

# 2011 Interim Results

2011.08.24

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



## ▶ 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. Gao Yingxin</b>	<b>Executive Director &amp; Deputy Chief Executive</b>
<b>Mr. Zhuo Chengwen</b>	<b>Chief Financial Officer</b>
<b>Mr. David Wong</b>	<b>Deputy Chief Executive</b>
<b>Mr. Jason Yeung</b>	<b>Deputy Chief Executive</b>

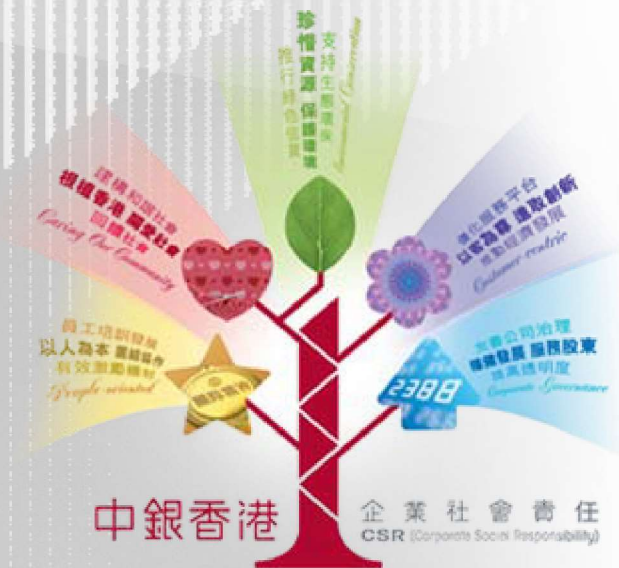
# ▶ Agenda

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- Key Performance Highlights
- Financial Results
- Outlook and Strategy

# Key Performance Highlights

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



中銀香港

企業社會責任  
CSR (Corporate Social Responsibility)

## ▶ Operating Environment

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- Hong Kong and Mainland economies performed well but unease underpinned global markets
- Low interest rates, inflation and intense competition remained key operating challenges
- Considerable business opportunities arose from surging loan demand and expansion of offshore RMB market

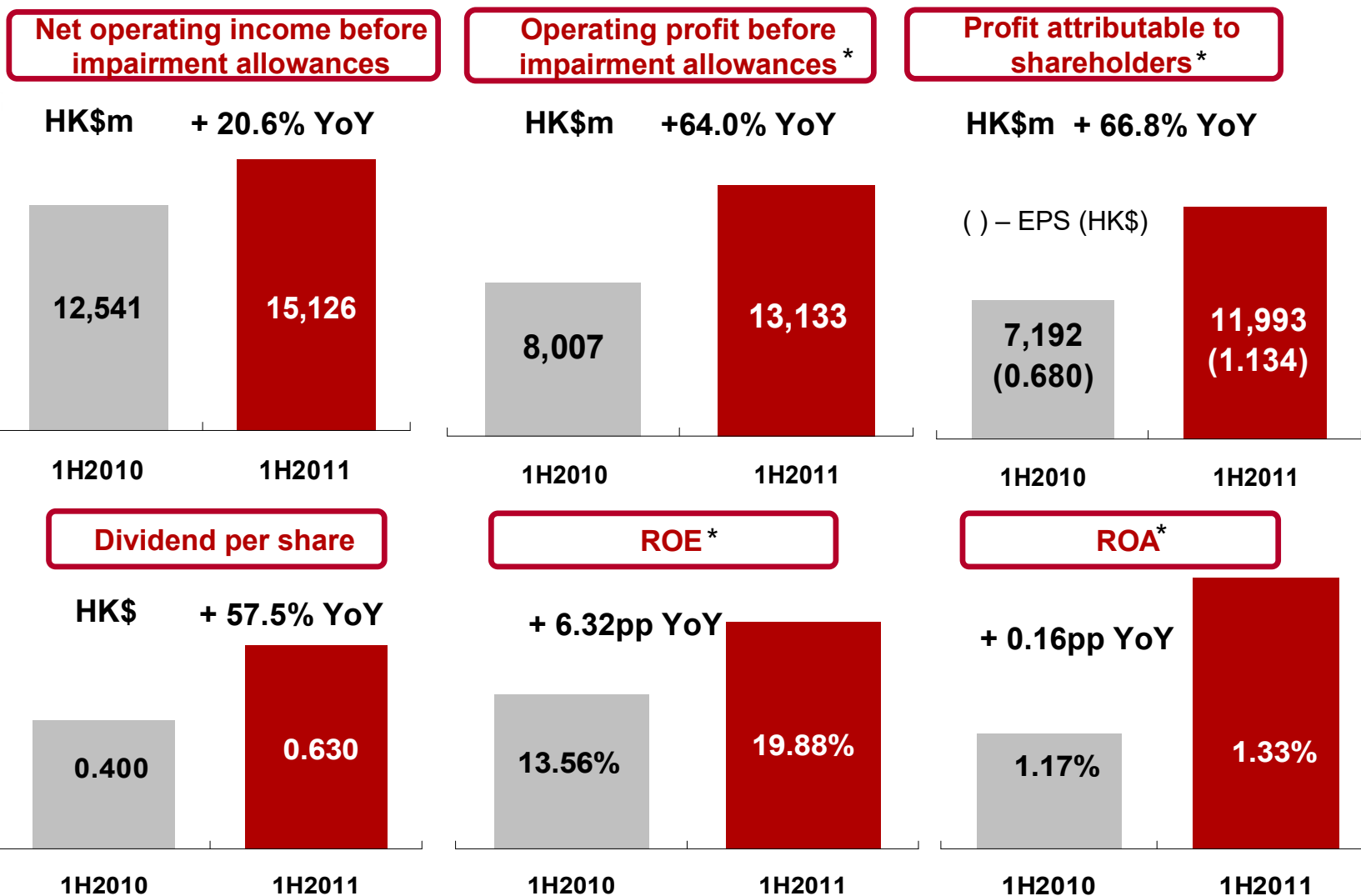
## ► Performance Overview

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Achieved solid growth momentum in core businesses

- Delivered satisfactory growth on the back of our balanced growth strategy
- Maintained stringent risk control and proactively managed our assets and liabilities to further fortify financial position
- Continued to make good progress in offshore RMB business

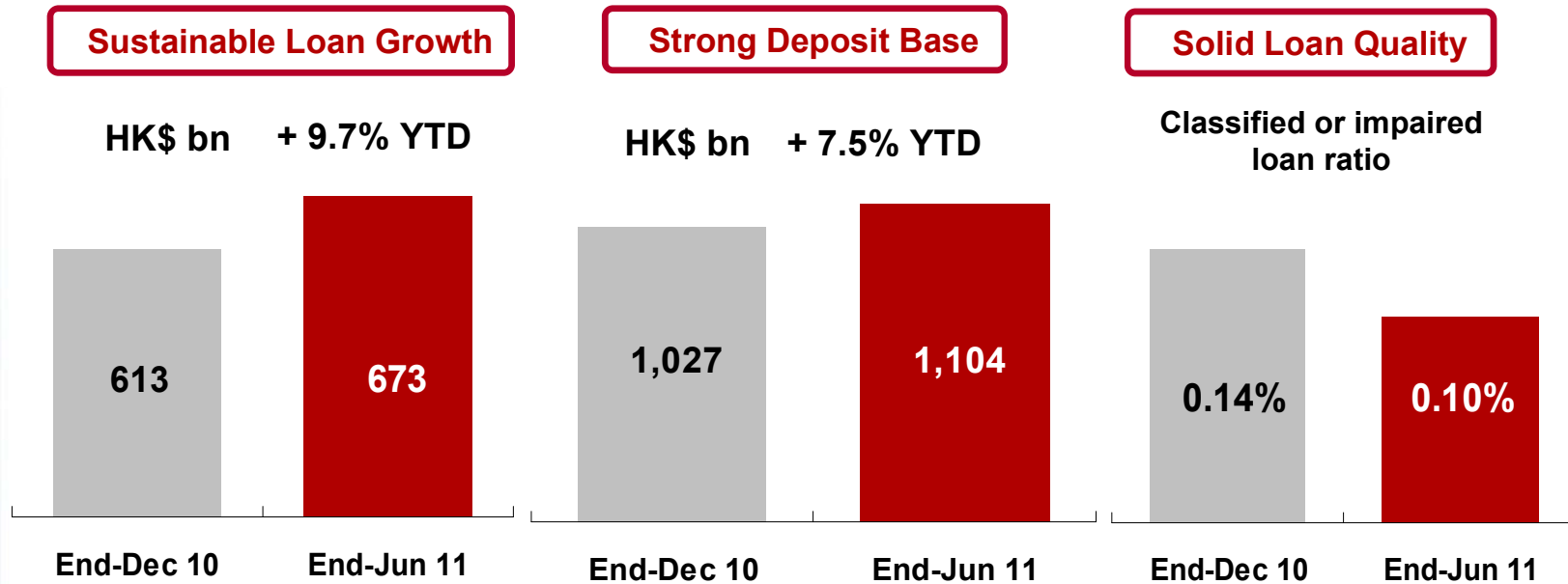
# Key Financial Highlights



\* Including net recovery from underlying collateral of Lehman Brothers minibonds and related expenses.

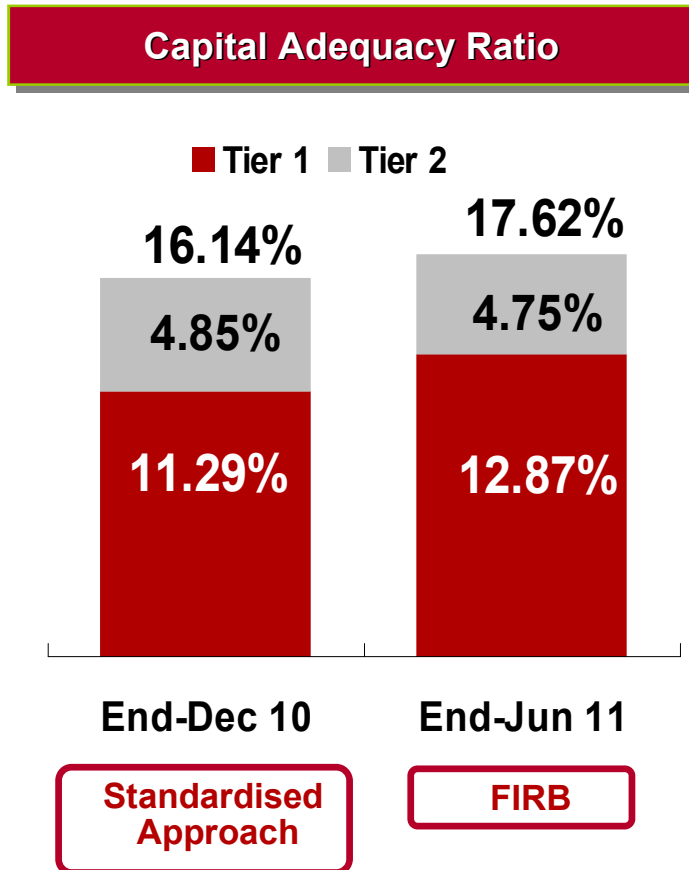


## Sustainable and Prudent Lending



- Maintained balanced strategy which aims at delivering sustainable growth
- Adopted proactive deposit-taking initiatives to support business growth
- Strictly adhered to our lending policies and focused on customer selection to ensure loan quality
- Loan-to-deposit ratio remained relatively stable at 61% while liquidity position remained solid at 36.38%

## Strong Capital Position



- Migration to FIRB commencing 2011 provides a solid foundation for credit business and risk management
- Well-capitalised with Tier 1 of 12.87%
- Strong capital base supports business growth and dividend policy

# Financial Results



## Condensed Income Statement

Record high first half profits driven by core businesses

HK\$ m	1H2011	1H2010	2H2010	% YoY	% HoH
Net interest income	10,205	8,964	9,770	↑ 13.8	↑ 4.5
Net fee and commission income	3,986	3,397	3,647	↑ 17.3	↑ 9.3
Other operating income	935	180	1,550	↑ 419.4	↓ 39.7
Net operating income before impairment allowances	15,126	12,541	14,967	↑ 20.6	↑ 1.1
Net (charge)/reversal of impairment allowances	(30)	161	154	---	---
Net operating income	15,096	12,702	15,121	↑ 18.8	↓ 0.2
Operating expenses*	(1,993)	(4,534)	(5,050)	↓ 56.0	↓ 60.5
Operating profit	13,103	8,168	10,071	↑ 60.4	↑ 30.1
Non-operating items	1,484	599	904	↑ 147.7	↑ 64.2
Profit attributable to shareholders	11,993	7,192	9,004	↑ 66.8	↑ 33.2

\* 1H11 figures included a net write-back of HK\$2,835 million arising from the net recovery of HK\$2,854 million from the underlying collateral of the Lehman Brothers minibonds and related expenses.

## ▶ Net Interest Income

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

HK\$ m	1H2011	1H2010	2H2010	% YoY	% HoH
Interest income	15,156	10,671	12,778	↑ 42.0	↑ 18.6
Interest expense	4,951	1,707	3,008	↑ 190.0	↑ 64.6
<b>Net interest income</b>	<b>10,205</b>	<b>8,964</b>	<b>9,770</b>	<b>↑ 13.8</b>	<b>↑ 4.5</b>
<b>Average interest earning assets</b>	<b>1,698,704</b>	<b>1,142,383</b>	<b>1,367,524</b>	<b>↑ 48.7</b>	<b>↑ 24.2</b>
<b>Net interest margin (NIM)</b>	<b>1.21%</b>	<b>1.58%</b>	<b>1.42%</b>	<b>↓ 0.37pp</b>	<b>↓ 0.21pp</b>
<b>Adjusted NIM*</b>	<b>1.48%</b>	<b>1.64%</b>	<b>1.55%</b>	<b>↓ 0.16pp</b>	<b>↓ 0.07pp</b>

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

## Non-interest Income

Broad-based growth in fee and commission income  
Higher net trading gain driven by foreign exchange activities

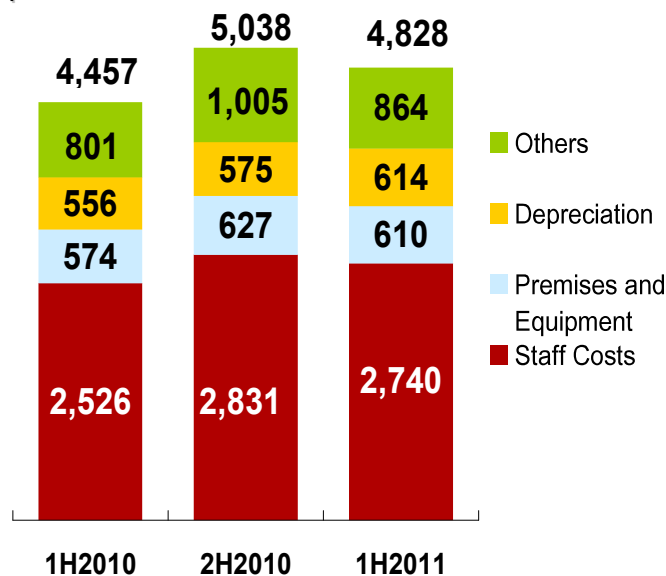
HK\$ m	1H2011	1H2010	2H2010	% YoY	% HoH
<b>Net fee and commission income</b>	<b>3,986</b>	<b>3,397</b>	<b>3,647</b>	<b>↑ 17.3</b>	<b>↑ 9.3</b>
<b>Fee and commission income</b>					
Securities brokerage	1,485	1,509	1,829	↓ 1.6	↓ 18.8
Funds distribution	176	67	93	↑ 162.7	↑ 89.2
Insurance	610	220	341	↑ 177.3	↑ 78.9
Loan commissions	588	623	338	↓ 5.6	↑ 74.0
Bill commissions	418	371	380	↑ 12.7	↑ 10.0
Payment services	303	272	296	↑ 11.4	↑ 2.4
Credit cards	1,189	903	1,100	↑ 31.7	↑ 8.1
Currency exchange	224	125	207	↑ 79.2	↑ 8.2
Trust services	123	98	108	↑ 25.5	↑ 13.9
Others	316	293	306	↑ 7.8	↑ 3.3
<b>Other operating income</b>	<b>935</b>	<b>180</b>	<b>1,550</b>	<b>↑ 419.4</b>	<b>↓ 39.7</b>
Net trading gain	761	(36)	1,405	---	↓ 45.8
Net gain on financial instruments designated at FVTPL	398	640	102	↓ 37.8	↑ 290.2
Others	(224)	(424)	43	↓ 47.2	---
<b>Total</b>	<b>4,921</b>	<b>3,577</b>	<b>5,197</b>	<b>↑ 37.6</b>	<b>↓ 5.3</b>

# ▶ Operating Expenses

Operating expenses effectively managed  
Core cost-to-income ratio improved

## Core Operating Expenses\*

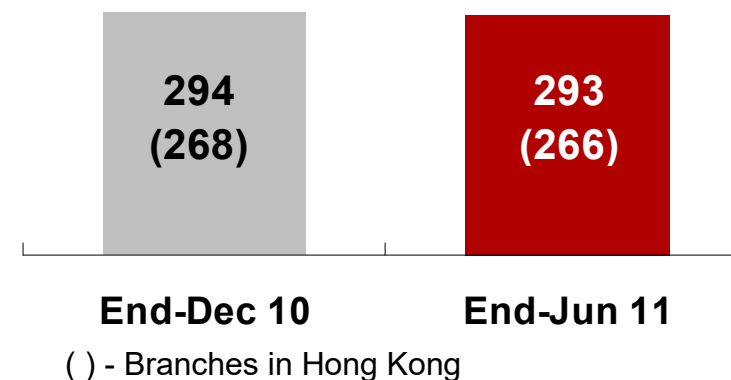
HK\$ m



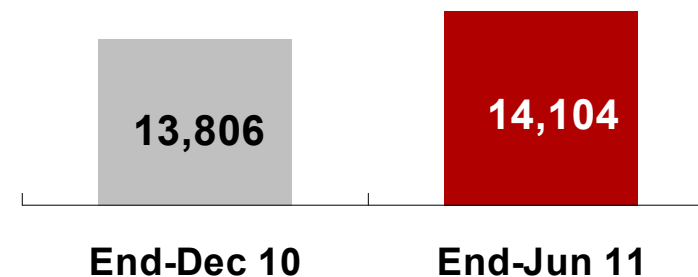
35.54% 33.66% 31.92%  
Core Cost-to-income ratio\*

\*Excluding net recovery from underlying collateral of Lehman Brothers minibonds and related expenses

## Number of Branches



## Staff Number



# Net (charge) / reversal of Impairment Allowances

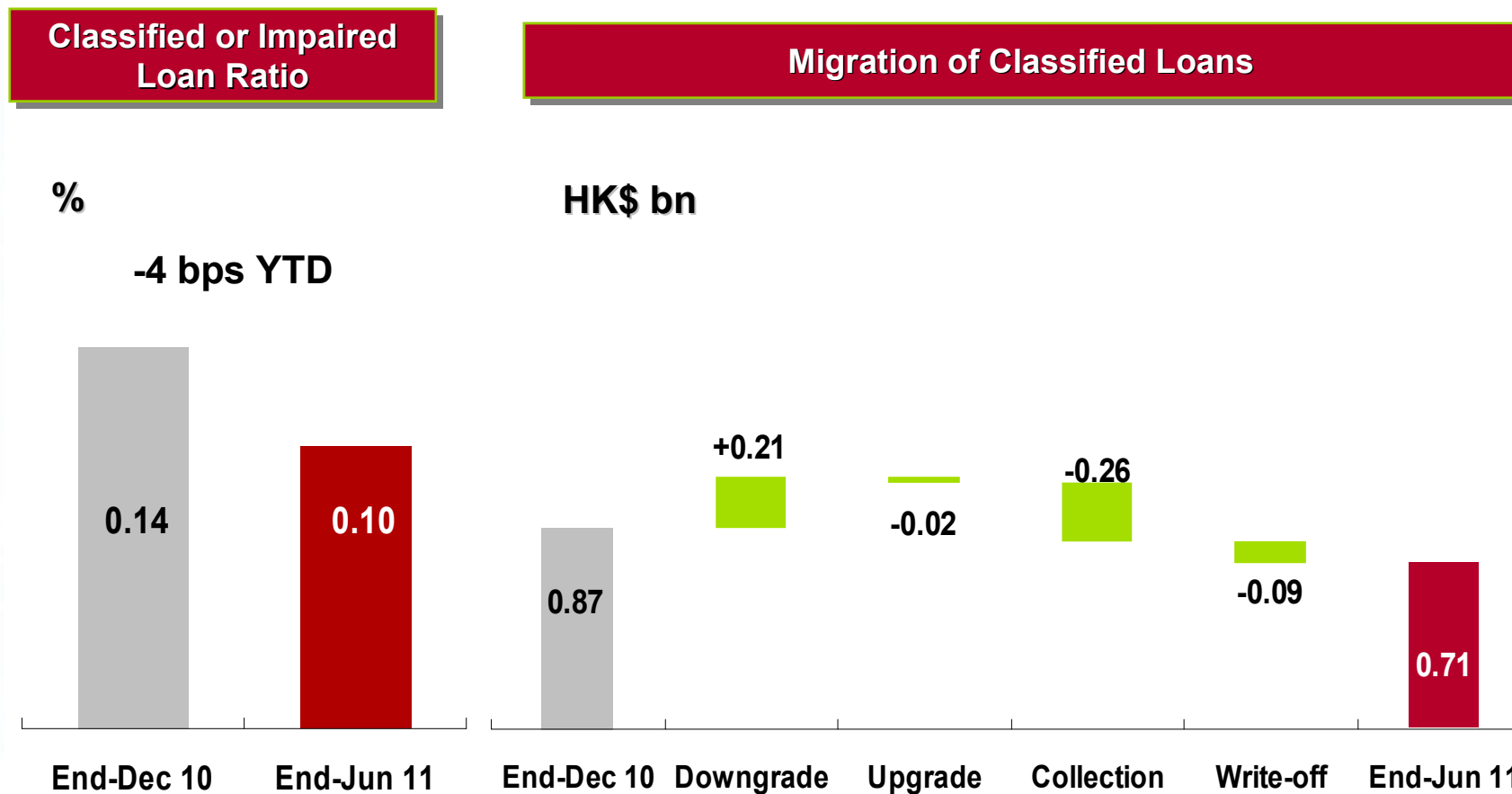
Small net charge of impairment allowances  
due to loan book expansion and lower recoveries

HK\$ m	1H2011	1H2010	2H2010	% YoY	% HoH
<b>Advances to customers</b>					
Net reversal/(charge) of allowances before recoveries					
- individual assessment	42	56	93	↓ 25.0	↓ 54.8
- collective assessment	(295)	(256)	(272)	↑ 15.2	↑ 8.5
<b>Recoveries</b>	216	294	155	↓ 26.5	↑ 39.4
<b>Net (charge)/reversal of loan impairment allowances</b>	(37)	94	(24)	---	↑ 54.2
<b>Securities Investments</b>					
Net reversal of impairment on securities investments	12	72	182	↓ 83.3	↓ 93.4
<b>Others</b>	(5)	(5)	(4)	---	↑ 25.0
<b>Total (charge)/reversal to income statement</b>	(30)	161	154	---	---



## ▶ Loan Quality

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



## Condensed Balance Sheet

Growth in total assets driven by  
the expansion of core business and offshore RMB business

HK\$ m	End-Jun 11	End-Dec 10	% Change
<b>Total assets</b>	<b>1,830,379</b>	<b>1,661,040</b>	<b>↑ 10.2</b>
Cash and balances with banks and other financial institutions	419,231	415,812	↑ 0.8
Placements with banks and other financial institutions	89,618	39,499	↑ 126.9
Securities investments	441,973	430,060	↑ 2.8
Advances and other accounts	719,500	645,424	↑ 11.5
Fixed assets & IP	47,774	41,391	↑ 15.4
<b>Total liabilities</b>	<b>1,700,756</b>	<b>1,542,751</b>	<b>↑ 10.2</b>
Inter-bank deposits taken	386,904	313,784	↑ 23.3
Deposits from customers*	1,104,004	1,027,267	↑ 7.5
Subordinated liabilities	27,838	26,877	↑ 3.6
<b>Total equity</b>	<b>129,623</b>	<b>118,289</b>	<b>↑ 9.6</b>
Non-controlling interests	3,460	3,108	↑ 11.3
Shareholders' funds	126,163	115,181	↑ 9.5

\* Including structured deposits

## ▶ Customer Deposits

Solid expansion of deposit base driven by USD and RMB deposits

HK\$ m	End-Jun 11	End-Dec 10	% Change
Demand deposits and current accounts	70,619	70,453	↑ 0.2
Saving deposits	522,972	528,035	↓ 1.0
Time, call and notice deposits	509,844	428,545	↑ 19.0
Structured deposits	569	234	↑ 143.2
<b>Total deposits from customers</b>	<b>1,104,004</b>	<b>1,027,267</b>	<b>↑ 7.5</b>

## ▶ Advances to Customers

Sustained healthy growth with improved pricing for new loans

HK\$ m	End-Jun 11	End-Dec 10	% Change
Loans for use in HK - corporate	231,812	206,947	↑ 12.0
Loans for use in HK - individual	202,824	180,140	↑ 12.6
Residential mortgages*	168,084	147,424	↑ 14.0
Credit card advances	8,595	8,230	↑ 4.4
Trade finance	59,840	53,396	↑ 12.1
Loans for use outside HK	178,382	172,736	↑ 3.3
<b>Total advances to customers</b>	<b>672,858</b>	<b>613,219</b>	<b>↑ 9.7</b>
<b>Loan-to-deposit ratio</b>	<b>60.95%</b>	<b>59.69%</b>	

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

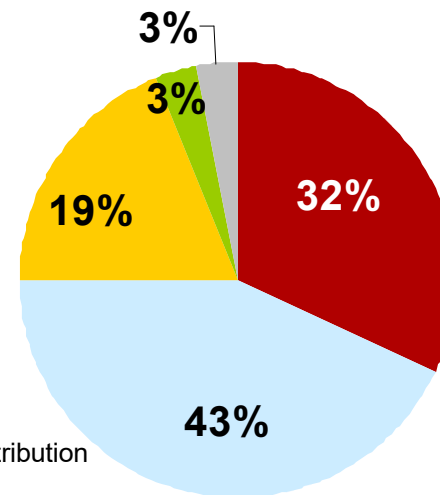
## ► Securities Investments

Proactive investment strategy to optimise portfolio mix and return

HK\$ m	End-Jun 11	End-Dec 10	% Change	
Sovereign	115,776	119,124	↓	2.8
Public Sector	48,233	41,018	↑	17.6
Corporate entities	35,499	29,579	↑	20.0
Banks and other FIs	242,465	240,339	↑	0.9
<b>Total</b>	<b>441,973</b>	<b>430,060</b>	↑	<b>2.8</b>

### Credit rating distribution

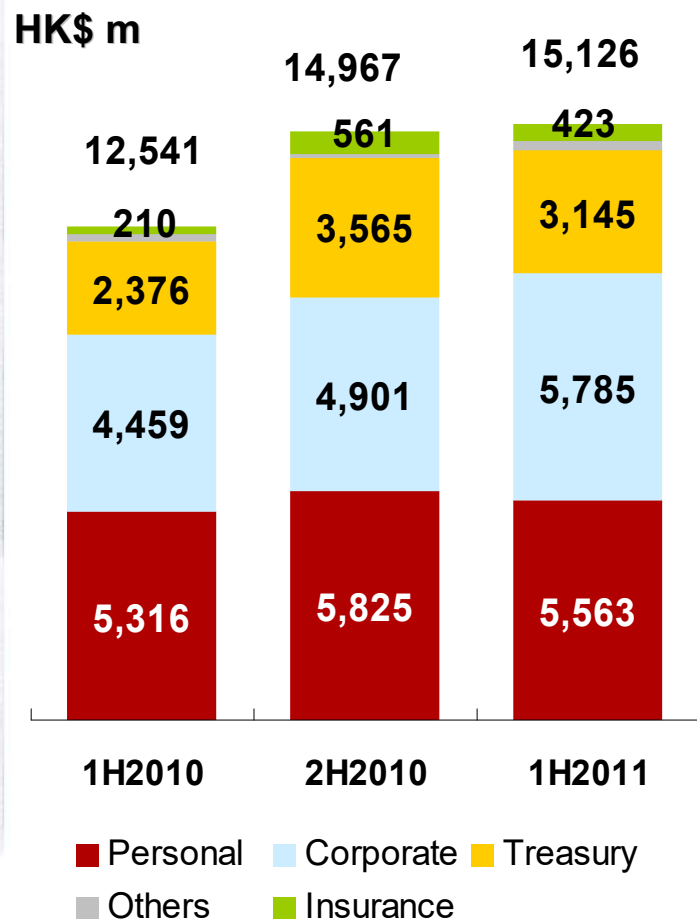
- Aaa
- Aa1 to Aa3
- A1 to A3
- Lower than A3
- Unrated



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

# Segmental Performance

Operating Income by Segments



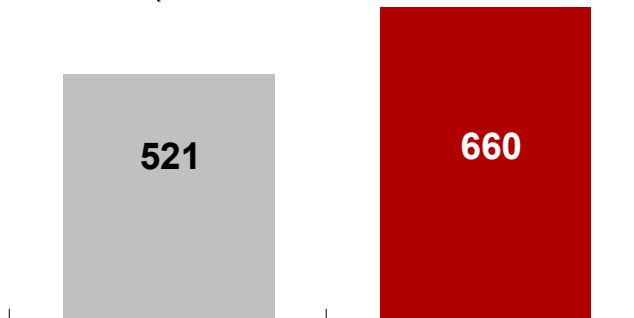
- **Personal:** Solid growth in mortgages and credit card business
- **Corporate:** Enhanced cross-border service capabilities drove strong growth
- **Treasury:** Proactive investment strategy to secure risk-adjusted return
- **Insurance:** Improved product mix and successful launch of RMB insurance products

# Mainland Business

Loan-to-deposit ratio further improved  
 Focused on enhancing deposit base and asset mix

## Operating Income

HK\$ m + 26.7% YoY

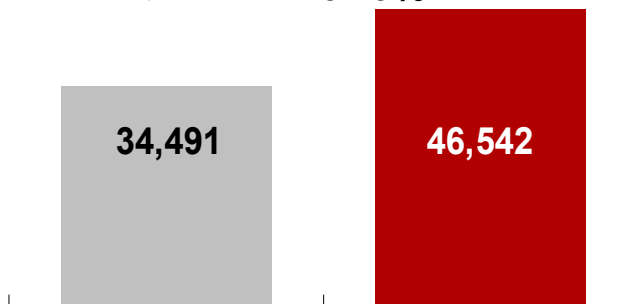


1H2010

1H2011

## Deposits from customers

HK\$ m +34.9% YTD

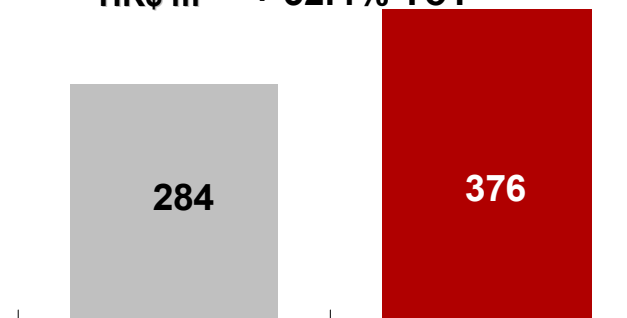


End-Dec 10

End-Jun 2011

## Operating Expenses

HK\$ m + 32.4% YoY

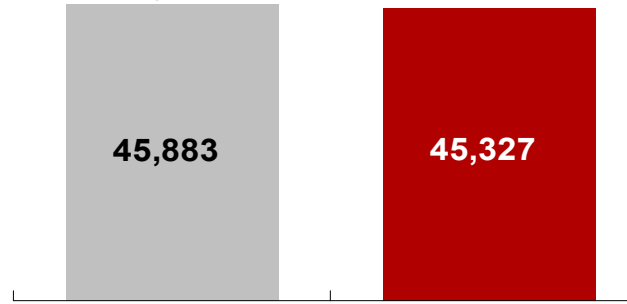


1H2010

1H2011

## Gross advances to customers

HK\$ m -1.2% YTD



End-Dec 10

End-Jun 2011

0.23%

0.19%

Classified loan ratio

# Outlook and Strategy

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





## ► Outlook and Strategy

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Maintain balanced approach for long-term sustainable growth

- Build on our business and financial strengths to capture new growth opportunities
- Continue to manage risk proactively amid uncertain and volatile market conditions
- Invest judiciously in key strategic areas for long-term growth
- Capitalise on our competitive edge in offshore RMB business to enhance customer relationships and create more business opportunities

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