# Transcript of Analyst Briefing for

# 2023 Annual Results

## Results Presentation

**Chief Executive Sun Yu:** Over the past year, amid a complex and ever-changing operating environment, we focused on improving earnings growth, reinforcing our foundations and enhancing risk management and control. Our core businesses outperformed the market and we achieved the highest operating profit since our listing. Profit attributable to shareholders was HK$32.7 billion, up 26.1%. ROE increased by 2.1 percentage points to 10.6%. To reward our shareholders, the Board has proposed a final dividend of HK$1.145 per share. Including the interim dividend, the dividend per share for the full year will be HK$1.672, up 23.2%. Payout ratio rose 1 percentage point to 54%.

We enhanced the diversity, inclusiveness and accessibility of our financial services, creating new growth momentum while meeting the comprehensive needs of our customers. We consolidated our competitive advantages in traditional businesses such as residential mortgages, syndicated loans and IPO main receiving bank services. Meanwhile, we capitalised on Hong Kong's border reopening to expand our cross-border business. Our cross-border individual customer base grew by more than 200,000, of which, more than 70% are mid to high-end customers, with cross-border personal banking business income more than tripled. BOC Life also delivered an almost six-fold increase in its cross-border standard new premiums. We expanded the coverage of our cash pooling business to 58 countries and regions, and refined the service capabilities of our trust and custody business. We optimised the client mix of our wealth management business, achieving about 20% growth in mid to high-end customers while almost doubling the number of new accounts opened by young customers. We continued to improve our financial market services and strengthened our status as a market-maker for HKD and RMB, helping BOC Group to secure market leadership in the global offshore RMB bond underwriting businesses. Our integrated service capabilities were further strengthened with solid growth achieved by BOC Life, BOCI Prudential and BOCHK Asset Management.

We remained deeply engaged in developing the infrastructure of the Mutual Market Access Scheme so as to meet customer demand for cross-border financial services. The remittance amount and customer numbers under our "Cross-boundary Wealth Management Connect" services including both Southbound and Northbound surged by 3.5 times and 80%, respectively. We facilitated the full implementation of the Northbound service of Swap Connect. We also improved the quality and scale of our leading GBA products in account opening, mortgage loans, mobile payment and insurance. Among these, the GBA Account Opening customer base grew strongly by 70%.

We launched "Innovation & Technology and Talent financing Incentive Scheme" to fully support the growth of innovative tech companies, with our customer base up by 18%. In addition, we actively supported the construction of the Northern Metropolis by formulating comprehensive financial service solutions. We further strengthened regional business integration and deepened our differentiated management model of "One Branch One Policy", to boost the overall competitiveness of the Southeast Asian entities and their contribution to the Group. By promoting collaboration with BOC’s entities in the Asia-Pacific region, we actively served the Belt and Road cooperation as well as Chinese enterprises “Going Global”. Focusing on major projects and key customers, we served as a financial bridge for trade flows between China and ASEAN. In addition, we further enhanced the RMB business capabilities of our local entities, refined our “Wealth Management” brand in the region and enriched financial service scenarios for personal banking. During the period, our Southeast Asian entities grew their deposits and loans by 9.5% and 4.6% respectively, while net operating income increased by 39.1%, all of which exceeded the corresponding growth rates of the Group.

To support the steady and prudent development of RMB internationalisation, we leveraged our RMB expertise to enrich and innovate cross-border RMB application scenarios and drove fresh progress in RMB business. Our RMB loan balance and cross-border RMB settlement volume increased by 1.82 times and 1.27 times respectively. Our RMB clearing ability was further strengthened with the Phnom Penh Branch appointed as an RMB clearing bank in Cambodia, while BOCHK headquarters, BOC Malaysia and the Manila Branch reported growth in RMB clearing volumes of 25%, 39% and 61% respectively. We supported the development of Hong Kong’s status as an offshore RMB hub, becoming one of the first listed companies to launch the “HKD-RMB Dual Counter Model”. We also engaged in the pricing of the world’s first RMB Yulan bond, and completed the first dividend distribution denominated in RMB for an H-share company. We also launched several digital RMB experiential events to facilitate customers’ northbound and southbound consumption.

Sticking to a customer-centric approach, we focused on scenario-led, data-empowered and intelligence driven development, including establishing a set of digitalisation indicators, so as to increase our financial service capabilities in line with the demands of the digital era. We further developed scenario ecosystems based on customer needs in home purchasing, education and health. Online mortgage applications through our "Home Expert" app accounted for about 60% of total mortgage applications. At the same time, BoC Pay saw 20.8% growth in customer numbers while BOC Bill delivered 28.8% growth in settlement volume. Our vigorous efforts to optimise online services yielded results. During the period, the number of active mobile banking users grew by 19%. Mobile banking penetration in our Southeast Asian entities exceeded 70% while our iGTB platform's transaction volume grew by 91%. We accelerated the development of our intelligent operations and smart risk control capabilities, while expanding the capacity of the Regional Operating Centre in Nanning. We fostered an innovative culture. We were deeply involved in the HKMA's e-HKD Pilot Programme and Central Bank Digital Currency project, successfully held various innovation competitions, and once again sponsored the "BOCHK Science and Technology Innovation Prize".

We stepped up our efforts in sustainable development. By providing more and better green and sustainable financial products and services, we supported the transition towards low-carbon lifestyles across society. In the year, we increased the balances of our green and sustainable loans by 87%, new green deposits by 20% and ESG bond investments by 81%. We became the first Chinese bank outside of the Mainland to publicly commit to a target of achieving carbon-neutral operations by 2030. We also issued our first TCFD report. In addition, we assisted the HKSAR Government in issuing the world's first government-issued tokenised green bond, and facilitated the issuance of RMB-denominated ESG bonds by the Hainan and Shenzhen governments. We participated in listing Hong Kong's first ESG-themed ETF to invest in the GBA, and completed the first green RMB reverse repo transaction. During the year, as a socially responsible corporate citizen, we launched more than 80 charity projects and organised a wide range of activities for our "Volunteer Week". We once again received the awards of "Market Leader for ESG in Hong Kong" and "Market Leader for CSR in Hong Kong" from EuroMoney. In addition, we were honoured with the "Outstanding Corporate" award from the HKSAR Government at its Hong Kong Volunteer Award 2023.

**Chief Financial Officer Liu Chenggang:** Amid a market trend of time deposit migration in the year, we improved customer relationships, expanded our mid to high-end customer base, enhanced cross-border collaboration and drove the development of our e-payment, e-collection, payroll, cash management and cash pooling businesses, so as to attract more transaction deposits. Our customer deposits increased by 5.3% to HK$2.5 trillion, taking our market share to 15.2%. CASA ratio was 47.4%, down 4.3 percentage points from end of 2022, but up 2 percentage points from the end of September.

We continued to capitalise on opportunities in the Hong Kong, GBA, Southeast Asian and key overseas markets. By deepening intra-group collaboration, we provided diversified financing solutions such as syndicated loans, project finance, green loans and mortgages, while strengthening our full-service capabilities. Our customer loans grew by 3.3% to HK$1.7 trillion, with our market share rising to 16.2%. Loans for use in Hong Kong increased by 6.9%, within which corporate and individual loans grew by 6.6% and 7.2% respectively, effectively offsetting a decline in loans for use outside Hong Kong.

Capitalising on rising market interest rates, we proactively managed our asset and liabilities by optimising our loans and bond investments, controlling funding costs and steadily promoting our Southeast Asian business. Adjusted for swap impact, our NIM expanded by 27 basis points to 1.63% with net interest income rising 29% to HK$54.5 billion. In the fourth quarter, NIM was 1.68%, while net interest income grew by 3.5% over the previous quarter.

Weak investor sentiment and subdued credit demand weighed on our investment and insurance related fee income as well as loan commissions. As a result, our net fee income for the full year dropped by 6.5%. On the bright side, we captured opportunities from Hong Kong's border reopening and grew our credit card and currency exchange fee income by 22% and 90% respectively, while our trust and custody service achieved breakthroughs and grew its income by 9%. Together, these factors drove growth of 17.5% in non-credit related traditional fee income.

Focusing on the Group's strategic development priorities, we optimised resource allocation, pursued low-carbon operations and reduced operating expenses, which decreased by 2% to HK$16.6 billion. Cost-to-income ratio fell by 5.9 percentage points to 25.4%, continuously outperforming local peers.

In line with our risk "bottom-line" thinking, we strengthened comprehensive risk management and closely monitored the market and our customers, to ensure solid asset quality and sufficient provision. Due to the credit rating downgrade of certain Mainland CRE customer loans and relief loans, our NPL ratio rose 52 basis points from the end of the previous year, to 1.05%, remaining better than the market average. Credit cost was 0.38%, and total impairment allowances accounted for 0.87% of total loans, up 17 basis points. Our capability to withstand potential risks has been further consolidated.

We continued to strengthen capital management, enhance profitability and sensibly manage the scale of RWAs, so as to increase capital returns. Due to the redemption of a US$3 billion AT1 capital bond in the third quarter, our total capital ratio edged down by 0.34 percentage point to 21.2%, while our Tier 1 capital ratio stood firmly at 19%. Liquidity remained abundant, with our full-year average LCR and NSFR standing at 195% and 136%, respectively.

**Chief Executive Sun Yu:** Looking ahead to 2024, the global economic environment remains severe while major economies' monetary policies are still uncertain, which increase the difficulties for banks' comprehensive risk management. However, we continue to see more opportunities than challenges. The Chinese mainland will further consolidate and enhance its positive economic recovery with a focus on high-quality development, while Hong Kong will continue to amass new momentum as it advances from stability to prosperity. Meanwhile, a series of development polices will be further deepened, such as Belt and Road cooperation, RMB internationalisation, the construction of the GBA and Hong Kong's Northern Metropolis, as well as improvements in the capacity and quality of various mutual market access schemes. This, together with the policy dividends created by the RCEP, will further reinforce and elevate Hong Kong's position as an international financial centre, creating fresh opportunities for Hong Kong's banking sector.

In 2024, we will be increasingly proactive in serving the overall development agenda of the country and Hong Kong. We will strive to enhance our regional, integrated and digital financial services, so as to further consolidate and expand our unique advantages. We will cement the risk “bottom line” and strengthen our talent teams as well as our corporate culture. By solidly implementing all of our key tasks, we will seek to maintain high profitability, achieve breakthroughs in our foundations and sharpen our risk management and control.

In terms of operations, we will strive to keep outperforming the market in our core businesses, delay the impact on our net interest margin from potential interest rate cuts, diversify our income sources and sustain cost efficiency advantages. In terms of asset quality, we will strengthen the risk management and control, and seek to gradually reduce credit costs. Through all these efforts, we will aim to deliver solid business growth and profitability, and continually create value for our shareholders, customers, employees, and all sectors of the society.

## Question and Answer Session

**Gary Lam from HSBC:** In view of the high interest rate environment, some industries are hoping to repay their debt and deleverage. What loan growth drivers have you seen so far this year and what is the loan growth target for the full year? Additionally, BOCHK has increased the dividend payout ratio for 2023 to 54%. Is there further room for improvement in the future? Taking into account that the HKEX is studying on allowing listed companies to maintain treasury stocks, will BOCHK consider increasing dividend payout ratio or conducting share buyback in the future?

**Deputy Chief Executive and Chief Risk Officer Xu Haifeng:** In 2023, Hong Kong banking industry faced certain challenges and high market interest rate affected customer demand. Loans for the overall market decreased by 3.6%. We actively responded to market changes, and leveraged our advantages in customer resources and professional services while deepening cooperation with high-quality Hong Kong, Chinese and Southeast Asian customers. The Group grew its customer loans by 3.3% in the year, outperforming the market, and maintained better-than-market overall asset quality.

In 2024, challenges and opportunities will coexist. High market interest rates, unresolved risks in certain sectors and low financing appetite of corporate customers will pose challenges to market loan growth. Meanwhile, Chinese mainland continues to implement proactive fiscal policies and sound monetary policies, and launch a series of measures to boost internal demand and promote industrial upgrading. In addition, Hong Kong's latest Budget proposes measures to strengthen inbound business investment, talent attraction and property market performance.

These will further promote economic recovery. Southeast Asian economies are also stabilising with positive trends. All of the above factors will provide opportunities for the banking industry.

We will adhere to the principle of “seeking progress while maintaining stability” and promote high-quality development in loan business on the premise of adhering to the “bottom line” of risk. Specifically, we will:

Leveraging our product and service advantages in the Hong Kong market, we will fully support various government infrastructure projects. We will cultivate and expand high-quality customer base, strengthen cooperation with local blue chips, industry leading corporates and financial institutions, and provide diversified financing solutions such as syndicated loans, RMB loans and green financing. In addition, we will enrich digital services such as online account opening and online lending, strive to solve customer pain points and serve the financing needs of high-quality SMEs.

We will seize new policy opportunities in the cross-border market such as “three connections and three facilitations” and grasp the opportunities of the new industries and new business models from the development of new productive forces of China. We will focus on key industries such as AI and advanced manufacturing, and fully support the cross-border investment and financing needs of related enterprises. At the same time, we will optimise the service model for innovative tech firms and provide comprehensive services to cover the entire life cycle of corporate customers, so as to promote the steady growth of innovative tech loans.

We will deeply explore the Southeast Asian market potential, with our Hong Kong headquarters sharpening its leading role and increasing support for the Southeast Asian entities. We will capture the opportunities of the closer economic and trade ties between China and ASEAN, focus on key industries such as new EVs, electricity, clean energy, etc. and actively develop customer base with large multinational corporates and Chinese enterprises "Going Global," so as to promote stable growth in the Southeast Asian loans.

Overall, we will focus on the three major markets, cater to customer needs and select quality deals, while balancing between earnings, risk and scale, so as to achieve solid loan growth and strive to continuously outperform the market for the year.

**Chief Financial Officer Liu Chenggang:** The Board proposes a final dividend of HK$1.145 per share. Together with the interim dividend, our full-year dividend reached HK$1.672 per share, up 23.2% year-on-year. The dividend payout ratio increased by 1 percentage point to 54%, reflecting the continuous growth of our dividend payout ratio and shareholder returns with a steady and improving trend. For a long time, BOCHK has pursued a solid dividend policy, striving to balance the maximisation of shareholder interests and its own long-term development, achieving long-term and steady increase in dividend returns. In terms of shareholder return enhancement, we have adopted two approaches. First, improving profitability. We seized the opportunities brought by high market interest rates and achieved record high operating profit in 2023. We grew our average interest earning assets (AIEA) while reducing the scale of our risk-weighted assets (RWA) in the year as a result of our efforts to sensibly manage RWA growth. These efforts helped us to improve capital returns and create favorable conditions for providing reasonable returns to shareholders.

Second, optimising capital structure. In September 2023, we redeemed US$3 billion of AT1 capital bonds, which will save about HK$1.4 billion in annual interest expenses and increase the base for ordinary dividend payments in the future. Going forward, we will strive to improve our ROE by focusing on two aspects, i.e. steady enhancement of our earnings and careful control of our capital in a prudent manner.

For 2024, our dividend payout ratio will remain within the range of 40-60%, and we will strive to steadily increase the annual dividend payout level. In 2023, we finished the review of our own "14th Five-Year Plan" and formulated goals for our capital plan. Externally, the HKEX is considering to make adjustments to the capital structure-related policy, and we are also actively studying various ways with an open attitude. Ultimately, we will comprehensively consider various regulatory requirements, the policies of the HKEX, and the need of our overall business development that we will proactively capture opportunities to grow faster than the market and peers. We will balance the usage and efficiency of our capital, fully consider shareholder interests, and strive to create long-term sustainable returns for our shareholders.

**Sam Wong from Jefferies:** As HIBOR declined in the first quarter of 2024, market interest rates may come down this year. What measures does the management have in place to mitigate the impact on NIM? What should be expected for the NIM in this year? Additionally, given your relatively high credit cost in 2023, what is the guidance for this year?

**Chief Financial Officer Liu Chenggang:** Net interest income is the primary source of revenue for banks. In 2023, we actively seized the opportunity of rising US dollar and Hong Kong dollar market rates, resulting in a 29% increase in the adjusted net interest income to HK$54.487 billion. Our NIM increased by 27 basis points. NIM performance depends on several factors. First, growth of deposits and loans. In 2023, we achieved a deposit growth of 5.3% and a loan growth of 3.3%, both outperforming the market while our AIEA increased by 7.4%, laying a solid foundation for the net interest income growth. This year, we will continue to promote solid growth in deposits and loans. Second, we actively optimised the asset structure and dynamically managed our bond investment portfolio. During the period of high market interest rates, we moderately extended the duration to achieve steady improvement in bond investment returns. Third, we controlled the pricing and maturity structure of our fixed deposits, striving to mitigate the impact of time deposit migration with a 35-basis point expansion in the loan-to-deposit spread for 2023. Fourth, we steadily advanced our Southeast Asian business growth. In 2023, the NIM of our Southeast Asian entities increased by 84 basis points year-on-year, positively contributing to the Group’s NIM.

For 2024, it is widely expected that the Fed will cut interest rate in the second half. However, it will still depend on inflation and economic conditions. Since the first quarter of this year, HIBOR has declined a bit, but the aggregate balance of Hong Kong dollars has remained at a low level, while HIBOR currently stays above 4% level. Based on experiences from past interest rate cycle, the changes of Hong Kong dollar interest rates usually lags behind that of US dollar interest rate by about two quarters. Hong Kong dollar interest rate and HKD Prime rate are expected to stay at a relatively high level for some time. Overall speaking, the benefit of interest rate hike cycle to NIM will gradually fade. Factors such as narrowing loan spread due to intense competition, historically low CASA ratios, and relatively high deposit costs, will impose pressure on NIM. On the other hand, interest rate cuts will lower the financing costs for society, reduce time deposit competition, boost CASA ratio and increase loan demand. We will continue to dynamically manage our assets and liabilities with a forward-looking approach, maintain outperformance in deposit and loan growths, lock in long-term returns for our treasury business, and be fully dedicated to improving CASA ratio and controlling deposit costs. Through multiple measures, we aim to mitigate the negative impact of interest rate declines on our NIM. For 2024, we will strive to stabilise our NIM and achieve net interest income growth amid a stable trend.

**Chief Credit Officer Stanley Yung:** Our credit cost saw a year-on-year increase in 2023. On the one hand, it was due to a lower base for comparison. On the other hand, it was also because the credit rating downgrade of certain mainland CRE corporates and certain local enterprise engaged in various types of property investment, due to doubtful repayment ability. In addition, faced with the property market downturn in Hong Kong in 2023, we conducted stress test with more prudent scenario and increased the provisions to withstand future uncertainty. For 2024, we expect credit cost to be lower than that of 2023 and are confident in maintaining our asset quality at a better level compared with our peers.

**Winnie Wu from Bank of America:** What is the length of the duration of your bond investment portfolio? How long is the duration or repricing period of your time deposits? Additionally, in terms of asset quality, the non-performing loan (NPL) ratio for mainland CRE loans was about 10% and the special mention (SM) ratio was 0.14%. Does this adequately reflect the risk? Will there be further credit rating downgrades for privately-owned enterprise (POE) loans within your mainland CRE portfolio and result in a sustained high credit cost in this year?

**Chief Financial Officer Liu Chenggang:** Amid a high interest rate environment, banks' CASA deposits dropped and time deposits increased. Most of our time deposits were with tenor of 1-3 months and 3-6 months. Accordingly, we extended the duration of our bond investment portfolio to lock in higher returns within our risk appetite. Overall duration was extended by about 0.5 years compared to the end of 2022. We believe that our efforts in adjusting the bond portfolio duration will be reflected in the net interest income performance this year.

**Chief Credit Officer Stanley Yung:** By the end of 2023, our mainland CRE loan balance was HK$92.9 billion, down 7.2% from the end of 2022. SOE and POE exposures accounted for 82% and 18% respectively. Out of the HK$16.7 billion of POE loans, NPL was HK$6.7 billion. In the remaining HK$10.0 billion exposure, HK$3.1 billion was secured with property collateral with LTV below 70%, which were relatively safe. The remaining balance was lent to corporates with good financial health, strong repayment ability, investment grade rated by external agency, and relatively good ability to withstand risk.

**Hou Dekai from CICC:** In 2023, BOCHK significantly increased its bond investments, which was driven by debt securities held for trading purposes. What was the reason behind that? Additionally, in the context of the global industrial chain restructuring and going global trend of Chinese enterprises, what's the performance of BOCHK's Southeast Asian entities?

**Chief Financial Officer Liu Chenggang:** At the end of 2023, our bond investments reached HK$1.3 trillion, up 26.5%. In terms of accounting classification, the proportion of FVOCI bonds was 69%, up 1.6 percentage points, while AC and FVTPL bonds accounted for 19% and 12%, respectively. When classifying bond investments, we will comprehensively consider a wide range of factors including investment strategy, accounting requirements and the impact on capital due to mark-to-market valuation changes. In the high interest rate environment of 2023, we increased our bond investment position and appropriately extended the duration. The increases were mainly in high-quality and highly liquid government bonds which will bring mark-to-market valuation gains when interest rates decline. Overall, the purpose of our bond investments is to generate interest income on the premise of ensuring liquidity while capital gain is just a secondary consideration.

**Deputy Chief Executive and Chief Risk Officer Xu Haifeng:** Regionalisation, integrated business and digitalisation are the key components of our strategy. As the core part of our regional development strategy, our Southeast Asian business achieved solid progress in last year.

In 2023, Southeast Asian economies continued to recover steadily, with GDP growth reaching 4%. Of which, the Philippines, Indonesia, Vietnam and Cambodia all grew by more than 5%. Entering the second year after RCEP taking into effect, China and ASEAN remained the largest trading partner of each other. The favorable environment provided good business opportunities to us.

During the year, adhering to our regional and integrated operations as well as differentiated management model of "One Branch One Policy", we continued to leverage our synergies, optimised our regional product lines and supportive functions, and enhanced the regional management capabilities and competitiveness. In 2023, the customer deposits and loans of our Southeast Asian entities increased by 9.5% and 4.6% respectively, both were above the Group averages. Driven by net interest margin expansion, their net operating income grew by 39.1% hence their earnings contribution to the Group increased as well. We continuously enhanced risk management and control. Our Southeast Asian entities recorded an NPL ratio of 2.86% and NPL provision coverage ratio of 133.38%, reflecting sufficient provisions and controllable overall risk.

We fully leveraged the regional business advantages of BOC Group. First, strengthening regional collaboration. We deepened cooperation with our parent bank's institutions in the Asia-Pacific region and on the Chinese mainland with focuses on regional large-scale multinational customers participating in the "Belt and Road" and "Going Global" projects, provided professional financing solutions for customers, and continued to promote green finance. Second, continuing to enhance our RMB clearing capabilities and promote RMB business growth. Specifically, the Phnom Penh Branch was appointed as an RMB clearing bank in Cambodia. The RMB clearing volumes of BOC Malaysia and the Manila Branch increased by 39% and 61% respectively. The RMB treasury business transaction volume of our regional entities increased rapidly by 66%. Third, accelerating digital transformation. We continued to promote our iGTB platform, enhance our mobile banking functions and optimise the online payment experience of local customers, driving progress in the digitalisation of our regional business.

In 2024, we will further deepen the differentiated development strategy of "One Branch One Policy", strengthen the guidance of the headquarters and the coordination of the Group. We will focus on the major "Belt and Road" projects and the key "Going Global" customers. We will enhance the business coordination mechanism for Asia Pacific region and provide comprehensive financial support for customers. By doing all of these, we support the steady and prudent development of RMB internationalisation, and promote green economy in the region. Adhering to the risk "bottom line", we will accelerate the growth of our Southeast Asian business and increase their contribution to the Group.

**Gurpreet Singh from Goldman Sachs:** In 2023, BOCHK managed its costs well. What is the expected growth in operating expenses for this year? What is the cost-to-income ratio guidance? Additionally, in a high interest rate environment, what are BOCHK's growth targets for loans and fee income this year?

**Chief Financial Officer Liu Chenggang:** Our operating expense was HK$16.607 billion for 2023, down 2.0%. The cost-to-income ratio was 25.35%, a decrease of 5.91 percentage points, maintaining a leading position among local peers. We adopted a concept of flexible cost management, and recorded 9.5% year-on-year growth in expenses for premises and equipment driven by IT investment, while human resource expenses increased by 7.8%. In 2024, we will continue to implement our strategic plan and sustainable high-quality development strategy, and allocate resources based on the principles of “ensure foundations, prioritise key initiatives, flexible allocation and dynamic management”. We will prioritise resources for key projects and business development, including digital transformation, green finance, etc, while strictly controlling expenses. We will pursue low-carbon operations, implement green office practices and energy conservation, as well as execute the roadmap plan for green and low-carbon development. We will promote green finance, e-statement and digitalised business processes to our customers. For 2024, we expect our operating expenses to increase steadily under the backdrop of economic recovery. Full year cost-to-income ratio could see moderate year-on-year increase and remain at a better-than-peer level while our long-term CIR target ceiling of 35% remains unchanged.

**Deputy Chief Executive and Chief Risk Officer Xu Haifeng:** In terms of lending business, loan demand will remain under pressure as the high interest rate environment is expected to continue for some time. Overall speaking, BOCHK will leverage its own advantages, by deeply developing the local market and consolidating its quality customer base which is mainly composed of blue chip and industry leaders. We will also expand our regional market development in the GBA and Southeast Asia. We will continue to enhance our competitiveness and increase our ability to capture integrated income. Focusing around customer demand, we will be selective in customer deals and strike a balance among earnings, risk and scale. We will strive to achieve solid loan growth that outperforms the market, while maintaining a relatively large asset scale and income base amid the high interest rate environment.

**Deputy Chief Executive Chan Man:** For 2024, as the macro economy continues to recover in positive trends, we expect to achieve solid fee income growth in loan commissions, credit card, trade settlement, as well as trust and custody services. Fee income from securities brokerage and funds management will depend on the recovery of the capital market sentiment. We will also capture cross-border business opportunities, and leverage our insurance and funds products to make breakthrough. We will deeply explore customer demand, further enrich products and services, and increase sales and marketing capability. By insisting on both customer acquisition and activation, and through expanding income sources, we aim to achieve a steady increase in our net fee income.

**Michael Zhang from Citigroup:** Regarding real estate risks, with the downturn in local property market, are there any concerns about the collateral value of Hong Kong real estate loans? Have there been any non-performing loans from the property exposures outside Hong Kong and the Chinese mainland? Additionally, BOCHK has had a relatively high capital ratio in the past two years, with CET1 capital ratio at 19%. What is the target level for future capital ratios?

**Chief Credit Officer Stanley Yung:** As of end of 2023, our corporate property loan exposure amounted to HK$367.4 billion, down 1.3% from the end of 2022, accounting for 21.6% of the Group's total loans, down 1 percentage point. According to loan use by locations, 77% was used in Hong Kong, 16% on the Chinese Mainland, 3% in Southeast Asia and the remaining 4% in other locations, while we do not have any exposure to the U.S. Excluding mainland CRE loans, our corporate property loan balance was amounted to HK$274.5 billion. By loan category, 15% was construction loan and 30% was secured loan, with an LTV ratio lower than 42% on a combined basis. The remaining 55% was mainly exposure to large local blue-chip companies with good asset quality.

**Chief Financial Officer Liu Chenggang:** Regarding the long-standing investor demand for us to increase dividends, we have communicated with many investors and conducted extensive research over the past year. First, the regulatory requirements of capital ratio in the local banking industry are relatively high. It is also an important foundation for Hong Kong as an international financial centre to withstand various financial shocks. As of the end of 2023, our CET1 capital ratio was 19%, slightly higher than the 17.2% of the average level of retail banks in Hong Kong. One reason is our status as a domestic systemically important bank. Moreover, to consistently outperform the market and peers in terms of business growth in recent years, we need a certain level of capital support. This growth will ultimately be translated into shareholder returns. In addition to that, we are actively following the policy development of various capital instruments under the HKEX while exploring different means and methods to provide reasonable returns to shareholders. In the past few years, we have pursued steady increase in dividend payout ratio and shareholder returns, while maintaining an open and prudent attitude to other methods of capital return enhancement. Overall speaking, based on the principle of prudent and stable operations, we will strive to provide sustainable integrated shareholder returns in the medium to long-term.