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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)*

**Stock Codes: 2388 (HKD counter) and 82388 (RMB counter)**

## **FINANCIAL AND BUSINESS REVIEW FOR THE THIRD 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 BOC Hong Kong (Holdings) Limited (the “Company”) and its subsidiaries (collectively known as the “Group”) in the third quarter of 2023.

In the third quarter of 2023, the operating environment remained complex and challenging. With headline inflation in the US easing but staying high, the Federal Reserve continued to raise the benchmark rate. Despite uncertainty in geopolitical developments in Europe, the European Central Bank continued to raise the benchmark rate to curb inflationary pressures. In the Chinese mainland, where production demand improved and price levels remained largely stable, the People’s Bank of China adopted counter-cyclical measures, including lowering the reserve requirement ratio and interest rates, so as to maintain reasonable and abundant liquidity in the banking system. 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 the increased volatility in global financial markets, Hong Kong’s financial system remained effective and its banking system robust. Imports and exports of merchandise trade remained under pressure, retail sales improved as the HKSAR Government introduced a series of measures to boost consumption, and the unemployment rate continued to decline.

### **Financial Performance Highlights**

- In the first nine months of 2023, the Group’s net operating income before impairment allowances increased by 20.8% compared with the same period of the previous year, while that of the third quarter increased by 14.0% from the previous quarter.
- If the funding income or cost of foreign currency swap contracts were included, net interest income would have increased by 35.0% and net interest margin would have expanded by 36 basis points year-on-year to 1.62%, as a result of the Group proactively managing its assets and liabilities to capture opportunities from rising market interest rates. In the third quarter, if the funding income or cost of foreign currency swap contracts were included, net interest income and net interest margin would have increased by 10.5% and 10 basis points respectively on a quarter-on-quarter basis.
- Owing to weakened investor confidence in the market, and dampened trade and credit demand, net fee and commission income decreased by 7.4% year-on-year, while that of the third quarter decreased by 4.3% from the previous quarter.
- Solid growth was achieved in deposits from customers and advances to customers, which increased by 5.9% and 3.0% respectively from the end of 2022.
- Classified or impaired loan ratio was 0.89%, which remained below the market average.
- 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 nine months ended 30 September 2023 and in the third quarter of 2023:

Key Performance Figures of the Group						
HK\$m, except percentages	Nine months ended		Year-on-year change	Quarter ended		Quarter-on-quarter change
	30 Sep 2023	(Restated) 30 Sep 2022		30 Sep 2023	30 Jun 2023	
Net operating income before impairment allowances	<b>48,624</b>	40,260	+20.8%	<b>17,786</b>	15,605	+14.0%
Operating expenses	<b>(12,079)</b>	(11,330)	+6.6%	<b>(4,227)</b>	(3,981)	+6.2%
Operating profit before impairment allowances	<b>36,545</b>	28,930	+26.3%	<b>13,559</b>	11,624	+16.6%

# The Group has adopted Hong Kong Financial Reporting Standard (“HKFRS”) 17, “Insurance Contracts”, effective from 1 January 2023. The requirements of HKFRS 17 have been applied retrospectively, with comparative information restated for the financial year of 2022 (previously published under HKFRS 4).

### *Nine months ended 30 September 2023 compared with the same period in 2022*

In the first nine months of 2023, the Group’s net operating income before impairment allowances increased by 20.8% year-on-year to HK\$48,624 million. If the funding income or cost of foreign currency swap contracts were included, net interest income would have increased by 35.0% year-on-year to HK\$39,483 million. Net interest margin stood at 1.62%, up 36 basis points from the same period last year. This was mainly attributable to the Group’s efforts to seize opportunities from rising market interest rates. 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 and debt securities investments. Net fee and commission income decreased by 7.4% on a year-on-year basis to HK\$7,220 million. The drop was mainly due to weakened investor confidence in the market, a decline in imports and exports, and dampened trade and credit demand. As a result, commission income from securities brokerage, insurance, funds distribution and management, loans, bills and payment services decreased. Meanwhile, commission income from credit card business and currency exchange increased, mainly due to increased consumer confidence and travel following the reopening of Hong Kong’s borders. 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. This resulted in a year-on-year decrease in net trading gain.

Operating expenses increased by 6.6% year-on-year. The Group enhanced its brand promotion and marketing in view of the improved market environment, and incurred higher daily operating and business-related expenses in light of the gradual resumption of economic activities. As a result, staff costs rose, along with business promotion, information technology, advertising and telecommunications expenses. The Group’s cost to income ratio was 24.84%, maintaining a satisfactory level relative to industry peers.

The Group's net charge of impairment allowances increased by HK\$991 million year-on-year to HK\$2,680 million. This was mainly due to additional impairment allowances made this year in response to the downgrading of certain corporate advances and deterioration of several non-performing customers. These offset the reversal of impairment allowances driven by improvements to the parameter values of the Group's expected credit loss model made in response to a more positive macroeconomic outlook. The annualised credit cost of advances to customers and other accounts was 0.22%, up 0.07 percentage points from the same period of the previous year.

### *2023 Q3 compared with 2023 Q2*

In the third quarter of 2023, the Group's net operating income before impairment allowances increased by 14.0% quarter-on-quarter to HK\$17,786 million. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have increased by 10 basis points compared with the previous quarter to 1.72%. In the same context, net interest income would have increased by 10.5% quarter-on-quarter to HK\$14,495 million, as a result of the Group's proactive management of its assets and liabilities amid rising market interest rates, resulting in a widening of the loan and deposit spread. Net fee and commission income decreased by 4.3% from the previous quarter, mainly due to a drop in loan commissions amid further weakening of credit demand in the market. Commission income from insurance and funds distribution also decreased, while that from securities brokerage, currency exchange, trust and custody services, payment services and bills increased.

Operating expenses increased by 6.2% quarter-on-quarter, as staff costs, information technology and business-related expenses increased, while depreciation and amortisation decreased.

Net charge of impairment allowances amounted to HK\$1,511 million, up HK\$635 million quarter-on-quarter. This was mainly due to additional impairment allowances made in response to the downgrading of certain corporate advances in the third quarter.

### **Financial Position**

As of 30 September 2023, the Group's total assets amounted to HK\$3,940,290 million, an increase of 7.5% from the end of 2022. This was primarily due to an increase in securities investments and other debt instruments, as well as advances to customers. During the quarter, BOCHK completed the redemption of all of the undated non-cumulative subordinated Additional Tier 1 capital securities. Deposits from customers increased by 5.9% from the end of 2022 to HK\$2,516,788 million. Time, call and notice deposits increased, while CASA deposits decreased. The CASA ratio was 45.4%, down 6.3 percentage points from where it was at the end of 2022. Advances to customers increased to HK\$1,697,970 million, up 3.0% from the end of 2022, with an increase in loans for use in Hong Kong and trade financing and a decrease in those for use outside Hong Kong. Classified or impaired loan ratio stood at 0.89%, which remained below the market average. The Group's liquidity coverage ratio, net stable funding ratio and capital ratio remained stable.

## Business Review

In the third quarter of 2023, the Group consolidated its distinctive advantages, and continued to pursue progress while maintaining stability, thus improving its ability to advance high-quality development. It continued to deeply cultivate local business, actively improve comprehensive service capabilities and strengthen core competitive advantages by vigorously capturing business opportunities brought about by Hong Kong's gradual economic recovery, as well as a series of measures introduced by the HKSAR Government to boost the economy. The Group also deepened cross-border financial collaboration in the Greater Bay Area, reinforcing its competitive advantages in cross-border business in the Greater Bay Area and leadership in RMB business. Meanwhile, it seized regional development opportunities in establishing a new regional development landscape. Fostering ESG concepts to support sustainable and high-quality development, the Group continued to pioneer the transition to a low-carbon financial services industry. At the same time, it consolidated its technological foundations and implemented digital transformation to empower business development, while implementing a comprehensive risk management regime to maintain its bottom-line defence against risks.

In **Personal Banking business**, the Group accelerated its development as a digital bank, continuing to optimise its mobile banking experience and expand its product range. To enable customers capture foreign exchange investment opportunities, it launched a brand new foreign exchange intelligence analytic tool "FX Smart", which uses big data analytics technology to analyse foreign currency trends. To satisfy the diverse financial needs of customers at different life stages, the Group introduced the "Glamorous Glow Global Whole Life Insurance Plan". This gives customers the options of currency exchange and policy split, offering a comprehensive solution that meets their needs for insurance coverage enhancement, asset growth and legacy planning, while bringing autonomy and flexibility to their long-term financial planning. The Group also enhanced its premium brand, expanding the range of exclusive products and services offer to high-end customers. These include curated private bank-level investment plans and private bank-level bonds denominated in USD, HKD and RMB for "Private Wealth" customers. To support the consumption patterns of middle-class customers, the Group introduced the "BOC Cheers Card", which provides extra gift points for dining and travel spending. Meanwhile, the Group expanded the scope of BoC Pay to various smart travel scenarios. The scheme now covers the HKeToll top-up services, all parking meters and routes of main bus and tram services in Hong Kong, and Hong Kong-Zhuhai-Macao Bridge Port shuttle bus ticketing services. The Group also vigorously developed its cross-border businesses. To reinforce its cross-border brand "BOCHK Cross-border GO", it continuously optimised the systems and processes of its GBA Account Opening and BOCHK Cross-boundary Wealth Management Connect services by enhancing its online appointment system for account opening and introducing the banking services directory "QR e-brochure" at its branches, so as to uplift the account opening experience of southbound Chinese mainland customers at its branches. It continued to promote the cross-boundary use of e-CNY. In collaboration with Bank of China ("BOC"), it launched the "Cross-Border Shopping Festival", which enabled customers to make e-CNY payments at designated offline merchants in the Chinese mainland and Hong Kong, and across major Chinese mainland e-commerce platforms, thus consolidating its leading position in cross-border businesses within the Greater Bay Area.

In **Corporate Banking business**, the Group continuously strengthened its cooperation with local blue-chip enterprises as well as high-quality commercial and SME customers, with a view to meet their diversified business needs through integrated financial services provision. Against the backdrop of deepening integration within the Greater Bay Area, it enhanced business collaboration with BOC's institutions in the region, so as to capture cross-border business opportunities, facilitate the cross-border financing needs of key industries and target customers by offering diversified products and services. In order to provide strong support and make important contributions to the interconnectivity in the Greater Bay Area, it closely followed the HKSAR Government's development plan and related business opportunities for the Northern Metropolis area. The Group continued to facilitate financial infrastructure expansion in Hong Kong. This included supporting the Hong Kong Monetary Authority's launch of the brand new cross-border RMB remittance service via the Fast Payment System (FPS), to further enrich the cross-border fund clearing channels and contribute to promoting RMB internationalisation. During the quarter, it spared no effort in supporting the business development of local SME customers. It cooperated with the Hong Kong Productivity Council to organise a range of seminars on SME transformation and upgrade towards new industrialisation, with a view to helping customers become more competitive. The Group continuously sharpened its competitiveness in green finance. It assisted the People's Government of Hainan Province and the Shenzhen Municipal People's Government in the issuance of offshore RMB bonds in Hong Kong, covering green bonds, blue bonds, sustainability bonds and social-responsibility bonds, and arranged several green and sustainability-linked loans for its corporate customers. In addition, the Group successfully completed its first RMB dividend payment service for a H-share listed corporate, further expanding the applications of offshore RMB. It also improved its online servicing capabilities, and saw the number of users of BOC Connect, a mobile application for corporate information sharing, growing steadily.

In the **Treasury Segment**, the Group proactively responded to market changes and maintained stable growth in its trading business. Through continuous digital advancements, the Group enhanced its online servicing and transaction processing capabilities. It remained committed to developing diversified products and integrated services, achieving satisfactory results in client business. The Group cultivated the offshore RMB market by expanding scenario-based applications of RMB, which further consolidated and enhanced its professional reputation in RMB business. It actively supported mutual market access schemes such as Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, Bond Connect and Swap Connect, so as to contribute to the prosperity and development of financial markets in the Chinese mainland and Hong Kong. Meanwhile, the Group continued to play an active role in the offshore bond primary market and helped BOC to achieve a leading position in the Bloomberg Offshore RMB Bonds Underwriting League Table in the first three quarters of 2023. The Group adopted a cautious approach to managing its banking book investments and closely monitored worldwide interest rate adjustments. It responded to market volatility promptly and took a pre-emptive and proactive approach to managing and controlling risks, while seeking fixed-income investment opportunities to enhance returns. It also enriched its product mix to meet market demand for diversified green finance and sustainable development solutions.

In its **Southeast Asian business**, the Group continuously strengthened regional integrated collaboration. Leveraging its synergistic advantages and capitalising on opportunities from the Regional Comprehensive Economic Partnership (RCEP), it developed Belt and Road and “Going Global” projects as well as serving large corporate customers in the region and expanded the diversity of products and services offered. The Vientiane Branch formally launched its distinctive personal loans and deposits pledged loans, making it the Chinese bank offering the most personal loan types in Laos. It enhanced its RMB trading capabilities, improved products and services and bolstered risk management, while remaining committed to implementing digital transformation and mobile-first development strategies and enhancing online servicing capabilities in Southeast Asia. The Phnom Penh Branch and Vientiane Branch became the first bank in Cambodia and Laos respectively to launch online RMB direct payroll remittance services. BOC Thailand, BOC Malaysia, Ho Chi Minh City Branch, Phnom Penh Branch and Vientiane Branch successively rolled out their e-Mortgage platforms, providing customers with online reservation, consultation and real-time mortgage application services, thereby improving both the customer experience and customer acquisition effectiveness. The Group continued to strengthen its business cooperation with customers. With a view to deepening pragmatic cooperation, the Jakarta Branch signed a memorandum of understanding on strategic cooperation and a framework agreement respectively with two multinational enterprises. As part of its efforts to promote the development of green financial market in the region, BOC Thailand successfully granted the first green RMB trade financing in Thailand. Meanwhile, the Jakarta Branch was named Best Foreign Bank of the Year 2023 by *INFOBANK*, an esteemed financial magazine in Indonesia.

## 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 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, 30 October 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 LAW Yee Kwan Quinn\*\*, Mr LEE Sunny Wai Kwong\*\*, Mr LIP Sai Wo\*\* and Professor MA Si Hang Frederick\*\*.*

\* *Non-executive Directors*

\*\* *Independent Non-executive Directors*