中銀香港(控股)有限公司

BOC HONG KONG (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(the "Company", Stock Code: 2388)

FINANCIAL AND BUSINESS REVIEW FOR THE FIRST QUARTER OF 2020

THIS ANNOUNCEMENT IS MADE BY THE COMPANY PURSUANT TO RULE 13.09 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

The following description provides certain financial information relating to the performance of the Company in the first quarter of 2020.

In the first quarter of 2020, downward pressures on the global economy intensified while global financial markets became more volatile amid the outbreak of the novel coronavirus disease (COVID-19). The epidemic posed risks to the US economic outlook, causing the Federal Reserve to ease monetary policy further, lower the federal funds rate to 0 to 0.25% and announce an open-ended commitment to keep buying assets under its quantitative easing measures. The Eurozone economy was also hit hard by the epidemic, with the European Central Bank expanding the scale of its asset purchase programme. The epidemic is under control in the Mainland. Chinese authorities' efforts are in full swing, with steps taken to boost monetary and fiscal policies in order to mitigate the negative impacts of the epidemic on economic activities. Southeast Asian economies have also been affected, as their currencies dropped in value, with interest rate cuts and economic stimulus programmes put in place to cope with the challenges.

The COVID-19 epidemic has put greater pressure on Hong Kong's economy and has had a considerable impact on the local tourism, hotel, retail, and import and export sectors. Hong Kong's economy has entered a recession accompanied by a further increase in unemployment rate, with the HKSAR government introducing relief measures to cope with these challenges. Despite elevated volatility in the equity markets, its financial system continues to operate effectively and its banking system remains robust.

Financial Performance Highlights

- In the first quarter of 2020, **net operating income before impairment allowances** of BOC Hong Kong (Holdings) Limited and its subsidiaries (collectively known as the "Group") **increased by 5.0% from the previous quarter and 2.7% compared with the same period of the previous year**.
- If the funding income or cost of foreign currency swap contracts were included, **net interest income would have decreased on a quarter-on-quarter basis but grown 2.7% year-on-year**, alongside with a year-on-year increase in average interest-earning assets. Net interest margin narrowed by 6 basis points year-on-year to 1.61%, amid falling market interest rates.
- **Net fee and commission income rose from the previous quarter but fell by 9.3% compared with the same period last year.** This was mainly due to the impact of the COVID-19 epidemic and economic downturn, which slowed economic activity and adversely affected the trade, tourism and retail sectors, resulting in a drop in related commission income. Meanwhile, commission income from loans, securities brokerage and funds distribution maintained steady quarter-on-quarter and year-on-year growth.
- **Steady growth was achieved in deposits from customers and advances to customers, which increased by 2.2% and 5.1% respectively from the end of 2019.**
- **Loan quality was stable, with the classified or impaired loan ratio at 0.23%.**
- **Liquidity coverage ratio, net stable funding ratio and capital ratio remained solid.**

Financial Performance

The table below summarises the key performance figures of the Group in the first quarter of 2020:

Key Performance of the Group					
HK$'m, except percentages	**2020 Q1**	2019 Q1	2019 Q4	Compared with 2019 Q1	Compared with 2019 Q4
Net operating income before impairment allowances	**14,887**	14,502	14,175	+2.7%	+5.0%
Operating expenses	**(3,671)**	(3,574)	(4,998)	+2.7%	-26.6%
Operating profit before impairment allowances	**11,216**	10,928	9,177	+2.6%	+22.2%

2020 Q1 compared with 2019 Q1

In the first quarter of 2020, the Group's net operating income before impairment allowances increased by 2.7% year-on-year to HK$14,887 million. If the funding income or cost of foreign currency swap contracts were included, net interest income would have amounted to HK$10,518 million, representing a year-on-year increase of 2.7%, which was mainly attributable to growth in average interest-earning assets driven by advances to customers. Including the funding income or cost of foreign currency swap contracts, net interest margin narrowed 6 basis points year-on-year to 1.61%. This was mainly due to falling market interest rates, resulting in a drop in the average yield of its assets. The drop in the average funding costs was relatively slower amid intensified market competition for deposits. Net fee and commission income fell by 9.3% on a year-on-year basis to HK$2,871 million. The decrease was mainly due to the impact of the COVID-19 epidemic and economic downturn, which slowed economic activity and adversely affected the tourism, retail and trade sectors, resulting in a drop in commission income from credit cards, currency exchange, bills and payment services. Commission income from insurance also dropped. Meanwhile, commission income from securities brokerage and funds distribution rose amid increased transaction volumes and activity in the investment market. Loan commissions and income from trust and custody services also increased. Amid volatility in financial markets in this quarter, interest rate instruments and items under fair value hedge recorded a mark-to-market loss, leading to a year-on-year decrease in net trading gain. Nevertheless, the net gain from the disposal of certain debt securities investments more than offset the impact of the mark-to-market changes.

Operating expenses increased by 2.7% year-on-year. Staff costs rose, mainly due to annual salary increment, increased headcount and higher staff allowance and welfare-related expenses. Depreciation also increased. The Group's cost to income ratio was 24.66%, maintaining a solid level relative to industry peers.

The Group's net charge of impairment allowances amounted to HK$583 million, an increase of HK$326 million year-on-year, owing to an increase in impairment allowances resulting from changes to the parameter values in the expected credit loss model, which was updated this quarter to take into consideration the increased uncertainty in macroeconomic outlook, and the growth in advances to customers. Credit cost of advances to customers was 0.16%, up by 2 basis points from last year's full-year figure.

2020 Q1 compared with 2019 Q4

The Group's net operating income before impairment allowances increased by 5.0% on a quarter-on-quarter basis. Net fee and commission income grew 16.0% from the previous quarter, which was mainly attributable to an increase in commission income from loans, securities brokerage and funds distribution. Meanwhile, commission income from insurance, credit cards, bills, payment services, trust and custody services decreased compared with the previous quarter. Including the funding income or cost of foreign currency swap contracts, net interest margin was down 5 basis points from the previous quarter, mainly due to the narrowing of the loan and deposit spread amid falling market interest rates, resulting in a quarter-on-quarter decrease of 3.6% in net interest income. Net trading gain decreased quarter-on-quarter, as interest rate instruments and items under fair value hedge recorded a mark-to-market loss amid volatility in financial markets. Nevertheless, the net gain from the disposal of certain debt securities investments more than offset the impact of the mark-to-market changes.

Operating expenses decreased by 26.6% as compared with the previous quarter, as staff costs and business-related expenses dropped.

The Group's net charge of impairment allowances decreased by HK$247 million quarter-on-quarter. This decrease was attributable to there being a higher base for comparison as a result of the impairment allowances made in the last quarter.

Financial Position

As of 31 March 2020, the Group's total assets stood at HK$3,123,703 million, an increase of 3.2% from the end of 2019. Deposits from customers increased by 2.2% from the end of 2019 to HK$2,053,877 million. Demand deposits and current accounts, savings deposits, and time, call and notice deposits experienced growth. The CASA ratio was 55.7%, up 0.6 percentage point from that at the end of 2019. Advances to customers increased by 5.1% from the end of 2019 to HK$1,467,458 million. Loans for use in Hong Kong and loans for use outside Hong Kong increased, while trade financing decreased. The Group's asset quality was stable, with a classified or impaired loan ratio of 0.23%. Liquidity remained ample, with the liquidity coverage ratio and net stable funding ratio maintained at solid levels. The Group's capital ratio remained at a high level.

Business Review

In the first quarter of 2020, the Group continued to adhere to its strategic goal of "Building a Top-class, Full-service and Internationalised Regional Bank". It continued to push forward fintech innovation and strengthened its core capabilities in digitalisation. It devoted itself to driving business transformation and sustainable development by deepening its local market commitment, refining its regional development in Southeast Asia, enhancing its regional service capabilities and strengthening its featured cross-border services. In view of the impact of the COVID-19 epidemic and the changes in the operating environment, the Group proactively enhanced its internal risk control management to safeguard against various risks.

In **Personal Banking** business, the Group closely monitored changes in the market environment and responded to customers' needs during the epidemic by expediting its digital development and promoting customer migration to online transactions. The Group enhanced its product functions and competitiveness by continuously enriching the functionality of its mobile banking, extending its account opening service to new customers via mobile banking and introducing additional promotions for e-channel services. It actively built ecosystems. Through open Application Programme Interface (API) technology, the Group partnered with a large real estate agency in Hong Kong to seamlessly integrate banking services into customers' property purchase planning journeys. It cooperated with stock quoting platforms to give their customers direct access to the Group's mobile banking for trading Hong Kong stocks, US stocks and A shares, by making share price quotations through those platforms. It also launched an e-stock transfer service, the first such service of its kind in Hong Kong. In addition, the Group enriched the range of insurance products available online, including Voluntary Health Insurance Scheme plans, endowment plans, life insurance and critical illness protection plans. The Group achieved satisfactory progress in digital development. The total number of transactions conducted via e-channels continued to increase in the first quarter of the year, with mobile banking transactions growing 56.4% year-on-year. In view of the epidemic, the Group introduced a number of financial service and relief initiatives, including principal repayment moratoriums for mortgage loans to allow more financial flexibility for personal customers who have been affected by the epidemic, and offering grace period for insurance as well as additional protection, with the aim of helping communities to navigate through these difficult times.

In **Corporate Banking** business, the Group actively explored business opportunities in countries along the Belt and Road and in Southeast Asia. It worked closely with its Southeast Asian entities and completed a number of key projects, giving full play to the competitive advantages arising from its regional synergies. It strengthened collaboration with BOC's entities in the Mainland in order to proactively participate in the development of major regions such as the Guangdong-Hong Kong-Macao Greater Bay Area, Free Trade Zones and the Yangtze River Delta, and enhanced its support to corporates within the technological innovation sector in the Greater Bay Area. It also captured opportunities arising from the Chinese government's supportive policies on new infrastructure projects, with a focus on the development of the 5G network and big data, in order to provide business support to its targeted key business sectors and high-quality clients. The Group met the loan demands of high-quality customer groups and further enhanced its services to local large corporates, commercial and SME customers. During the quarter, the Group completed a number of significant bond issuance and financing projects, as well as syndicated loan deals in Hong Kong, Macao and the Southeast Asian region, and retained its market leadership as an IPO main receiving bank. It achieved progress in payment business, with the successful acquisition of the contactless payment collection service for a large-scale local transport company. It also made breakthrough in cooperation with multinational enterprises, accelerating the regional development of its cash pooling business. Continuous functional enhancements were made to the Global Transaction Banking Platform, improving the overall customer experience. In view of the epidemic, the Group took the lead in introducing financial service and relief initiatives. With the aim of helping its customers through this difficult time, it actively assisted its SME customers and offered targeted financial support to enterprises that manufacture medical and anti-epidemic supplies, so as to ensure the supply of medical resources.

In the **Treasury Segment**, by continuously strengthening its research capabilities and closely monitoring market developments, the Group actively responded to market changes and appropriately adjusted its business strategies to achieve solid business growth in foreign exchange and derivative products for its customers. The Group steadily pushed forward the development of its trading systems in order to continuously improve its electronic trading capabilities. By promoting online trading for customers, it increasingly sharpened its comprehensive service capabilities and achieved rapid development in customer online transactions. The Group fully leveraged its strong franchise in banknotes business to ensure adequate supply of banknotes in the market and meet customer demand. It continued to deepen the business unit management of its Southeast Asian entities and actively advanced business development in Southeast Asia, achieving satisfactory performance in regional treasury business. The Group also optimised its internal control function and conducted stringent control of business risks so as to bolster the solid development of all businesses. By continuously and closely monitoring market changes and remaining alert to risk, the Group took a cautious approach to managing its banking book investments and continued to adjust its investment portfolio in order to respond to changes in exchange rates and achieve solid returns.

Regarding its **regional business**, the Group continued to expand its key customer base and major businesses in corporate banking, personal banking and financial markets through deepening regional collaboration. It made concerted efforts to promote local development and continued to optimise its e-banking infrastructure. In cooperation with a local bank in Vietnam, the Group successfully processed a spot exchange of USD to RMB and remitted the amount to the beneficiary's account in the Mainland. BOC Thailand provided financing to local cross-border payment institutions, pioneering a new business model within the Group for supporting such institutions. BOC Malaysia was successfully reappointed as the clearing bank for RMB business in Malaysia and was named 2019 "Excellent Member" and "Media Star" by the local chamber of commerce. Together with BOCHK, it launched an attestation service for Malaysian account opening in Hong Kong in order to expand the regional market.

GENERAL

This announcement may contain forward-looking statements that involve risks and uncertainties. The Company's shareholders and potential investors should not place undue reliance on these forward-looking statements, which reflect our belief only as of the date of these statements. These forward-looking statements are based on the Group's own information and information from other sources we believe to be reliable. The Group's actual results may be materially less favourable than those expressed or implied by these forward-looking statements, which could depress the market price of the Company's American Depositary Shares and local shares.

The Company's shareholders and potential investors should note that **all the figures contained herein are unaudited. Accordingly, figures and discussions contained in this announcement should in no way be regarded as to provide any indication or assurance on the financial results of the Group for the period ended 31 March 2020.**

The Company's shareholders and potential investors are urged to exercise caution in dealing in the securities of the Company and are recommended to consult their own professional advisers if they are in doubt as to their investment positions.

By Order of the Board
LUO Nan
Company Secretary

Hong Kong, 29 April 2020

As at the date of this announcement, the Board comprises Mr LIU Liange (Chairman), Mr WANG Jiang* (Vice Chairman), Mr GAO Yingxin (Vice Chairman and Chief Executive), Mr LIN Jingzhen*, Mr SUN Yu*, Madam CHENG Eva**, Dr CHOI Koon Shum**, Mr KOH Beng Seng**, Mr LAW Yee Kwan Quinn** and Mr TUNG Savio Wai-Hok**.*

* *Non-executive Directors*
** *Independent Non-executive Directors*