

# 2019 Annual Results

 中銀香港(控股)有限公司  
BOC HONG KONG (HOLDINGS) LIMITED



27 March 2020

## ➤ Disclaimer

This presentation and subsequent discussions may contain forward-looking statements that involve risks and uncertainties. These statements are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may or will, or may be expressed as being the results of actions that may or are expected to occur in the future. You should not place undue reliance on these forward-looking statements, which reflect our belief only as of the date of this presentation. These forward-looking statements are based on our own information and on information from other sources we believe to be reliable. Our actual results may be materially less favorable than those expressed or implied by these forward-looking statements which could depress the market price of our Level 1 ADSs and local shares.

## ➤ New Reporting Basis in this Presentation

Following the completion of the acquisition of the Vientiane Branch of BOC on 21 January 2019, the Company has applied the merger accounting method in the preparation of financial information for the combination with entity under common control. The comparative information for 2018 has been restated accordingly. During the reporting period, under aforesaid merger accounting method, Southeast Asian entities refer to BOC Thailand, BOC Malaysia, Ho Chi Minh City Branch, Manila Branch, Jakarta Branch, Phnom Penh Branch, Vientiane Branch and Brunei Branch.

# ≡ Agenda ≡

## Strategy Review



## Financial Performance



## Outlook



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# Strategy Review



# Solid Operating Results and Stable Financial Indicators

Profit for the Year **HK\$ 34.1bn**  
+4.3%

Return on Average  
Shareholders' Equity **11.51%**

Total Capital Ratio **22.89%**



# Solidifying a Market Leading Position by Enhancing Local Market Commitment



## Personal Banking

- No. of mid-to-high end customers: **+20.9%**
- **Market leader** in new mortgage loans by no. of cases
- RMB life insurance business **outpaced market for 9th consecutive year**



## Corporate Banking

- **Top** syndicated loans arranger in HK and Macao region
- **Largest** IPO receiving bank in HK
- **Led the market** of cash pooling business, serving the needs of multinationals for overseas fund pooling



## Financial Markets

- Handled **70%** of global offshore RMB clearing volume
- Solidified **market advantages** by enhancing digital trading capabilities
- Actively expanded banknote business to sustain **market leading position**

# Refining Southeast Asian Business Layout to Enhance Service Capabilities

Pre-provisions  
net operating income



16.4%

HK\$2.81bn

Customer loans



26.7%

HK\$50.4bn

Customer deposits



18.3%

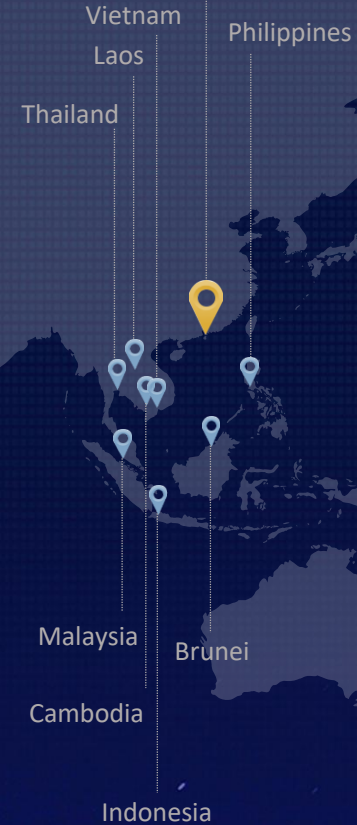
HK\$56.6bn

Non-performing loan ratio

1.51%

At manageable level

BOCHK



# Leading Financial Innovation in the GBA and Strengthening Featured Cross-border Services



Cross-border mid-to-high  
end customers

**+26.8%**



Applicants for  
attestation service

**> 90k**



Cross-border  
mortgage service

**Launched**

## ★Corporate Banking★

To support the development needs of infrastructure connectivity and innovative companies

## ★Asset Management★

BOCHK Asset Management Company officially established a subsidiary in Qianhai, Shenzhen



# Building Core Competency Through Digitalisation to Facilitate Business Transition



## Payment-led Transformation

Livelihood, Payments, Consumptions, Transportation, Cross-border, Education, Charity

## Open API

Opened up >90 APIs  
No. of Partners >130

## Omnichannel Services

Integrated Corporate Banking's online channels and launched iGTB

## Smart Operations

Smart branches and Smart operations

# Building Core Competency Through Digitalisation to Facilitate Business Transition



# Establishing an ESG Governance Framework to Foster Green and Sustainable Development



## E nvironmental

- Acted as green consultant and actively helped corporate customers to issue green bonds
- Growth in green and sustainable development loan balance: **8 times**

## S ocial

- Donated net proceeds from sales of Centenary Commemorative Banknote: HK\$**627** million
- Sponsored **40** regular charity projects reaching more than **3 million** beneficiaries
- Launched financial support measures and donated **HK\$15 million** to fight coronavirus epidemic

## G overnance

- Formulated a green sustainability strategy plan
- Set up a Board level Sustainability Committee



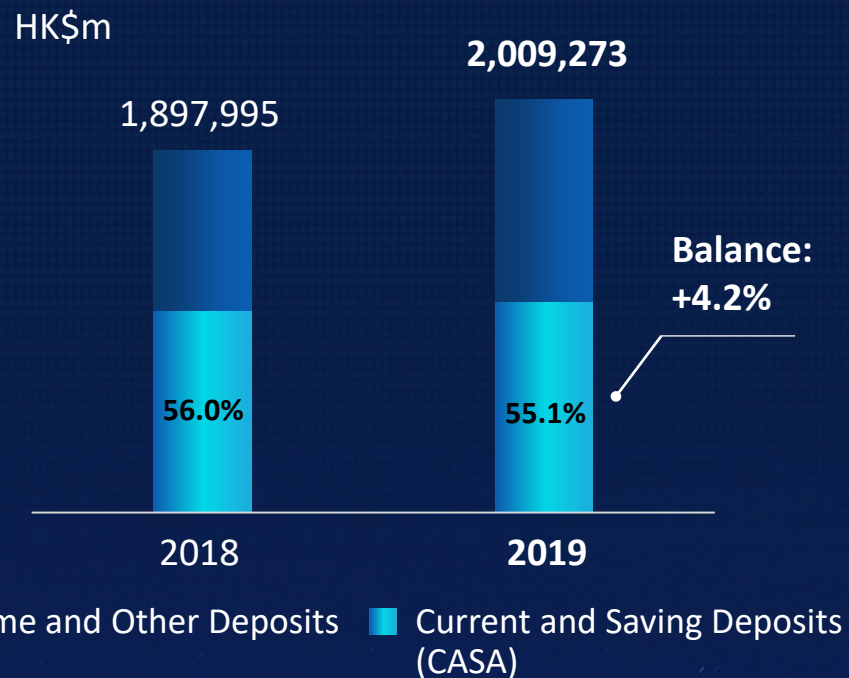
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# Financial Performance

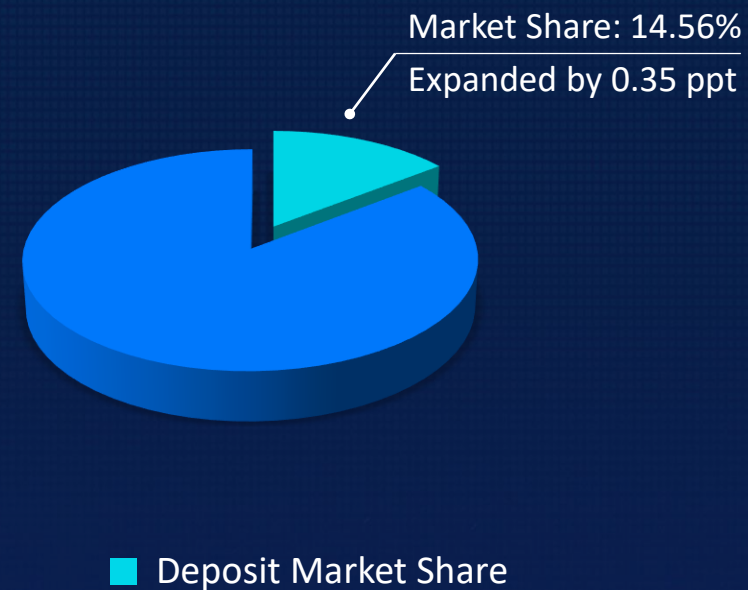


# Constant Expansion of Deposit Base

## Customer Deposits Grew by 5.9%

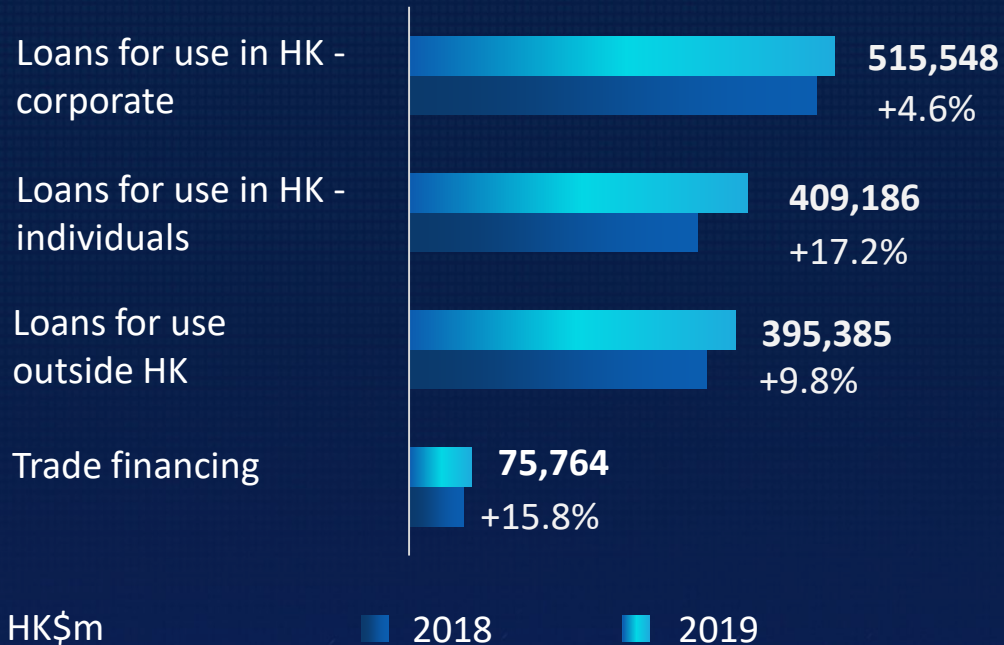


## Deposit Market Share Steadily Improved

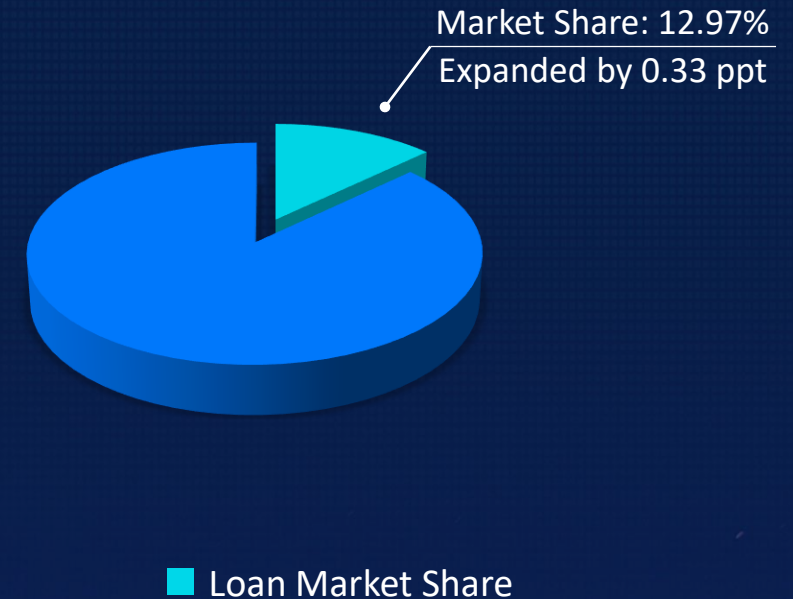


# Solid Growth in Customer Loans

## Customer Loans Grew by 10.2%

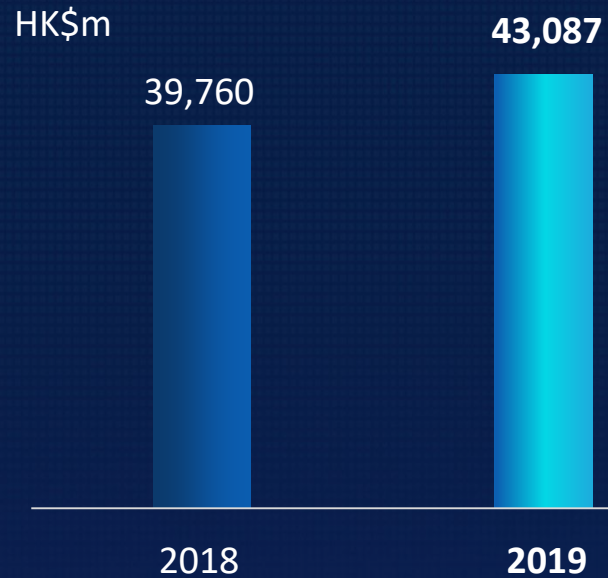


## Loan Market Share Constantly Increased

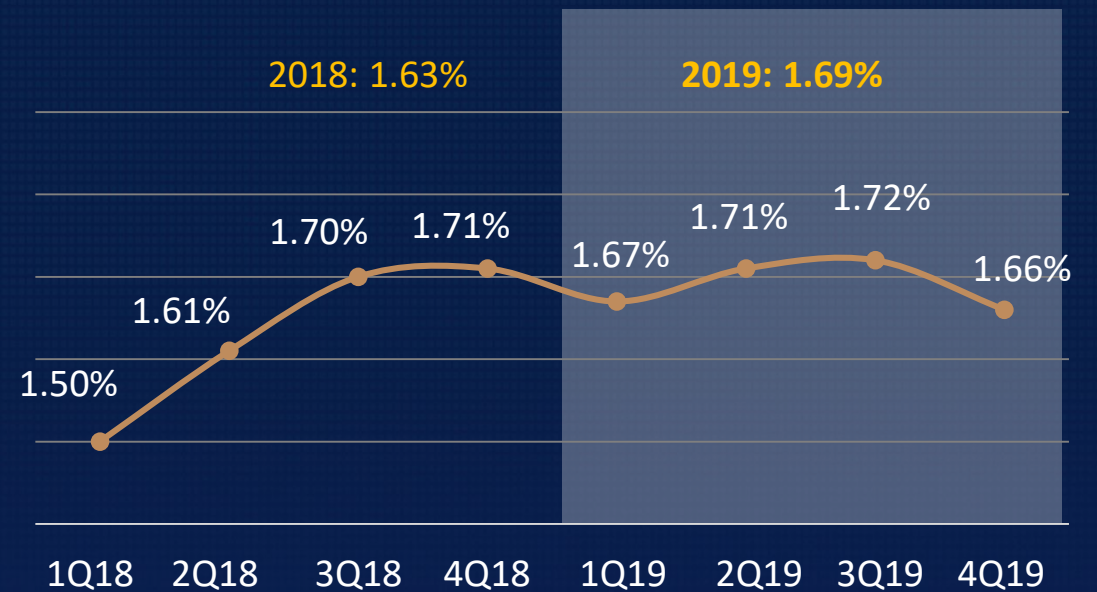


# Margin Improvements amid a Steady Trend

## Net Interest Income Rose by 8.4%



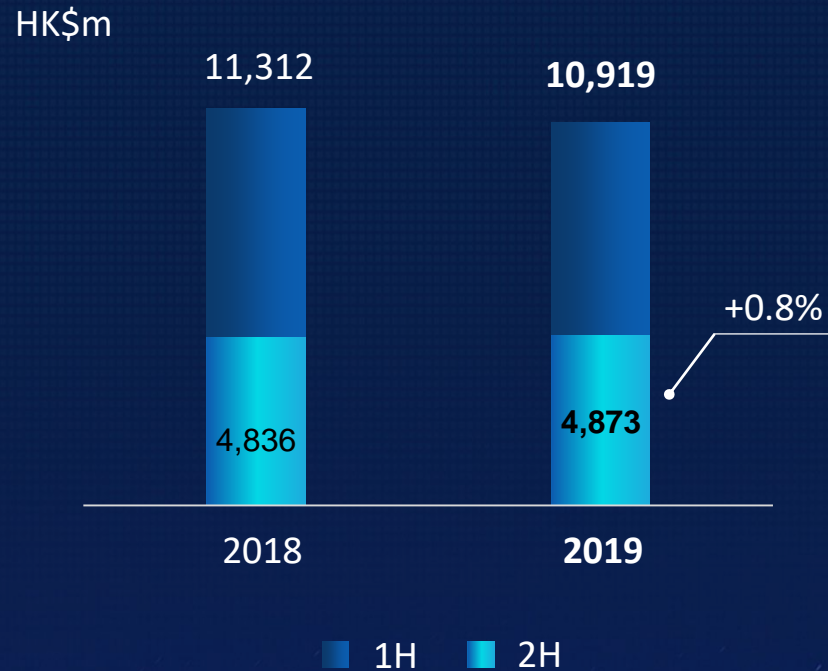
## Net Interest Margin Increased by 6 bps



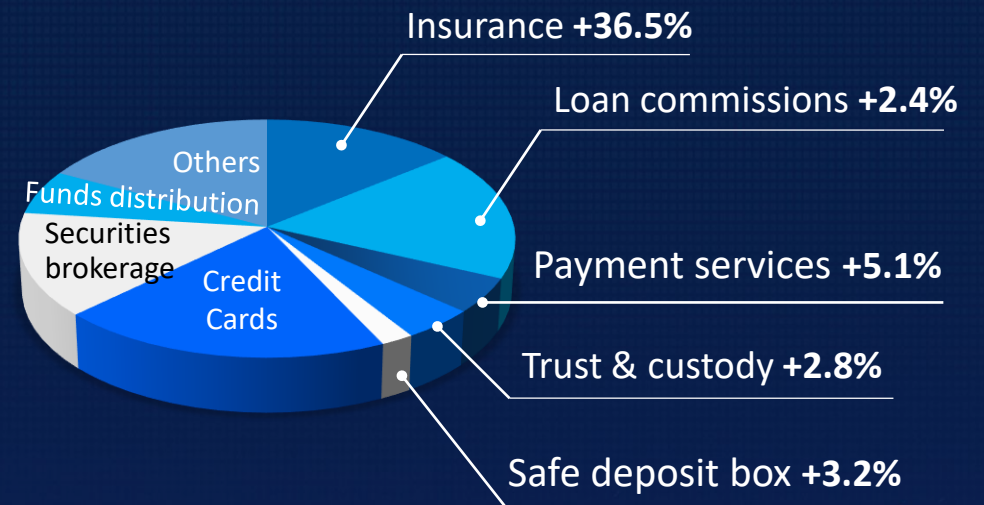
*\*Including the funding income or cost of FX swap contracts*

# Stabilising Performance in Net Fee Income

## Stabilising Performance in Net Fee & Commission Income



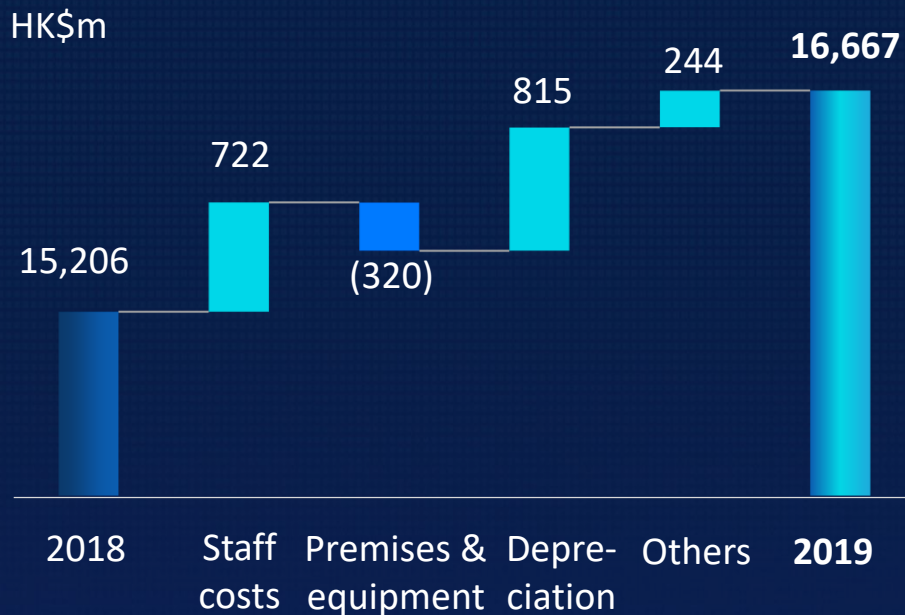
## Steady Fee Income Growth in Traditional Businesses



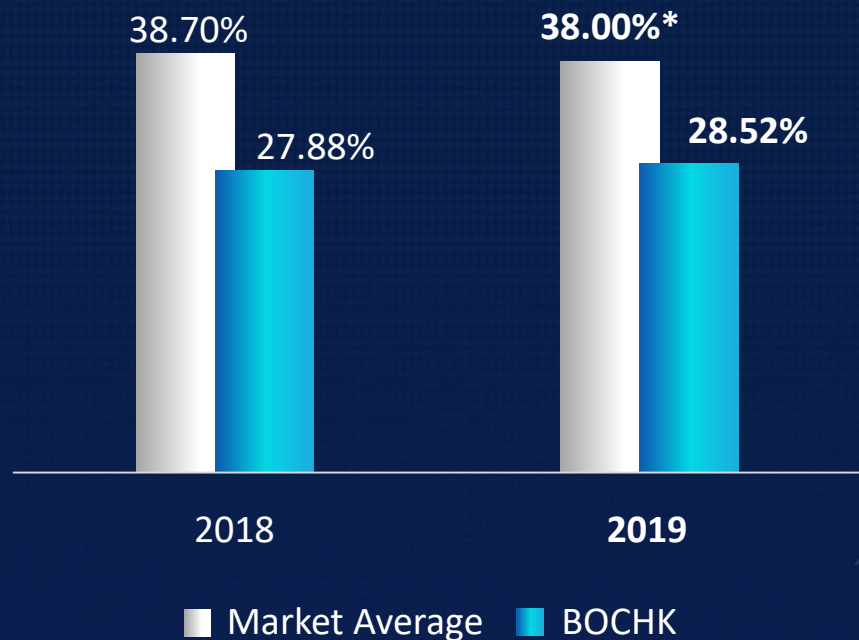


# Cost Efficiency Outperformed the Market Average

## Operating Expenses Increased by 9.6%

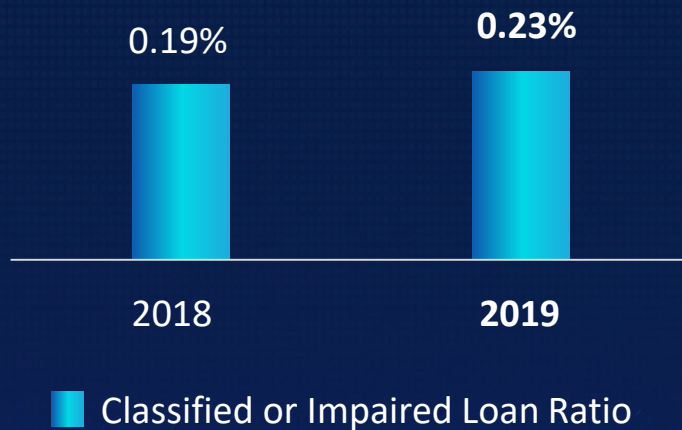


## Healthy Cost to Income Ratio



Market data source : HKMA  
 \*For first nine months of 2019

## Stable Asset Quality



## Sound Credit Quality of Personal Loans



Residential mortgage loans -  
Delinquency and rescheduled loan ratio  
BOCHK **0.01%** Market Average 0.03%

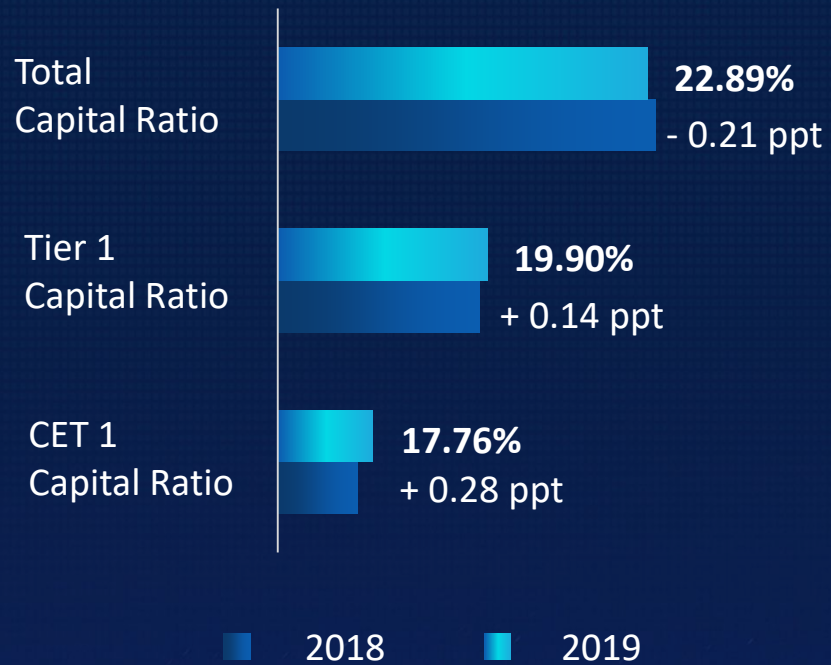


Card advances - charge-off ratio  
BOCHK **1.40%** Market Average 1.57%

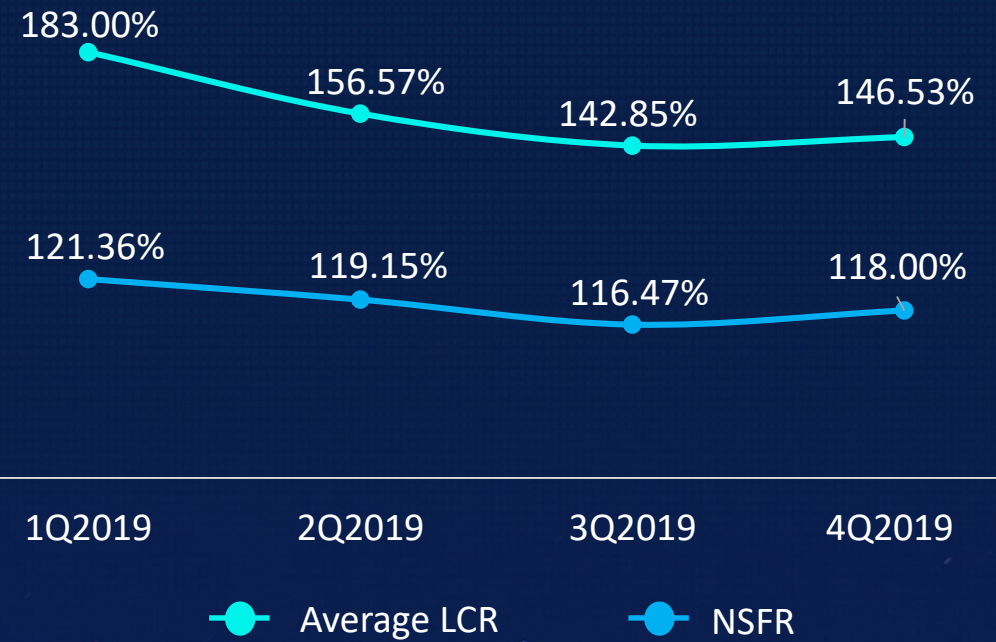
Market data source: HKMA

# Solid Capital and Liquidity Positions

## Steady Capital Ratios



## Sufficient Liquidity



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# Outlook



## Challenges

- COVID-19 pandemic
- Low interest world
- Global financial markets volatility

## Opportunities

- Outline Development Plan for the GBA
- Regional economic integration of Southeast Asia
- HKSAR Government's expansive fiscal policy

## Development Initiatives:

- Hong Kong: establish new edges through digital transformation
- Southeast Asia: strengthen collaboration to improve growth quality
- Greater Bay Area: promote interconnectivity to enhance first mover-advantage
- Adhere to stringent risk management principles and pursue green, solid and sustainable growth



# Appendices



# Income Statement and Balance Sheet Summary

<b>Income statement summary (HK\$m)</b>	<b>2019</b>	<b>2018</b>	<b>Change</b>
Net interest income	40,523	39,501	2.6%
Net fee and commission income	10,919	11,312	-3.5%
Other non-interest income	7,002	3,722	88.1%
Net operating income before impairment allowances	58,444	54,535	7.2%
Operating expenses	(16,667)	(15,206)	9.6%
<b>PPOP</b>	<b>41,777</b>	<b>39,329</b>	<b>6.2%</b>
Net charge of impairment allowances	(2,022)	(1,242)	62.8%
<b>Operating profit</b>	<b>39,755</b>	<b>38,087</b>	<b>4.4%</b>
<b>Profit for the year</b>	<b>34,074</b>	<b>32,654</b>	<b>4.3%</b>
<b>Per share (HK\$)</b>	<b>2019</b>	<b>2018</b>	<b>Change</b>
Basic earnings per share	3.0440	3.0333	0.0107
Dividend per share	1.537	1.468	0.069
<b>Balance sheet summary (HK\$m)</b>	<b>2019.12</b>	<b>2018.12</b>	<b>Change</b>
<b>Total assets</b>	<b>3,026,056</b>	<b>2,956,004</b>	<b>2.4%</b>
Advances to customers	1,395,883	1,267,235	10.2%
<b>Total liabilities</b>	<b>2,718,564</b>	<b>2,670,631</b>	<b>1.8%</b>
Deposits from customers	2,009,273	1,897,995	5.9%
<b>Capital and reserves attributable to equity holders</b>	<b>278,783</b>	<b>257,536</b>	<b>8.3%</b>



# Average Balances and Average Interest Rates

(HK\$m) / %	2019		2018	
	Average balance	Average yield	Average balance	Average yield
<b>Assets</b>				
Balances and placements with banks and other financial institutions	341,707	1.82%	416,376	1.90%
Debt securities investments and other debt instruments	864,637	2.36%	783,911	2.39%
Debt securities investments and other debt instruments (Adjusted) *		2.66%		2.43%
Advances to customers	1,322,845	3.06%	1,219,803	2.86%
Other interest-earning assets	22,099	2.58%	17,562	2.13%
<b>Total interest-earning assets</b>	<b>2,551,288</b>	<b>2.66%</b>	<b>2,437,652</b>	<b>2.54%</b>
	2019		2018	
<b>Liabilities</b>	Average balance	Average rate	Average balance	Average rate
Deposits and balances from banks and other financial institutions	191,461	1.18%	226,237	1.10%
Current, savings and time deposits	1,865,178	1.26%	1,726,241	1.03%
Subordinated liabilities	13,093	5.49%	18,237	5.44%
Other interest-bearing liabilities	39,505	1.74%	55,080	1.95%
<b>Total interest-bearing liabilities</b>	<b>2,109,237</b>	<b>1.29%</b>	<b>2,025,795</b>	<b>1.10%</b>
	2019		2018	
<b>Net interest margin</b>				
Net interest margin		1.59%		1.62%
<b>Net interest margin (adjusted)*</b>		1.69%		1.63%

\* Included the funding income or cost of FX swap contracts

# Fee and Commission Income

HK\$m	2019	2018	Change
Credit card business	2,975	3,441	-13.5%
Loan Commissions	2,675	2,613	2.4%
Securities brokerage	2,113	2,769	-23.7%
Insurance	2,111	1,546	36.5%
Funds distribution	901	929	-3.0%
Payment services	716	681	5.1%
Bills commissions	700	739	-5.3%
Trust and custody services	651	633	2.8%
Currency exchange	599	590	1.5%
Safe deposit box	294	285	3.2%
Others	1,267	1,292	-1.9%
<b>Fees and commission income</b>	<b>15,002</b>	<b>15,518</b>	<b>-3.3%</b>
Fees and commission expense	(4,083)	(4,206)	-2.9%
<b>Net fee and commission income</b>	<b>10,919</b>	<b>11,312</b>	<b>-3.5%</b>

# Operating Expenses

HK\$m	2019	2018	Change
Staff costs	9,364	8,642	8.4%
Premises & equipment expenses	1,542	1,862	-17.2%
Depreciation	2,881	2,066	39.4%
Others	2,880	2,636	9.3%
Total operating expenses	16,667	15,206	9.6%
Full-time staff headcount	14,668	14,084	4.1%

# Customer Deposits

HK\$m	2019.12	2018.12	Change
Demand deposits and current accounts	207,013	207,812	-0.4%
Saving deposits	900,009	854,117	5.4%
Time, call and notice deposits	902,251	833,867	8.2%
Structured deposits	-	2,199	-100%
<b>Total deposits from customers</b>	<b>2,009,273</b>	<b>1,897,995</b>	<b>5.9%</b>
<b>CASA</b>	<b>1,107,022</b>	<b>1,061,929</b>	<b>4.2%</b>

# Advances to Customers

HK\$m	2019.12	2018.12	Change
<b>Loans for use in Hong Kong - industrial, commercial and financial</b>	515,548	492,712	4.6%
Property development	137,663	126,328	9.0%
Property investment	49,073	50,223	-2.3%
Financial concerns	28,353	21,239	33.5%
Stockbrokers	815	1,171	-30.4%
Wholesale and retail trade	39,880	38,147	4.5%
Manufacturing	42,719	51,093	-16.4%
Transport and transport equipment	66,511	66,256	0.4%
Recreational activities	2,161	1,675	29.0%
Information technology	22,464	18,006	24.8%
Others	125,909	118,574	6.2%
<b>Loans for use in Hong Kong - individuals</b>	409,186	349,008	17.2%
Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	19,855	11,150	78.1%
Loans for purchase of other residential properties	277,288	243,963	13.7%
Credit card advances	14,663	15,613	-6.1%
Others	97,380	78,282	24.4%
<b>Trade financing</b>	75,764	65,437	15.8%
<b>Loans for use outside HK</b>	395,385	360,078	9.8%
<b>Gross advances to customers</b>	1,395,883	1,267,235	10.2%

# Gross Advances and Other Accounts by Internal Credit Grade and Stage Classification

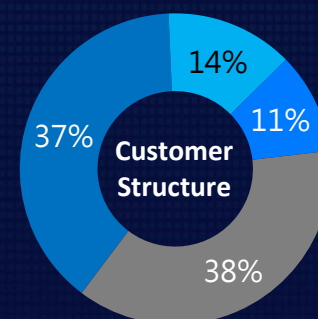
HK\$m	2019.12				2018.12			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Advances to customers</b>	<b>1,388,453</b>	<b>4,213</b>	<b>3,217</b>	<b>1,395,883</b>	1,256,700	8,152	2,383	1,267,235
Pass	1,385,770	1,592	-	1,387,362	1,254,766	5,019	-	1,259,785
Special mention	2,683	2,621	-	5,304	1,934	3,133	-	5,067
Substandard or below	-	-	3,217	3,217	-	-	2,383	2,383
<b>Trade bills</b>	<b>20,727</b>	-	-	<b>20,727</b>	17,357	-	4	17,361
Pass	20,727	-	-	20,727	17,357	-	-	17,357
Special mention	-	-	-	-	-	-	-	-
Substandard or below	-	-	-	-	-	-	4	4
<b>Advances to banks and other financial institutions</b>	<b>3,387</b>	-	-	<b>3,387</b>	3,822	-	-	3,822
Pass	3,387	-	-	3,387	3,822	-	-	3,822
Special mention	-	-	-	-	-	-	-	-
Substandard or below	-	-	-	-	-	-	-	-
<b>Gross advances and other accounts</b>	<b>1,412,567</b>	<b>4,213</b>	<b>3,217</b>	<b>1,419,997</b>	1,277,879	8,152	2,387	1,288,418
Impairment allowances	(4,564)	(297)	(2,175)	(7,036)	(3,748)	(546)	(1,130)	(5,424)
<b>Advances and other accounts</b>	<b>1,408,003</b>	<b>3,916</b>	<b>1,042</b>	<b>1,412,961</b>	1,274,131	7,606	1,257	1,282,994

# Non-bank Mainland Exposures

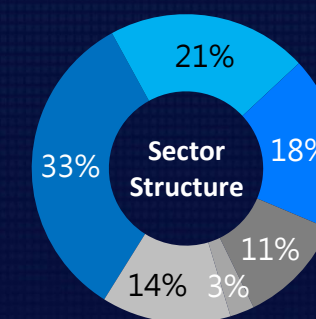
HK\$m	On-balance sheet exposure			Subtotal	Off-balance sheet exposure	Total exposure
	Total loans and advances	O/W: for use in Chinese Mainland	Debt securities and others			
Central government, central government-owned entities and their subsidiaries and joint ventures	250,003	75,875	60,792	310,795	43,519	354,314
Local governments, local government-owned entities and their subsidiaries and joint ventures	62,822	27,923	2,875	65,697	13,247	78,944
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	94,636	22,090	7,664	102,300	21,580	123,880
Others	113,964	77,943	1,027	114,991	17,725	132,716
<b>Total</b>	<b>521,425</b>	<b>203,831</b>	<b>72,358</b>	<b>593,783</b>	<b>96,071</b>	<b>689,854</b>

With reference to the completion instructions for the HKMA return of Mainland activities (note 53 of Notes to the Annual Financial Information of 2019 Annual Report), as of 31 December 2019, the total on-balance sheet non-bank Mainland exposure was HK\$593.8bn, up HK\$46.5bn or 8.5% YTD.

Of which, total loans and advances was HK\$521.4bn, up HK\$34.2bn or 7.0% YTD. Asset quality was stable with NPL ratio of 0.21%. Loan for use in Mainland was HK\$203.8bn, accounting for 14.6% of total loans.



**Analysis of the loans and advances for use in Mainland**



- Central government, central government-owned entities and their subsidiaries and joint ventures
- Local governments, local government-owned entities and their subsidiaries and joint ventures
- PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures
- Others

- Property development & investment
- Electricity and gas
- Manufacturing
- Transport and transport equipment
- Wholesale and retail trade
- Others