



# 2010 Interim Results

2010.08.26

# 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. David Wong</b>	<b>Deputy Chief Executive</b>

# Agenda

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■ **Key Performance Highlights**

■ **Financial Results**

■ **Outlook and Strategy**



# Key Performance Highlights

# Operating Environment

- Despite improvement in global economy, operating conditions remained challenging
- Interest rates stayed low
- Intensified competition from local banking sector affected margins
- Further relaxation of offshore RMB business created good business opportunities

# Performance Overview

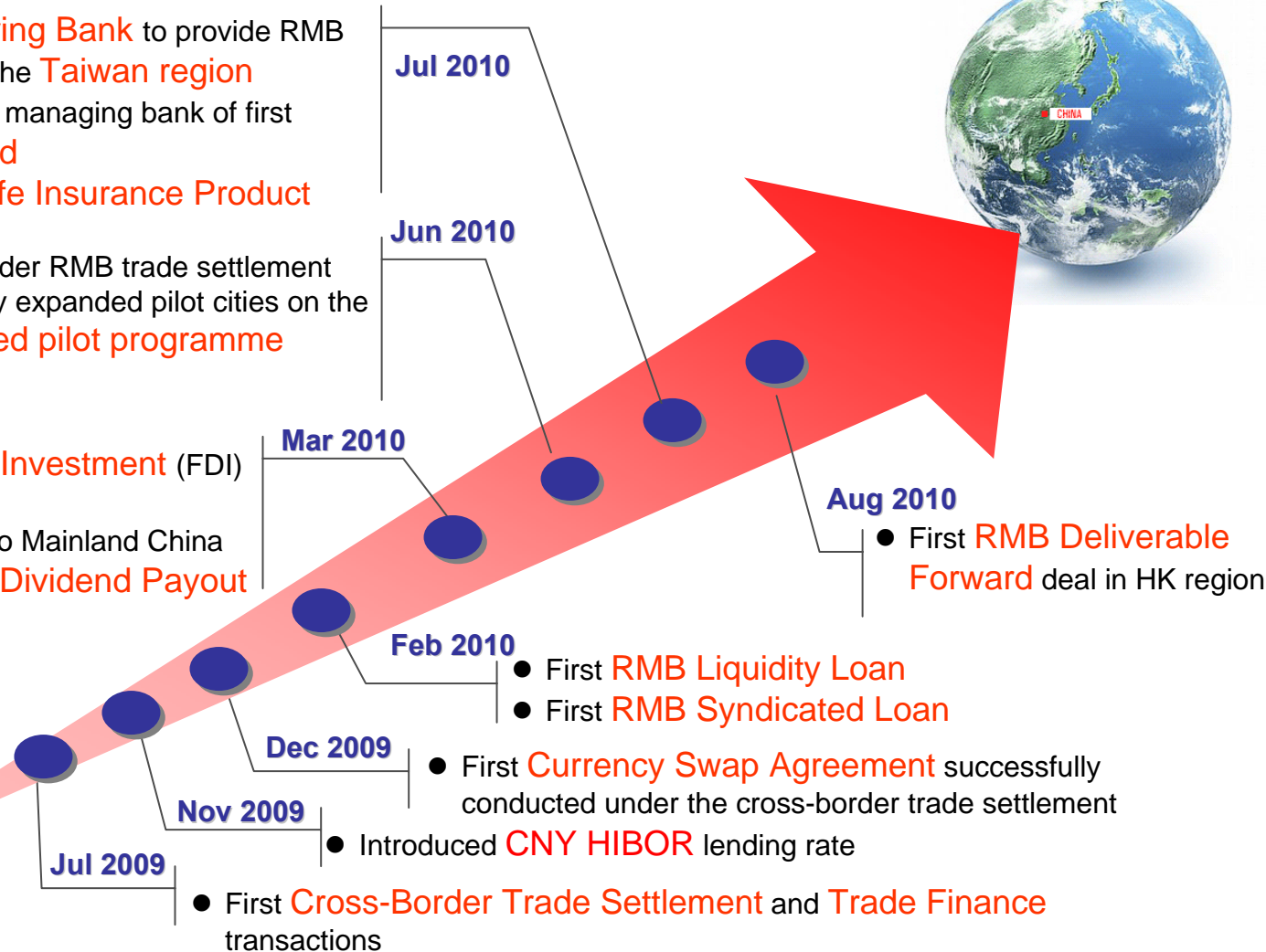
Balanced approach to capture quality growth

- Proactive business and risk management to deliver quality growth
- Good progress in strategic focuses to capture emerging opportunities
- Strong financial strength to support business development

# Leading Role in RMB Business

- Appointed as the **Clearing Bank** to provide RMB cashnotes services for the **Taiwan region**
- Sole bookrunner & lead managing bank of first **RMB Corporate Bond**
- Launched first **RMB Life Insurance Product**
- Conducted 34 cross-border RMB trade settlement transactions in the newly expanded pilot cities on the first day of the **expanded pilot programme**

- First RMB **Foreign Direct Investment (FDI)** remitted into Hong Kong
- First **RMB FDI** remitted into Mainland China
- RMB remittance service for **Dividend Payout**





# Business Highlights

Maintained growth momentum in core businesses

Loans

Deposits

Total Fee Income

% - Classified or impaired loan ratio

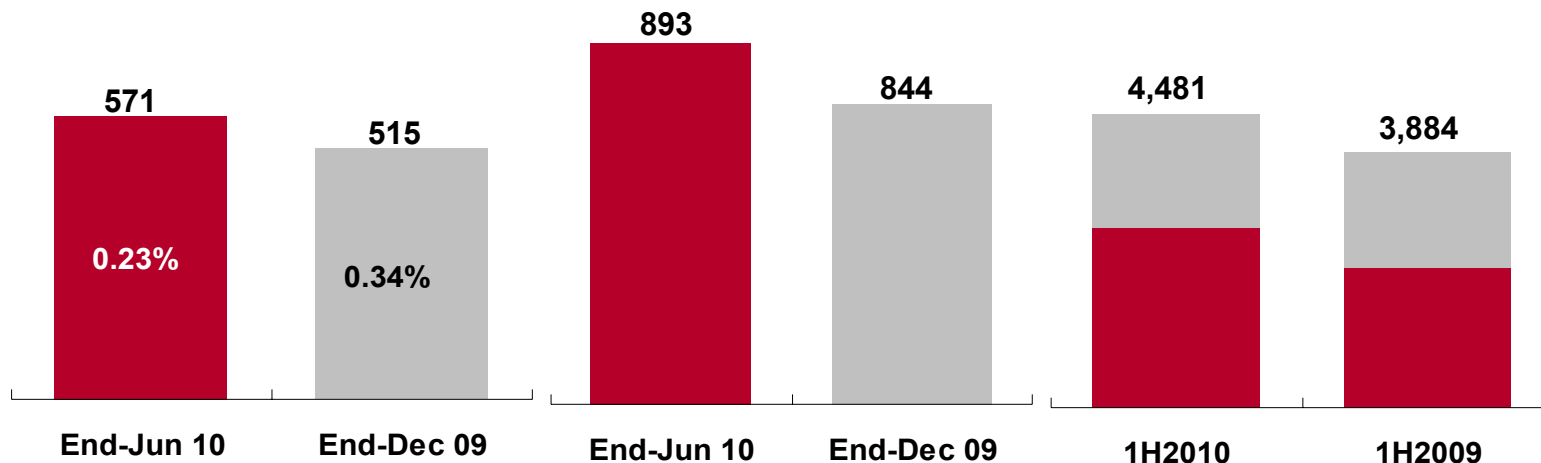
■ Investment & Insurance

■ Traditional banking business

HK\$ bn + 11.0% YTD

HK\$ bn + 5.7% YTD

HK\$ m + 15.4% YoY



- Strong loan growth with solid loan quality
- Encouraging growth in customer deposits
- Solid fee income contribution albeit lower stock broking fee income

# Key Financial Highlights

HK\$m	1H2010	1H2009	2H2009	% YoY	% HoH
Net operating income before impairment allowances	12,541	13,028	13,027	↓ 3.7	↓ 3.7
Operating profit before impairment allowances	8,007	8,834	5,080	↓ 9.4	↑ 57.6
Profit attributable to shareholders	7,190	6,691	7,034	↑ 7.5	↑ 2.2
Earnings per share (HK\$)	0.6800	0.6329	0.6652	↑ 7.5	↑ 2.2
Dividend per share (HK\$)	0.400	0.285	0.570	↑ 40.4	↓ 29.8
ROE	13.72%	15.13%	14.28%	↓ 1.41pp	↓ 0.56pp
ROA	1.17%	1.23%	1.16%	↓ 0.06pp	↑ 0.01pp

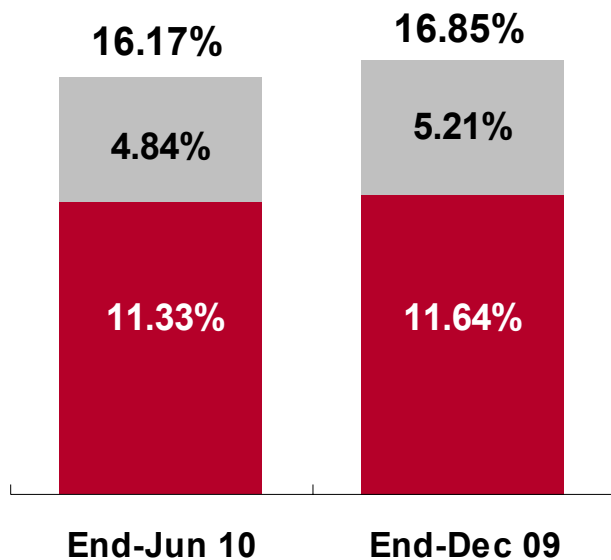
- Net operating income decreased mildly albeit pressure from low interest rate and competition
- Profit attributable to shareholders increased by 7.5% thanks to stable contributions from core businesses and improvement in securities impairments
- Earnings per share grew 7.5% while interim dividend per share increased 40.4% to HK\$0.40, representing a dividend payout ratio of 58.8%.

# Strong Capital Position

Strong capital position supports sustainable growth

## Capital Adequacy Ratio

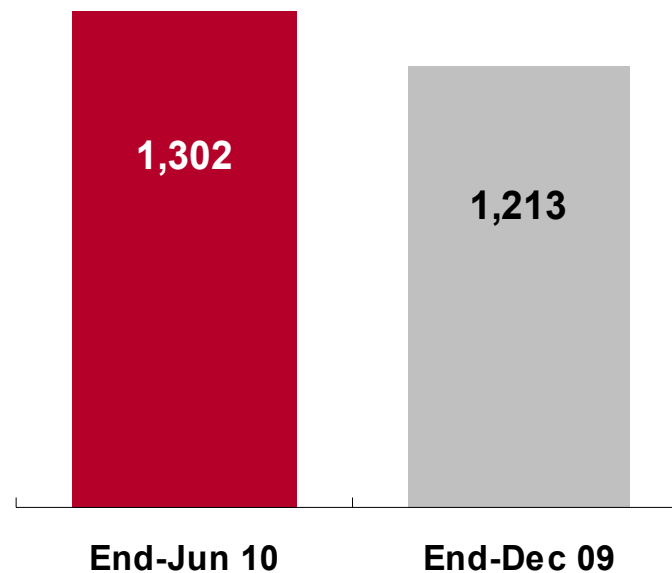
■ Tier 1 ■ Tier 2



## Total Assets

HK\$bn

+ 7.4% YTD



# Financial Results

# Condensed Income Statement

Profit attributable to shareholders improved YoY and HoH

HK\$ m	1H2010	1H2009	2H2009	% YoY	% HoH
Net interest income	8,964	9,014	8,918	↓ 0.6	↑ 0.5
Net fee and commission income	3,397	2,947	3,561	↑ 15.3	↓ 4.6
Other operating income	180	1,067	548	↓ 83.1	↓ 67.2
Net operating income before impairment allowances	12,541	13,028	13,027	↓ 3.7	↓ 3.7
Net reversal/(charge) of impairment allowances	161	(1,115)	2,305	---	↓ 93.0
Net operating income	12,702	11,913	15,332	↑ 6.6	↓ 17.2
Operating expenses	(4,534)	(4,194)	(7,947)	↑ 8.1	↓ 42.9
Operating profit	8,168	7,719	7,385	↑ 5.8	↑ 10.6
Non-operating items	599	525	1,095	↑ 14.1	↓ 45.3
Profit attributable to shareholders	7,190	6,691	7,034	↑ 7.5	↑ 2.2

# Net Interest Income

**Stable net interest income**  
**Growth in average interest earning assets offset NIM pressure**

HK\$ m	1H2010	1H2009	2H2009	% YoY	% HoH
Interest income	10,671	11,331	10,353	↓ 5.8	↑ 3.1
Interest expense	1,707	2,317	1,435	↓ 26.3	↑ 19.0
<b>Net interest income</b>	<b>8,964</b>	<b>9,014</b>	<b>8,918</b>	<b>↓ 0.6</b>	<b>↑ 0.5</b>
<b>Average interest earning assets</b>	<b>1,142,383</b>	<b>1,014,954</b>	<b>1,101,861</b>	<b>↑ 12.6</b>	<b>↑ 3.7</b>
<b>Net interest margin (NIM)</b>	<b>1.58%</b>	<b>1.79%</b>	<b>1.61%</b>	<b>↓ 0.21pp</b>	<b>↓ 0.03pp</b>

# Net Fee and Commission Income

Solid fee income contribution underpinned by broad-based growth in traditional banking businesses

HK\$ m	1H2010	1H2009	2H2009	% YoY	% HoH
<i>Investment and insurance fee income</i>					
Securities brokerage (Stockbroking)	1,506	1,625	2,013	↓ 7.3	↓ 25.2
Securities brokerage (Bonds)	3	4	35	↓ 25.0	↓ 91.4
Funds distribution	67	38	59	↑ 76.3	↑ 13.6
Life insurance	172	74	38	↑ 132.4	↑ 352.6
	1,748	1,741	2,145	↑ 0.4	↓ 18.5
<i>Traditional banking businesses</i>					
Bills commissions	371	310	317	↑ 19.7	↑ 17.0
Loan commissions	623	398	524	↑ 56.5	↑ 18.9
Trust services	98	82	96	↑ 19.5	↑ 2.1
Payment services	272	227	268	↑ 19.8	↑ 1.5
Credit cards	903	705	806	↑ 28.1	↑ 12.0
Account services	136	132	144	↑ 3.0	↓ 5.6
Currency exchange	125	87	126	↑ 43.7	↓ 0.8
IPO-related	9	1	40	↑ 800.0	↓ 77.5
Others	196	201	186	↓ 2.5	↑ 5.4
	2,733	2,143	2,507	↑ 27.5	↑ 9.0
<b>Total Fee and Commission Income</b>	<b>4,481</b>	<b>3,884</b>	<b>4,652</b>	<b>↑ 15.4</b>	<b>↓ 3.7</b>
<b>Less: Fee and Commission Expenses</b>	<b>(1,084)</b>	<b>(937)</b>	<b>(1,091)</b>	<b>↑ 15.7</b>	<b>↓ 0.6</b>
<b>Net Fee and Commission Income</b>	<b>3,397</b>	<b>2,947</b>	<b>3,561</b>	<b>↑ 15.3</b>	<b>↓ 4.6</b>

# Non-interest Income

Non-interest income decreased  
mainly due to lower net trading income

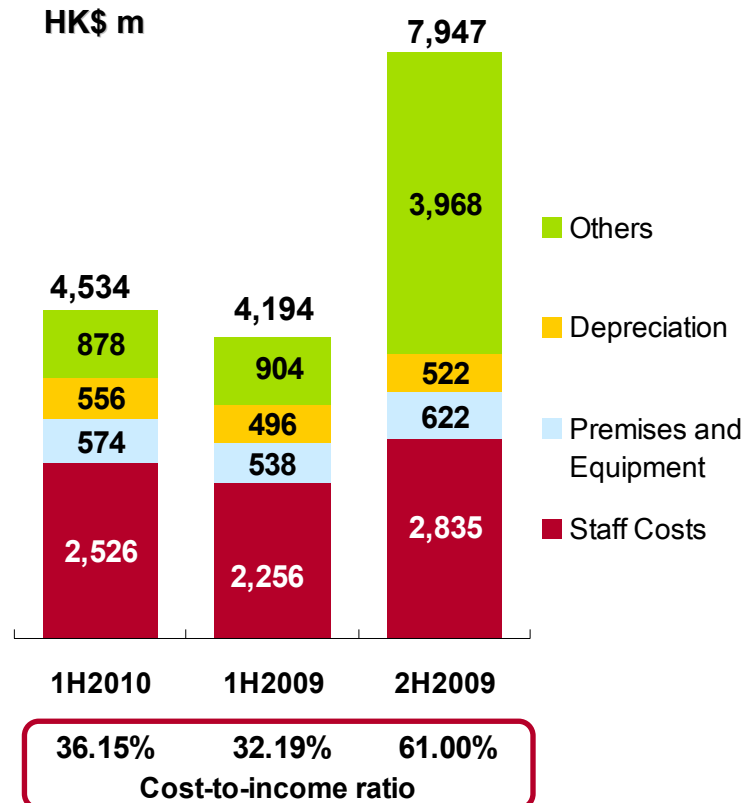
HK\$ m	1H2010	1H2009	2H2009	% YoY	% HoH
Net fee and commission income	3,397	2,947	3,561	↑ 15.3	↓ 4.6
Other operating income - Banking operation	544	1,295	791	↓ 58.0	↓ 31.2
Net trading (loss)/gain	(32)	804	682	---	---
Net gain on financial instruments designated at FVTPL	49	180	81	↓ 72.8	↓ 39.5
Other income	527	311	28	↑ 69.5	↑ 1,782.1
BOCL <sup>#</sup> non-interest income/(loss)	(364)	(228)	(243)	↑ 59.6	↑ 49.8
Net trading (loss)/gain	(4)	0	(1)	---	↑ 300.0
Net gain/(loss) on financial instruments designated at FVTPL - BOCL <sup>#</sup>	591	(1,575)	636	---	↓ 7.1
Net insurance premium income	2,798	2,261	5,483	↑ 23.8	↓ 49.0
Net insurance benefits and claims	(3,875)	(919)	(6,367)	↑ 321.7	↓ 39.1
Other income	126	5	6	↑ 2,420.0	↑ 2,000.0
<b>Total</b>	<b>3,577</b>	<b>4,014</b>	<b>4,109</b>	<b>↓ 10.9</b>	<b>↓ 12.9</b>



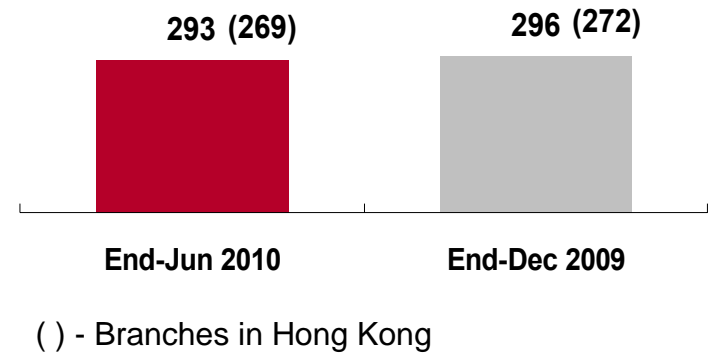
# Operating Expenses

Maintained prudent cost management  
Operating expenses increased YoY from a lower base in 1H09

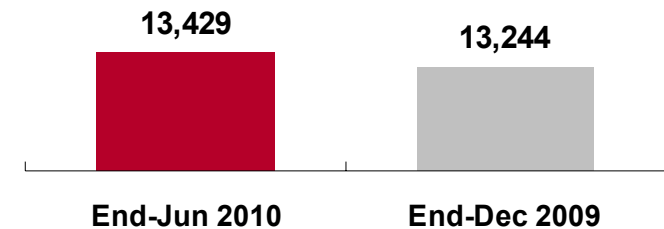
## Operating Expenses



## Number of Branches



## 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

## Advances to customers

### Individual assessment

- Net reversal/(charge) of allowances before recoveries

56 (76) (165) --- ---

### Collective assessment

- Net charge of allowances before recoveries

(256) (24) (319) ↑ 966.7 ↓ 19.7

Recoveries

294 160 321 ↑ 83.8 ↓ 8.4

Net reversal/(charge) of impairment on advances

94 60 (163) ↑ 56.7 ---

## Securities Investments

US non-agency RMBS

45 (1,212) 2,398 --- ↓ 98.1

Other debt securities

27 44 72 ↓ 38.6 ↓ 62.5

Net reversal/(charge) of impairment on securities investments

72 (1,168) 2,470 --- ↓ 97.1

## Others

(5) (7) (2) ↓ 28.6 ↑ 150.0

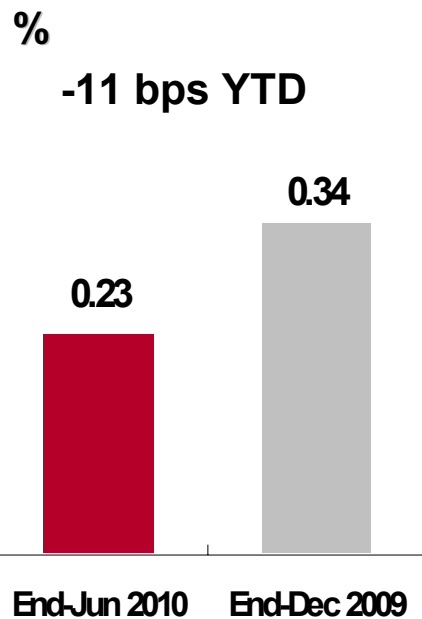
Total reversal/(charge) to income statement

161 (1,115) 2,305 --- ↓ 93.0

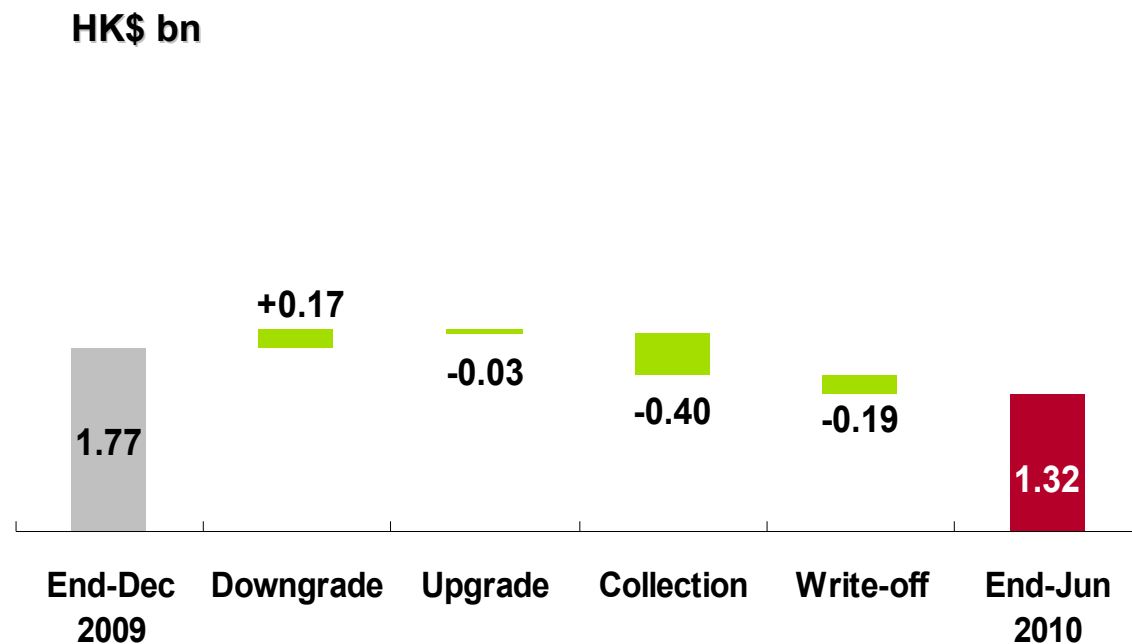
# Loan Quality

Sound risk management and customer optimisation translated into solid loan quality

## Classified or Impaired Loan Ratio



## Migration of Classified Loans



# Condensed Balance Sheet

**Robust growth in total assets  
with increased balances in higher yielding assets**

HK\$ m	30.06.2010	31.12.2009	% Change
<b>Total assets</b>	<b>1,302,176</b>	<b>1,212,791</b>	<b>↑ 7.4</b>
<b>Cash and balances with banks and other financial institutions</b>	<b>169,554</b>	<b>160,788</b>	<b>↑ 5.5</b>
<b>Placements with banks and other financial institutions</b>	<b>35,958</b>	<b>60,282</b>	<b>↓ 40.4</b>
<b>Securities investments</b>	<b>383,609</b>	<b>358,349</b>	<b>↑ 7.0</b>
<b>Advances and other accounts</b>	<b>597,306</b>	<b>527,135</b>	<b>↑ 13.3</b>
<b>Fixed assets &amp; IP</b>	<b>37,558</b>	<b>35,650</b>	<b>↑ 5.4</b>
<b>Total liabilities</b>	<b>1,192,639</b>	<b>1,107,156</b>	<b>↑ 7.7</b>
<b>Inter-bank deposits taken</b>	<b>110,786</b>	<b>99,647</b>	<b>↑ 11.2</b>
<b>Deposits from customers*</b>	<b>892,737</b>	<b>844,453</b>	<b>↑ 5.7</b>
<b>Subordinated liabilities</b>	<b>27,192</b>	<b>26,776</b>	<b>↑ 1.6</b>
<b>Total equity</b>	<b>109,537</b>	<b>105,635</b>	<b>↑ 3.7</b>
<b>Minority interests</b>	<b>2,826</b>	<b>2,733</b>	<b>↑ 3.4</b>
<b>Shareholders' funds</b>	<b>106,711</b>	<b>102,902</b>	<b>↑ 3.7</b>

# Advances to Customers

Maintained strong growth momentum  
and continued to optimise business structure

HK\$ m	30.06.2010	31.12.2009	% Change
Loans for use in HK - corporate	256,389	224,261	↑ 14.3
Loans for use in HK - individual	160,792	157,133	↑ 2.3
Residential mortgages*	131,491	127,208	↑ 3.4
Credit card advances	7,143	7,348	↓ 2.8
Trade finance	39,285	29,321	↑ 34.0
Loans for use outside HK	115,020	104,257	↑ 10.3
<b>Total advances to customers</b>	<b>571,486</b>	<b>514,972</b>	<b>↑ 11.0</b>

<b>Loan-to-deposit ratio</b>	<b>64.02%</b>	<b>60.98%</b>
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\*Loans for purchase of residential properties other than flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme

# Customer Deposits

Effective deposit strategy  
to support the growth of our business

HK\$ m

	30.06.2010	31.12.2009	% Change
Demand deposits and current accounts	67,122	65,440	↑ 2.6
Saving deposits	473,492	495,512	↓ 4.4
Time, call and notice deposits	351,597	281,369	↑ 25.0
Structured deposits	526	2,132	↓ 75.3
<b>Total deposits from customers</b>	<b>892,737</b>	<b>844,453</b>	<b>↑ 5.7</b>

# Securities Investments

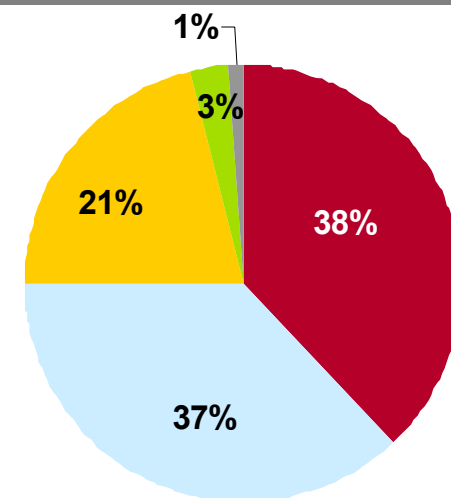
**Proactive investment strategy  
to optimise portfolio mix amid market volatility**

HK\$ m	30.06.2010	31.12.2009	% Change
Sovereign	93,557	76,824	↑ 21.8
Public Sector	37,739	34,529	↑ 9.3
Corporate entities	26,837	26,005	↑ 3.2
Banks and other FIs	225,476	220,991	↑ 2.0
<b>Total</b>	<b>383,609</b>	<b>358,349</b>	<b>↑ 7.0</b>

## US non-agency RMBS

Subprime	439	547	↓ 19.7
Alt-A	318	384	↓ 17.2
Prime	2,212	2,853	↓ 22.5
<b>Total</b>	<b>2,969</b>	<b>3,784</b>	<b>↓ 21.5</b>
<b>As % of total investments</b>	<b>0.8%</b>	<b>1.1%</b>	

**Debt securities by credit rating**



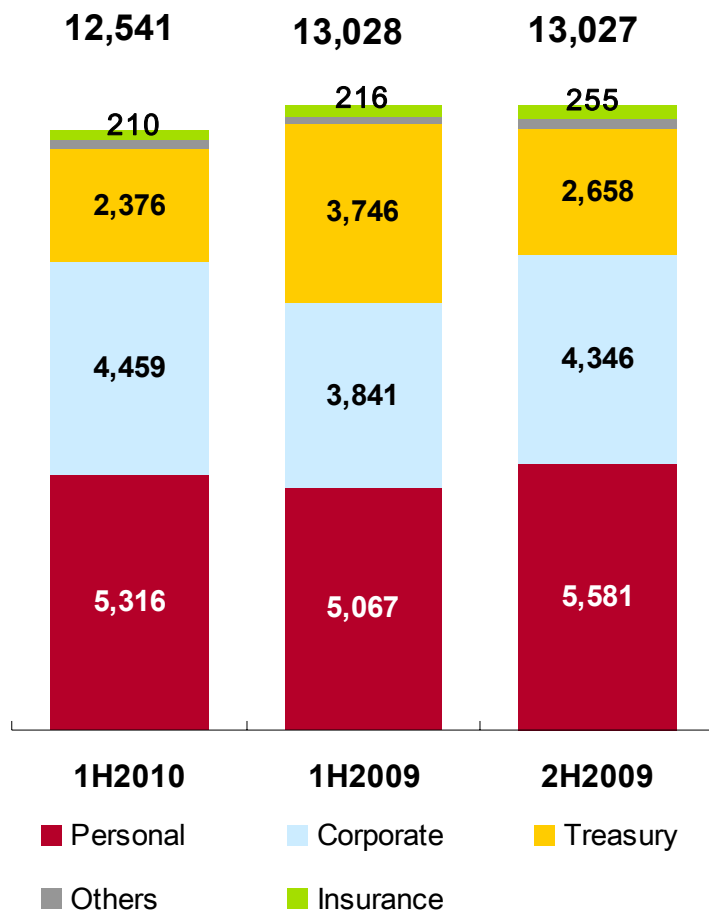
■ Aaa  
■ Aa1 to Aa3  
■ A1 to A3  
■ Lower than A3  
■ Unrated

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

# Segmental Performance

## Operating Income by Segments

HK\$ m



- **Personal:** Steady growth in mortgage. Encouraging performance in credit cards business
- **Corporate:** Robust growth on solid customer relationship and enhanced business capabilities
- **Treasury:** Proactive investment strategy to secure risk-adjusted return
- **Insurance:** Improvement in product mix and introduction of RMB insurance products



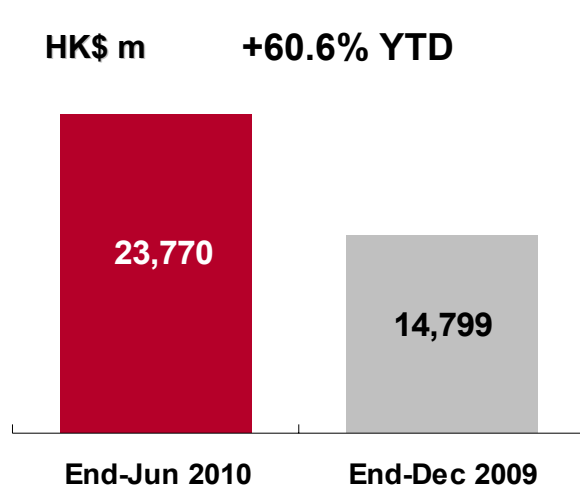
# Mainland Business

Continued to enhance business platform to drive growth

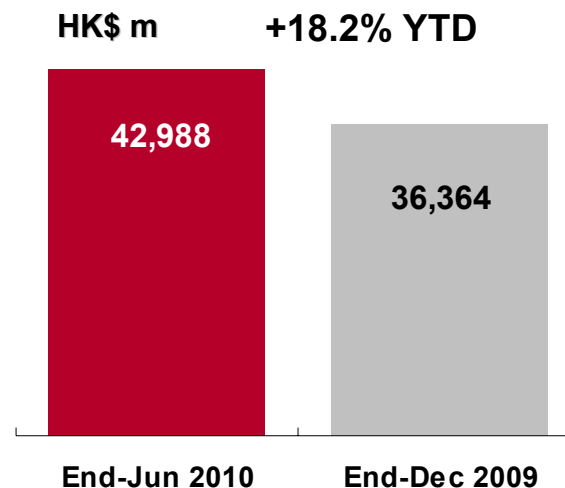
HK\$ m

	1H2010	1H2009	2H2009	% YoY	% HoH
Operating income	521	466	496	↑ 11.8	↑ 5.0
Operating expenses	284	237	329	↑ 19.8	↓ 13.7
Operating profit before impairment	237	229	167	↑ 3.5	↑ 41.9
Profit before taxation	256	308	170	↓ 16.9	↑ 50.6

## Deposits from customers



## Gross advances to customers



0.37%      0.44%  
Classified loan ratio



# Outlook and Strategy

# Outlook and Strategy

**Proactive and balanced approach for long-term sustainable growth**

- Maintain financial strength to capture business opportunities and sustain growth
- Adopt proactive approach to ensure good balance of growth and risk-adjusted return
- Further strengthen our business capabilities in key strategic focuses
- Optimise business and operation structure

# 2010 Interim Results

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