15,124	↓ 75.2
Net interest income	17,932	20,157	↓ 11.0
Average interest-earning assets	1,060,961	1,006,440	↑ 5.4
Net interest margin (NIM)	1.69%	2.00%	↓ 0.31pp

Net Fees and Commission Income

Strong growth in fees income driven by increase in stock brokerage and loans commissions

HK\$ m	2009	2008	% YoY
<i>Investment and insurance fee income</i>			
Securities brokerage (Stockbroking)	3,638	2,380	↑ 52.9
Securities brokerage (Bonds)	39	259	↓ 84.9
Funds distribution	97	218	↓ 55.5
Life insurance	112	107	↑ 4.7
	3,886	2,964	↑ 31.1
<i>Traditional banking businesses</i>			
Bills commissions	627	683	↓ 8.2
Loan commissions	922	513	↑ 79.7
Trust services	178	173	↑ 2.9
Payment services	495	486	↑ 1.9
Credit cards	1,511	1,417	↑ 6.6
Account services	276	261	↑ 5.7
Currency exchange	213	204	↑ 4.4
Others	428	513	↓ 16.6
	4,650	4,250	↑ 9.4
Total Fees and Commission Income	8,536	7,214	↑ 18.3
Less: Fees and Commission Expenses	(2,028)	(2,035)	↓ 0.3
Net Fees and Commission Income	6,508	5,179	↑ 25.7

Non-interest Income

**Non-interest income increased
due to higher fees income & improved performance of BOC Life**

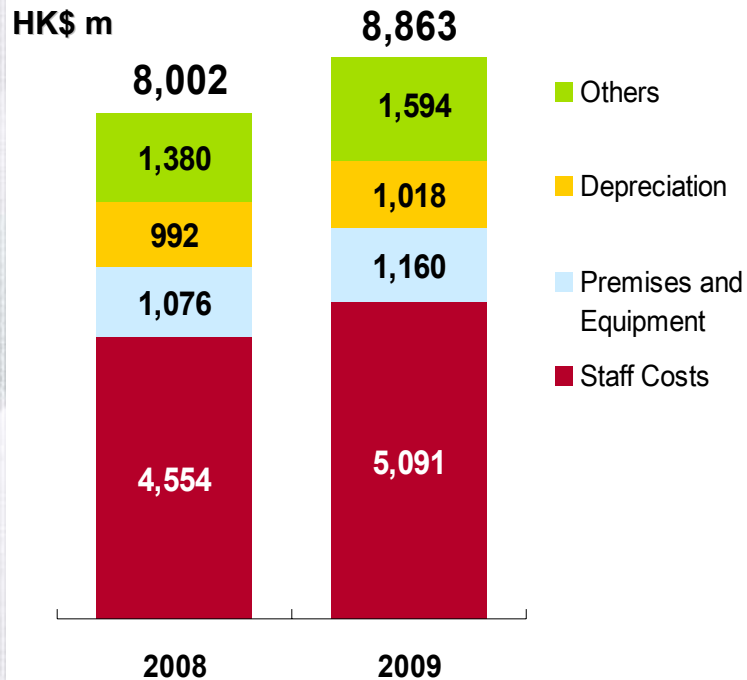
HK\$ m	2009	2008	% YoY
Net fees and commission income	6,508	5,179	↑ 25.7
Other operating income - Banking operation	2,086	2,127	↓ 1.9
Net trading income	1,486	1,914	↓ 22.4
Net gain/(loss) on financial instruments designated at FVTPL	261	(316)	---
Other income	339	529	↓ 35.9
BOCL [#] non-interest income	(471)	(1,937)	---
Net insurance premium income	7,744	5,891	↑ 31.5
Net insurance benefits and claims	(7,286)	(7,709)	↓ 5.5
Net loss on financial instruments designated at FVTPL - BOCL [#] and other income	(929)	(119)	---
Total	8,123	5,369	↑ 51.3

[#] BOCL= BOC Group Life Assurance Company Limited

Core Operating Expenses

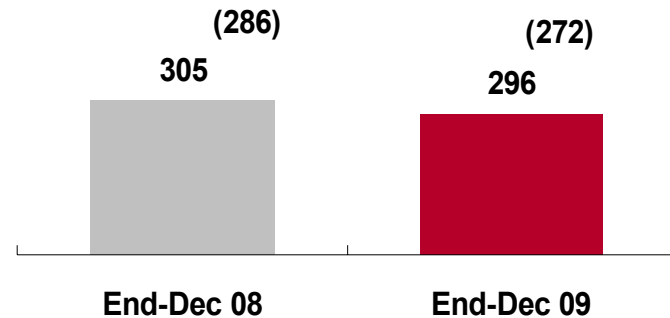
Maintained prudent cost management throughout the year

Core Operating Expenses*



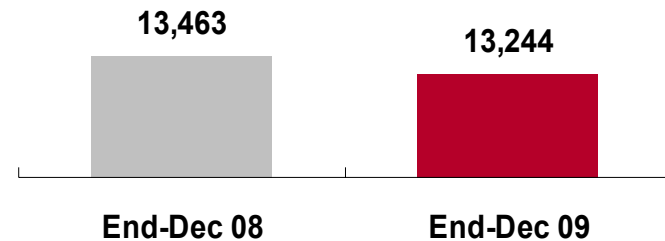
2008: 31.35%
 2009: 34.02%
 Core Cost-to-income ratio

Number of Branches



() - Branches in Hong Kong

Staff Number



Net reversal / (charge) of Impairment Allowances

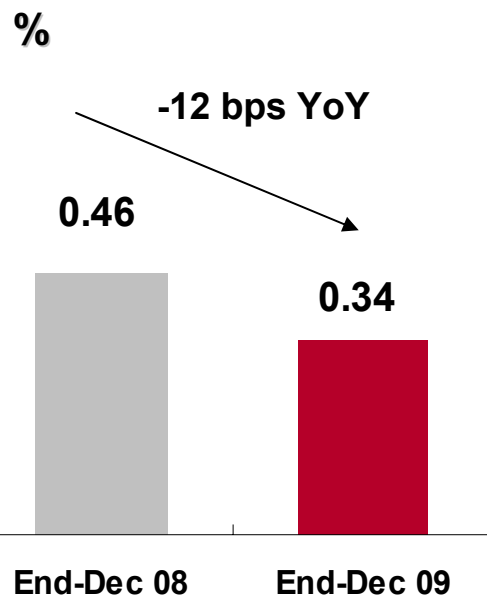
Net reversal of impairment allowances due to improved loan quality and write-back of securities provisions

HK\$ m	2009	2008	% YoY
<u>Advances to customers</u>			
Individual assessment			
- New allowances	(391)	(813)	↓ 51.9
- Releases	150	83	↑ 80.7
- Recoveries	446	722	↓ 38.2
Collective assessment			
- New allowances	(358)	(691)	↓ 48.2
- Releases	15	10	↑ 50.0
- Recoveries	35	28	↑ 25.0
Net (charge)/release of impairment on advances	(103)	(661)	↓ 84.4
<u>Securities Investments</u>			
US non-agency RMBS	1,186	(8,253)	---
Other debt securities	116	(917)	---
Investment in BEA	0	(2,730)	↓ 100.0
Net (charge)/release of impairment on securities investments	1,302	(11,900)	---
<u>Others</u>	(9)	(12)	↓ 25.0
Total (charge)/release to income statement	1,190	(12,573)	---

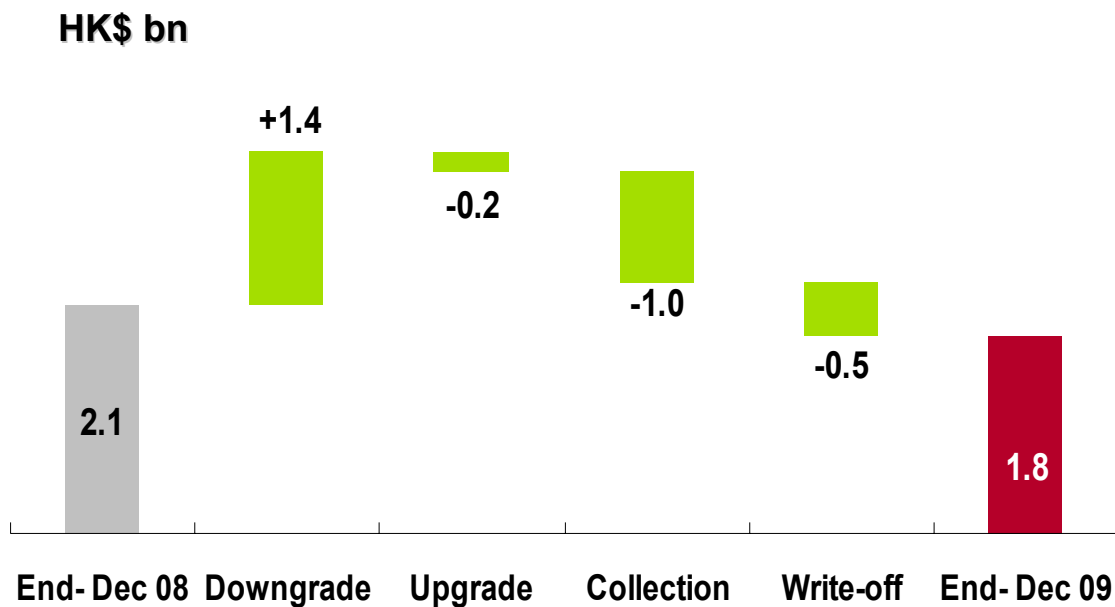
Loan Quality

Classified or impaired loan ratio fell to 0.34%

Classified or Impaired Loan Ratio



Migration of Classified Loans



Condensed Balance Sheet

Maintained prudent approach in balance sheet management

HK\$ m	31.12.2009	31.12.2008	% Change	
Total assets	1,212,791	1,147,244	↑	5.7
Cash and balances with banks and other financial institutions	160,788	153,269	↑	4.9
Placements with banks and other financial institutions	60,282	89,718	↓	32.8
Securities investments	358,349	335,493	↑	6.8
Advances and other accounts	527,135	469,493	↑	12.3
Fixed assets & IP	35,650	30,522	↑	16.8
Total liabilities	1,107,156	1,062,712	↑	4.2
Inter-bank deposits taken	99,647	88,779	↑	12.2
Deposits from customers*	844,453	811,516	↑	4.1
Subordinated liabilities	26,776	27,339	↓	2.1
Total equity	105,635	84,532	↑	25.0
Minority interests	2,733	1,813	↑	50.7
Shareholders' funds	102,902	82,719	↑	24.4

Advances to Customers

**Broad-based loan growth
Significantly outperforming the market**

HK\$ m	31.12.2009	31.12.2008	% Change
Loans for use in HK - corporate	224,261	188,774	↑ 18.8
Loans for use in HK - individual	157,133	147,823	↑ 6.3
Residential mortgages*	127,208	116,303	↑ 9.4
Credit card advances	7,348	6,553	↑ 12.1
Trade finance	29,321	24,555	↑ 19.4
Loans for use outside HK	104,257	99,295	↑ 5.0
Total advances to customers	514,972	460,447	↑ 11.8
Loan-to-deposit ratio	60.98%	56.74%	

*Loans for purchase of residential properties other than flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme

Customer Deposits

Balancing deposit growth and funding cost control
with further improvement in mix

HK\$ m

	31.12.2009	31.12.2008	% Change
Demand deposits and current accounts	65,440	46,042	↑ 42.1
Saving deposits	495,512	377,273	↑ 31.3
Time, call and notice deposits	281,369	379,262	↓ 25.8
Structured deposits	2,132	8,939	↓ 76.1
Total deposits from customers	844,453	811,516	↑ 4.1

Securities Investments

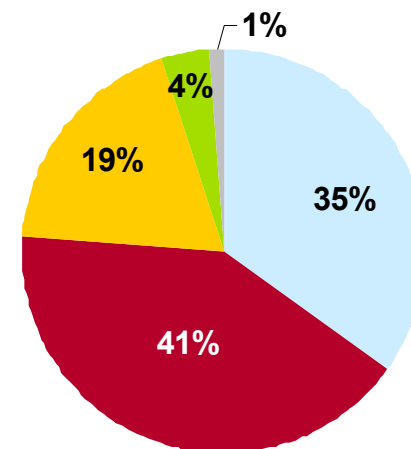
Proactive management of our banking book investments
Significant reduction in US RMBS exposure

HK\$ m	31.12.2009	31.12.2008	% Change
Sovereign	76,824	84,435	↓ 9.0
Public Sector	34,529	23,474	↑ 47.1
Corporate entities	26,005	44,991	↓ 42.2
Banks and other FIs	220,991	182,593	↑ 21.0
Total	358,349	335,493	↑ 6.8

US non-agency RMBS

Subprime	547	1,047	↓ 47.8
Alt-A	384	2,334	↓ 83.5
Prime	2,853	15,935	↓ 82.1
Total	3,784	19,316	↓ 80.4
As % of total investments	1.1%	5.8%	

Debt securities by credit rating

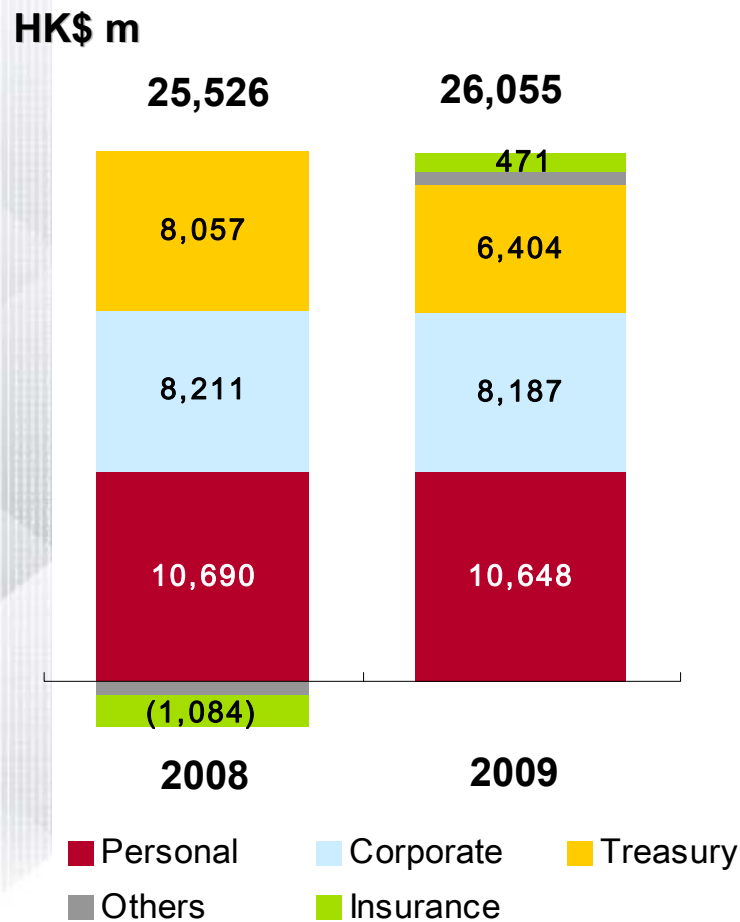


■ Aaa
■ Aa1 to Aa3
■ A1 to A3
■ Lower than A3
■ Unrated

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

Segmental Performance

Operating Income by Segments



- **Personal:** Leading performance in residential mortgage and stock brokerage
- **Corporate:** Strong loan growth and enhanced business capabilities to provide Total Solution services
- **Treasury:** Proactive investment strategy to secure risk-adjusted return
- **Insurance:** A major turnaround with remarkable sales growth in sales and market share

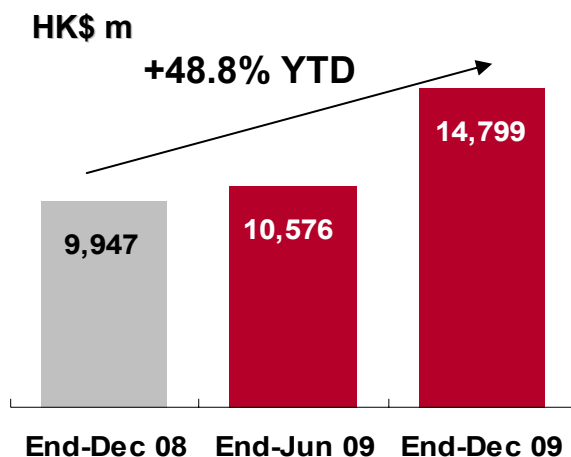
Mainland Business

Enhanced Mainland platform
with strong loan growth in 2H09

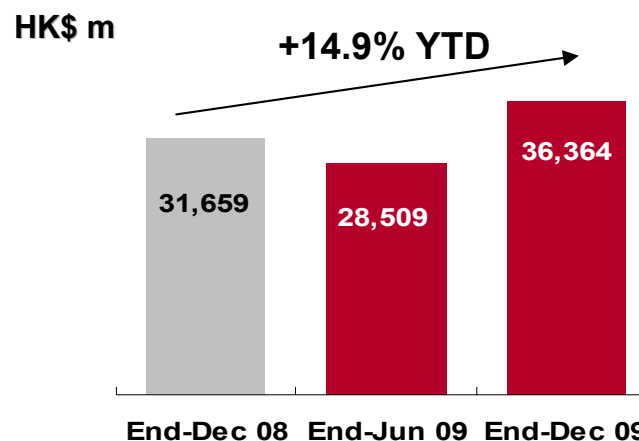
HK\$ m

	2009	2008	% YoY
Operating income	962	990	↓ 2.8
Operating expenses	566	434	↑ 30.4
Operating profit before impairment	396	556	↓ 28.8
Profit before taxation	478	475	↑ 0.6

Deposits from customers



Gross advances to customers



0.88% 0.48% 0.44%
Classified loan ratio



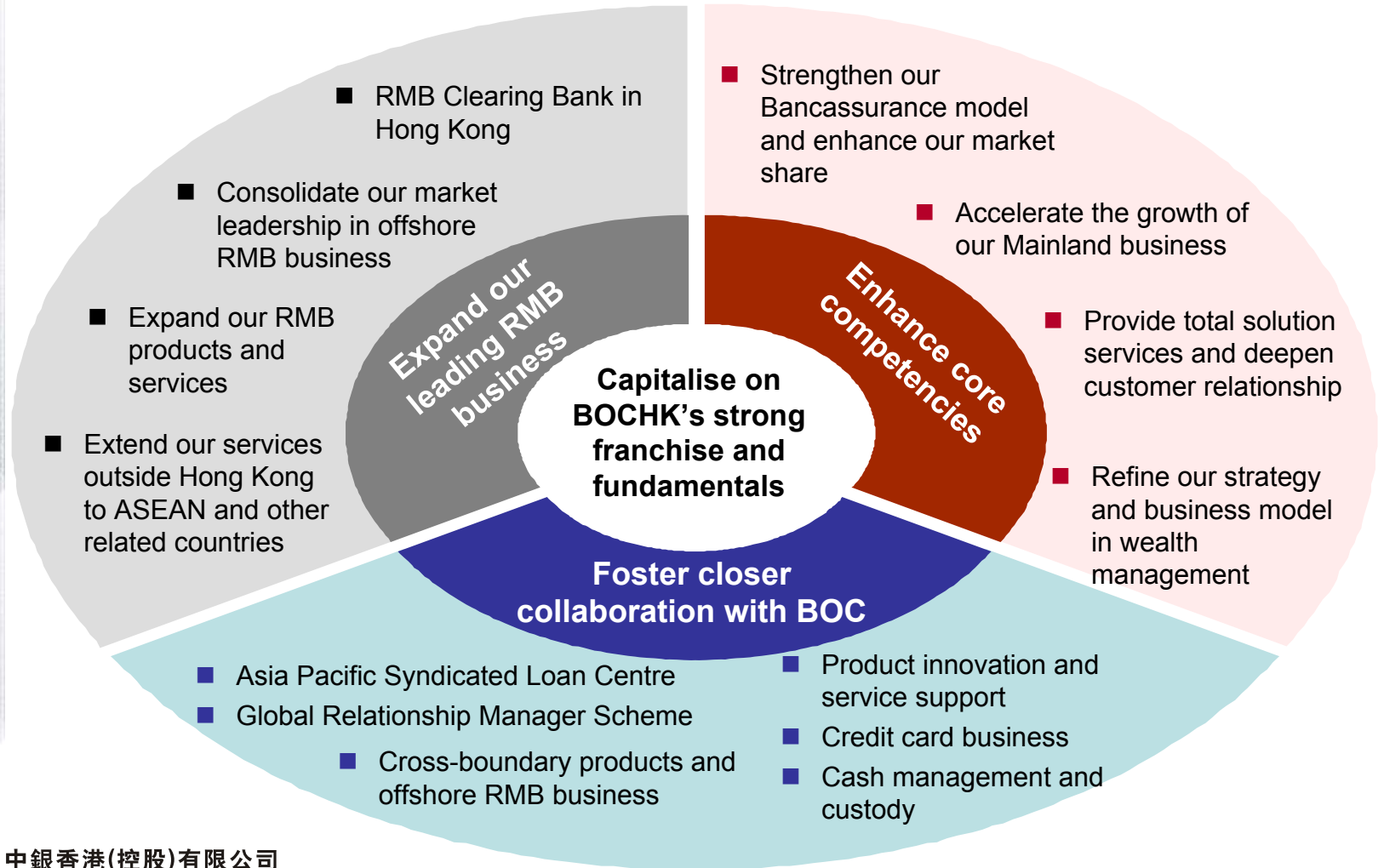
Outlook

Outlook – Operating environment

- Clearer signs of global economic recovery but possible headwinds from governments existing stimulus measures
- Better economic outlook in the Mainland and Hong Kong provides growth potential for the Hong Kong banking sector
- Intense market competition and low interest rates remain key challenges for banks in Hong Kong

Strategic Focus

Well-positioned to capture emerging opportunities in China and the region



Management Focus

**Maintain solid financial strength
to capture business opportunities and sustain growth**

- Leverage our core strengths to grasp emerging opportunities from economic recovery in the region
- Invest judiciously in accordance with strategic priorities to enhance Bank's competitiveness
- Proactive capital and risk management to safeguard financial strengths for quality growth



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