



# Proactive Management for Sustainable Growth

## 2010 Annual Results

2011.03.24

# Forward-Looking Statement Disclaimer

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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

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|                          |  |
|--------------------------|--|
| <b>Mr. Gary He</b>       | <b>Vice Chairman &amp; Chief Executive</b> |
| <b>Mr. Chengwen Zhuo</b> | <b>Chief Financial Officer</b>             |
| <b>Mr. David Wong</b>    | <b>Deputy Chief Executive</b>              |
| <b>Mr. Jason Yeung</b>   | <b>Acting Deputy Chief Executive</b>       |
| <b>Mr. Jiuzhong Li</b>   | <b>Chief Risk Officer</b>                  |

# Agenda

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■ **Key Performance Highlights**

■ **Financial Results**

■ **Outlook**



# Key Performance Highlights

## Operating Environment

- Global economies and financial markets gradually improving but uncertainties still abound
- Operating challenges from low interest rates, excessive liquidity and intense competition
- Further relaxation of offshore RMB market created good business opportunities in the longer term

# Performance Overview

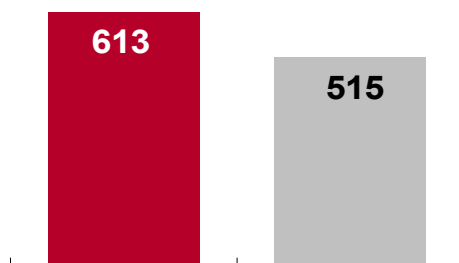
**Solid growth momentum in core businesses  
powered by strong financial position**

- Proactive management delivered solid and well-balanced results
- Strong financial position supported by proactive capital and risk management
- Judicious investments in key strategic business areas were paying off
- Encouraging progress in solidifying our leadership in offshore RMB business

# Sustainable Growth and Solid Financial Position

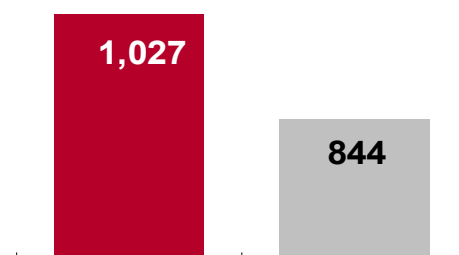
## Quality Loan Growth

HK\$ bn + 19.1% YTD



## Strong Deposit Base

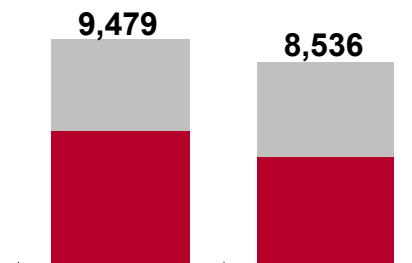
HK\$ bn + 21.6% YTD



## Steady Fee Growth

HK\$ m + 11.0% YoY

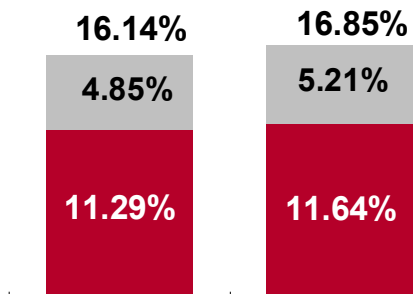
■ Investment & life insurance  
■ Traditional banking business



## Well-capitalised

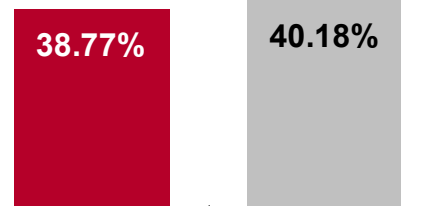
Capital adequacy ratio

■ Tier 1 ■ Tier 2



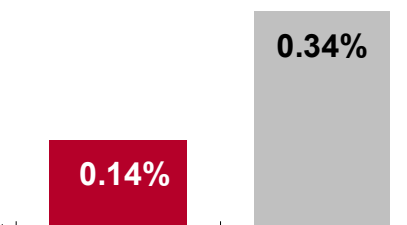
## Sound Liquidity

Average liquidity ratio



## Solid Loan Quality

Classified or impaired loan ratio





# Key Financial Highlights

| HK\$m   | 2010   | 2009   | % YoY    |
|---|--------|--------|----------|
| Net operating income before impairment allowances | 27,508 | 26,055 | ↑ 5.6    |
| Operating profit before impairment allowances     | 17,924 | 13,914 | ↑ 28.8   |
| Profit attributable to shareholders               | 16,196 | 13,930 | ↑ 16.3   |
| Earnings per share (HK\$)                         | 1.532  | 1.318  | ↑ 16.3   |
| Dividend per share (HK\$)                         | 0.972  | 0.855  | ↑ 13.7   |
| ROE   | 14.77% | 14.83% | ↓ 0.06pp |
| ROA   | 1.21%  | 1.21%  | ---      |

- Both net operating income before impairment allowances and profit attributable to shareholders achieved record highs
- Growth in net operating income driven by the improvement in core businesses
- Dividend per share increased by 13.7% to HK\$0.972, representing a dividend payout ratio of 63.5%.

# Financial Results

# Condensed Income Statement

Record highs in net operating income and profit attributable to shareholders

| HK\$ m  | 2010    | 2009*    | % YoY  |
|---|---------|----------|--------|
| Net interest income                               | 18,734  | 17,932   | ↑ 4.5  |
| Net fee and commission income                     | 7,044   | 6,508    | ↑ 8.2  |
| Other operating income                            | 1,730   | 1,615    | ↑ 7.1  |
| Net operating income before impairment allowances | 27,508  | 26,055   | ↑ 5.6  |
| Net reversal/(charge) of impairment allowances    | 315     | 1,190    | ↓ 73.5 |
| Net operating income                              | 27,823  | 27,245   | ↑ 2.1  |
| Operating expenses                                | (9,584) | (12,141) | ↓ 21.1 |
| Operating profit                                  | 18,239  | 15,104   | ↑ 20.8 |
| Non-operating items                               | 1,503   | 1,620    | ↓ 7.2  |
| Profit attributable to shareholders               | 16,196  | 13,930   | ↑ 16.3 |

# Net Interest Income

Net interest income increased  
Growth in average interest earning assets offset NIM pressure

| HK\$ m                     | 2010          | 2009          | % YoY        |
|----------------------------|---------------|---------------|--------------|
| Interest income            | 23,449        | 21,684        | ↑ 8.1        |
| Interest expense           | 4,715         | 3,752         | ↑ 25.7       |
| <b>Net interest income</b> | <b>18,734</b> | <b>17,932</b> | <b>↑ 4.5</b> |

|                                |              |              |                 |
|--------------------------------|--------------|--------------|-----------------|
| Average interest earning asset | 1,255,879    | 1,058,765    | ↑ 18.6          |
| Net interest margin (NIM)      | 1.49%        | 1.69%        | ↓ 0.20pp        |
| <i>Adjusted NIM*</i>           | <i>1.59%</i> | <i>1.74%</i> | <i>↓ 0.15pp</i> |

\*Excluding the estimated impact of BOCHK's RMB clearing function in Hong Kong

# Non-interest Income

## Broad-based fee income growth in traditional banking businesses

| HK\$ m   | 2010         | 2009         | % YoY        |
|--|--------------|--------------|--------------|
| <b>Net fee and commission income</b>                         | <b>7,044</b> | <b>6,508</b> | <b>↑ 8.2</b> |
| Investment and life insurance*                               | 3,736        | 3,886        | ↓ 3.9        |
| Traditional banking business*                                | 5,743        | 4,650        | ↑ 23.5       |
| Bill commissions   | 751          | 627          | ↑ 19.8       |
| Loan commissions   | 961          | 922          | ↑ 4.2        |
| Payment services   | 568          | 495          | ↑ 14.7       |
| Credit cards   | 2,003        | 1,511        | ↑ 32.6       |
| Trust services   | 206          | 178          | ↑ 15.7       |
| Currency exchange  | 332          | 213          | ↑ 55.9       |
| Others   | 922          | 704          | ↑ 31.0       |
| <b>Other operating income</b>                                | <b>1,730</b> | <b>1,615</b> | <b>↑ 7.1</b> |
| Net trading gain   | 1,369        | 1,485        | ↓ 7.8        |
| Net gain/(loss) on financial instruments designated at FVTPL | 742          | (678)        | ---          |
| Others   | (381)        | 808          | ---          |
| <b>Total</b>   | <b>8,774</b> | <b>8,123</b> | <b>↑ 8.0</b> |

# Investment and Life Insurance Income

Life insurance business recorded satisfactory growth  
Stockbroking income decreased from a high base in 2009

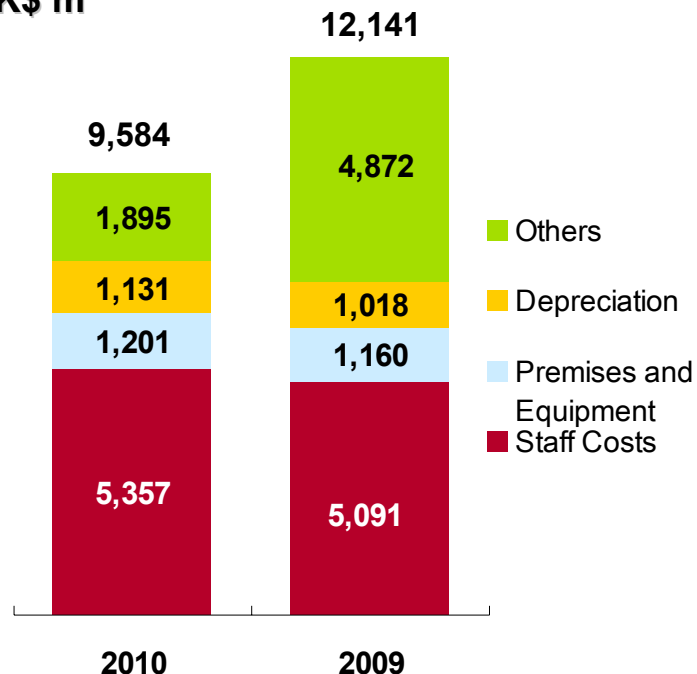
| HK\$ m  | 2010         | 2009         | % YoY      |
|---|--------------|--------------|------------|
| <b>Investment and life insurance fee income</b> | <b>3,736</b> | <b>3,886</b> | ↓ 3.9      |
| Stockbroking                                    | 3,279        | 3,638        | ↓ 9.9      |
| Bond distribution                               | 59           | 39           | ↑ 51.3     |
| Fund distribution                               | 160          | 97           | ↑ 64.9     |
| Life insurance                                  | 238          | 112          | ↑ 112.5    |
| <b>Net operating income of BOC Life</b>         | <b>1,212</b> | <b>800</b>   | ↑ 51.5     |
| Gross earned premiums                           | 8,650        | 7,762        | ↑ 11.4     |
| Less : premiums ceded to reinsurers             | (2,166)      | (18)         | ↑ 11,933.3 |
| Others  | 2,716        | 342          | ↑ 694.2    |
| Net insurance benefits and claims               | (7,988)      | (7,286)      | ↑ 9.6      |
| <b>Total*</b>                                   | <b>4,948</b> | <b>4,686</b> | ↑ 5.6      |
| Of which :                                      |              |              |            |
| Life Insurance income                           | 1,450        | 912          | ↑ 59.0     |
| Investment fee income                           | 3,498        | 3,774        | ↓ 7.3      |

# Operating Expenses

Operating expenses decreased from a higher base in 2009  
Judicious investments in strategic business areas

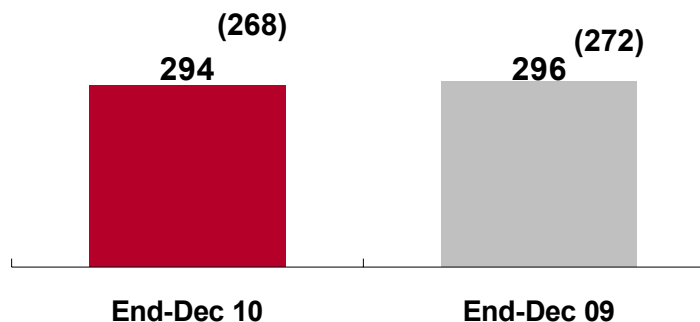
## Operating Expenses

HK\$ m



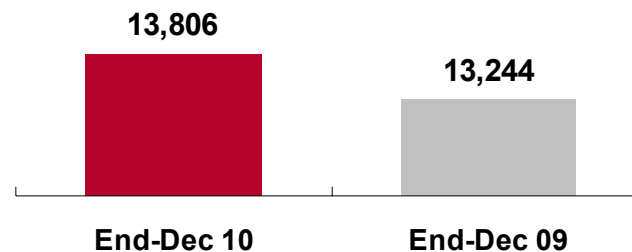
34.84%      46.60%  
Cost-to-income ratio

## 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   | 2010       | 2009         | % YoY         |
|--|------------|--------------|---------------|
| <b><u>Advances to customers</u></b>                                  |            |              |               |
| <b>Individual assessment</b>   |            |              |               |
| - Net reversal/(charge) of allowances before recoveries              | 149        | (241)        | ---           |
| <b>Collective assessment</b>   |            |              |               |
| - Net charge of allowances before recoveries                         | (528)      | (343)        | ↑ 53.9        |
| Recoveries   | 449        | 481          | ↓ 6.7         |
| <b>Net reversal/(charge) of impairment on advances</b>               | <b>70</b>  | <b>(103)</b> | <b>---</b>    |
| <b><u>Securities Investments</u></b>                                 |            |              |               |
| US non-agency RMBS   | 281        | 1,186        | ↓ 76.3        |
| Other debt securities  | (27)       | 116          | ---           |
| <b>Net reversal/(charge) of impairment on securities investments</b> | <b>254</b> | <b>1,302</b> | <b>↓ 80.5</b> |
| <b><u>Others</u></b>   | <b>(9)</b> | <b>(9)</b>   | <b>---</b>    |
| <b>Total reversal to income statement</b>                            | <b>315</b> | <b>1,190</b> | <b>↓ 73.5</b> |

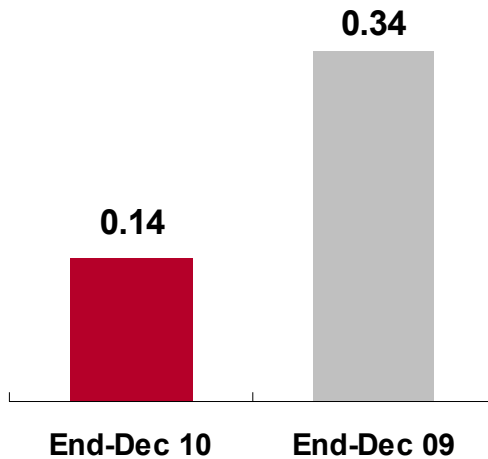


# Loan Quality

Sound risk management and proactive growth strategy translated into solid loan quality

## Classified or Impaired Loan Ratio

%  
-20 bps YTD



## Migration of Classified Loans

HK\$ bn



# Condensed Balance Sheet

Robust growth in total assets supported by development of core business and the expansion of RMB business

| HK\$ m  | End-Dec 10       | End-Dec 09*      | % Change      |
|---|------------------|------------------|---------------|
| <b>Total assets</b>   | <b>1,661,040</b> | <b>1,212,794</b> | <b>↑ 37.0</b> |
| Cash and balances with banks and other financial institutions | 415,812          | 160,788          | ↑ 158.6       |
| Placements with banks and other financial institutions        | 39,499           | 60,282           | ↓ 34.5        |
| Securities investments  | 430,060          | 358,349          | ↑ 20.0        |
| Advances and other accounts                                   | 645,424          | 527,135          | ↑ 22.4        |
| Fixed assets & IP   | 41,391           | 35,650           | ↑ 16.1        |
| <b>Total liabilities</b>                                      | <b>1,542,751</b> | <b>1,105,879</b> | <b>↑ 39.5</b> |
| Inter-bank deposits taken                                     | 313,784          | 99,647           | ↑ 214.9       |
| Deposits from customers**                                     | 1,027,267        | 844,453          | ↑ 21.6        |
| Subordinated liabilities                                      | 26,877           | 26,776           | ↑ 0.4         |
| <b>Total equity</b>   | <b>118,289</b>   | <b>106,915</b>   | <b>↑ 10.6</b> |
| Non-controlling interests                                     | 3,108            | 2,736            | ↑ 13.6        |
| Shareholders' funds   | 115,181          | 104,179          | ↑ 10.6        |

\* The Group early adopted HKAS 12 (Amendment) 'Income Tax' in 2010. As a result, the 2009 comparatives have been restated as appropriate.

\*\* Including structured deposits

# Customer Deposits

Effective deposit strategy  
to support the growth of our business

HK\$ m

|                                      | End-Dec 10       | End-Dec 09     | % Change      |
|--------------------------------------|------------------|----------------|---------------|
| Demand deposits and current accounts | 70,453           | 65,440         | ↑ 7.7         |
| Saving deposits                      | 528,035          | 495,512        | ↑ 6.6         |
| Time, call and notice deposits       | 428,545          | 281,369        | ↑ 52.3        |
| Structured deposits                  | 234              | 2,132          | ↓ 89.0        |
| <b>Total deposits from customers</b> | <b>1,027,267</b> | <b>844,453</b> | <b>↑ 21.6</b> |

# Advances to Customers

**Sustained strong growth momentum**  
**Improved pricing and portfolio mix of corporate loans**

| HK\$ m                             | End-Dec 10     | End-Dec 09     | % Change      |
|------------------------------------|----------------|----------------|---------------|
| Loans for use in HK - corporate    | 206,947        | 195,520        | ↑ 5.8         |
| Loans for use in HK - individual   | 180,140        | 156,690        | ↑ 15.0        |
| Residential mortgages*             | 147,424        | 127,213        | ↑ 15.9        |
| Credit card advances               | 8,230          | 7,348          | ↑ 12.0        |
| Trade finance                      | 53,396         | 29,321         | ↑ 82.1        |
| Loans for use outside HK           | 172,736        | 133,441        | ↑ 29.4        |
| <b>Total advances to customers</b> | <b>613,219</b> | <b>514,972</b> | <b>↑ 19.1</b> |
| <b>Loan-to-deposit ratio</b>       | <b>59.69%</b>  | <b>60.98%</b>  |               |

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

# Securities Investments

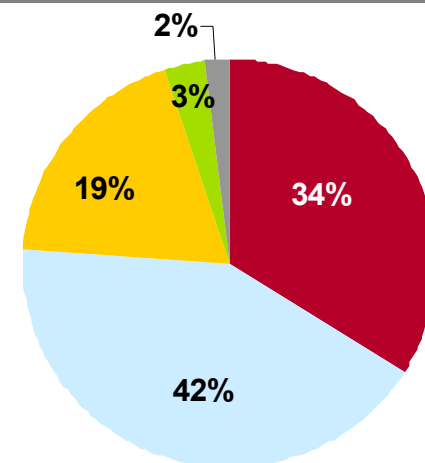
Proactive investment strategy to optimise portfolio mix and return

| HK\$ m              | End-Dec 10     | End-Dec 09     | % Change      |
|---------------------|----------------|----------------|---------------|
| Sovereign           | 119,124        | 76,824         | ↑ 55.1        |
| Public Sector       | 41,018         | 34,529         | ↑ 18.8        |
| Corporate entities  | 29,579         | 26,005         | ↑ 13.7        |
| Banks and other FIs | 240,339        | 220,991        | ↑ 8.8         |
| <b>Total</b>        | <b>430,060</b> | <b>358,349</b> | <b>↑ 20.0</b> |

|                    | End-Dec 10   | End-Dec 09   | % Change      |
|--------------------|--------------|--------------|---------------|
| US non-agency RMBS |              |              |               |
| Subprime           | 357          | 547          | ↓ 34.7        |
| Alt-A              | 242          | 384          | ↓ 37.0        |
| Prime              | 595          | 2,853        | ↓ 79.1        |
| <b>Total</b>       | <b>1,194</b> | <b>3,784</b> | <b>↓ 68.4</b> |

|                                  |             |             |
|----------------------------------|-------------|-------------|
| <b>As % of total investments</b> | <b>0.3%</b> | <b>1.1%</b> |
|----------------------------------|-------------|-------------|

Debt securities by credit rating

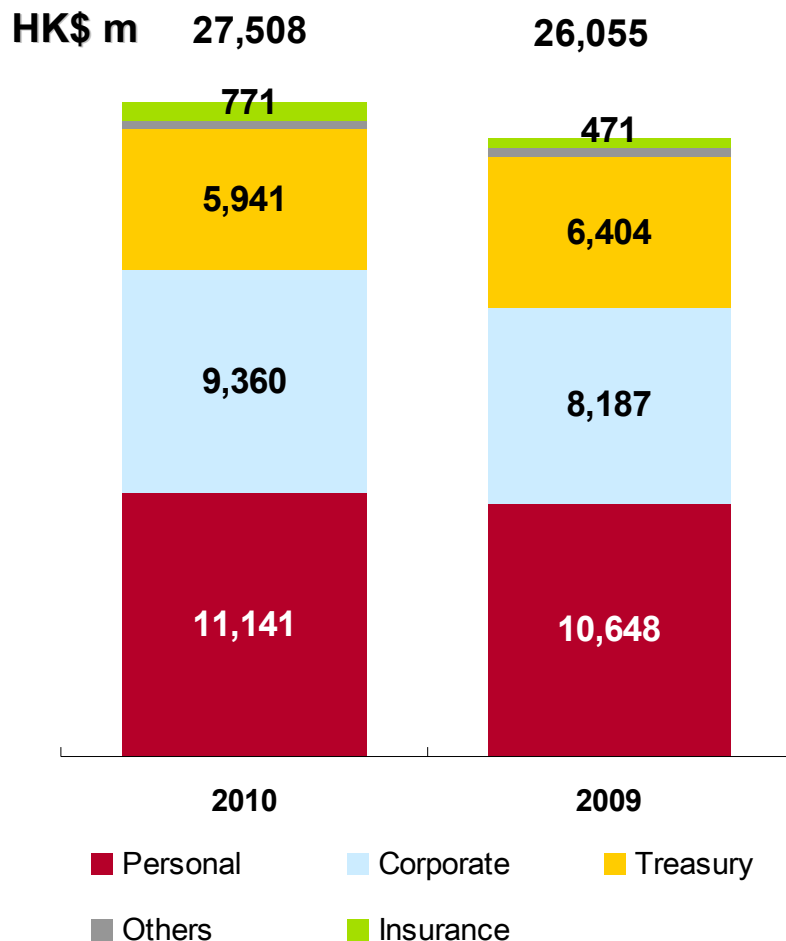


- Aaa
- Aa1 to Aa3
- A1 to A3
- Lower than A3
- Unrated

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

# Segmental Performance

## Operating Income by Segments



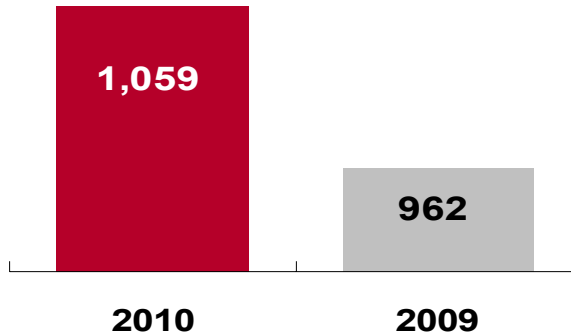
- **Personal:** Strong growth in mortgage and credit cards business
- **Corporate:** Robust growth on solid clientele base and enhanced business capabilities
- **Treasury:** Proactive investment strategy to secure risk-adjusted return
- **Insurance:** Improved product mix and enriched spectrum of RMB insurance products

# Mainland Business

Effective business strategy to drive growth  
Satisfactory growth of loan and deposit businesses

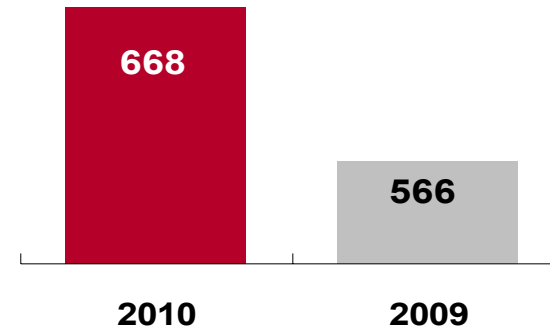
## Operating Income

HK\$ m + 10.1% YoY



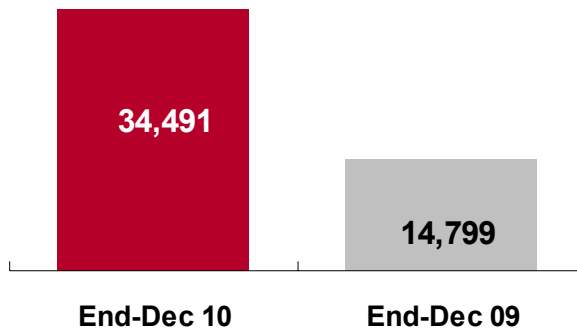
## Operating Expenses

HK\$ m + 18.0% YoY



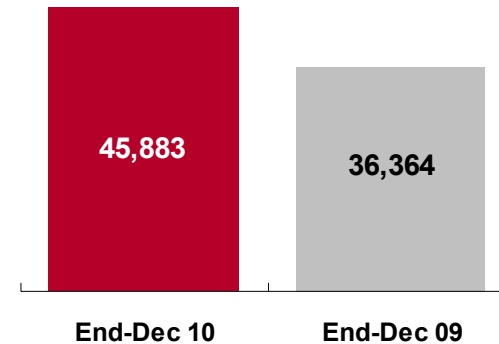
## Deposits from customers

HK\$ m +133.1% YTD



## Gross advances to customers

HK\$ m +26.2% YTD



0.23%      0.44%  
Classified loan ratio



# Outlook



# Outlook and Strategy

Proactive and balanced approach for long-term sustainable growth

- Maintain proactive management to ensure quality growth and financial strength
- Continue to enhance our product and service capabilities to capture growth
- Optimise customer base and distribution network to enhance service efficiency
- Further strengthen our platform and market positions in offshore RMB business



# Proactive Management for Sustainable Growth

## 2010 Annual Results

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