



**Bank of America (Asia) Announces 20% Net Profit Increase for 2005**

**The bank achieves one of the highest earnings growth rates among all banks in Hong Kong**

HONG KONG, April 20, 2006... Bank of America (Asia) today reported net profit after tax of HK\$537 million for 2005, an increase of 20% over the previous year. Its core earnings growth, i.e. recurring operating earnings before impairment allowance and exceptional gains, also increased by 20.3%, achieving one of the highest earnings growth among all banks in Hong Kong.

In the first half of 2005, there was a significant compression of the “structural spread” in the market, driven by the rigidity of the local prime rate in early 2005 and the rise in HIBOR (the Hong Kong Interbank Offered Rate). Structural spread is the interest differential between the HKD prime rate and HIBOR, and is one of the major components of retail banks’ net interest margin.

During the year, the bank’s net interest margin was maintained at 1.94%, the same as 2004. However, with an 8% year-over-year growth in average loans outstanding, the bank was able to report a 13.1% increase in net interest income. Loan growth was primarily from the commercial sectors of trade, retailing and manufacturing.

Non-interest income increased by 6.3%. Despite the reclassification of loan fees to net interest revenue in 2005 due to the adoption of the revised Hong Kong Financial Reporting Standards, the impact of the reclassification was fully compensated by the increased fee earnings from the bank’s investment and insurance services and higher trading income primarily from customer foreign exchange.

The bank’s growth in core earnings accelerated from 10.3% in 2004 to 20.3% in 2005, attributed to the deepening of relationships with its customers. The introduction of new products and enhancement of existing products were well received by customers. In consumer banking, the bank became one of the first banks in Hong Kong to launch e-Alert service which automatically notifies customers of time and security-sensitive transactions through emails and SMS. These include ATM cash withdrawals, stock price, trade confirmations and time deposit maturities. The bank also introduced RMB cash withdrawal service at its ATMs in Hong Kong and Macau to facilitate cross border shopping convenience for customers. Prime rate-linked deposits were also launched during the year. This new depository product offers interest rates linked to prime rate movements, and helps the bank better manage its interest rate basis risk. IPO financing was also introduced. The number of mutual funds was increased to over 900 to meet the increasingly sophisticated and varied demand of customers. In commercial banking, new online capabilities were introduced.

The bank's operating income increased at a higher rate than its operating expense as a result of effective cost management. This created a positive operating leverage of 9.3%. Measured in terms of the expense-to-revenue proportion, the bank's efficiency ratio further improved from 46.1% in 2004 to 42.2% in 2005.

Bank of America (Asia) President and Chief Executive Samuel Tsien said: "I am very pleased with our strong and profitable growth in 2005. Once again, our relentless focus on core earnings growth fared us well despite rising interest rates and other challenges faced by the banking industry last year. Our ongoing commitment to higher standards helped deepen our customer relationships. They rewarded us with more business across a full range of our product and service offering."

During 2005, Hong Kong's economy grew by 7.3%, which was brought about by a mix of strong exports, fixed asset investment and consumer spending. Unemployment rate fell further and reached a four-year low of 5.2% at the end of 2005. Looking ahead, Tsien noted that Hong Kong's GDP growth for 2006 is forecast to grow between 4% and 5% with very moderate inflation, and a steady 4% GDP growth is forecast for periods beyond 2006.

However, structural issues remain for Hong Kong despite the strong growth last year. "The shortage of qualified talent and high rental costs will delay Hong Kong's progress towards the development of a full-fledged, high value-added knowledge-based economy. On the other hand, the threats of trade protectionism, the impact of rising oil prices and the implications of higher interest rates cast caution over our otherwise positive outlook for 2006," continued Tsien.

"In terms of interest rates, whereas the absolute level of rate may not be high in a historical context, the magnitude of the increase over the short period of time could impose hardships on consumers. A customer who had, say, financed his home purchase just at the beginning of last year would see his monthly repayment installment increased by over 30% by now, which, for sure, will affect his personal spending. High interest rates will dampen economic growth and may give rise to possible future asset quality concerns for the industry. Nevertheless, China's continued expansion and anticipated further relaxation of its foreign exchange controls will lead to increased overseas investments, benefiting Hong Kong and the region," noted Tsien.

Established in 1912, Bank of America (Asia) is wholly owned by Bank of America Corporation in the United States and is one of the highest rated banks in Hong Kong. With 16 branches in Hong Kong and Macau, the bank offers a wide range of consumer and commercial banking products and services, including a full array of deposit and loan products, trade finance, foreign exchange, factoring, leasing, insurance, investment and electronic banking services. Bank of America (Macau) is a wholly owned subsidiary of Bank of America (Asia).

Bank of America is one of the world's largest financial institutions and the leading consumer bank in the United States. It serves individual consumers, small businesses and large corporations with a full range of banking, investing, asset management and other financial and risk-management products and services. In the U.S., it has full-service consumer and commercial operations in 29 states and the District of Columbia, serving more than 38 million consumer and small business relationships. Internationally, it serves clients in 150 countries around the world.

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For more information:

Brian Leong, Vice President & Corporate Communications Manager

(DL) 2847 6934

**BANK OF AMERICA (ASIA) LIMITED**  
**2005 FINANCIAL RESULTS**

I. CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2005

	2005	2004 (restated)*
	HK\$'000	HK\$'000
Interest income	1,590,999	896,839
Interest expense	<u>(801,634)</u>	<u>(198,686)</u>
Net interest income	789,365	698,153
Other operating income	<u>308,802</u>	<u>290,632</u>
<b>TOTAL OPERATING INCOME</b>	1,098,167	988,785
Gain on disposal of fixed assets	8	30
Loss on disposal of non-trading securities	-	(2)
<b>TOTAL OPERATING EXPENSES</b>	<u>(463,787)</u>	<u>(455,805)</u>
<b>OPERATING PROFIT BEFORE IMPAIRMENT LOSSES</b>	634,388	533,008
Impairment losses on loans and advances	(8,419)	-
Provision for bad and doubtful debts	<u>-</u>	<u>-</u>
<b>OPERATING PROFIT</b>	625,969	533,008
Share of profit of an associate	<u>16,327</u>	<u>7,903</u>
<b>PROFIT BEFORE TAXATION</b>	642,296	540,911
Taxation	<u>(105,319)</u>	<u>(93,481)</u>
<b>NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>	<u>536,977</u>	<u>447,430</u>
	=====	=====

\* Comparative figures have been restated to reflect the adoption of certain new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards.

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II. CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER 2005

	2005 HK\$'000	2004 (restated)* HK\$'000
<b>ASSETS</b>		
Cash and short-term funds	11,743,292	7,662,439
Placements with banks and other financial institutions maturing between one and twelve months	3,874,341	2,192,371
Placements with and advances to banks and other financial institutions maturing over twelve months	101,073	62,202
Advances to customers and other accounts	28,720,446	25,036,581
Available-for-sale securities/ non-trading securities	4,284,870	3,916,197
Derivative financial instruments	149,879	-
Investment in an associate	80,988	78,269
Deferred tax assets	23,674	40,207
Property, plant and equipment	48,504	49,798
Leasehold land	<u>46,070</u>	<u>46,849</u>
<b>TOTAL ASSETS</b>	<u>49,073,137</u> =====	<u>39,084,913</u> =====
<b>LIABILITIES</b>		
Deposits and balances of banks and other financial institutions	10,728,054	921,259
Deposits from customers	28,836,288	29,468,713
Certificates of deposit issued	1,503,028	1,000,000
Derivative financial instruments	213,314	-
Other borrowed funds	10,859	10,859
Other liabilities	<u>399,722</u>	<u>923,554</u>
<b>TOTAL LIABILITIES</b>	<u>41,691,265</u>	<u>32,324,385</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	300,000	300,000
Reserves	<u>7,081,872</u>	<u>6,460,528</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>7,381,872</u>	<u>6,760,528</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>49,073,137</u> =====	<u>39,084,913</u> =====

\* Comparative figures have been restated to reflect the adoption of certain new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards.

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III. SUPPLEMENTARY FINANCIAL INFORMATION

(i) Advances to customers and other accounts

	Group 2005 HK\$'000	2004 HK\$'000
Advances to customers	28,571,695	24,493,833
Less: impairment allowances		
- collectively assessed	(136,310)	-
- individually assessed	(2,014)	-
- general provision	-	(237,478)
- specific provision	-	(1,019)
Net advances to customers	28,433,371	24,255,336
Accrued interest	-	58,999
Other accounts	<u>287,075</u>	<u>722,246</u>
	28,720,446	25,036,581
	=====	=====
Included in advances to customers are :		
Trade bills	<u>1,350,187</u>	<u>1,326,415</u>
	=====	=====

(ii) Gross advance to customers by industry sectors

	Group 2005 HK\$'000	2004 HK\$'000
Loans for use in Hong Kong :		
Industrial, commercial and financial		
- Property investment	8,209,325	6,998,791
- Financial concerns	235,500	126,300
- Stockbrokers and share financing	214,163	250,455
- Wholesale and retail trade	797,708	669,707
- Manufacturing	893,827	892,718
- Transport and transport equipment	680,744	538,669
- Others	<u>821,854</u>	<u>735,505</u>
	11,853,121	10,212,145
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	25,421	32,766
- Loans for the purchase of other residential properties	8,075,876	8,923,734
- Others	<u>3,128,353</u>	<u>3,134,334</u>
	11,229,650	12,090,834
Trade finance	1,241,842	1,227,101
Loans for use outside Hong Kong	<u>4,247,082</u>	<u>963,753</u>
Total loans and advances	28,571,695	24,493,833
	=====	=====

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(iii) Advances to customers overdue for more than three months

	Group		2004	
	2005	% of		% of
	HK\$'000	total	HK\$'000	total
Gross amount of overdue loans				
Six months or less but over three months	3,951	0.02	5,771	0.02
One year or less but over six months	1,120	0.00	4,502	0.02
Over one year	—	—	—	—
Total advances overdue for more than three months	5,071	0.02	10,273	0.04
	=====	=====	=====	=====
Market value of security held against the secured overdue loans	6,802	16,988		
	=====	=====		
Secured overdue loans	5,071	10,273		
	=====	=====		
Unsecured overdue loans	-	-		
	=====	=====		

(iv) Rescheduled advances net of amounts in advances which are overdue for more than three months:

	Group		2004	
	2005	% of		% of
	HK\$'000	total	HK\$'000	total
Advances to customers	7,990	0.03	15,506	0.06
	=====	=====	=====	=====

(v) Repossessed assets

At 31 December 2005, the repossessed assets of the Group and the Bank included in "advances to customers and other accounts" amounted to HK\$2,040,000 (2004: HK\$1,329,000).

(vi) Gross advances to customers by geographical areas

	Group	
	2005	2004
	HK\$'000	HK\$'000
Hong Kong	24,307,930	23,420,829
Others	4,263,765	1,073,004
	28,571,695	24,493,833
	=====	=====

(vii) Overdue and impaired loans/non-performing loans by geographical areas

	Group	
	2005	2004
	HK\$'000	HK\$'000
Hong Kong	11,574	52,102
Asia Pacific excluding Hong Kong	—	5,178
	11,574	57,280
	=====	=====

The geographical analysis is based on location of the customers and has not been taken account of transfer of risk.

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(viii) Cross-border claims

	Group		
	Banks and financial institutions HK\$'000	Others HK\$'000	Total HK\$'000
As at 31 December 2005			
Asia Pacific excluding Hong Kong	3,535,290	967,675	4,502,965
North and South America	7,172,983	2,940,315	10,113,298
Europe	<u>8,339,273</u>	<u>45,948</u>	<u>8,385,221</u>
	<u>19,047,546</u>	<u>3,953,938</u>	<u>23,001,484</u>
	=====	=====	=====
	Group		
	Banks and financial institutions HK\$'000	Others HK\$'000	Total HK\$'000
As at 31 December 2004			
Asia Pacific excluding Hong Kong	3,350,112	683,384	4,033,496
North and South America	2,597,485	38,045	2,635,530
Europe	<u>7,155,155</u>	<u>53,071</u>	<u>7,208,226</u>
	<u>13,102,752</u>	<u>774,500</u>	<u>13,877,252</u>
	=====	=====	=====

The geographical analysis has been taken account of transfer of risk.

(ix) The following information is presented based on the principal place of operation of the Bank and its subsidiaries as responsible for reporting the results or booking the assets:

2005	Group				Contingent liabilities and commitments HK\$'000
	Operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	
Hong Kong	1,047,874	613,597	47,629,219	40,530,892	3,076,467
Macau	69,536	41,449	2,534,841	2,281,429	398,879
Less: Intra-group items	<u>(19,243)</u>	<u>(12,750)</u>	<u>(1,090,923)</u>	<u>(1,121,056)</u>	<u>(127,000)</u>
	<u>1,098,167</u>	<u>642,296</u>	<u>49,073,137</u>	<u>41,691,265</u>	<u>3,348,346</u>
	=====	=====	=====	=====	=====
2004	Group				Contingent liabilities and commitments HK\$'000
	Operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	
Hong Kong	940,388	512,738	37,912,061	31,443,582	2,922,583
Macau	54,755	28,173	2,159,699	1,944,222	451,562
Less: Intra-group items	<u>(6,358)</u>	<u>-</u>	<u>(986,847)</u>	<u>(1,063,419)</u>	<u>(120,000)</u>
	<u>988,785</u>	<u>540,911</u>	<u>39,084,913</u>	<u>32,324,385</u>	<u>3,254,145</u>
	=====	=====	=====	=====	=====



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- (x) The Group's operating income, net of interest expense, is attributable to the following business segments:

		Group	
		2005	2004
		HK\$'000	HK\$'000
(i)	Consumer banking activities : Residential real estate loans; Personal loans and overdrafts; Auto finance; Securities services and other fees and commissions; Deposits from individuals	693,256	616,408
(ii)	Commercial banking activities : Commercial and industrial loans and overdrafts; Trade finance; Machinery and equipment leasing; Stockbroker finance; Deposits from businesses	366,733	342,345
(iii)	Treasury activities : Foreign exchange; Money market activities; Liquidity management	38,178	30,032
		<u>1,098,167</u>	<u>988,785</u>
		=====	=====

- (xi) Capital adequacy and liquidity ratios

		Group	
		2005	2004
		percentage	percentage
Capital adequacy ratio as at 31 December		28.60	30.24
		=====	=====
Adjusted capital adequacy ratio as at 31 December		28.42	30.07
		=====	=====
Average liquidity ratio for the year		45.43	38.60
		=====	=====

The capital adequacy ratio is computed on a consolidated basis, including the Bank and its subsidiary, Bank of America (Macau) Limited, and in accordance with the Third Schedule of the Banking Ordinance.

The adjusted capital adequacy ratio, which is computed on a consolidated basis, including the Bank and its subsidiary, Bank of America (Macau) Limited, and in accordance with the guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority, taking into account the market risk as at the balance sheet date.

The average liquidity ratio is computed on a single company basis and in accordance with the Fourth Schedule of the Banking Ordinance.

The liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio for the twelve months of the financial year of Hong Kong offices and is computed in accordance with the Fourth Schedule of the Banking Ordinance.

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(xii) Components of capital base after deductions

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 31 December and reported to the Hong Kong Monetary Authority is analysed as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Core capital:		
Paid up ordinary share capital	300,000	300,000
Reserves	6,303,860	5,918,290
Income statement account	<u>540,793</u>	<u>435,702</u>
Total core capital	<u>7,144,653</u>	<u>6,653,992</u>
Supplementary capital:		
Reserve on revaluation of holding of available-for-sale securities/ non-trading securities	(473)	(479)
Collective impairment allowances and regulatory reserve	254,310	237,478
Irredeemable cumulative preference shares	<u>10,131</u>	<u>10,131</u>
Gross value of supplementary capital	<u>263,968</u>	<u>247,130</u>
Total capital base	<u>7,408,621</u>	<u>6,901,122</u>
Deductions:		
Shareholdings in subsidiaries	16,000	16,000
Equity investments of 20% or more in non-subsidiary companies	<u>10,411</u>	<u>10,411</u>
	<u>26,411</u>	<u>26,411</u>
Total capital base after deductions	<u>7,382,210</u>	<u>6,874,711</u>

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(xiii) Currency concentrations

	Group		
	USD	MOP	Total
	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2005			
Spot assets	22,605,486	372,259	22,977,745
Spot liabilities	(18,460,552)	(199,928)	(18,660,480)
Forward purchases	12,607,241	-	12,607,241
Forward sales	(16,540,578)	-	(16,540,578)
Net long position	211,597	172,331	383,928
	=====	=====	=====
Net structural position	-	35,097	35,097
	=====	=====	=====
	Group		
	USD	MOP	Total
	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2004			
Spot assets	11,896,029	393,009	12,289,038
Spot liabilities	(10,921,738)	(260,000)	(11,181,738)
Forward purchases	15,098,516	-	15,098,516
Forward sales	(15,946,780)	-	(15,946,780)
Net long position	126,027	133,009	259,036
	=====	=====	=====
Net structural position	-	35,097	35,097
	=====	=====	=====

The structural assets of the Group include investment in an overseas subsidiary.