

A white wireframe structure of a tall tower, resembling the Bank of China Tower, is positioned on the left side of the slide. The background is a gradient of red and orange with light streaks.

Exploring New Frontiers for Greater Opportunities

2013 Annual Results

2014.03.26

▶ **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 favourable 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 & Chief Executive

Mr Gao Yingxin

Executive Director & Deputy Chief Executive

Mr Zhuo Chengwen

Chief Financial Officer

Mr Jason Yeung

Deputy Chief Executive

Mr Huang Hong

Deputy Chief Executive

▶ Agenda

- **Key Performance Highlights**
- **Financial Results**
- **Outlook and Strategy**

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Key Performance Highlights

▶ Operating Environment

- Global economic recovery continued on a modest growth trajectory
- Increased market volatility, sluggish property transactions and keen competition
- Basel III Accord came into effect
- Expanding scope of cross-border RMB business opportunities

▶ Performance Overview

Encouraging performance driven by core businesses

- Operating profit achieved new high with enhanced earnings quality
- Solid growth momentum on the back of more diversified platforms
- Prudent risk management to safeguard financial strengths
- Closer collaboration with BOC to capture opportunities

▶ Key Financial Highlights

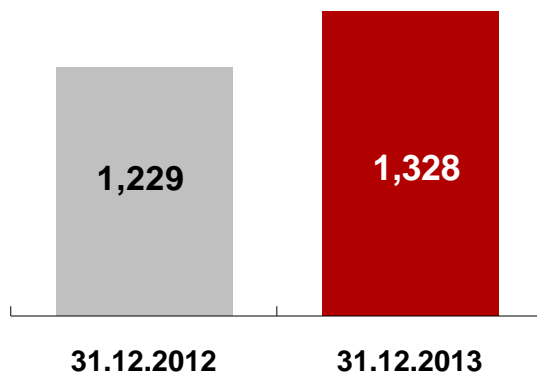
HK\$m	2013	2012	% YoY
Net operating income before impairment allowances	40,313	35,617	13.2
Operating profit before impairment allowances	28,230	24,358	15.9
Profit attributable to the equity holders	22,252	20,930	6.3
EPS (HK\$)	2.105	1.980	6.3
ROE	14.37%	14.91%	(0.54pp)
ROA	1.22%	1.24%	(0.02pp)

- Solid income growth underpinned by net interest income and net fee and commission income
- Net operating income and PPOP achieved record highs
- Attributable profit also at new high despite decline in property revaluation gains

Strong Financial Position

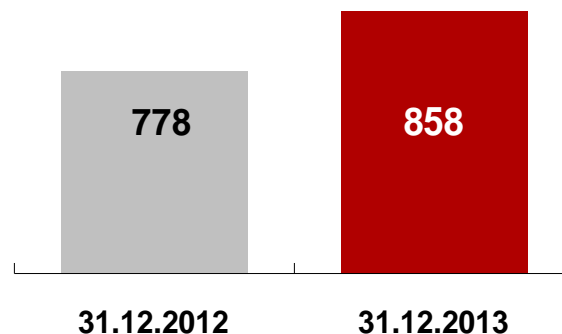
Strong Deposit Base

HK\$ bn +8.0% YoY



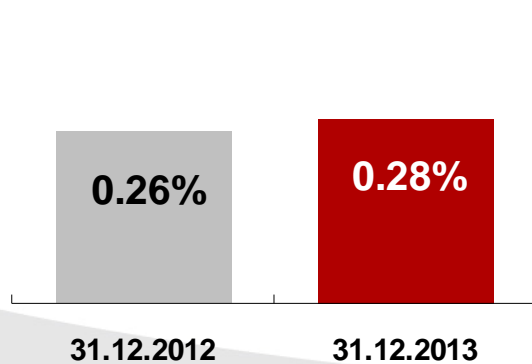
Steady Loan Growth

HK\$ bn + 10.3% YoY



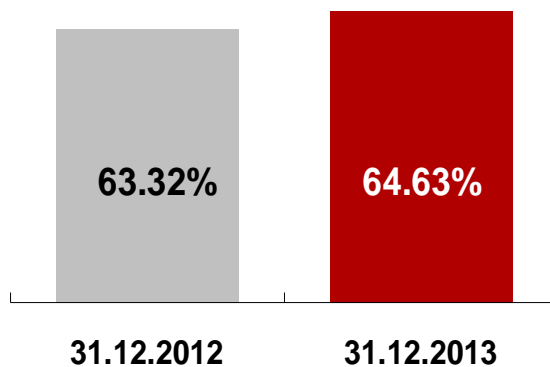
Benign Loan Quality

Classified or Impaired Loan Ratio



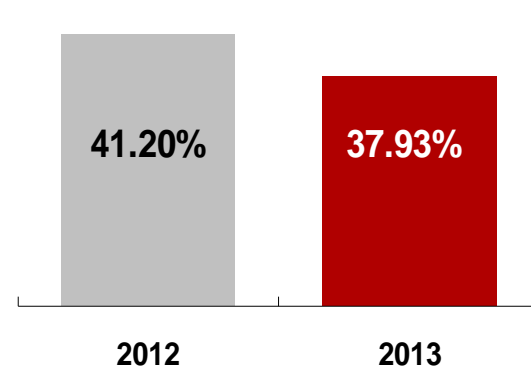
Healthy LDR

Loan-to-deposit Ratio



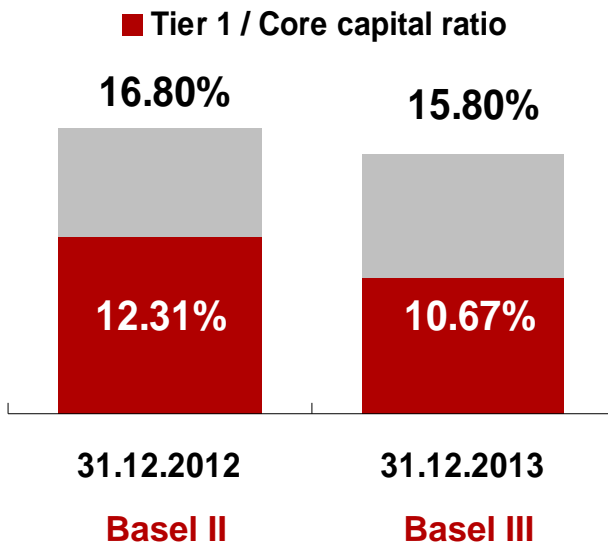
Sound Liquidity

Average Liquidity Ratio

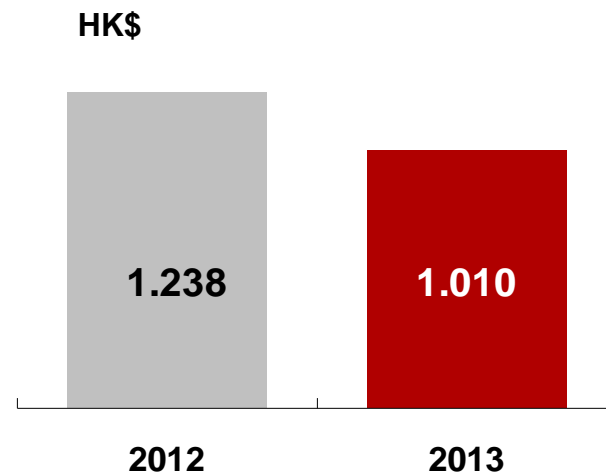


Proactive Capital Management

Capital Position



Dividend Per Share



- More stringent capital requirements in coming years
- Proactive measures to meet with the regulatory changes and future business needs
- Target payout range between 40% and 60% after taking into account near-term and long-term shareholder interests

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Financial Results

Condensed Income Statement

Commendable growth in core income and profits

HK\$ m	2013	2012	% YoY
Net interest income	27,916	24,708	13.0
Net fee and commission income	8,965	7,763	15.5
Other operating income	3,432	3,146	9.1
Net operating income before impairment allowances	40,313	35,617	13.2
Net charge of impairment allowances	(737)	(859)	(14.2)
Net operating income	39,576	34,758	13.9
Operating expenses	(12,083)	(11,259)	7.3
Operating profit	27,493	23,499	17.0
Non-operating items	300	2,022	(85.2)
Profit attributable to the equity holders	22,252	20,930	6.3

▶ Net Interest Income

Solid net interest income growth on higher AIEA and NIM expansion

HK\$ m	2013	2012	% YoY
Interest income	39,379	35,413	11.2
Interest expense	11,463	10,705	7.1
Net interest income	27,916	24,708	13.0

Average interest earning assets (AIEA)	1,657,215	1,542,565	7.4
Net interest margin (NIM)	1.68%	1.60%	8bps

► Non-interest Income

**Broad-based growth in net fee and commission income
Other operating income increased driven by the insurance segment**

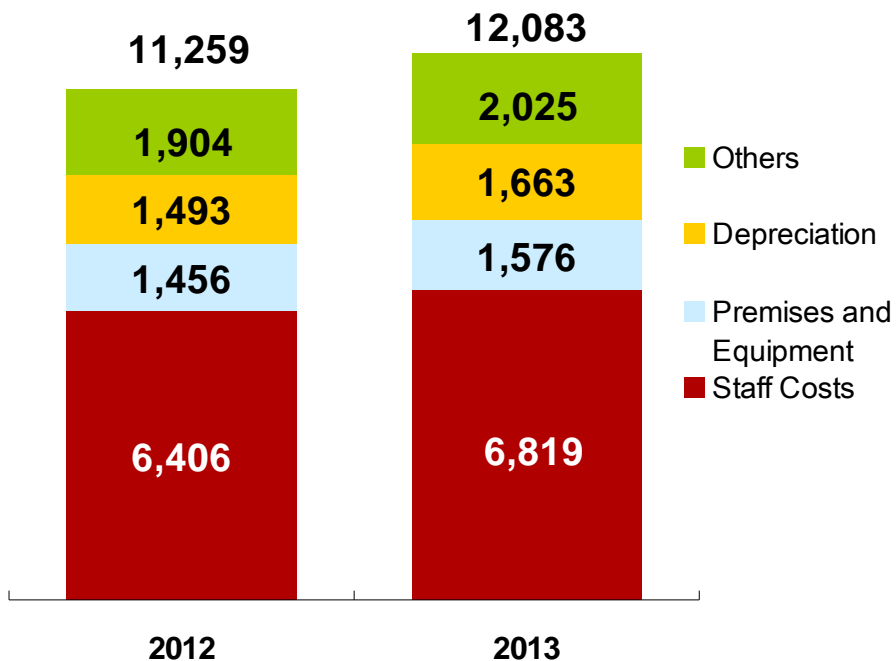
HK\$ m	2013	2012	% YoY
Net fee and commission income	8,965	7,763	15.5
Fee and commission income			
Credit cards business	3,516	3,161	11.2
Securities brokerage	2,432	2,114	15.0
Loan commissions	1,900	1,774	7.1
Insurance	1,285	965	33.2
Funds distribution	821	540	52.0
Bill commissions	819	736	11.3
Payment services	665	667	(0.3)
Trust and custody services	387	360	7.5
Currency exchange	197	156	26.3
Others	694	637	8.9
Other operating income	3,432	3,146	9.1
Net trading gain	2,957	3,129	(5.5)
Net (loss)/gain on financial instruments designated at FVTPL	(159)	747	---
Others	634	(730)	---
Total	12,397	10,909	13.6

Operating Expenses

Investment for long-term business growth while ensuring operating efficiency

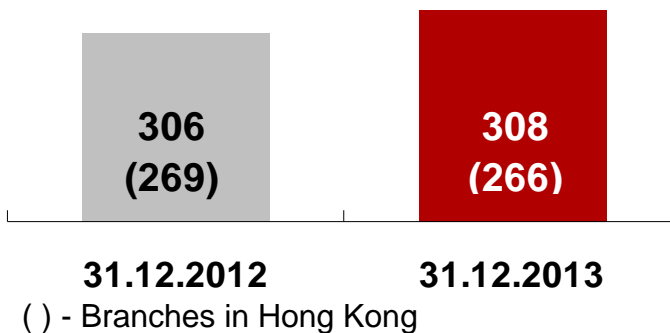
Operating Expenses

HK\$ m +7.3% YoY

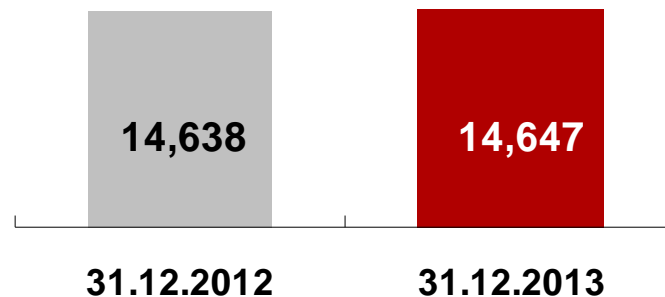


31.61% 29.97%
Cost-to-income ratio

Number of Branches



Staff Number



▶ Net Charge of Impairment Allowances

Net charge of IA impairment allowances decreased

HK\$ m	2013	2012	% YoY
<u>Advances to customers</u>			
Net charge of allowances before recoveries			
- individual assessment	(313)	(512)	(38.9)
- collective assessment	(705)	(606)	16.3
Recoveries	288	264	9.1
Net charge of loan impairment allowances	(730)	(854)	(14.5)
<u>Securities Investments</u>			
Net reversal of impairment on securities investments	5	5	0.0
<u>Others</u>	(12)	(10)	20.0
Total charge to income statement	(737)	(859)	(14.2)

▶ Loan Quality

Loan quality remained sound

Classified or Impaired Loans



Condensed Balance Sheet

Proactive asset and liability management
to drive sustainable growth and profitability

HK\$ m	31.12.2013	31.12.2012	% YoY
Cash and balances with banks and other financial institutions	353,741	198,748	78.0
Placements with banks and other financial institutions	46,694	66,025	(29.3)
Securities investments	484,213	531,696	(8.9)
Advances and other accounts	924,943	819,739	12.8
Total assets	2,046,936	1,830,763	11.8
Inter-bank deposits taken	278,273	179,206	55.3
Deposits from customers*	1,327,980	1,229,131	8.0
Subordinated liabilities	19,849	28,755	(31.0)
Total liabilities	1,883,928	1,675,689	12.4
Total equity	163,008	155,074	5.1

* Including structured deposits

Customer Deposits

Flexible deposit strategy and effective cost control

HK\$ m	31.12.2013	31.12.2012	% YoY
Demand deposits and current accounts	104,784	97,295	7.7
Saving deposits	636,137	603,565	5.4
Time, call and notice deposits	583,227	525,430	11.0
Structured deposits	3,832	2,841	34.9
Total deposits from customers	1,327,980	1,229,131	8.0

▶ Advances to Customers

**Sustained healthy loan growth with
conscious risk control**

HK\$ m	31.12.2013	31.12.2012	% YoY
Loans for use in HK - corporate	267,632	252,877	5.8
Loans for use in HK - individual	240,339	227,876	5.5
Residential mortgages*	190,031	186,601	1.8
Credit card advances	12,223	11,534	6.0
Trade finance	85,413	67,137	27.2
Loans for use outside HK	264,948	230,374	15.0
Total advances to customers	858,332	778,264	10.3
Loan-to-deposit ratio	64.63%	63.32%	

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

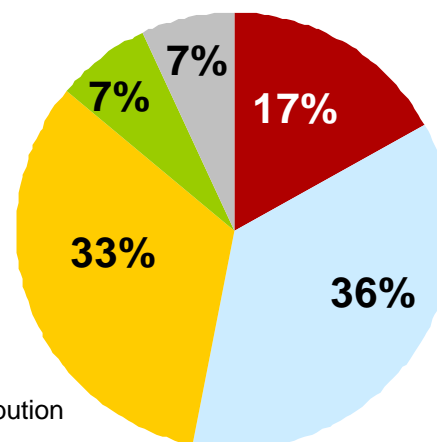
Securities Investments

Optimised portfolio mix to capture market opportunities

HK\$ m	31.12.2013	31.12.2012	% YoY
Sovereign	73,344	178,520	(58.9)
Public Sector	46,601	41,458	12.4
Corporate entities	93,118	64,959	43.3
Banks and other FIs	271,150	246,759	9.9
Total	484,213	531,696	(8.9)

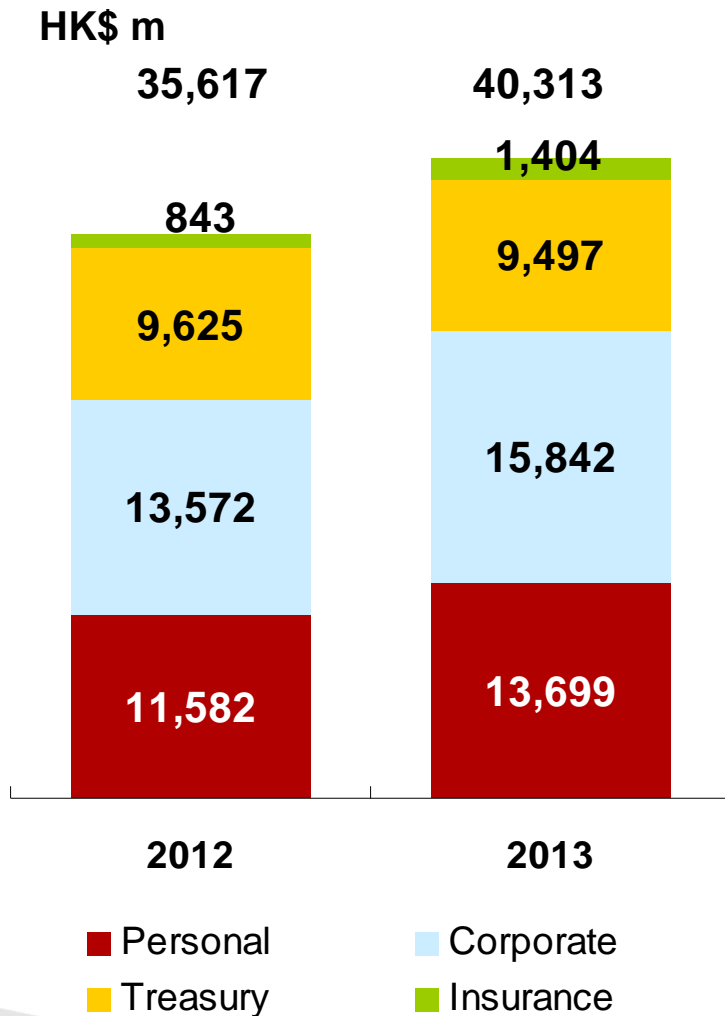
Credit rating distribution

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



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

▶ Operating Income by Segments



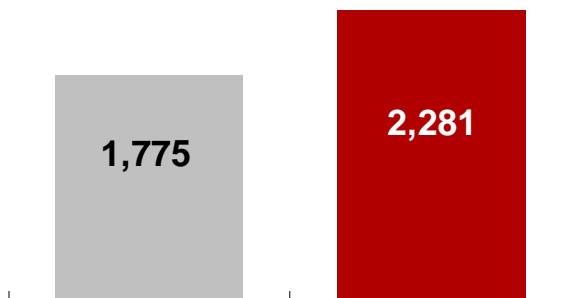
- Personal:** Residential mortgages maintained market leadership. Broad-based growth in investment & insurance businesses
- Corporate:** Quality loan growth with improved loan pricing
- Treasury:** Proactive investment strategy and timely product offering to meet changing market needs
- Insurance:** Enriched product spectrum and reinforced leadership in the RMB insurance market

Mainland Business

Promising growth driven by optimised assets and liabilities mix

Operating Income

HK\$ m + 28.5% YoY

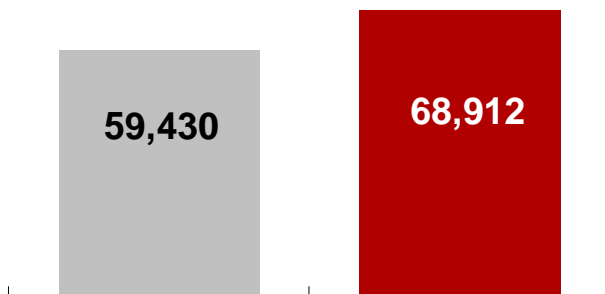


2012

2013

Deposits from Customers

HK\$ m + 16.0% YoY

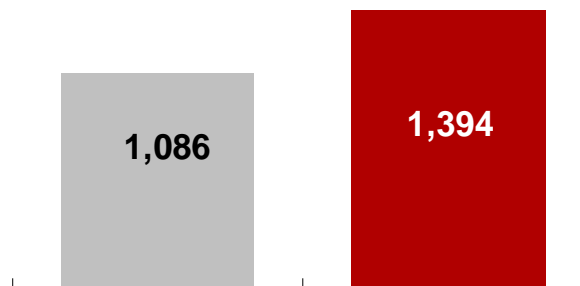


31.12.2012

31.12.2013

Operating Expenses

HK\$ m + 28.4% YoY

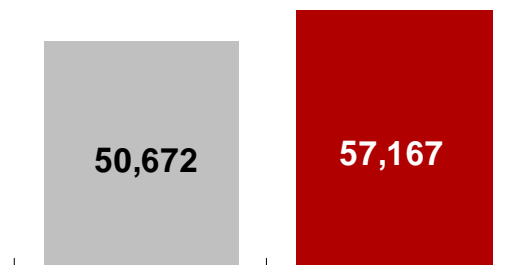


2012

2013

Gross Advances to Customers

HK\$ m + 12.8% YoY



31.12.2012

31.12.2013

0.79%

0.61%

Classified or Impaired Loan Ratio

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Outlook and Strategy

▶ Outlook and Strategy

Sustainable growth strategy to drive profitability of core businesses

- Build on diversified platforms, product innovation and channel establishment to grasp emerging opportunities
- Leverage our strong RMB franchise to further solidify market leadership
- Deepen and extend collaboration with BOC to further exploit synergies within the BOC Group
- Step up initiatives in liquidity and capital management to ensure competitiveness

A white wireframe structure resembling a tower or skyscraper, composed of interconnected lines forming a grid-like pattern. It is positioned on the left side of the slide, set against a background of red and orange curved bands and light streaks.

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