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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 2021

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 first quarter of 2021.

In the first quarter of 2021, downward pressures on global economy continued and financial markets volatility persisted amid the ongoing COVID-19 pandemic. While US treasury yields rose, the US Federal Reserve maintained an accommodative monetary policy and took a more optimistic stance towards the US economic outlook. In Europe, the economy remained sluggish. The Mainland economy maintained recovery momentum, with major economic indicators registering relatively rapid growth. Countries in the Southeast Asian region once again tightened restrictive measures due to a worsening of the pandemic, thereby constraining the region’s economic recovery.

The pandemic situation in Hong Kong remained volatile and the unemployment rate rose. In response, the HKSAR Government introduced another round of relief measures to cope with these challenges. In terms of investment markets, stock market transaction volumes increased, IPO activity showed strong momentum and market liquidity remained ample.

Financial Performance Highlights

- In the first quarter of 2021, the Group’s net operating income before impairment allowances rebounded by 16.3% from the previous quarter, but decreased by 9.8% compared with the same period of the previous year.
- If the funding income or cost of foreign currency swap contracts were included, net interest margin would have narrowed 5 basis points from the previous quarter to 1.11%, amid falling market interest rates. Net interest income would have decreased by 1.8% on a quarter-on-quarter basis and 22.0% year-on-year.
- Net fee and commission income increased by 43.9% from the previous quarter and 30.3% from the same period last year, amid satisfactory investor sentiment in the market.
- Steady growth was achieved in deposits from customers and advances to customers, which increased by 2.3% and 3.9% respectively from the end of 2020, excluding the impact of IPO-related activities.
- Loan quality remained stable. Excluding the impact of IPO-related activities, the classified or impaired loan ratio was 0.25%.
- 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 2021:

Key Performance of the Group					
<i>HK\$m, except percentages</i>	2021 Q1	2020 Q1	2020 Q4	Compared with 2020 Q1	Compared with 2020 Q4
Net operating income before impairment allowances	13,422	14,887	11,537	-9.8%	+16.3%
Operating expenses	(3,766)	(3,671)	(4,732)	+2.6%	-20.4%
Operating profit before impairment allowances	9,656	11,216	6,805	-13.9%	+41.9%

2021 Q1 compared with 2020 Q1

In the first quarter of 2021, the Group's net operating income before impairment allowances dropped by 9.8% year-on-year to HK\$13,422 million. If the funding income or cost of foreign currency swap contracts were included, net interest income would have decreased by 22.0% year-on-year to HK\$8,199 million. This decrease was mainly due to a narrowing of the Group's loan and deposit spread and a decline in the average yield of its debt securities investments and interbank placements amid falling market interest rates. Net interest margin narrowed to 1.11%. This decrease was partially offset by growth in average interest-earning assets. Net fee and commission income increased by 30.3% on a year-on-year basis to HK\$3,742 million, which was mainly driven by satisfactory investor sentiment in the market during the quarter, resulting in a growth in commission income from securities brokerage, funds distribution and insurance. Commission income from trust and custody services, payment services, bills, loans and credit card business also increased.

Operating expenses increased by 2.6% year-on-year. Staff costs rose, mainly due to an increase in headcount, and investments in information technology also increased. Depreciation and other operating expenses dropped. The Group's cost to income ratio was 28.06%, maintaining a satisfactory level relative to industry peers.

The Group's net charge of impairment allowances amounted to HK\$323 million, a decrease of HK\$260 million year-on-year, as the parameter values of the Group's expected credit loss model were relatively stable in this quarter as compared with those of the same period last year. The annualised credit cost of advances to customers was 0.08%, down 8 basis points from the same period of the previous year.

2021 Q1 compared with 2020 Q4

The Group's net operating income before impairment allowances increased by 16.3% quarter-on-quarter. Net fee and commission income rose by 43.9% from the previous quarter, which was mainly attributable to a growth in commission income from securities brokerage, funds distribution and insurance. Meanwhile, commission income from loans, trust and custody services and currency exchange also increased. Including the funding income or cost of foreign currency swap contracts, net interest income dropped by 1.8% quarter-on-quarter. This was mainly due to continuously falling market interest rates, which resulted in a narrowing of the loan and deposit spread and net interest margin narrowed 5 basis points compared with the previous quarter. This decrease was partially offset by growth in average interest-earning assets. The Group proactively managed its assets and liabilities and gave full play to its competitive edges in customer base and regional development, resulting in solid growth in advances to customers, a continuous improvement in deposit mix with an increase in the average CASA ratio of 2.9 percentage points compared with the previous quarter, partially offsetting the aforementioned negative impacts.

Operating expenses decreased by 20.4% quarter-on-quarter, as staff costs, premises and equipment and business-related expenses dropped.

Net charge of impairment allowances decreased by HK\$450 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 previous quarter.

Financial Position

As of 31 March 2021, the Group's total assets stood at HK\$3,349,972 million, an increase of 0.9% from the end of 2020. Deposits from customers increased by 4.3% from the end of 2020 to HK\$2,278,178 million. Advances to customers increased to HK\$1,564,805 million, up 4.5% from the end of 2020. Adjusting for the impact of IPO-related activities, the Group's deposits from customers increased by 2.3%, mainly driven by CASA deposits. The CASA ratio was 67.6%, excluding the impact of IPO-related activities, up 0.8 percentage points from that at the end of 2020. Time, call and notice deposits were relatively stable. Adjusting for the impact of IPO-related activities, advances to customers rose by 3.9%, including an increase in loans for use in Hong Kong and trade financing while loans for use outside Hong Kong were relatively stable. The Group's asset quality was stable, 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 first quarter of 2021, the Group proactively aligned with Bank of China's strategic vision of building a first-class global banking group and leveraged Hong Kong's role as a regional financial hub to offer competitive banking services to its customers. It continued to develop the local market in Hong Kong and became the main bank of its major clients. The Group also actively captured business opportunities arising in the Guangdong-Hong Kong-Macao Greater Bay Area, improved its integrated service capabilities through collaboration with Bank of China and strengthened its strong franchise in offshore RMB business, with the aim of becoming cross-border customers' first-choice bank in the Greater Bay Area. It gave full play to its regional synergies in Southeast Asia to serve Chinese and local high-quality customers in the region, supporting its Southeast Asian entities to become mainstream foreign banks in their local markets. Moreover, the Group accelerated its digital transformation and stepped up its pandemic prevention and control measures while closely monitoring the market situation and adhering to bottom-line thinking so as to ensure steady and solid operations. BOCHK was named Strongest Bank in Asia Pacific and Hong Kong 2020 by *The Asian Banker* in recognition of its solid financial performance.

In **Personal Banking business**, the Group continued to expand its online wealth management and payment products and services by launching “PlanAhead”, a one-stop wealth planning service featuring “Wealth Planning Service” and “Smart Invest”, on its mobile banking channel. Through gap analysis of customers’ financial situations and goals, “PlanAhead” provides customers with professional asset allocation information and a variety of product solutions to assist them in planning their financial goals at all stages of life. In line with the aim of further expanding its Private Wealth and mid- to high-end customer base, the Group launched the “RM Chat” service for Private Wealth customers, providing them with a secure and convenient way to communicate with its team of relationship managers directly via mobile banking, and enabling designated relationship managers to swiftly follow up with customers’ transaction requests. The Group also introduced 21 private banking bonds during the quarter, including four RMB bonds, to enrich customer choice. In addition, the Group remained committed to enhancing customer experience in e-payment services, introducing an e-LaiSee service on BoC Pay and mobile banking that enabled customers to send red packets in a more convenient and environmentally friendly way. To facilitate customers’ day-to-day consumption needs, the Group strengthened cooperation with its strategic partners, including dining and food delivery mobile applications, to promote BoC Pay as an in-app payment option and so further integrate mobile payments into customers’ living ecosphere. It provided its BoC Bill integrated billing service to a public bus company as well as the HKSAR Government’s new parking meter system project, supporting diversified e-payment options and offering convenience to its customers, in order to further integrate transportation scenarios and thus promote Hong Kong as a smart city.

In **Corporate Banking business**, the Group stepped up its efforts to promote business development in countries along the Belt and Road and in Southeast Asia, and strengthened collaboration in the Asia-Pacific region in order to foster the synergistic development of its regional business. It continued to enhance cooperation with Bank of China’s branches in the 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 and the Beijing-Tianjin-Hebei region. It also captured policy and market opportunities and actively supported the cross-border financial needs of key business sectors and customers in the areas of new infrastructure and technology innovation in the Mainland by enhancing RMB products and services innovation. The Group strengthened its cooperation with leading local corporates as well as high-quality commercial and SME customers in Hong Kong by providing integrated financial services to satisfy their diversified business needs. It proactively undertook its corporate social responsibilities and promoted inclusive finance by collaborating with HKMC Insurance Limited to implement the optimised measures for the Guarantee Products and Special 100% Loan Guarantee under the SME Financing Guarantee Scheme, and offering 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. In addition, the Group continuously enriched its green finance products and services, launching the SME Green Financing Incentive Scheme to encourage and assist clients’ transformation towards sustainable development. During the quarter, the Group completed a number of syndicated loan and bond issuance projects with significant market influence, and continued to maintain its market leadership as an IPO main receiving bank. It further accelerated the development of key products such as cash pooling business and continuously improved its online service capabilities in order to enhance customer experience.

In the **Treasury Segment**, the Group actively captured market opportunities, strengthened regional collaboration and achieved satisfactory growth in trading business. It strengthened its online trading and service capabilities through continuous upgrade and reform of its trading system, which led to rapid growth in its online business. By closely monitoring market changes and constantly remaining alert to risks, the Group took a cautious approach to managing its banking book investments. It actively responded to changes in market interest rates and proactively managed risks in order to continuously optimise the portfolio mix of its banking book investments, achieving solid returns. During the quarter, it launched the Hong Kong PBoC Bills Repo Business Market-making Mechanism, promoting the development of the offshore RMB bond repo market.

Regarding its **regional business**, the Group continued to implement integrated collaboration and successfully expanded its major businesses and customer base in the region. Its Intelligent Global Transaction Banking Platform (“iGTB”), Enterprise Resources Planning Integration service and BoC Bill were gradually rolled out in the Southeast Asian region, reflecting the Group’s ongoing commitment to digital transformation and financial product innovation. The Manila Branch launched its RMB clearing bank service on 16 January 2021. BOC Malaysia was granted direct participant qualification by the Cross-border Interbank Payment System (CIPS). BOC Thailand strengthened the promotion of its RMB business, leading to rapid growth in RMB exchange transaction volume. The Brunei Branch successfully settled its first RMB bond investment business.

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 2021.**

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 2021

As at the date of this announcement, the Board comprises Mr. LIU Liange (Chairman), Mr. SUN Yu (Vice Chairman and Chief Executive), Mr. LIN Jingzhen*, 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*