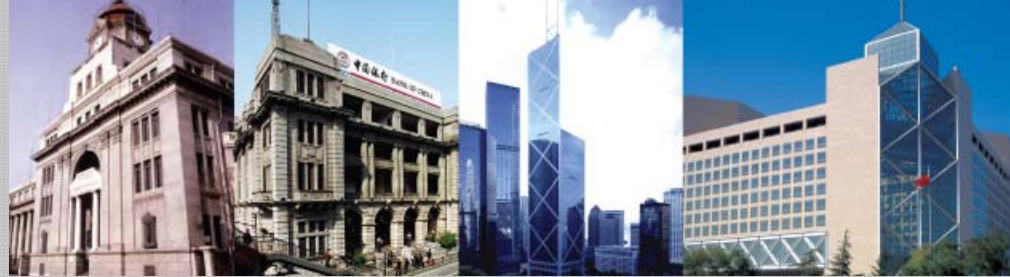




中國銀行

BANK OF CHINA



# Delivering Growth and Excellence

Bank of China Limited

2009 Annual Results

March 23, 2010

# 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. They relate to future events or our future financial, business or other performance and are subject to a number of uncertainties that may cause our actual results to differ materially.

# Presentation Team

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**Mr. Li Lihui, President**



**Mr. Zhou Zaiqun, Executive Vice President**



**Mr. Chen Siqing, Executive Vice President**

# Agenda

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## Agenda

## Speaker

1

**Key Performance Highlights & Strategy  
Implementation Progress**

**Mr. Li Lihui, President**

2

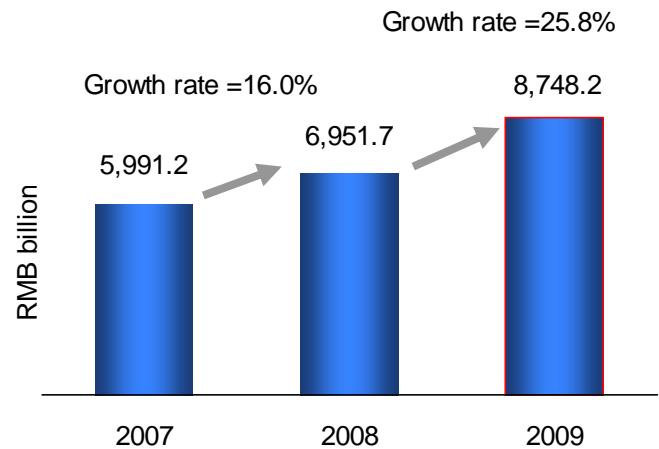
**2009 Annual Results & 2010 Outlook**

**Mr. Zhou Zaiqun,  
Executive Vice President**

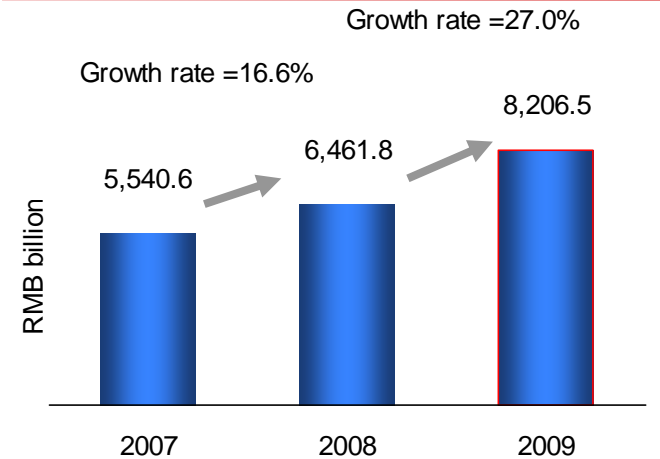
# Outstanding Performance in 2009

Significant progress in implementation of strategy and rapid growth of net profit

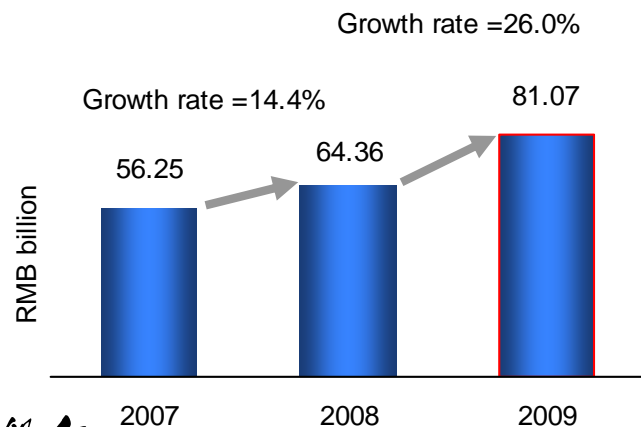
### Total assets



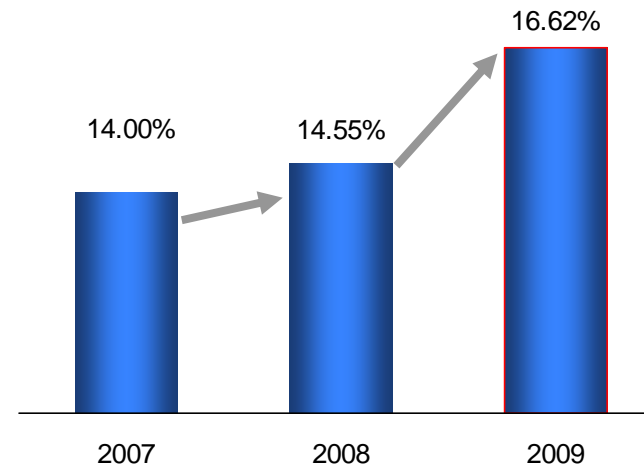
### Total liabilities



### Profit attributable to equity holders of the Bank



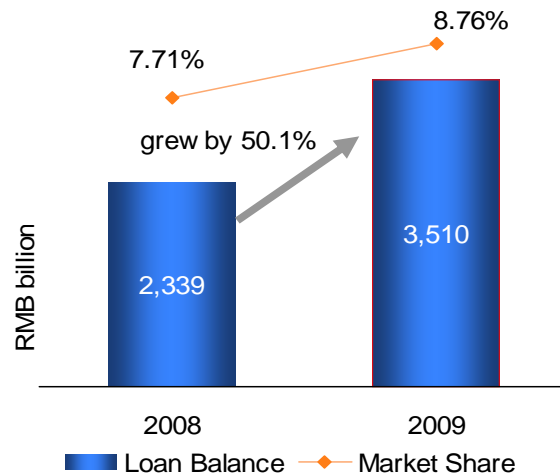
### Return on average equity



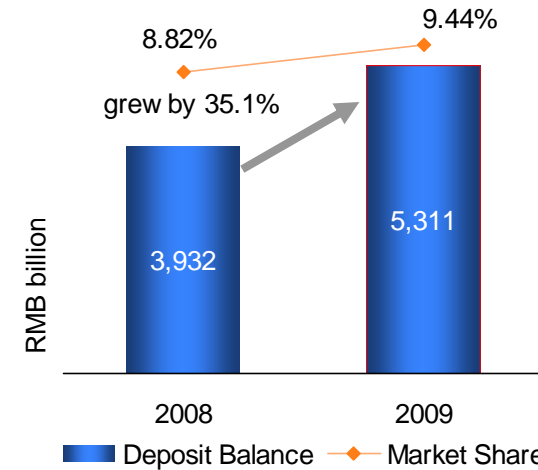
# Scale Expansion with Significantly Enhanced Competitiveness

Improvement of market position and expansion of customer base laid a solid foundation for 2010 business development

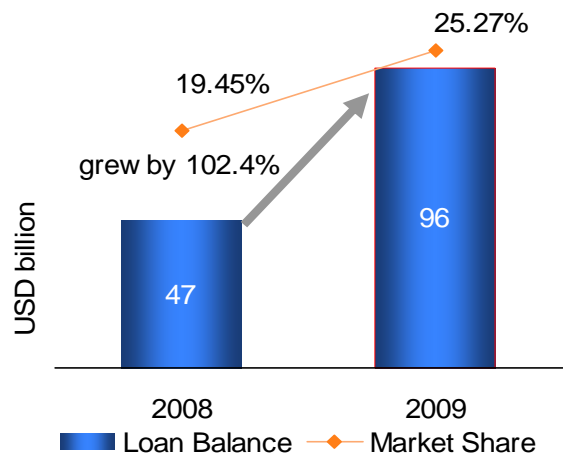
Market share of RMB loans up by 1.05 percentage points



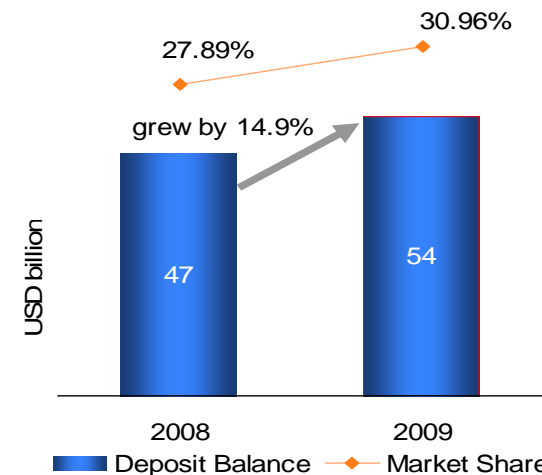
Market share of RMB deposits up by 0.62 percentage point



Market share of foreign currency loans up by 5.82 percentage points



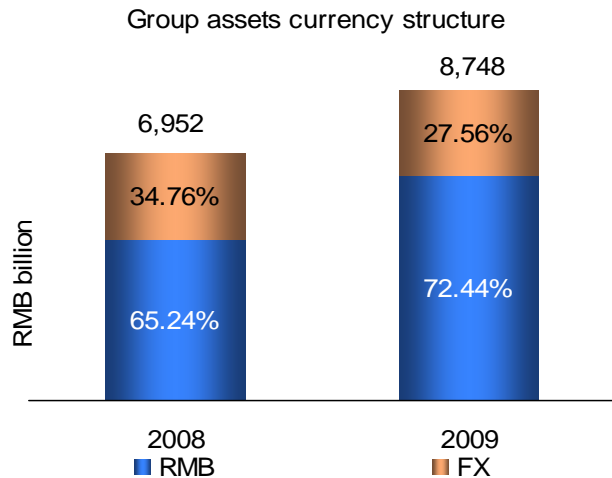
Market share of foreign currency deposits up by 3.07 percentage points



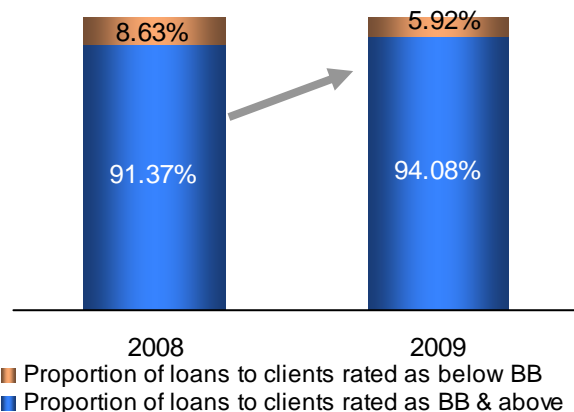
# Structure Optimization with Steady Improvement of Operating Efficiency

## Structure optimization of assets and liabilities

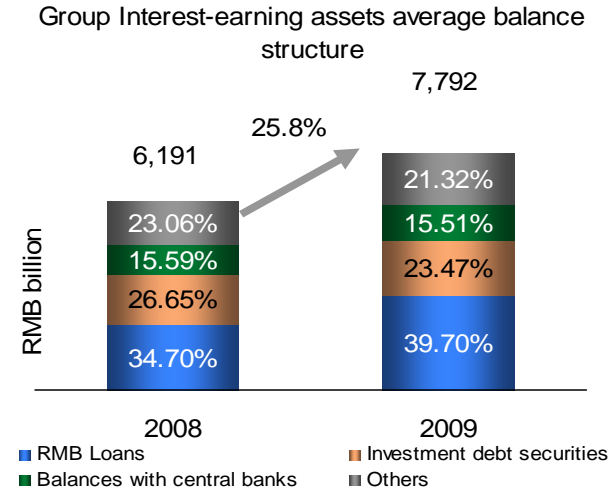
Proportion of RMB assets up by 7.2 percentage points



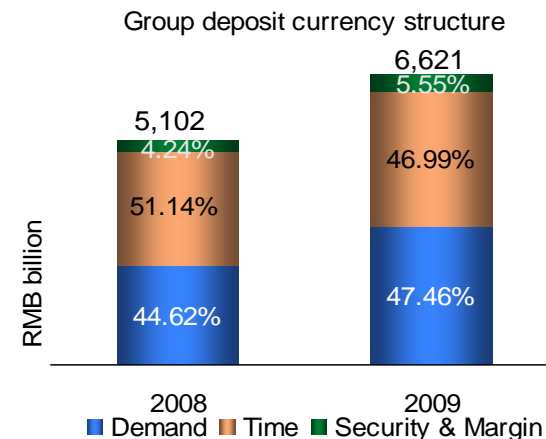
Proportion of loans to BB & above rated clients up by 2.7 percentage points



Proportion of RMB loans up by 5 percentage points



Proportion of demand deposits up by 2.8 percentage points



# Proactive Risk Management

Align business development efforts with risk management and achieve coordinated target of scale expansion, structure optimization and effective and proactive risk management

## Credit Risk

- Adhere to our lending entry requirements, risk evaluation standards and centralized approval and management procedures, stay firm on risk management principle
- Reinforce risk appetite and identify industry trends to direct business development; closely monitor macro-economy trends and adjustments in national policies, and adjust customer and product policies accordingly; adopt industry credit portfolio management to optimize credit structure
- Strengthen risk management, identify key monitor areas and enhance control measures; timely conduct internal review and continue to reinforce management abilities, strengthen proactive exit of high-risk clients
- Strengthen the credit management on local government financing platform, over-capacity sectors and real estate sector

## Market Risk

- Adhere to “Reduce Risk & Adjust Structure” principle, strengthen the Group’s centralized management and monitor of market risk
- Further enhance limit system, strengthen centralized monitor of the Group’s risks from trading business
- Enhance various administrative measures on banking book interest rate and exchange rate; strengthen interest and exchange rate risk management measures
- Improve infrastructure on managing market risks, including computation capability, system construction, consolidation of data, etc

## Operational Risk

- Strengthen internal control, improve surveillance measures and enforce coordination of three internal control defense lines in a reasonable, necessary, rigorous and effective manner
- Amend the “Risk and Control Assessment” (RACA), implement Key Risk Indicators (KRI) procedure
- Standardize internal control and operational risk reporting procedure and format

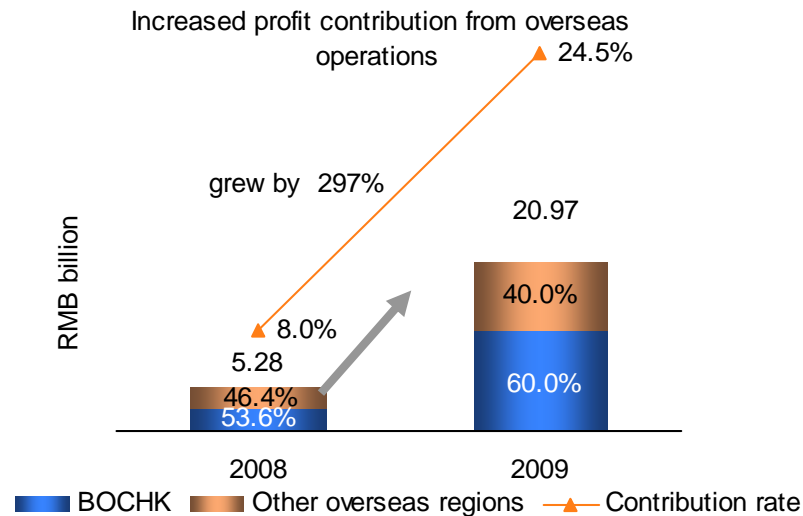
## New Basel Accord

- Speed up the implementation of New Basel Accord in line with the ongoing plan based on the principle of ‘adaptability and applicability’, increase the awareness and improve the technology and methodology of risk management
- Establish a preliminary policy framework on credit risk management internal assessment, establish internal system on client assessment and debt assessment; steady implementation of risk quantification model and risk indicators in risk management
- We strive to become the 1<sup>st</sup> batch of approved commercial banks to implement the “New Basel Accord”



# Significant Development of Overseas Business and Diversified Business

## Rapid growth of profit contribution from overseas business



- Strengthened cooperation within the Group and achieved synergies through development of global account manager program, cross-border cash management, personal banking products, financial markets products and bank card businesses
- Overseas RMB business grew rapidly; cross-border RMB trade settlement volume maintained leading position in domestic market
- Acted as principal banker for over 30 “going-global” corporate projects and provided in aggregate USD16 bn financing
- BOCHK successfully recovered from financial crisis and achieved strong financial performance

## Leveraging competitive advantage of diversified business

### Investment banking:

BOCI was mandated as adviser for several high-profile projects. Its equity sales, underwriting services, and asset management business maintained leading positions, with net profit approaching record high

### Insurance:

BOCG Insurance proactively strengthened its efforts in sales and marketing, maintained steady growth of premium income. It enhanced cooperation with correspondent banks, sped up the development of bancassurance products and carried out innovative marketing efforts

### Aircraft leasing:

BOC Aviation adopted an anti-cycle strategy and achieved outstanding performance with the support of the Group. Its net profit reached record height. It was the world’s 5th largest aircraft lessor based on value of owned fleet

### Fund management:

BOC fund management focused on product innovation and expansion of customer base in the economy rebound. Its assets under management reached RMB30 bn and has maintained leading position in business innovation

# New Achievements in Infrastructure Development

## Milestone of IT Blueprint implementation

- ◆ Our IT Blueprint version 1 has been successfully launched in Hebei Branch with smooth operation transition and has received positive customer feedback
- ◆ New Core Banking system provides more convenient and efficient financial services and further demonstrates our customer-centric value
- ◆ Further implementation and preparation work went on schedule

## Significant progress of distribution channel construction

- ◆ Completed renovation of 2,339 branches in 2009 to apply universal standard. Completion rate reached 91%
- ◆ Total 18,061 ATMs, up 22.46%; 11,722 auto-terminals, up 29.77%. Built up over 120 standalone self-serviced centers, total number reached 5,400
- ◆ As of end of 2009, total turnover of corporate online banking reached over RMB26 trillion; online services of custom tax settlement maintained the largest market share; Number of personal online banking customers increased by 271% compared with the end of 2008
- ◆ Online banking system upgraded to 3.2 version. Overseas online banking services covered 19 countries and regions worldwide and fully integrated with BOCHK online banking system; further consolidated competitiveness on online banking services
- ◆ Mobile phone banking services first launched with advanced dynamic verification technology, which enhanced the convenience and security of mobile phone banking services

## Business structure integration and optimization

- ◆ Set up financial markets business units and optimized corporate banking, personal banking, and operation services units; integrated functions of financial management and treasury, and rationalized responsibilities of IT department, further improved management efficiency
- ◆ Kickoff the preparation of risk management headquarters, integrate risk management framework and improve risk management capabilities
- ◆ Laid out operation infrastructure upgrade and has completed system upgrade for several key projects including domestic foreign currency payment and settlement system; launched standardized global settlement platform and further improved service efficiency

## Improved human resources management

- ◆ Established strategic resources allocation mechanism, increased support in business organizations, human resource, expenses and trainings to key regions and business areas
- ◆ Fully devoted human resources management to meet strategy and business development needs

# Awards and Recognition



2009 Bank of the Year in China



2009 Special Awards for Best Corporate Governance  
– Board of Directors



2009 Best Private Bank



2009 Best FX Bank in China



Best Trade Finance  
Bank in China



Best Domestic Trade Finance  
Bank in China



Best Private Bank in China  
Best Trade Finance Bank in China



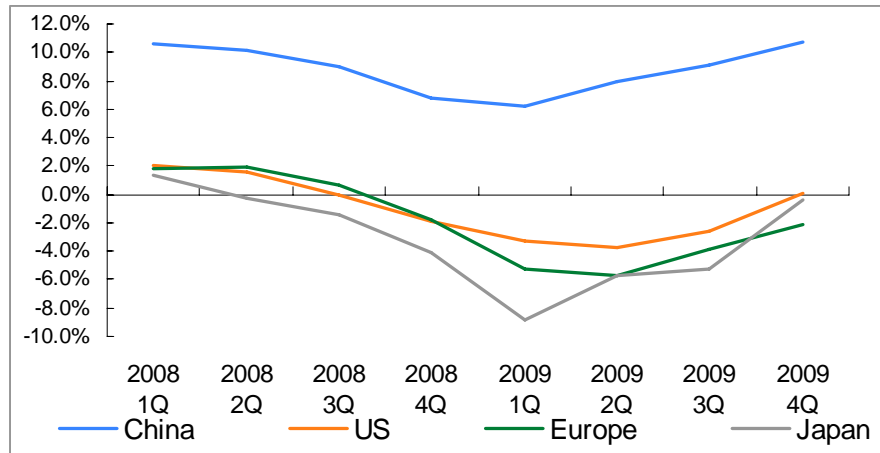
2009 Best Corporate Banking  
Bank in Asia

Best Annual Reports and Formal  
Disclosure

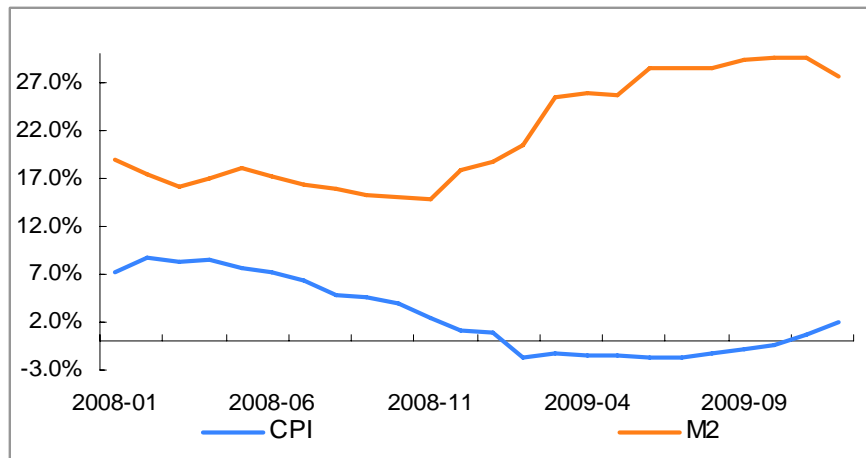


# Macroeconomic Review and Policy Trends in 2010

## Moderate recovery of global economy and China's stable and rapid economy growth



## Inflation pressure remains mild and moderately easy monetary policy will continue



## China's monetary policy outlook in 2010

### Maintain balanced and appropriate credit growth

- ✓ Based on the actual demand in real economy, maintain optimal liquidity, appropriate interest rate, and credit growth in a reasonable amount and at a balanced pace. Prevent quarterly/monthly abnormal fluctuation of credit growth

### Adjust credit structure to support the change in the pattern of economic growth

- ✓ The change in the pattern of economic growth is imperative. Bank lending structure adjustment can promote structural change in economic development; while change in economic structure also requires corresponding change in credit structure
- ✓ Maintain a credit policy with differentiated guidance to different industries. Increase support to key areas, agricultural industries, small enterprises and promote the development of personal lending
- ✓ Strictly enforce control of credit growth to high pollution and high energy consuming industries and industries with excessive capacities
- ✓ Strengthen post-lending management and ensure bank credit is applied to support real economy

# Strategies in 2010

## Optimize structure, scale up, enhance risk management, and improve overall performance

### To speed up structural adjustment and ensure sustained growth

- ❖ Focus on expanding core deposits, optimize liability structure and achieve extraordinary growth in deposits
- ❖ Optimize credit structure and maintain steady growth of lending business
- ❖ Focus on product and service innovation to speed up fee-based business expansion and enhance competitiveness
- ❖ Accelerate the transformation of service model to improve the customer-centric mode and further expand customer base

### Strengthen co-ordination at the group level and speed up the development of overseas business

- ❖ Provide overseas operations with more support of strategic resources and promote the transformation of overseas business model. Expand funding sources, focus on strategic enterprises and promote rapid development of overseas business
- ❖ Focus on Asia-Pacific region to support sustained development. Focus on “going-global” customers; develop cross-border RMB trade settlement business as an opportunity to expand overseas RMB business

### Reinforce risk management to ensure the quality of business development

- ❖ Intensify proactive risk management focusing on industry-based portfolio management
- ❖ Strengthen whole-process risk management with the core of post-lending management
- ❖ Intensify integrated risk management at the Group level with an emphasis on consolidated management
- ❖ Take the implementation of the New Basel Accord as an opportunity to improve risk management techniques and processes. Further improve internal control

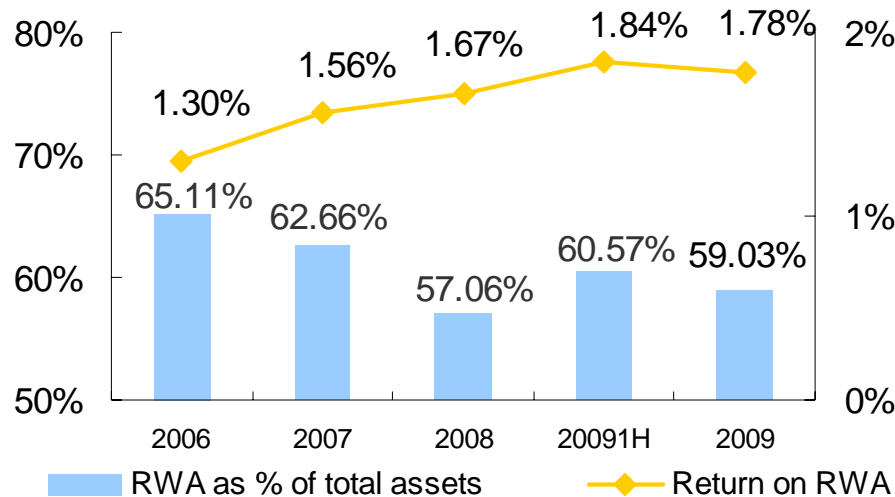
### Enhance infrastructure to ensure further development

- ❖ Make full preparation for the successful implementation of IT blueprint version 2.0 to domestic branches
- ❖ Accelerate network transformation to improve operating efficiency
- ❖ Strengthen the construction of e-channels to expand on-line banking customers
- ❖ To further improve the operational service platform and enhance service capabilities

# Replenish Capital Base to Support Long-Term Development

**BOC's capital management target 2010-2012: CAR  $\geq$  11.5%, Core CAR  $\geq$  8%**

## Remarkable success in adjusting and optimizing asset structure



- ◆ Optimize business structure and impose more strict requirement on guarantee and qualified collaterals
- ◆ Proper control on direct investment
- ◆ Optimize the measurement of risk assets of BOC's commitment business
- ◆ Proper control on risk exposure to bill acceptance business
- ◆ Further optimize the mechanism for asset structure optimization in the long term
- ◆ Optimize capital budget

## General mandate to replenish capital base

### General mandate on both A and H shares

- ❖ Shareholders have approved the general mandate and authorized the Board to separately or concurrently allot, issue and/or deal with A shares and/or H shares not exceeding 20% of the aggregate nominal amount of each of the existing A shares and H shares and also to make or grant offers, agreements, options or conversion rights (including convertible corporate bonds)

### Issuance of A Share CB as priority

- ✓ Total amount: no more than RMB40 billion
- ✓ Term: 6 years from the date of issuance
- ✓ Annual interest rate: no more than 3%
- ✓ Initial CB conversion price: not lower than (1) the average trading price of the A shares within 20 trading days preceding the date of the offering document, and (2) the average trading price of the A shares on the trading day preceding the date of the offering document
- ✓ The existing A shareholders except for the controlling shareholder are entitled to preferential rights to subscribe for no less than 50% of the total amount of the CB

# Agenda

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## Agenda

## Speaker

1

Key Performance Highlights & Strategy  
Implementation Progress

Mr. Li Lihui, President

2

**2009 Annual Results & 2010 Outlook**

**Mr. Zhou Zaiqun,  
Executive Vice President**



# Profit & Loss Summary

Profit attributable to equity holders of the Bank up by 26% to RMB81.07 billion

(RMB million)	2009	2008	2007	2009 vs 2008	2008 vs 2007
Net interest income	158,881	162,936	152,745	-2.5%	6.7%
Non-interest income	73,735	65,960	42,230	11.8%	56.2%
-Net fee and commission income	46,013	39,947	35,535	15.2%	12.4%
Operating income	232,616	228,896	194,975	1.6%	17.4%
Operating expenses	(107,021)	(97,412)	(85,278)	9.9%	14.2%
Impairment losses on assets	(14,987)	(45,031)	(20,263)	-66.7%	122.2%
Operating profit	110,608	86,453	89,434	27.9%	-3.3%
Profit before income tax	111,429	87,179	90,697	27.8%	-3.9%
Income tax expense	(25,831)	(21,285)	(28,661)	21.4%	-25.7%
Profit after income tax	85,598	65,894	62,036	29.9%	6.2%
<b>Profit attributable to equity holders of the Bank</b>	<b>81,068</b>	<b>64,360</b>	<b>56,248</b>	<b>26.0%</b>	<b>14.4%</b>
EPS (RMB)	0.32	0.25	0.22	26.0%	14.4%
<b>Key Ratios (%)</b>					
Non-interest income to operating income	31.70	28.82	21.66	2.88	7.16
Net fee & commission income to operating income	19.78	17.45	18.23	2.33	-0.78
Cost to income (calculated under domestic regulations)	37.15	33.55	35.59	3.60	-2.04
Net interest margin	2.04	2.63	2.76	-0.59	-0.13
Credit cost	0.38	0.55	0.31	-0.17	0.24



# Balance Sheet Summary

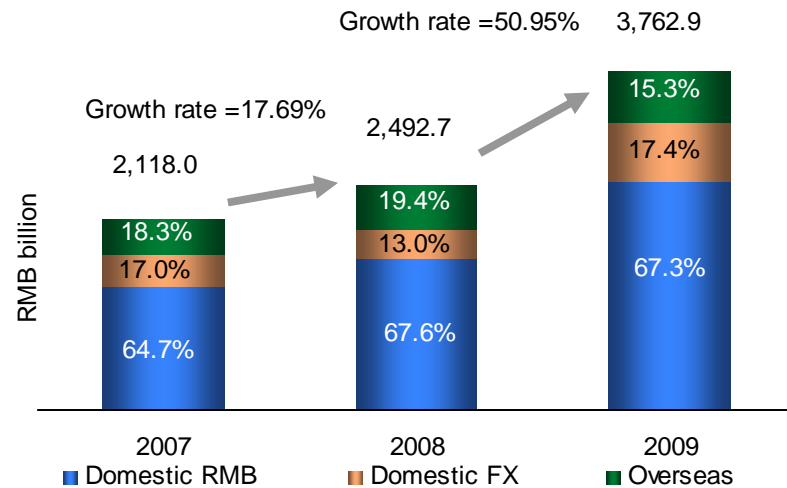
Assets and liabilities increased rapidly, asset quality further improved

(RMB million)	31 Dec 2009	31 Dec 2008	31 Dec 2007	2009 VS 2008	2008 VS 2007
<b>Assets</b>					
Loans, net	4,797,408	3,189,652	2,754,493	50.4%	15.8%
Investment securities	1,816,679	1,646,208	1,712,927	10.4%	-3.9%
Balances with central banks	1,111,351	1,207,613	751,344	-8.0%	60.7%
Due from banks & other financial institutions	618,199	525,509	423,904	17.6%	24.0%
<b>Total assets</b>	<b>8,748,177</b>	<b>6,951,680</b>	<b>5,991,217</b>	<b>25.8%</b>	<b>16.0%</b>
<b>Liabilities</b>					
Due to customers	6,620,552	5,102,111	4,400,111	29.8%	16.0%
Due to banks and other financial institutions and due to central banks	1,152,424	859,343	663,815	34.1%	29.5%
<b>Total liabilities</b>	<b>8,206,549</b>	<b>6,461,793</b>	<b>5,540,560</b>	<b>27.0%</b>	<b>16.6%</b>
<b>Key financial ratios (%)</b>	<b>31 Dec 2009</b>	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>	<b>2009 VS 2008</b>	<b>2008 VS 2007</b>
Core capital adequacy ratio	9.07	10.81	10.67	-1.74	0.14
Capital adequacy ratio	11.14	13.43	13.34	-2.29	0.09
Non-performing loans to gross loans	1.52	2.65	3.12	-1.13	-0.47
Allowance for loan impairment losses to non-performing loans	151.17	121.72	108.18	29.45	13.54

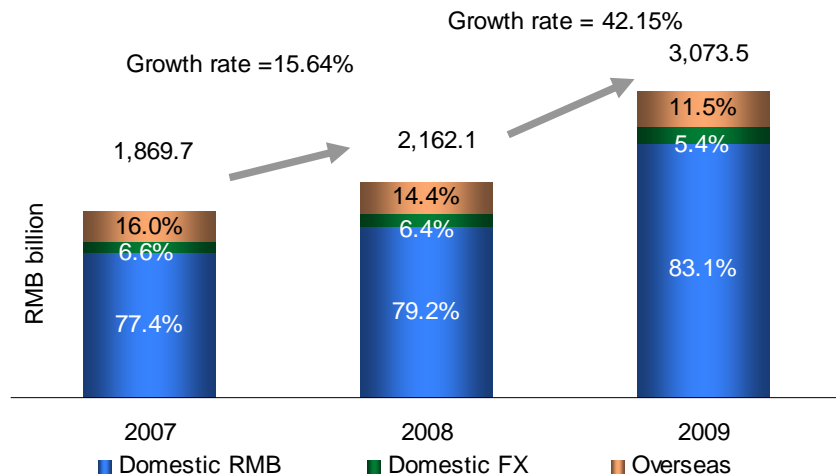
# Corporate Banking

Corporate loans achieved rapid growth with continuous structural improvement

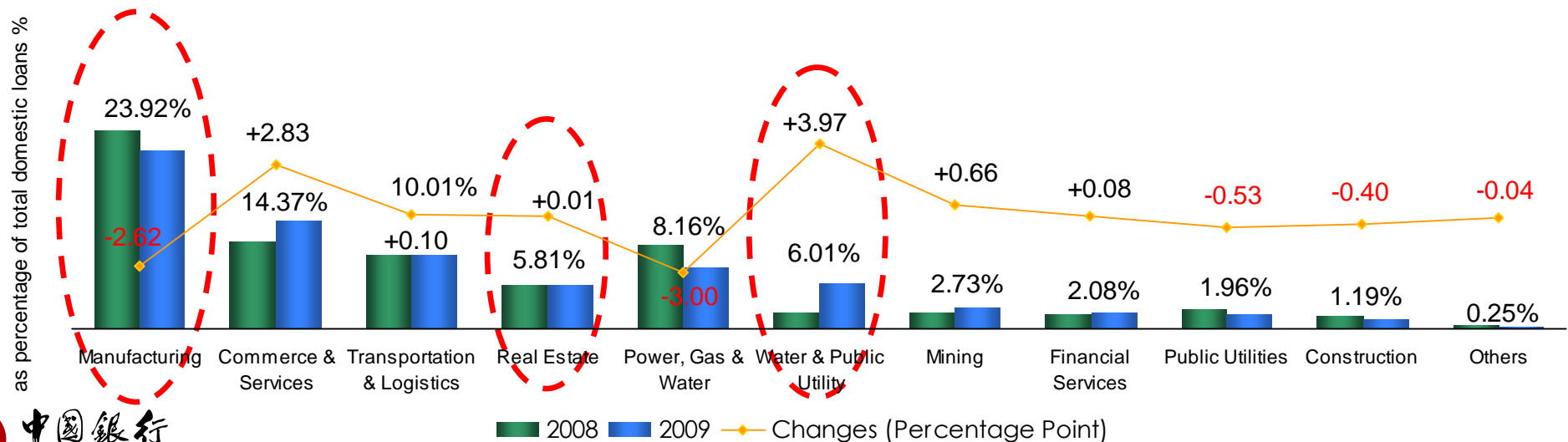
## Corporate loans growth (Group)



## Corporate deposits growth (Group)



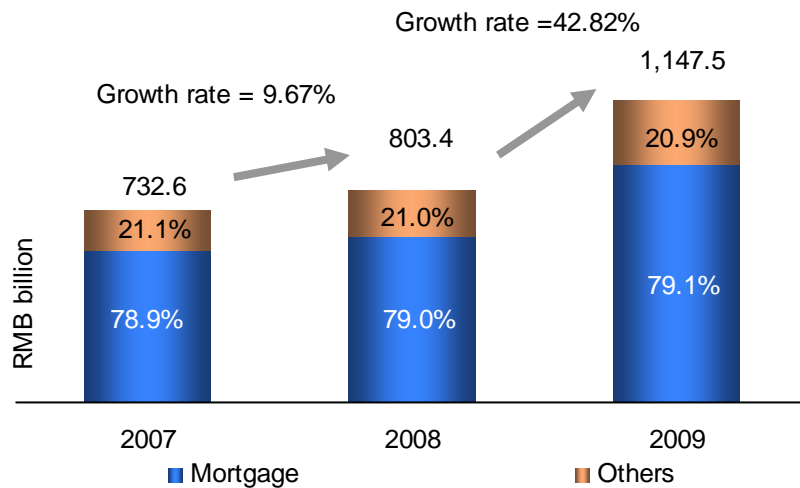
## Domestic Corporate Loans industry mix optimized



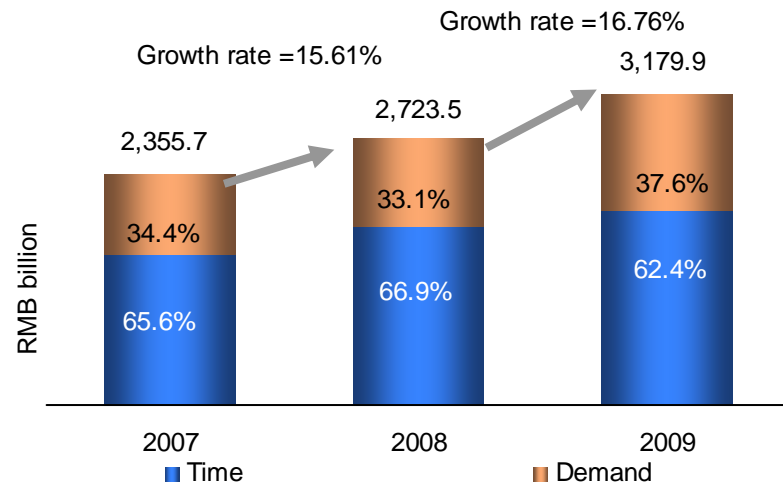
# Personal Banking

Robust growth in personal loans with steady expansion in customer base

## Personal loans (Group)



## Personal deposits (Group)

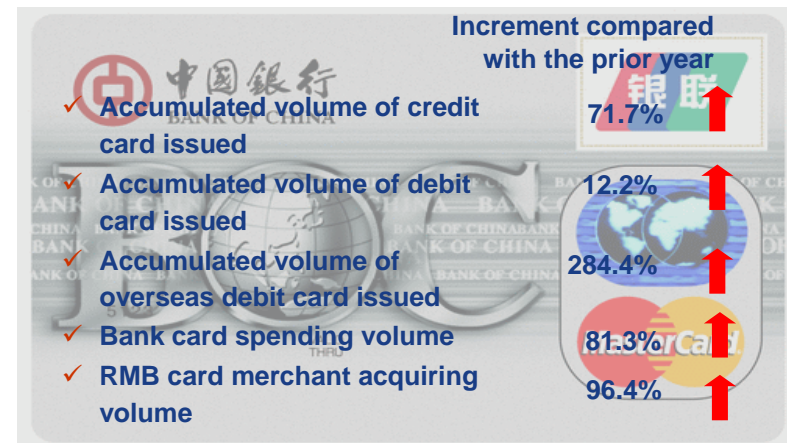


## Steady growth in customer base

Compared with the prior year- end:

Effective personal customers	5%	↑
Number of Medium-to-high end customers	30%	↑
Number of private banking customers	89%	↑
Assets under management for medium-to-high end customers	39%	↑

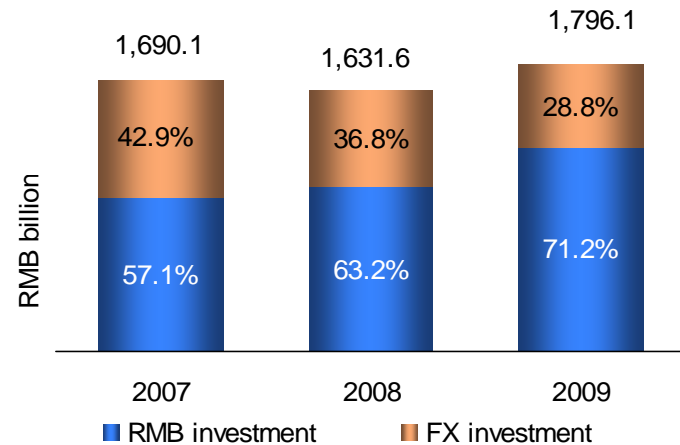
## Steady growth in bank card business



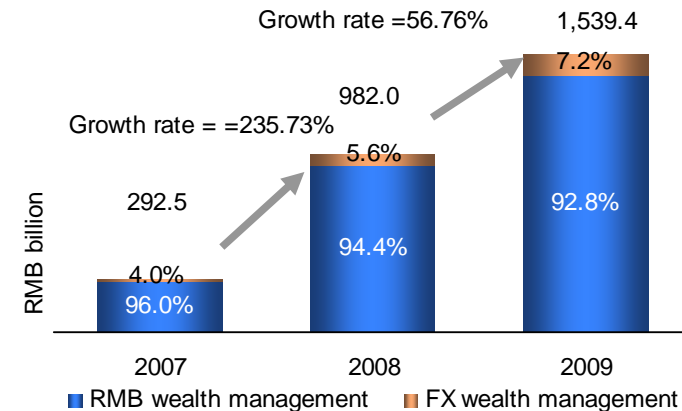
# Financial Markets

Optimize investment structure, reinforce traditional strengths and expand new businesses

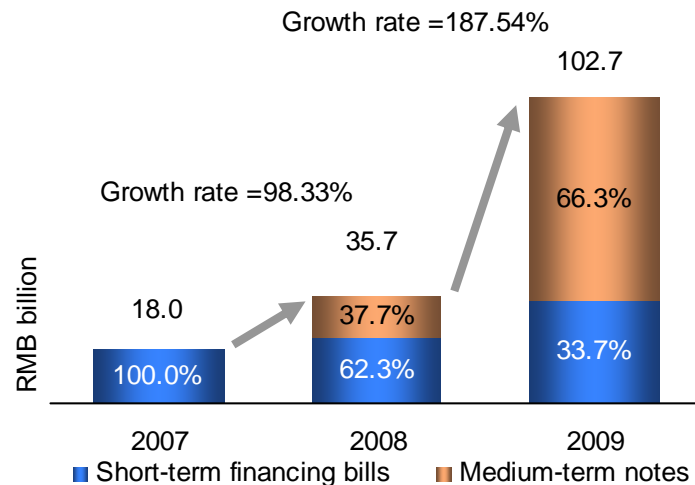
## Optimized debt securities structure



## Increased sales of wealth management products



## Market share of debt securities underwriting increased and moved up one place in ranking



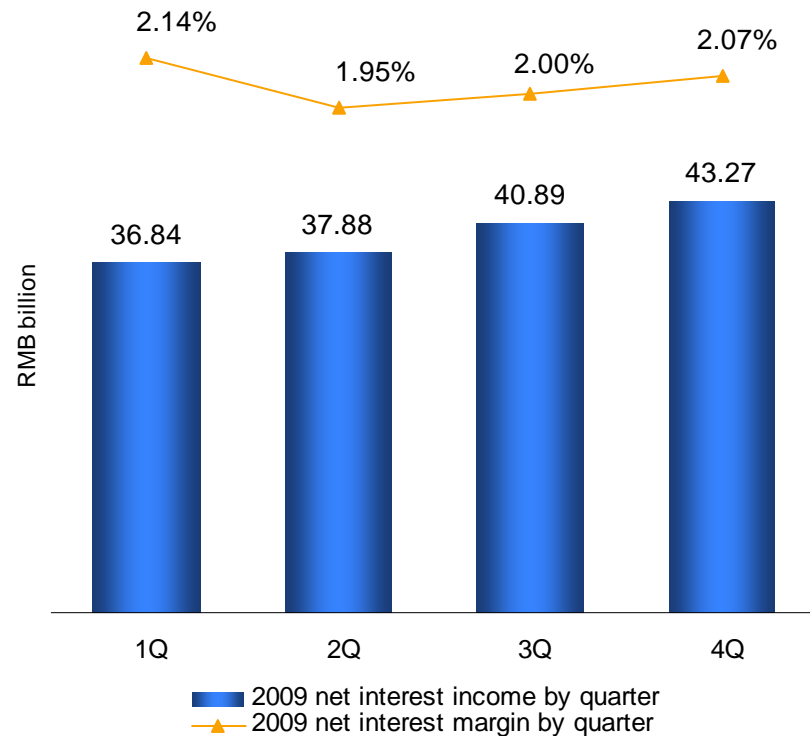
## Reinforce traditional strengths and expand new business

- ✓ No. 1 market share of spot exchange settlement and sales
- ✓ No. 1 market share of gold transaction
- ✓ No. 1 market share of RMB bond transaction
- ✓ Total assets under custody reached approximately RMB 890 billion
- ✓ No. 5 market share of annuity account management services mandates, moving up one place
- ✓ No. 4 market share of annuity custody, moving up one place

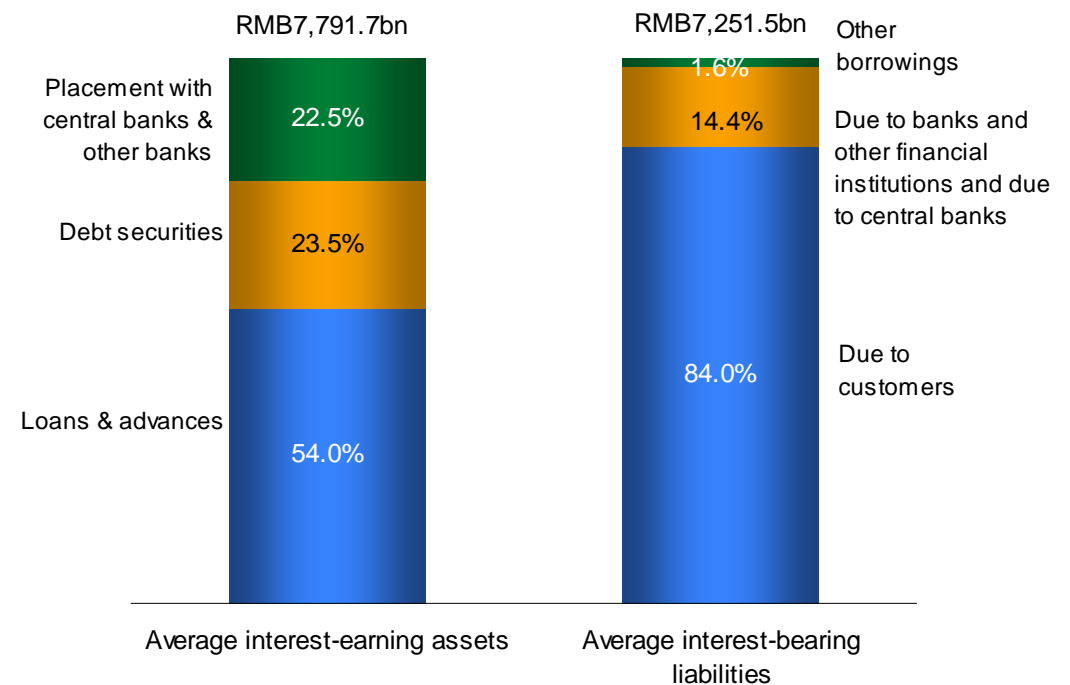
# Net Interest Margin Steadily Recovered due to Optimization in Business Structure

Group NIM was 2.04%, down by 0.59 percentage point YoY, while showing a trend of stabilization and recovery quarter by quarter

## Steady increase in interest income and net interest margin

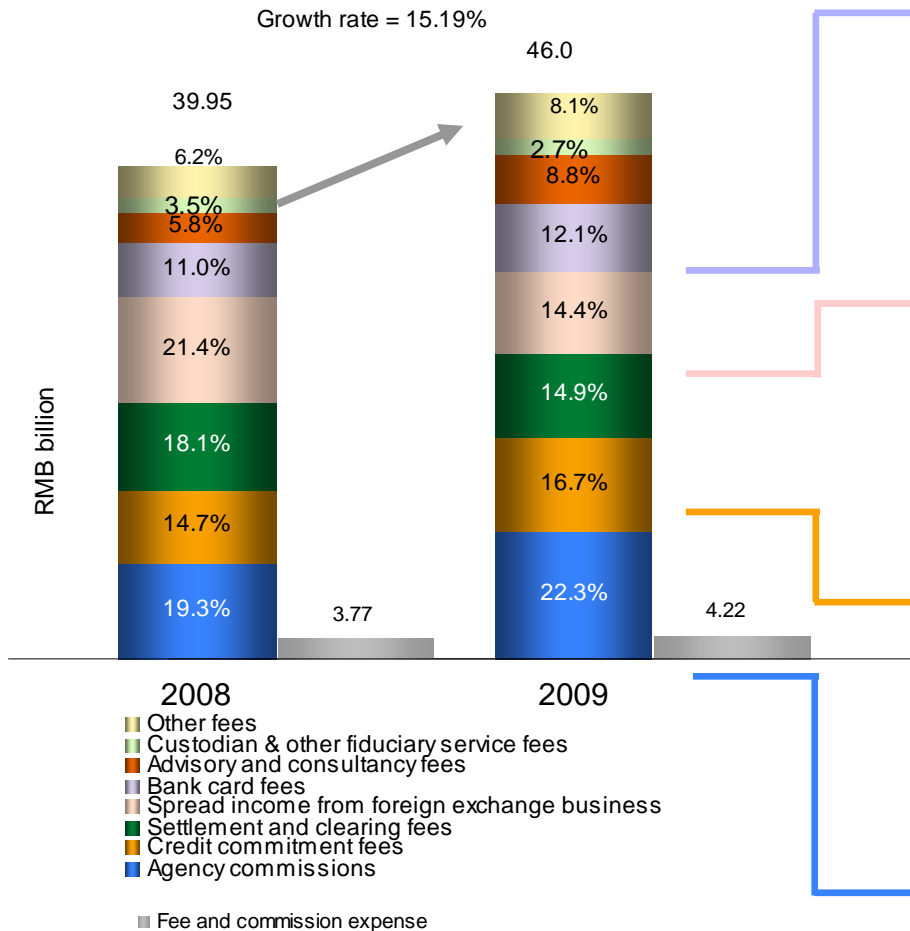


## Structure of interest-earning assets and interest-bearing liabilities improved



# Constant Growth in Non-Interest Income

## Net fee and commission income breakdown



With the increase in bank cards issuance and transaction volume, bank card related fees increased by 26% compared with that of prior year

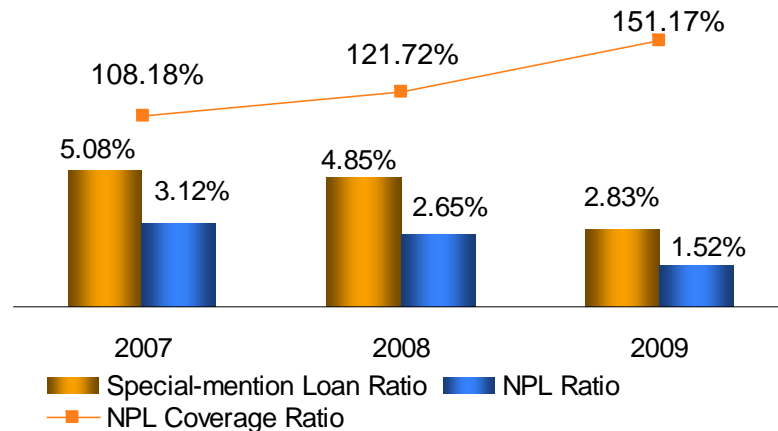
Influenced by the recession of import and export, the settlement and clearing fees and spread income from foreign exchange business reduced by 5.4% and 22.4% respectively, while the market share of international settlement increased. Anticipating the improving outlook of export, the fee and commission income is expected to recover gradually in 2010

With the rapid growth of deposits and loans, credit commitment fees increased by 30.5%. Consultancy and advisory fees increased by 72.5% YoY

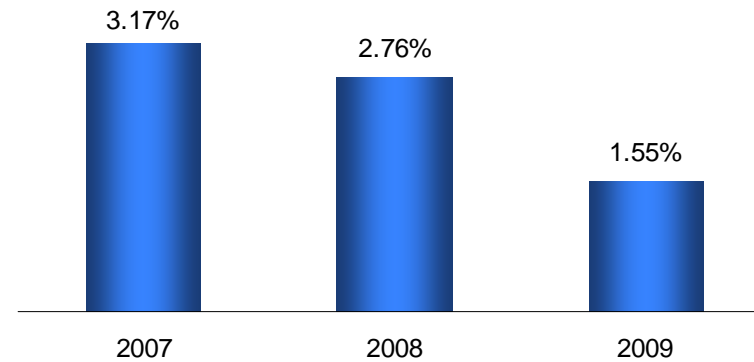
Agency commissions reversed the downward trend in the first half of the year, and increased by 32.8% on a year-on-year basis. Market share of fund distribution has increased.

# Continuous Improvement in Asset Quality

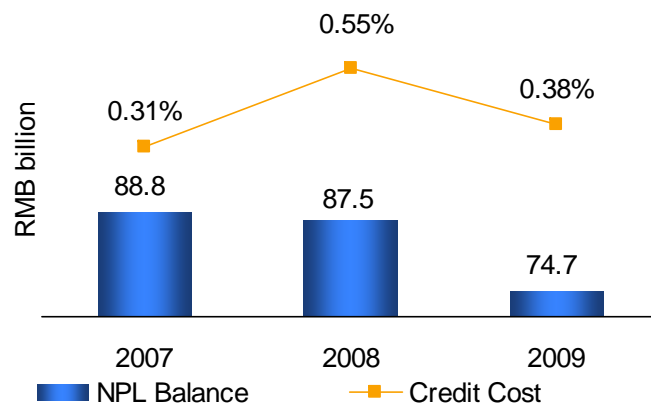
## NPL, special-mention loan ratio and coverage ratio



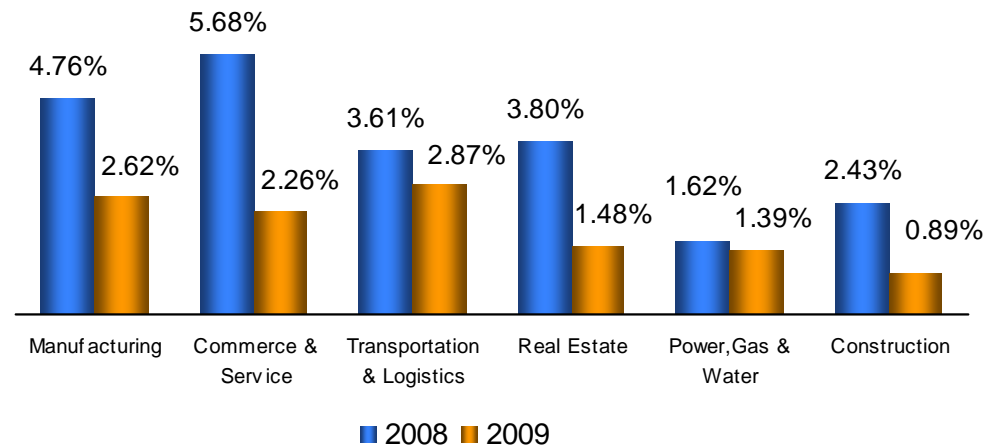
## Impaired loan ratio



## NPL balance and credit cost

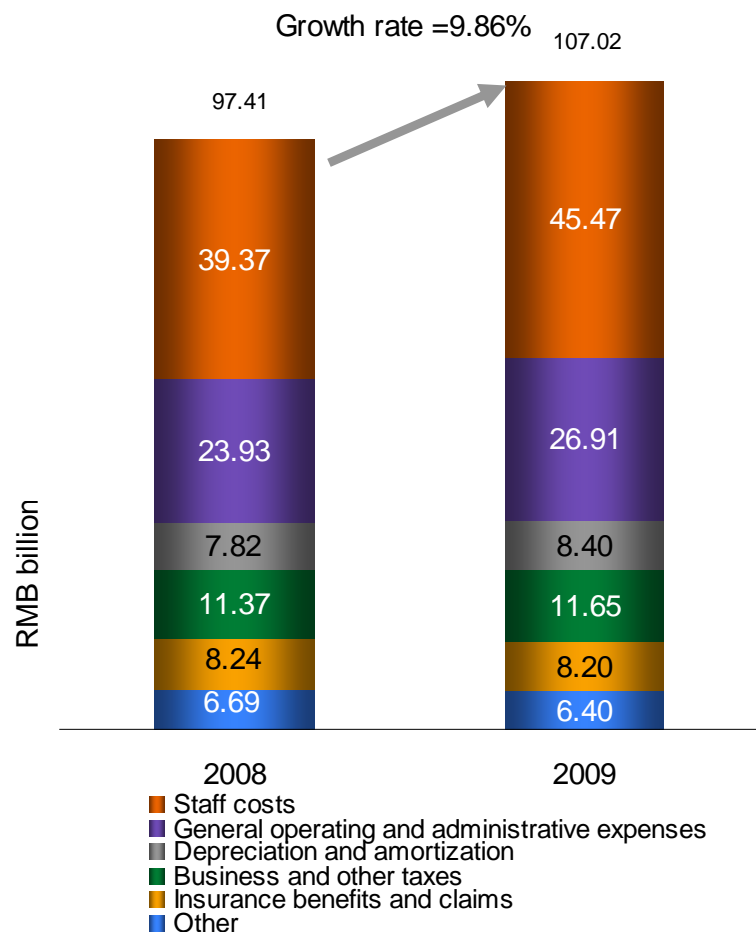


## Domestic impaired loan ratio for major industries decreased



# Increase Strategic Expenditures and Strengthen Cost Control

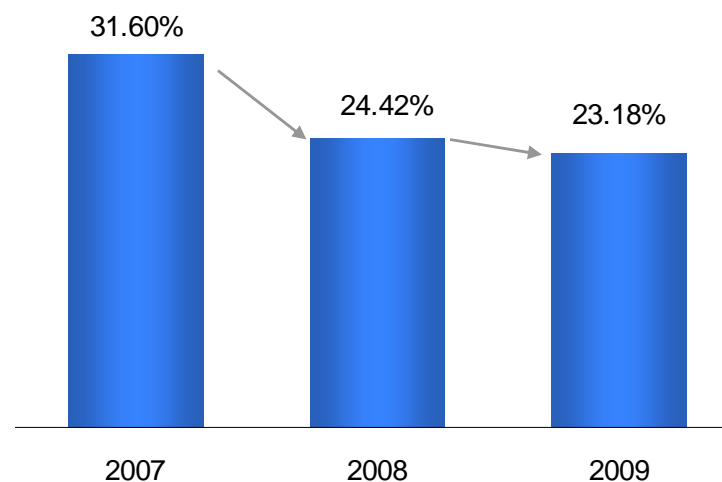
## Breakdown of operating expenses



## Increase in strategic expenditures

	2009	2008	Change (PPT)
Staff cost / operating expenses	42.49%	40.41%	2.08
General expenses / operating expenses	25.15%	24.57%	0.58
Cost to income ratio (calculated under domestic regulations)	37.15%	33.55%	3.60

## Reduction in effective tax rate





# Outlook for 2010



**Improving key  
financial indicators**

## Improve net interest margin

- Control credit lending pace and ensure balanced development
- Adjust business structure and increase loan yield
- Improve the pricing power to RMB and FX corporate and retail loans, strictly minimize the loans priced below benchmark rate

## Develop fee and commission income business

- Develop fee and commission income business focused on product innovation and service design
- Reinforce the strength in corporate trade finance business, explore and penetrate new market for financial products
- Increase development of personal banking products and services including fund distribution, bank cards etc
- Consolidate the advantage of foreign currency wealth management, provide diversified RMB wealth management products, conduct research in opportunities of margin finance, short selling and index futures products

## Strictly control risk and improve credit quality

- Enforce industry credit guideline and introduced more intensive risk management
- Strictly manage and control the scale and proportion of LGFV lendings. Accelerate proactive withdrawal from the risky financing projects
- Strengthen management of group customers and prevent transfer and spread of risks
- Manage credit costs at an appropriate level

## Control cost

- Enforce strict cost control and maintain cost-to-income ratio at a low level



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# Q&A

