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 2023

## 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 2023.

The first quarter of 2023 saw a complex and challenging operating environment. With the headline inflation rate in the US declining but staying high, the Federal Reserve continued to raise the benchmark rate. Despite uncertainty in financial systemic risks and geopolitical developments in Europe, the European Central Bank continued to increase the benchmark rate in order to curb inflationary pressure. In the Chinese mainland, where demand for production improved while employment and price levels remained largely stable, the People's Bank of China cut the reserve requirement ratio by 25 basis points. The Southeast Asian economy continued to recover, with diverged monetary policies among the region's central banks and volatile exchange rates of Southeast Asian currencies.

Despite global financial markets becoming increasingly volatile, Hong Kong's financial system remained effective and its banking system robust. Both imports and exports of merchandise trade fell year-on-year. Retail sales improved as the border reopening buoyed consumer confidence and unemployment rate continued to decline.

**Financial Performance Highlights**

- In the first quarter of 2023, the Group's net operating income before impairment allowances increased by 12.3% from the same period last year and 9.2% from the previous quarter.
- If the funding income or cost of foreign currency swap contracts were included, net interest income would have increased by 39.3% year-on-year while net interest margin would have widened by 42 basis points to 1.50%, as a result of higher market interest rates compared with those of the same period last year. Net interest margin would have narrowed 15 basis points quarter-on-quarter as HKD market interest rates dropped from the previous quarter.
- Net fee and commission income decreased by 17.8% compared with the same period last year, but increased by 25.1% from the previous quarter. The quarter-on-quarter rise was mainly attributable to the rebound in loan commissions and an increase in commission income from credit card business and currency exchange, resulting from the recovery in consumer confidence and travel.
- Solid growth was achieved in deposits from customers and advances to customers, which increased by 5.5% and 4.3% respectively from the end of 2022.
- Loan quality remained benign, with the classified or impaired loan ratio standing at 0.50%, down 0.03 percentage points from the end of 2022.
- Liquidity coverage ratio, net stable funding ratio and capital ratio remained stable.

## Financial Performance

The table below summarises the key performance figures of the Group in the first quarter of 2023:

| Key Performance Figures of the Group | | | | | |
|---|---|---|---|---|---|
| *HK$'m, except percentages* | **2023 Q1** | (Restated) 2022 Q1 | (Restated) 2022 Q4 | Compared with 2022 Q1 | Compared with 2022 Q4 |
| Net operating income before impairment allowances | **15,233** | 13,570 | 13,955 | +12.3% | +9.2% |
| Operating expenses | **(3,871)** | (3,622) | (5,620) | +6.9% | -31.1% |
| Operating profit before impairment allowances | **11,362** | 9,948 | 8,335 | +14.2% | +36.3% |

# The Group has adopted Hong Kong Financial Reporting Standard 17, "Insurance Contracts" effective from 1 January 2023, with comparative information for 2022 restated accordingly.

*2023 Q1 compared with 2022 Q1*

In the first quarter of 2023, the Group's net operating income before impairment allowances increased by 12.3% year-on-year to HK$15,233 million. If the funding income or cost of foreign currency swap contracts were included, net interest income would have increased by 39.3% year-on-year to HK$11,867 million. Net interest margin stood at 1.50%, up 42 basis points from the same period last year, mainly attributable to higher market interest rates this year compared to the same period in the previous year. The Group proactively managed its assets and liabilities, which led to a widening of the loan and deposit spread and an increase in the average balance of advances to customers. Net fee and commission income decreased by 17.8% on a year-on-year basis to HK$2,505 million. The drop was mainly attributable to weakened investor confidence in the market, a decline in imports and exports, and a limited positive impact on intermediary businesses by the initial post-pandemic economic recovery. As a result, commission income from loans, securities brokerage, funds distribution and management, insurance, bills and payment services decreased. Meanwhile, commission income from credit card business and currency exchange increased, mainly because the border reopening boosted consumer confidence and travel. Commission income from trust and custody services also increased. The Group optimised the investment mix of its banking book portfolio, leading to reduced volatility in the mark-to-market value of certain interest rate instruments caused by market interest rate movements, and thus a year-on-year decrease in net trading gain.

Operating expenses increased by 6.9% year-on-year. The Group remained committed to allocating resources efficiently in order to meet its basic operating needs and ensure strategic implementation, while optimising its existing cost base to achieve balanced growth in expenses and income. It also implemented low-carbon operational initiatives, refined cost management mechanisms, optimised cost planning and explored utilising internal resources to meet additional requirements. Staff costs, information technology, advertising and telecommunications expenses rose, while charitable donations and business promotional expenses decreased. The Group's cost to income ratio was 25.41%, maintaining a satisfactory level relative to industry peers.

The Group's net charge of impairment allowances decreased by HK$626 million year-on-year to HK$293 million. This was mainly due to improved parameter values of the Group's expected credit loss model in the first quarter, driven by the positive macroeconomic outlook. The annualised credit cost of advances to customers and other accounts was 0.08%, down 15 basis points from the same period of the previous year.

*2023 Q1 compared with 2022 Q4*

The Group's net operating income before impairment allowances increased by 9.2% quarter-on-quarter. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have decreased by 15 basis points compared with the previous quarter. This was mainly owing to the drop in HKD market interest rates from the previous quarter, and deposit costs staying high amid intense competition on customer deposits. This saw a narrowing of the loan and deposit spread, with the result that net interest income decreased by 9.1% quarter-on-quarter. Net fee and commission income rose by 25.1% from the previous quarter, mainly driven by growth in commission income from loans, currency exchange and credit card business. Meanwhile, commission income from insurance, securities brokerage, payment services, bills, and trust and custody services decreased.

Operating expenses decreased by 31.1% quarter-on-quarter, as staff costs, premises and equipment and business-related expenses dropped.

Net charge of impairment allowances decreased by HK$366 million quarter-on-quarter. This was because there was a higher base for comparison resulting from the impairment allowances made in the previous quarter related to the downgrading of certain corporate advances.

**Financial Position**

As of 31 March 2023, the Group's total assets amounted to HK$3,758,966 million, an increase of 2.5% from the end of 2022. This was largely due to an increase in advances to customers, as well as securities investments and other debt instruments. Deposits from customers increased by 5.5% from the end of 2022 to HK$2,507,553 million. Time, call and notice deposits increased, while CASA deposits decreased. The CASA ratio was 48.9%, down 2.8 percentage points from where it was at the end of 2022. Advances to customers increased to HK$1,718,379 million, up 4.3% from the end of 2022. There was broad-based growth, with an increase in loans for use in Hong Kong, loans for use outside Hong Kong and trade financing. Asset quality was benign, with the classified or impaired loan ratio standing at 0.50%. The Group's liquidity coverage ratio, net stable funding ratio and capital ratio remained stable.

**Business Review**

In the first quarter of 2023, the Group intensified the implementation of Bank of China ("BOC") Group's 14th Five-Year Plan. It continued to deepen its local market presence by capturing business opportunities resulting from the gradual improvement of Hong Kong's economic environment and the HKSAR Government's post-pandemic measures to boost the economy and enhanced its integrated service capabilities with a view to sharpening core competitive advantages. It proactively engaged in the opening up of the Chinese mainland's economy and bolstered cross-border collaborations within the Greater Bay Area, while maintaining its prominent position in RMB business. It seized regional development opportunities and enhanced the quality of its regional businesses. Adhering to its ESG philosophy for sustainable and high-quality development, the Group gave full play to its leading role in facilitating the financial sector's support for low-carbon transition. It consolidated its technological foundations to advance digital transformation, and implemented a comprehensive risk management regime to uphold its bottom-line defence against risk.

In **Personal Banking business**, the Group enriched its products and services for Private Wealth customers. It launched its corporate bond trading service on mobile banking, which enables the professional investors within Private Wealth to trade through multiple channels. To enhance the bespoke banking experience for customers, it accelerated the setting up of Private Wealth centres that facilitate face-to-face wealth management services for high net-worth customers. In line with its sustainable development strategy, the Group broadened its range of green finance product offerings and introduced an income-sustainable strategy fund to enable retail investors to capture green investment opportunities. It enhanced the mobile banking version of BOC Life Deferred Annuity (Fixed Term) – the market's only qualified deferred annuity plan available on mobile banking by lowering the age eligibility requirement so that more young customers can plan ahead for retirement. Seizing opportunities from the full resumption of normalcy and travel, the Group actively reached out to its cross-border customers through multiple channels. This resulted in significant growth in the number of accounts opened in Hong Kong by cross-border customers and GBA accounts opened from the end of 2022. The Group reinforced its competitive advantages in cross-border banking services. The aggregate number of accounts opened and total amount of funds transferred for both Southbound and Northbound services of Cross-boundary Wealth Management Connect ranked among the top tier, while the number of cross-border payment transactions conducted in the mainland and overseas through BoC Pay recorded significant growth. The Group also promoted e-CNY development and launched the second phase of the related exclusive experience programme. This enabled more customers to enjoy the convenience of diversified payment options by making e-CNY payments for small-amount, high-frequency spending scenarios such as transportation and shopping. During the quarter, BOCHK was awarded the Best Retail Bank in Hong Kong and the Best Big Data and Analytics Initiative at *The Asian Banker* Global Excellence in Retail Financial Services Awards 2023.

In **Corporate Banking business**, the Group continued to strengthen its cooperation with blue chip corporates as well as commercial and SME customers in Hong Kong, providing integrated and digitalised services to meet their diversified business needs. In order to participate in the integrated development of the Greater Bay Area, it captured opportunities from the mutual market access policies and further enhanced its business collaboration with BOC entities in the Greater Bay Area, supporting the cross-border financial needs of key industries and customers with diversified products and services. During the quarter, the Group proactively captured opportunities from fintech development by providing underwriting and custodian services for HKSAR Government's inaugural tokenised green bond offering. To consolidate its service franchise, the Group accelerated the development of key products such as cash pooling business. It also improved its online service capabilities, with the total number of "BOC Connect" users registering a steady growth. The Group launched the e-Laisee service for corporate clients for the second consecutive year, with the total amount of e-Laisee distributed tripled year-on-year. The Group also supported the recovery of the tourism industry via digital payment services. It launched an efficient and convenient online payment collection solution for an internationally renowned airline, boosting operational efficiency and giving passengers a safe, efficient and convenient electronic payment experience. Meanwhile, the Group further developed its green finance suite of products and services by arranging several green and sustainability-linked customer loans and promoting green deposit schemes, continuously enhancing its stature as a green bank.

In the **Treasury Segment**, the Group proactively responded to market changes and maintained stable growth in its trading business. Through constant technological advancements, the Group enhanced its online servicing and transaction processing capabilities. It remained committed to promoting synergistic development of diversified products and integrated services, with satisfactory results recorded in client business. It placed emphasis on cultivating the offshore RMB market by expanding scenario-based applications of RMB, further consolidating and enhancing its professional reputation in RMB business. The Group continued to take a cautious approach to managing banking book investments and closely monitored worldwide interest rate adjustments. It actively responded to market volatility and took a pre-emptive approach to managing risk while seeking fixed-income investment opportunities to enhance returns. It continued to enrich its green finance solutions to meet the market's diverse needs, and executed its first green RMB reverse repo transaction with funds obtained to support sustainable development projects.

Regarding its **Southeast Asian business**, the Group implemented the concept of regional integration in depth, enhancing its collaboration with its Southeast Asian entities and BOC entities in the Asia-Pacific region. It capitalised on opportunities from the Regional Comprehensive Economic Partnership (RCEP), with an emphasis on the development of Belt and Road and "Going Global" projects as well as large corporate customers in the region. It also refined the diversity of its products and services, and enhanced customer acquisition and activation capabilities. At the same time, the Group actively facilitated the development of a green economy in the region, with a view to helping clients transform their businesses towards sustainable development. The Group continued to push forward its management-by-business-unit approach across its Southeast Asian entities, in line with its dedication to enhancing RMB trading capabilities and continuously improving products, services and risk management. In response to the consistent growth of bilateral trade between China and Thailand, and the rising demand for cross-border RMB transactions, BOC Thailand was granted a direct participating bank qualification by the Cross-border Interbank Payment System (CIPS), allowing business processing procedures to be further simplified. The Group pushed forward the development of green finance and payment solutions in the Southeast Asian region. Phnom Penh Branch launched an integrated payment service for the digital ticketing platform of Angkor Wat in Cambodia, providing a safer and more convenient payment experience for tourists. Vientiane Branch became the first commercial bank in Laos to provide UnionPay, WeChat, and Alipay online payment services. The Group made concerted efforts to optimise the clearing system of its Southeast Asian entities to enhance their local clearing capabilities and comply with local regulatory requirements. It deployed a regional integrated platform for customer data input and account opening to its Southeast Asian entities such as BOC Thailand, Ho Chi Minh City Branch, Manila Branch, Phnom Penh Branch, Vientiane Branch and Yangon Branch, with the aim of reducing account opening time.

## 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 2023.**

**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, 28 April 2023

*As at the date of this announcement, the Board comprises Mr GE Haijiao* (Chairman), Mr LIU Jin* (Vice Chairman), Mr SUN Yu (Vice Chairman and Chief Executive), Mr LIN Jingzhen*, Madam CHENG Eva**, Dr CHOI Koon Shum**, Madam FUNG Yuen Mei Anita**, Mr KOH Beng Seng**, Mr LAW Yee Kwan Quinn**, Mr LEE Sunny Wai Kwong** and Mr TUNG Savio Wai-Hok**.*

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