BOC Hong Kong (Holdings) Limited
(“The Company”)
Shareholders’ Q&A
Following the Annual General Meeting on 29 June 2023

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Attendees: Senior Management

Mr Sun Yu (Chief Executive)

Mdm Jiang Xin (Chief Risk Officer)

Mr Liu Chenggang (Chief Financial Officer)

Mr Xu Haifeng (Deputy Chief Executive)

Mr Xing Guiwei (Deputy Chief Executive)

Mr Chan Man (Deputy Chief Executive)

Company Secretary

Mr Luo Nan

Following the Annual General Meeting held on 29 June 2023, with the authorisation of the Board of Directors and chairmen of each affiliated committees, the Management of the Company (and its affiliated companies, collectively known as “the Group”) attended the shareholders’ Q&A session. Details are as follows:

1. **A shareholder said that the shareholders are very pleased with the increase in dividend payout ratio for 2022. With the economic recovery under way, banks’ profitability should continue to improve. Will dividend payout for 2023 see further increase?**

Chief Financial Officer Liu Chenggang thanked the shareholder for the question and replied that the Board and the senior management highly understood shareholders’ concern and expectations on dividend. For a long time, we have been endeavouring to balance between shareholders' interest maximisation and BOCHK's long-term development realising long-term stability of dividend returns. In 2022, we captured the rate hike cycle and strived to grow our profit while reasonably managing the size of risk-weighted assets and continuously enhancing capital returns, so as to create favourable conditions for generating sensible shareholder returns. For 2022, the Board has recommended a final dividend of HK$0.91 per share, and including the interim dividend, our full year dividend would have increased by 20.1% year-on-year to HK$1.357.

We strongly believed that consistent profit growth is a critical factor for stable dividend returns. We will firmly take advantage of a high interest rate environment and the economic recovery, continue to pursue progress while seeking stability and adhere to risk bottom line. We will capture market opportunities and increase quality of development with a view to driving solid profit growth and maintaining sufficient capital levels.

For 2023, we will continue to determine our dividends based on the payout ratio guidance of 40-60%. Specifically, we will take full consideration of shareholder returns, regulatory requirement, changes of risk and of our capital structure, business development opportunities arising from economic recovery, as well as our profit levels, so as to constantly evaluate our capital needs. Meanwhile we will strive to increase capital utilisation efficiency and sensibly decide on the full-year dividend payout level. Overall speaking, we will endeavour to realise steady dividend growth within our risk appetite while doing our best to increase profit.

2. **A shareholder said Hong Kong banks were affected by the Chinese real estate sector that caused an increase in both non-performing loans and provision charges in 2022, and asked that with economic development of the Chinese Mainland and Hong Kong both stabilising and turning positive, what's the management outlook on the non-performing loan ratio and provision charges for this year?**

Chief Risk Officer Jiang Xin thanked the shareholder for the question and responded that as of end of March this year, our non-performing loan (NPL) ratio was 0.50%, dropping by 3 basis points from the end of last year and notably outperforming the authorised institutions in Hong Kong which reported an NPL ratio of 1.45% on average. Our overall credit quality was stable and good with sufficient impairment allowances standing at 0.69% of total loan balances.

In the first quarter of this year, the Chinese Mainland and Hong Kong achieved a GDP growth of 4.5% and 2.7% respectively, both showing notable improvement. For 2023, benefitted from the economic recovery in Hong Kong, some sectors such as trade, aviation, food & beverage and tourism will continue to improve. However, factors such as high global inflation and geopolitics will bring challenges to the global economic recovery. At the same time, a high interest rate environment will also weigh on the repayment capability of customers.

Overall speaking, potential risk to our asset quality outlook could come from the latent risk after the expiration of relief measures in the Southeast Asian countries, while the recovery progress of Chinese property developers also needs to be further observed depending on the effectiveness of the supportive policies of the nation and the improvement magnitude of consumer confidence. We will pay close attention, monitor the operating status of our customers and take corresponding control measures, so as to ensure a stable and controllable asset quality. We expect the NPL ratio may increase somewhat while the overall credit risk remains manageable and impairment allowances will be sufficient.

3. A shareholder said that the people flow on the street had markedly rebounded since Hong Kong reopened its borders with the Chinese Mainland as well as other places this year. Has BOCHK seen notable improvement in customer growth and product sales? How did the personal banking business perform in the first half of this year?

Deputy Chief Executive Chan Man thanked the shareholder for the question and replied that the reopening of borders and of economies of Hong Kong and the Chinese Mainland has brought to us more face-to-face interaction with customers, allowing us to provide convenient, comprehensive and high-quality personal wealth management and financial services.

To embrace the border reopening between the Chinese Mainland and Hong Kong, we started making full preparation in the early stage since the end of last year and used multiple channels to strengthen cross-border connection with customers so as to stimulate their demand. In terms of payment business, in the first five months of the year, we recorded about 1.5-time year-on-year increase in BoC Pay cross-border payment transaction numbers and about 1-time growth in daily average spending volume in the Chinese Mainland market with BOC credit card business. In terms of wealth business, the number of accounts opened under “BOC Cross-boundary Wealth Management Connect” grew by close to 2.2 times while the sales volume of insurance policies to cross-border customers went up by about 9.4 times. In terms of customer base, the number of new accounts opened under “GBA Account Opening Service” increased by close to 4.8 times year-on-year, while the number of new cross-border customers also increased by about 4.7

times, which were 55% higher compared with the same period in 2019 before Covid.

Aside from cross-border business, we took advantage of the improved market sentiment and vigorously developed wealth management business. In our Private Wealth business, we understood the rising demand for wealth succession service from high-end customers and offered them with the “Star Legacy Private Wealth Whole Life Plan” – a tailored insurance and wealth solution that satisfies customer need for protection, wealth creation and succession. We also set up Private Wealth centres to provide dedicated and personalised banking services to high-net worth individuals. We optimised the products and services for wealth and succession under Private Banking, continuously promoted digitalisation and strengthened professional team development, so as to enhance the private banking service capability across Hong Kong, Greater Bay Area and Southeast Asian markets. Meanwhile we witnessed robust growth in funds distribution sales volume since the border reopening this year with notable year-on-year growth of transaction volume from both local and cross-border customers. In addition, we proactively planned to increase ESG fund choices to push for sustainable development and enrich our green finance product shelf to help retail investors to capture green investment opportunities.

While achieving continued growth in the numbers and AUM of our high-end customers, our efforts were also widely recognised by the market. In the first half, we honourably received the “Excellence in Retail Financial Services Award 2023” and “Best Retail Bank in Hong Kong” by “The Asian Banker”. In the future, we will continue working diligently and strive to provide high-quality banking services to all retail customers.

4. A shareholder expressed that nowadays the society concerned about sustainable development and what targets and plans did BOCHK have regarding environmental protection and climate risk control for this year?

Chief Executive Sun Yu thanked for the question and replied that global warming and climate risk have become one of the most concerned topics of the general public in recent years. Regulatory requirements on climate risk management and disclosure have also been increasing.

BOCHK actively integrated into the national green development strategy, closely followed the development direction of the HKSAR Government in green and sustainable finance and aligned with the Group’s strategy to implement its sustainability strategy and plans in a solid manner. We proactively satisfied the regulatory requirements and established a full-journey climate risk management framework under the principle of managing risk and capturing opportunities. At the same time, we vigorously developed green finance business and promoted green and sustainable transition of customers. We are very pleased to have received the highest AAA rating from MSCI ESG research in the second consecutive year in 2022. We would also soon release our first TCFD report. In addition, we have already set a carbon neutrality goal in our own operations in 2030 and commenced the quantity estimation of carbon emissions concerning our customers' financing and investment portfolio, so as to lay a solid foundation for our own carbon neutrality goal.

In the next step, we will continue to deepen the implementation of our sustainability strategy and innovation of green and sustainable finance products, as part of our green transition efforts. We will also make reference to regulatory requirements and market best practice to build and enhance our risk management mechanism, in order to strengthen our climate risk management capability especially related to green washing risk. At the same time, adhering to our carbon neutrality goal in operations set for 2030, we will firmly follow our action plans in energy conservation and emissions reduction, and make positive contributions to the carbon neutrality goals of our country and Hong Kong.

5. **A shareholder asked that given the Covid impact on the world was gradually decreasing, would BOCHK accelerate its Southeast Asian business growth and what strategy would be used to achieve growth while controlling risk?**

Deputy Chief Executive Xu Haifeng thanked the shareholder for the question and replied that as the world is emerging out of the Covid impact, we have seen an increase in the local demand in the Southeast Asian markets, driven by the rapid recovery in the service industry especially the tourism. This, together with the continued policy dividends released by the RCEP, it is expected that the economic recovery of the ASEAN countries will continue. However, factors such as high inflation, geopolitics and weaken external demand will also create challenges to their domestic economies.

Amid such a market environment, we will further enhance our integrated and regional management mechanism and strengthen the lead of the headquarters. We will firmly capture the opportunities arising from the closer trade and economic cooperation in the Asia Pacific under RCEP, and continue to focus on the demand from Belt and Road initiative, going-global Chinese enterprises and the large regional corporations. We will deepen our collaboration with the sister institutions onshore and branches and institutions in the Asia Pacific region, in order to upgrade the level of our integrated services for regional and multinational customers and solidly enhance our market competitiveness to achieve solid development in the Southeast Asian business.

In addition, we will continue our efforts in RMB business, sustainable development and digitalisation. We will support RMB usage, cooperate with mainstream financial institutions in the region and provide integrated RMB products and services to our customers. We will facilitate sustainable economic development in the region through providing diversified financial services to help customers on their low-carbon transition by leveraging the Hong Kong headquarters' experience in ESG business. By driving forward our digital development, we will enhance customer experience while increasing our regional market competitiveness through digital empowerment. Meanwhile we will adhere to the bottom-line thinking and continuously enhance our forward-looking risk management capability to prevent potential risk. We will also promote intensive operations in the region and increase the effectiveness of our compliance management and control to safeguard against systemic risk.

6. A shareholder said that market interest rates had been volatile since early this year with HKD aggregate balance falling to a low level, given the 1-month HIBOR rate was standing at a high level at the moment, would it benefit the recent performance of BOCHK's net interest margin? What is the second half outlook?

Chief Financial Officer Liu Chenggang thanked the shareholder for the question, and replied that banking industry is an interest rate sensitive sector and banks' net interest margin (NIM) performance is closely related to the movement of HKD interbank interest rate. In the first quarter, due to the risk incidents of some U.S and European banks as well as the moderated inflation pressure in the U.S, market expectations on interest rate hike by the Federal Reserve has been reduced, leading to a volatile performance of HKD interbank interest rates, which fell to a recent low in mid-February. At the same time, intense deposit competition also pushed up deposit cost, both factors created strong pressure on NIM. In the first quarter, our adjusted NIM was 1.50%, up 42 basis points year-on-year, but down 15 basis points compared with the previous quarter. Since the beginning of the second quarter, especially in May and June, HIBOR rebounded notably which helped improve NIM performance. It is expected that the second quarter NIM should stabilise and recover from the first quarter.

Looking ahead, due to the existing global inflation pressure, the market is widely expecting market interest rates could stay at relatively high levels throughout this year. We will continue to monitor market changes and dynamically adjust our asset and liability mix with a forward-looking approach. We are confident that we will maintain solid growth in both net interest income and NIM for the full year.

7. **Via webcast system, a shareholder expressed that economic sentiment has notably improved since the border reopening this year with strong increase in people flow across the border, while mutual market access scheme has also made new progress, what are the major highlights for the Great Bay Area business for BOCHK in the future?**

Chief Executive Sun Yu thanked for the question and replied that the substantial recovery of cross-border tourist numbers since the border reopening of the Chinese Mainland and Hong Kong notably improved market sentiment. We focused on three major Greater Bay Area service scenarios of transportation, shopping and food & beverage, and vigorously promoted cross-border business growth. We witnessed strong growth in cross-border payment business, cross-border account opening numbers, credit card consumption and insurance sales volumes. We also continuously drove the development of mutual market access scheme businesses and achieved leading position in the “Cross-boundary Wealth Management Connect” and “Bond Connect” while our Great Bay Area corporate loans grew solidly.

At the same time, the government also continued to launch beneficial policies. In February this year, the announcement of the Opinion on Providing Financial Support for the Comprehensive Deepening Reform and Opening-up of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone will offer strong support for Hong Kong’s integration into the landscape of the national financial opening-up and the elevation of its status as an international financial centre.

In the next step, we will grasp the market opportunities and deepen our integrated and coordinated development in the Greater Bay Area, and continue to increase our business scale and market shares, in order to consolidate our position as the first choice cross-border bank.

In the retail business, we will firmly focus on high-end customer base expansion, product innovation, service journey and integration of collaboration mechanism, while centring on the products such as “BOC Cross-boundary Wealth Management Connect”, “GBA Account Opening Service” and GBA Loans. We will continue to drive cross-border flow using cross-border payment as a key tool and serve customers under the three major scenarios of transportation, shopping and food & beverage. We will also continue to enrich RMB product shelf and auxiliary services. By doing all of the above, we aim to establish a leading position in the Great Bay Area.

In the corporate business, we will align with the national plan of Greater Bay Area development and capture the opportunities from the deepening integration of Greater Bay Area development. We will make use of our cross-border finance, technology finance and green finance as a key driver for the Great Bay Area business. Meanwhile, we will proactively support the planning and construction of the Northern Metropolis of Hong Kong. By leveraging the advantages of BOC Group and the relationships with business partners, we will provide full support to the relevant plan as well as business and investment promotion activities.

8. Via webcast system, a shareholder asked that given the consecutive interest rate hikes by the U.S this year while Hong Kong banks had also increased the HKD prime rate, what was the outlook of property transaction volume and pricing for this year and what was BOCHK's strategy and outlook on its mortgage business?

Deputy Chief Executive Chan Man thanked for the question and replied that certainly property prices and the market trends have been one of the key concerns of Hong Kong people. In the first five months of this year, the CCL Leading Index rose by 6.4% while the residential property transaction numbers grew 12.2% year-on-year to 22,609. These data reflected the improvement in the property market, driven by the positive impact of the full relaxation of the preventive Covid measures and the recovery of the local economy although a low base was set in the same period of the previous year.

Since the beginning of this year, we have closely followed the market changes and dynamically adjusted our customer-specific pricing strategy while launching different sales and marketing strategies to target primary market, public housing market, secondary market and remortgage market. We have also strengthened collaboration with developers and mortgage referral agency to enhance market awareness and mortgage referral volume. We have proactively promoted the usage of online application and deployed big-data technology to increase the sales and marketing accuracy of our targeted customer groups. All these efforts have helped increase our overall competitiveness. As of end of May, we achieved a 27.19% market share in terms of cumulative new mortgage transaction numbers and maintained our market leading position.

Looking into the second half, as Hong Kong's economy further normalises, it will bring certain support to the local residential property market, though the continued high interest rate environment will restrain the appetite of property buyers. Overall speaking, the property market will show a rising trend amid stability and it is expected that the residential property market will see moderate growth in both transaction volume and prices.

BOCHK will continue to leverage the advantage of the biggest branch network in Hong Kong and improve its online and offline integrated service, so as to meet the diversified mortgage demand of potential home buyers. We will also closely monitor market changes and retain reasonable flexibility in mortgage loan pricing, so as to balance earnings and market share, with the view to delivering a stable growth in the mortgage business and consolidating our leading advantage.