

# 2009 Interim Results

27.08.2009

# 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. David Lam</b>	<b>Deputy Chief Executive</b>
<b>Mr. Yingxin Gao</b>	<b>Executive Director &amp; Deputy Chief Executive</b>
<b>Mr. Chengwen Zhuo</b>	<b>Chief Financial Officer</b>
<b>Mr. Alex Cheung</b>	<b>Chief Risk Officer</b>
<b>Mr. David Wong</b>	<b>Deputy Chief Executive</b>

# Agenda

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■ **Key Performance Highlights**

■ **Financial Results**

■ **Outlook**



# Key Performance Highlights

## 1H09 Operating Environment

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- Overall operating environment remained challenging
- Impact of financial crisis appeared subsiding, especially into 2Q09
- Stabilizing economic environment boosted rebound in local stock and property markets

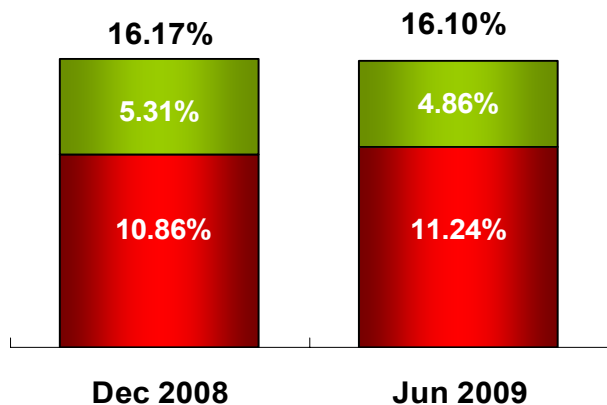
## Performance Overview

- Maintained strong financial position on the back of our effective measures
- Captured business opportunities and further enhanced our franchise by leveraging our core strengths
- Good balance between risk management and business growth

# Strong Financial Position

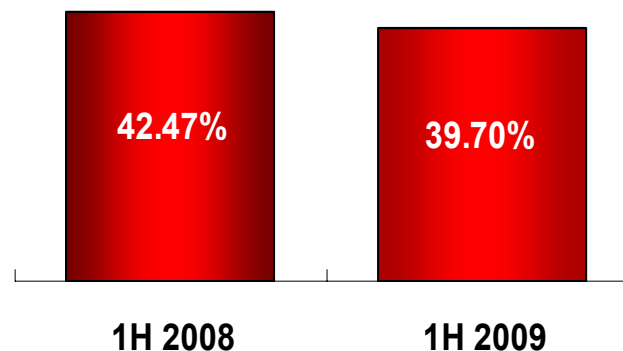
## Well Capitalized

■ Tier 1 ■ Tier 2



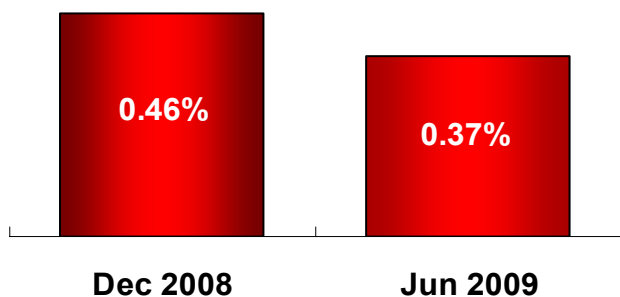
## Highly Liquid

Liquidity remained solid at 39.70%



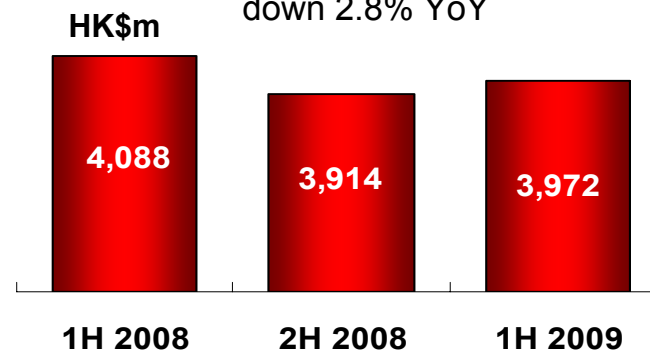
## Solid Loan Quality

Classified or impaired loan ratio  
-9 bps to 0.37%



## Disciplined Cost Control

Core operating expenses\*  
down 2.8% YoY





# Key Financial Highlights

HK\$m	1H2009	2H2008	1H2008	Change YoY	Change HoH
Net operating income before impairment allowances	13,028	11,487	14,039	↓ 7.2%	↑ 13.4%
Operating profit before impairment allowances	8,834	6,804	9,951	↓ 11.2%	↑ 29.8%
Profit attributable to shareholders	6,691	-3,745	7,088	↓ 5.6%	---
Earnings per share (HK\$)	0.6329	-0.3542	0.6704	↓ 5.6%	---
Dividend per share (HK\$)	0.2850	---	0.4380	↓ 34.9%	---
ROE	15.13%	-8.43%	15.09%	↑ 0.04pp	↑ 23.56pp
ROE before impairment allowances	19.98%	15.31%	21.18%	↓ 1.20pp	↑ 4.67pp
ROA	1.23%	-0.75%	1.32%	↓ 0.09pp	↑ 1.98pp
ROA before impairment allowances	1.58%	1.23%	1.83%	↓ 0.25pp	↑ 0.35pp

- YoY decline in operating income was mainly due to lower net interest income amidst pressure from low market interest rates
- Profit attributable to shareholders saw moderate decline as helped by lower impairment allowances on securities investments
- Improving trend compared to 2H 2008, especially in 2Q 2009

# Solid Core Performance

Captured business opportunities in a tough market  
leveraging our core strengths

## Solid Loan Growth

- Loans grew 3.3% amidst weak market demand
- Corporate loans for use in HK achieved an impressive growth of 13%

## Strong Deposit Base

- Strong deposit franchise with 1.6% growth in total customer deposits
- Deposit mix further improved on the back of our proactive strategy to control funding costs

## Fees Income

- Stable net fee income YoY despite slower business activities in the market
- Key growth drivers included stock brokerage, loans and credit card commissions
- Improved trend in 2Q09 in most areas compared to 1Q09

# Strong Franchise

## ■ Personal Banking

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

## ■ Corporate Banking

- Loan syndication : successful expansion of syndicated loan businesses in the Asia-Pacific region
- Total Solution Services : continued progress in enhancing our service and product scope (e.g. cash management, custody, cross-border services)
- SMEs : SME's Best Partner Award 2009

## ■ Best Choice for RMB services

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

# Financial Results

# 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>
<b>Net (charge)/reversal of impairment allowances</b>	<b>(1,115)</b>	<b>(10,346)</b>	<b>(2,227)</b>	<b>↓ 49.9</b>	<b>↓ 89.2</b>
<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>
<b>Operating expenses</b>	<b>(4,194)</b>	<b>(4,683)</b>	<b>(4,088)</b>	<b>↑ 2.6</b>	<b>↓ 10.4</b>
<b>Operating profit</b>	<b>7,719</b>	<b>(3,542)</b>	<b>7,724</b>	<b>↓ 0.1</b>	<b>---</b>
<b>Non-operating items</b>	<b>525</b>	<b>(814)</b>	<b>710</b>	<b>↓ 26.1</b>	<b>---</b>
<b>Profit attributable to shareholders</b>	<b>6,691</b>	<b>(3,745)</b>	<b>7,088</b>	<b>↓ 5.6</b>	<b>---</b>

# Net Interest Income

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

# Net Fees and Commission Income

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

HK\$ m	1H2009	2H2008	1H2008	% YoY	% HoH
<b>Investment and insurance fee income</b>					
Securities brokerage (Stockbroking)	1,625	1,091	1,289	↑ 26.1	↑ 48.9
Securities brokerage (Bonds)	4	39	220	↓ 98.2	↓ 89.7
Funds distribution	38	61	157	↓ 75.8	↓ 37.7
Life insurance	74	30	77	↓ 3.9	↑ 146.7
	1,741	1,221	1,743	↓ 0.1	↑ 42.6
<b>Traditional banking businesses</b>					
Bills commissions	310	354	329	↓ 5.8	↓ 12.4
Loan commissions	398	250	263	↑ 51.3	↑ 59.2
Trust services	82	86	87	↓ 5.7	↓ 4.7
Payment services	227	247	239	↓ 5.0	↓ 8.1
Credit cards	705	754	663	↑ 6.3	↓ 6.5
Account services	132	115	146	↓ 9.6	↑ 14.8
Currency exchange	87	96	108	↓ 19.4	↓ 9.4
IPO-related	1	0	30	↓ 96.7	---
Others	201	246	237	↓ 15.2	↓ 18.3
	2,143	2,148	2,102	↑ 2.0	↓ 0.2
<b>Total Fees and Commission Income</b>	<b>3,884</b>	<b>3,369</b>	<b>3,845</b>	<b>↑ 1.0</b>	<b>↑ 15.3</b>
<b>Less: Fees and Commission Expenses</b>	<b>(937)</b>	<b>(1,089)</b>	<b>(946)</b>	<b>↓ 1.0</b>	<b>↓ 14.0</b>
<b>Net Fees and Commission Income</b>	<b>2,947</b>	<b>2,280</b>	<b>2,899</b>	<b>↑ 1.7</b>	<b>↑ 29.3</b>

# 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>

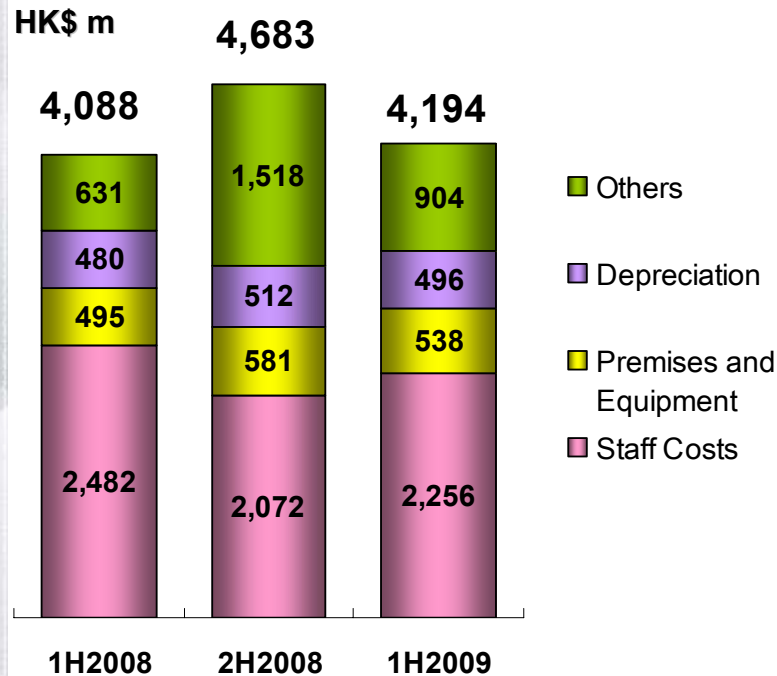
<sup>#</sup> BOCL= BOC Group Life Assurance Company Limited



# Operating Expenses

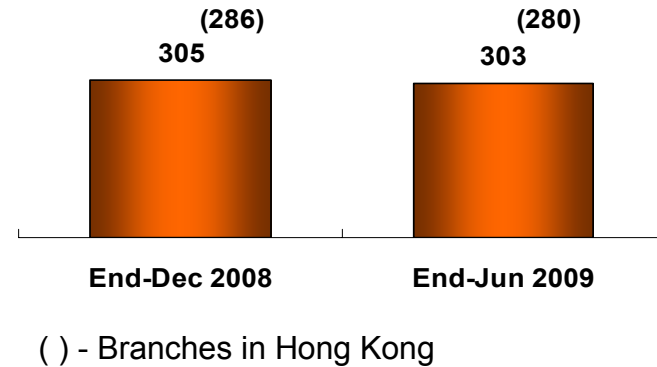
Core operating expenses\* well contained  
on the back of disciplined cost control measures

## Operating Expenses

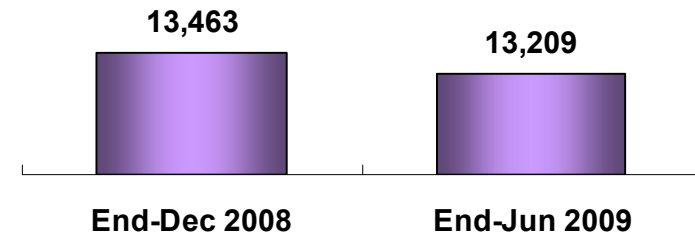


29.12%    40.77%    32.19%  
Cost-to-income ratio

## 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

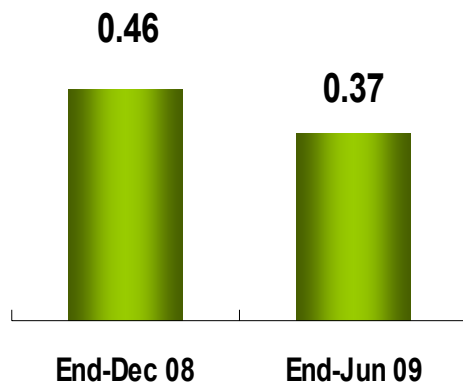
HK\$ m	1H2009	2H2008	1H2008	% YoY	% HoH
<b>Advances to customers</b>					
Individual assessment					
- New allowances	(163)	(671)	(142)	↑ 14.8	↓ 75.7
- Releases	87	21	62	↑ 40.3	↑ 314.3
- Recoveries	142	535	187	↓ 24.1	↓ 73.5
Collective assessment					
- New allowances	(198)	(492)	(199)	↓ 0.5	↓ 59.8
- 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>

# Loan Quality

Classified or impaired loan ratio fell to 0.37%

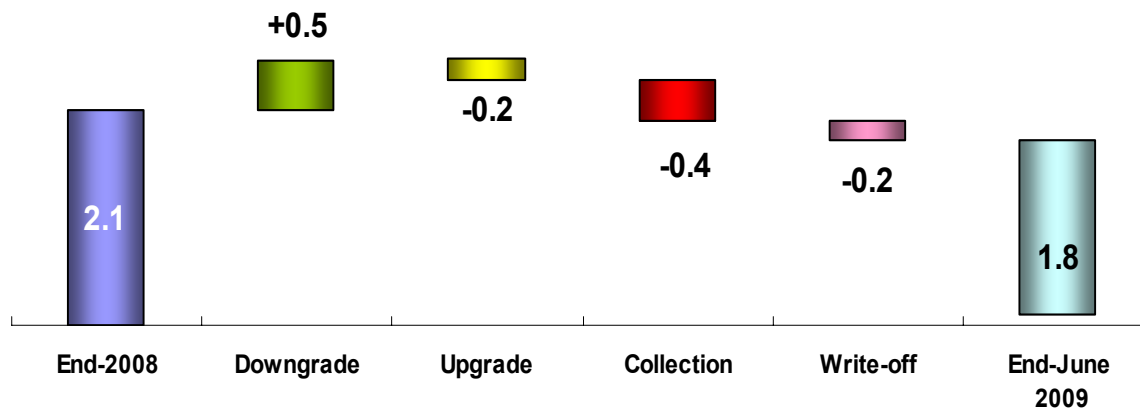
## Classified or Impaired Loan Ratio

%



## Migration of Classified Loans

HK\$ bn



# 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

# Advances to Customers

**Loan growth outperformed market  
driven by strong growth in corporate loans for use in HK**

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>

**Loan-to-deposit ratio**                      **57.66%**                      **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

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>

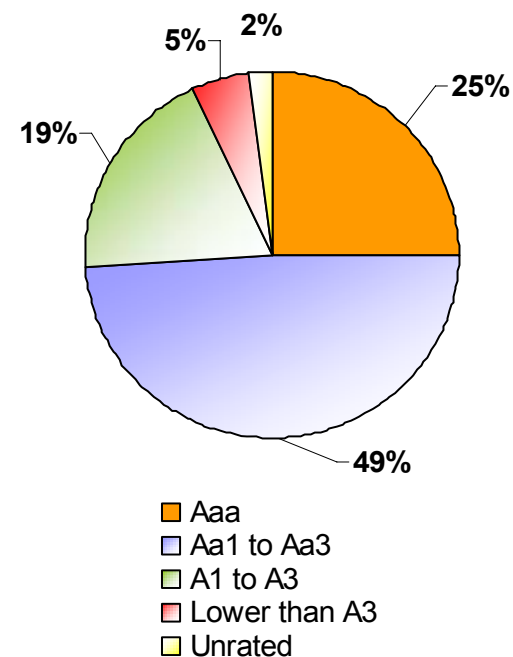
# Securities Investments

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>	

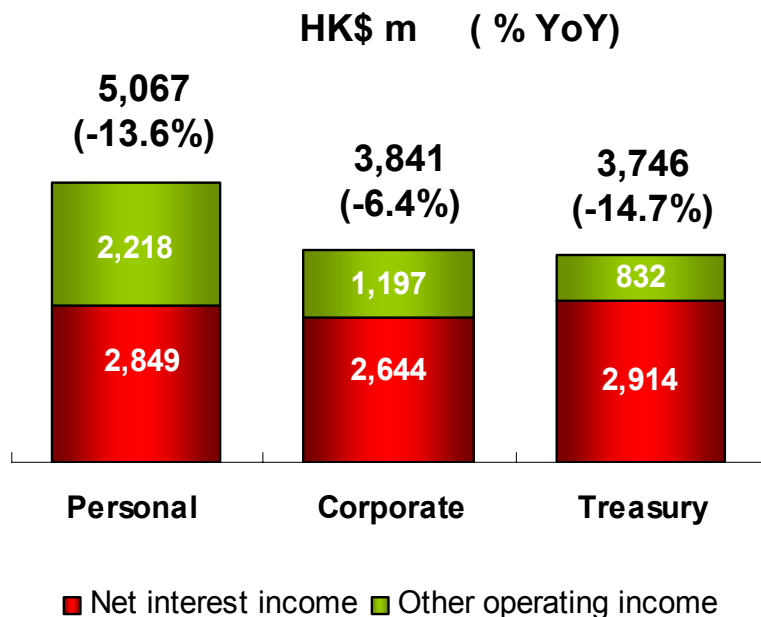
Debt securities by credit rating



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

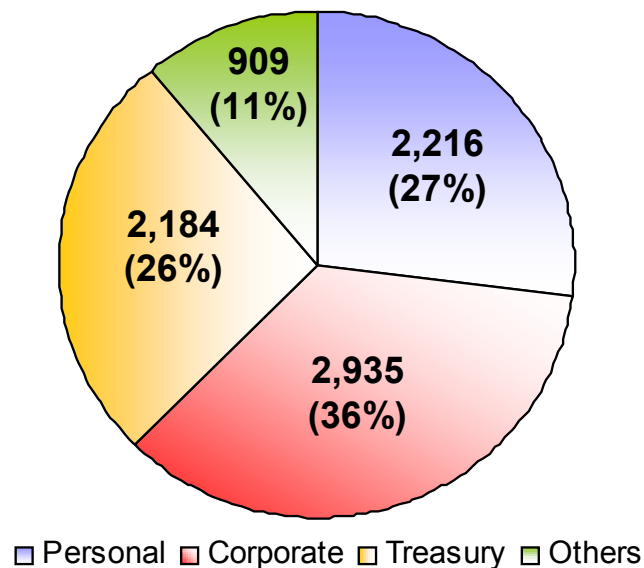
# Segmental Performance

## Operating income



## Pre-tax profit

HK\$ m ( % of total)



- Operating performance of the 3 segments was all adversely affected by decrease in net interest income amidst a low interest rate environment
- Good progress in enhancing our business platform in a number of areas



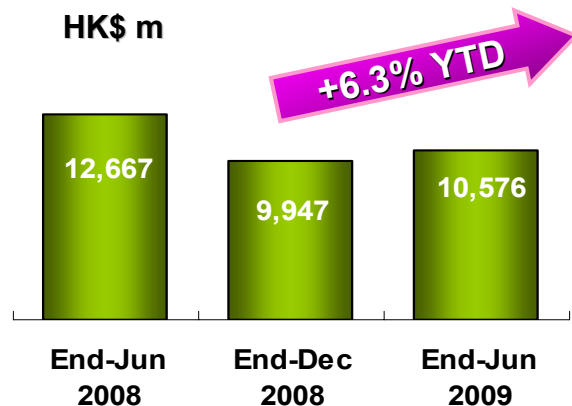
# Mainland Business

Enhanced Mainland platform  
through network expansion and consolidation

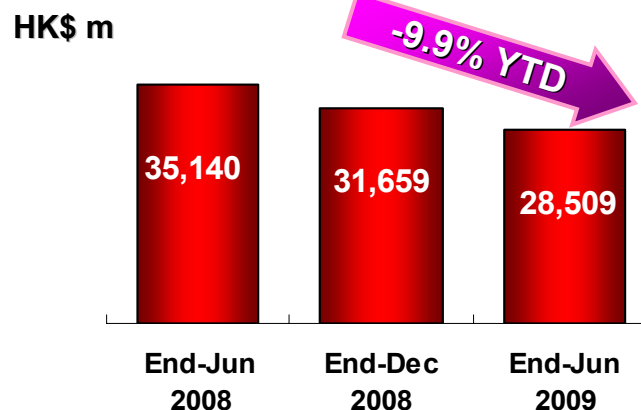
HK\$ m	1H2009	1H2008	% YoY
Operating income	466	405	↑ 15.1
Operating expenses	237	187	↑ 26.7
Operating profit before impairment	229	218	↑ 5.0
Profit before taxation	308	236	↑ 30.5

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



# Outlook

# Outlook and Strategy

**Solid financial strength provides flexibility  
to grasp business opportunities despite market uncertainties**

- Remain focused on fortifying our financial strengths and risk management
- Grow on our core strengths and enhance our franchise
  - ✓ Enhanced business capabilities to better serve our customers (e.g. BOC Life, Total Solution Services)
- Considerable growth opportunities ahead
  - ✓ Strong BOC – BOCHK collaboration platform
  - ✓ Well positioned to capture rising opportunities from expanding scope of RMB businesses in HK

# 2009 Interim Results

27.08.2009