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 THIRD 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 and its subsidiaries (collectively known as the "Group") in the third quarter of 2020.

In the third quarter of 2020, downward pressures on global economy continued and financial markets became more volatile amid a COVID-19 pandemic that is not yet under control. In the US, the Federal Reserve maintained the federal funds rate at the 0 to 0.25% range and allowed inflation to run moderately above 2% for some time. The Eurozone economy was also hit hard by the pandemic, with the European Central Bank maintaining its asset purchase programme and some countries introducing further economic stimulus packages to cope with the headwinds. Southeast Asian economies have also been affected, with several large nations lowering their benchmark rates to historically low levels. The pandemic is under control in the Chinese mainland, which has achieved continuous improvement in economic performance. In the third quarter, the volume of retail sales and fixed asset investment continued to improve, while the pace of recovery in the industrial and service sectors also accelerated.

The pandemic situation in Hong Kong remained volatile, with the economy entering into a recession accompanied by an elevated unemployment rate. The HKSAR government has introduced another round of relief measures to cope with these challenges. Despite increasing volatility in the equity markets, there is a continuation of funds inflows, Hong Kong's financial system continues to operate effectively and its banking system remains robust.

Financial Performance Highlights

- In the first nine months of 2020, net operating income before impairment allowances of the Group decreased by 3.0% compared with the same period of the previous year, but rebounded by 2.4% from the previous quarter.
- If the funding income or cost of foreign currency swap contracts were included, net interest margin and net interest income would have decreased by 32 basis points and 12.9% respectively year-on-year, and decreased by 22 basis points and 11.7% respectively on a quarter-on-quarter basis, amid falling market interest rates.
- Amid the COVID-19 pandemic and economic downturn, net fee and commission income fell by 2.4% from the same period last year, but rebounded 9.4% from the previous quarter.
- Steady growth was achieved in deposits from customers and advances to customers, which increased by 5.7% and 8.7% respectively from the end of 2019, excluding the impact of IPO-related activities.
- Loan quality was benign. Excluding the impact of IPO-related activities, the classified or impaired loan ratio was 0.25% at the end of September.
- The Group's 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 nine months ended 30 September 2020 and in the third quarter of 2020:

Key Performance of the Group						
	Nine months ended		Year on year change	Quarter ended		Quarter on quarter change
HK$'m, except percentages	**30 Sep 2020**	30 Sep 2019		**30 Sep 2020**	30 Jun 2020	
Net operating income before impairment allowances	**42,937**	44,269	-3.0%	**14,194**	13,856	+2.4%
Operating expenses	**(11,615)**	(11,669)	-0.5%	**(4,026)**	(3,918)	+2.8%
Operating profit before impairment allowances	**31,322**	32,600	-3.9%	**10,168**	9,938	+2.3%

Nine months ended 30 September 2020 compared with the same period in 2019

In the first nine months of 2020, the Group's net operating income before impairment allowances decreased by 3.0% year-on-year to HK$42,937 million. If the funding income or cost of foreign currency swap contracts were included, net interest income would have decreased by 12.9% year-on-year to HK$28,027 million. This decrease was mainly attributable to a narrowing in net interest margin, which was partially offset by growth in average interest-earning assets. Including the funding income or cost of foreign currency swap contracts, net interest margin was 1.38%, a narrowing of 32 basis points year-on-year. This was mainly due to falling market interest rates, intense market competition for deposits and loans, and the relatively shorter repricing periods of loans compared to those of deposits, resulting in a narrowing of the loan and deposit spread. The Group proactively managed its assets and liabilities in response to challenges in the market environment, resulting in solid growth in its loan portfolio and an improved deposit mix with a higher CASA ratio, partially offsetting the aforementioned negative impacts. Net fee and commission income fell by 2.4% on a year-on-year basis to HK$8,241 million. The decrease was mainly due to the impact of the COVID-19 pandemic and economic downturn, which adversely affected the retail, tourism and trade sectors, resulting in a drop in commission income from credit card business, currency exchange and bills. Commission income from insurance, loans and funds distribution also dropped. However, commission income from securities brokerage rose amid increased transaction volumes in the stock market. Commission income from payment services and trust and custody services also grew. In addition, net gains from the disposal of certain debt securities investments increased this year, which partially offset the above-mentioned drop in income.

Operating expenses decreased by 0.5% year-on-year. Staff costs rose, mainly due to annual salary increment, higher staff allowances and welfare expenses. Depreciation also rose, mainly due to increased depreciation charges on information technology infrastructure. Other operating expenses dropped. The Group's cost to income ratio was 27.05%, maintaining cost efficiency at a solid level relative to industry peers.

The Group's net charge of impairment allowances amounted to HK$1,934 million. Credit cost relating to advances to customers was 0.16%, up 0.02 percentage points from last year's full-year figure, owing to an increased charge in impairment allowances resulting from changes to the parameter values in the expected credit loss model, which was prudently updated to take into consideration the increased uncertainty in macroeconomic outlook arising from the impact of the COVID-19 pandemic.

2020 Q3 compared with 2020 Q2

In the third quarter of 2020, the Group's net operating income before impairment allowances amounted to HK$14,194 million, an increase of 2.4% compared to the second quarter. If the funding income or cost of foreign currency swap contracts were included, net interest income would have decreased by 11.7% quarter-on-quarter, mainly due to a narrowing of the loan and deposit spread as a result of a continuous fall in market interest rates. The Group actively enhanced its loan and deposit pricing management, partially offsetting the negative impacts. Net interest margin narrowed 22 basis points from the previous quarter to 1.17%. Net fee and commission income increased by 9.4% from the previous quarter, owing to growth in commission income from securities brokerage, loans, funds distribution, trust and custody services and bills. However, commission income from insurance, credit card business, currency exchange and payment services decreased from the last quarter. In addition, there was a higher net gain from the disposal of certain debt securities investments. Operating expenses increased by 2.8% quarter-on-quarter.

In the third quarter of 2020, the Group's net charge of impairment allowances amounted to HK$568 million, a decrease from the second quarter. This was in part because the parameter values in the expected credit loss model in the third quarter were relatively stable from those in the second quarter. This, together with a lower loan growth, led to a lower charge in impairment allowances.

Financial Position

As of 30 September 2020, the Group's total assets stood at HK$3,727,722 million, an increase of 23.2% from the end of 2019. Deposits from customers amounted to HK$2,718,459 million, up 35.3% from the end of 2019. Advances to customers increased to HK$1,687,108 million, up 20.9% from the end of 2019. Adjusting for the impact of IPO-related activities, the Group's total assets, deposits from customers and advances to customers increased by 3.6%, 5.7% and 8.7% respectively from the end of 2019. The increase in deposits from customers was mainly driven by CASA deposits, while time, call and notice deposits decreased. The CASA ratio was 63.9%, up 4.3 percentage points from that at the end of June 2020. There was broad-based growth in advances to customers in the third quarter, with an increase in both loans for use in Hong Kong and loans for use outside Hong Kong, although this was partly offset by a decrease in trade financing. Asset quality was benign, with the classified or impaired loan ratio standing at 0.25%. The Group's liquidity coverage ratio, net stable funding ratio and capital ratio remained solid.

Business Review

In the third quarter of 2020, the Group adhered to its strategic goal of "Building a Top-class, Full-service and Internationalised Regional Bank". It devoted itself to driving comprehensive development by continuously deepening its local market commitment and giving full play to its regional synergies. It seized business opportunities arising from the financial opening up of the Guangdong-Hong Kong-Macao Greater Bay Area and strengthened its featured cross-border services. It also accelerated its digital transformation by refining its digital-driven financial ecosystem. The Group stepped up its control measures against the pandemic, closely monitored the market situation and strengthened risk and compliance controls to achieve steady and solid operations.

In **Personal Banking business**, the Group collaborated extensively with the HKSAR government's Cash Payout Scheme, using its mobile and internet banking channels as well as its 169 branches to assist the general public in registering for the scheme in order to receive a HK$10,000 payment, with approximately 80% of registrations conducted via e-channels. It further extended its personal account opening service to 10 countries and regions outside Hong Kong, facilitating remote account opening via its mobile application for Hong Kong people staying or living overseas. The Group focused on building business ecologies by enhancing the features of its Mortgage Expert mobile application and continuously expanding the coverage of wealth management, investment and insurance products available via mobile banking, and has thus comprehensively enhanced the online service experience through fintech. The Group updated BoC Pay's interface with UnionPay merchants in the Chinese mainland to support more merchants in accepting QuickPass payments. By introducing a one-click Apple Pay binding function and merchant reward promotional campaigns, the Group successfully expanded customers' consumption scenarios. At the same time, it continued to promote the development of its regional mobile payment project in Southeast Asia, with BOC Malaysia officially launching the UnionPay QR code payment service during the reporting period, becoming the first financial institution to launch a cross-border payment service in its local market.

In **Corporate Banking business**, the Group strengthened business development in countries along the Belt and Road and in Southeast Asia. It completed a number of projects with its Southeast Asian entities, giving full play to its synergistic advantages. It strengthened collaboration with BOC's branches in the Chinese mainland so as to proactively engage in the development of major regions such as the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Delta, the Beijing-Tianjin-Hebei region and the Free Trade Zones. It actively supported the cross-border financial needs of targeted key business sectors and clients in the areas of new infrastructure, new technology and healthcare in the Chinese mainland. The Group strengthened its cooperation with leading local corporates as well as commercial and SME customers in Hong Kong, and further improved customer experience by enabling integrated digitalised and online financial services. It also collaborated with HKMC Insurance Limited to implement the enhancement measures to the Guarantee Products and Special 100% Loan Guarantee under the SME Financing Guarantee Scheme, and offered full support to the extension of the Pre-approved Principal Payment Holiday Scheme launched by the Hong Kong Monetary Authority, thus assisting SMEs to address their business challenges by navigating the difficult times alongside them. During the quarter, the Group completed a number of syndicated loans and bond issuance projects with significant market influence, and maintained its market leadership as an IPO main receiving bank. It actively promoted the advancement of green finance and successfully assisted a customer in the issuance of green bonds so as to ensure sustainable development. It achieved a breakthrough in its payment and settlement business by successfully acquiring the contactless payment collection service of a large-scale local transport operator. The Group further accelerated the development of key products such as cash pooling business and promoted functional improvements to various products in order to enhance customer experience. In recognition of its excellent and highly professional services, BOCHK was named Hong Kong Domestic Cash Management Bank of the Year for the seventh consecutive year and Hong Kong Domestic Trade Finance Bank of the Year for the second consecutive year by *Asian Banking & Finance.*

In the **Treasury Segment**, the Group actively responded to the business impact of the pandemic and conducted deep research and study of market developments. It actively promoted online business and significantly enhanced its online trading and service capabilities in order to achieve solid growth in client business. It continued to upgrade its trading system and constantly optimised its business processes, which in turn notably improved its trading capacity and service efficiency. By leveraging its strong franchise in banknotes business, the Group was able to better meet customer demand. It continuously advanced its regional development, achieving satisfactory performance in its Southeast Asia business. By closely monitoring market changes and constantly 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 interest rates and achieve solid returns.

Regarding its **regional business**, the Group continued to implement integrated collaboration and successfully expanded its major customer base and businesses in the region, while constantly promoting digital transformation and financial product innovation. Taking advantage of the fintech innovation supervision pilot policy launched by the People's Bank of China, BOC Malaysia cooperated with BOC Guangxi Branch to process the first RMB inter-bank financing business and the first RMB trade financing cross-border transfer business in the Chinese mainland under the pilot policy. BOC Thailand promoted financial product innovation, successfully issuing its first blockchain payment guarantee for a client and officially launching Prompt Pay, a real-time payments platform in Thailand, helping customers to make real-time fund transfers through multiple channels. The Vientiane Branch introduced an inter-bank funds transfer function in its mobile banking. The Jakarta Branch ranked first among all foreign banks in Indonesia in terms of overall operations in the Indonesian banking industry in 2019 for the second consecutive year. Moreover, the Jakarta Branch was named the Best Robust Foreign Bank in the Indonesia Best Bank Awards 2020.

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 30 September 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, 30 October 2020

As at the date of this announcement, the Board comprises Mr. LIU Liange (Chairman), Mr. WANG Jiang* (Vice Chairman), 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*