Transcript of Analyst Briefing for

2024 Interim Results

Results Presentation

Chief Executive Sun Yu: Since the beginning of the year, the global economy has gradually emerged from a challenging period, and Hong Kong's economy has achieved moderate growth. However, there is still much uncertainty in the future monetary policies of major economies. Faced with a complex and ever-changing business environment, we upheld the principle of "pursue progress while ensuring stability", and I am pleased to report that our major businesses outperformed the market and our operating results grew steadily.

In the first half, our attributable profit totalled HK$20 billion, up 17.9% year-on-year. ROE improved by 1.58 percentage points to 12.39%. The Board has declared an interim dividend of HK$0.57 per share, up 8.2%.

We continuously enhanced the quality and efficiency of our services to meet the customers' diverse needs and cement our business advantages in the local market. We secured market leadership in the residential mortgage, syndicated loan and RMB bond underwriting businesses. We also further increased the scale and quality of our cross-border business. Our individual customer base for cross-border business expanded by over 20% year-on-year, of which more than 60% were mid to high-end customers, while the number of cash pools for corporate customers increased by more than 20%. We also achieved solid progress in our wealth management and treasury businesses, recording 10% growth in our high-end customer base, doubling our market share in fund sales, and growing payroll accounts by 12% year-on-year. Our trust and custody services, and institutional treasury business also continued to perform well. We made great efforts to boost our integrated service capabilities. In the first quarter, BOC Life rose to second place in the market in terms of new standard premiums. BOCI-Prudential continued to lead its peers in terms of MPF asset scale during the first half, while BOCHK Asset Management increased its AUM by 20% year-on-year. As a result, we achieved double-digit income growth across our integrated service platform.

To consolidate our business advantages in the GBA, we proactively served our customers' cross-border financial demand and deeply engaged in developing the infrastructure of the Mutual Market Access Scheme. Capturing opportunities for financial collaboration, we launched "Cross-boundary Wealth Management Connect 2.0", growing the number of northbound and southbound customer accounts by more than 50% from the end of last year, with total remittance amount multiplied, continuing to lead the market. We sustained our market leadership in "Stock Connect" and "Bond Connect" businesses, while gradually increasing the scale of our "Swap Connect" business. Our compelling products recorded solid growth. Our "GBA Account Opening" service recorded a 10% year-to-date growth in cumulative customer numbers, while the volumes of BOC Pay and credit card transactions in the mainland rose by 2.2 times and 26% respectively. We closely followed the development plan for the Northern Metropolis and proactively captured related business opportunities. We launched brand-new services tailored to the innovative technology enterprises in the GBA, with the number of loans granted under the "Innovation & Technology and Talent Financing Incentive Scheme" increasing by 54% from the end of last year.

We reviewed the strategic plan for our Southeast Asian business and deepened the implementation of our differentiated management approach, with a view to developing the Southeast Asian market into an important resource for the Group while helping our regional entities to become the leading Chinese banks in their respective domestic markets. We seized opportunities arising from China's new development paradigm with a continued focus on Belt and Road cooperation, "Going Global" projects and large customers in the region. We actively developed regional syndicated loan projects and green finance business. We further optimised the service of our regional "Wealth Management" brand as well as the online transaction experience for domestic customers, by leveraging digital innovation and deploying a diverse array of mobile banking functionalities. In addition, we strengthened our innovation and business capabilities in treasury services, resulting in double-digit growth in treasury business transaction volume. During the first half, the deposits and loans of our Southeast Asian entities grew by 17.4% and 8.6% respectively, while net operating income increased by 30.8%, outpacing the corresponding growth rates of the Group as a whole.

We constantly strengthened the foundations of our RMB business, and facilitated the construction of offshore RMB markets, to support the steady and prudent development of RMB internationalisation. By leveraging our RMB business strengths, we achieved 32% growth in RMB customer loans and 17% growth in RMB deposits. BOCHK, BOC Malaysia and the Manila Branch saw fast growth in RMB clearing volumes. We maintained market-leading position in RMB businesses such as cross-border cash pooling and Mutual Market Access schemes, and topped the market in terms of RMB new standard premium for the 12th consecutive year. We innovated and enriched our RMB products and services while also promoting the use of e-CNY, with an "e-CNY" zone introduced on the BoC Pay app. We proactively participated in the HKMA and HKAB's RMB promotion activities in Southeast Asia.

Adhering to our customer-centric philosophy, we enhanced our data utilisation capabilities and took our digital financial services to new heights. We deepened the development of scenario ecosystems based on customers' needs in home purchasing, education and health. At the peak, our open APIs exceeded 400,000 daily usages. In addition, the customer base of BoC Pay and the settlement volume of BOC Bill increased by 9% and 7% respectively. We stepped up in the optimisation of online services. During the period, the number of active mobile banking personal customers grew by 8%, the mobile banking penetration rate in Southeast Asia reached 76% and transaction volume on the iGTB platform surged by 63%. We accelerated the development of our intelligent operations and smart risk control capabilities, while expanding the capacity of our Regional Operating Centre in Nanning. We actively fostered an innovative culture. We engaged deeply in the e-HKD Pilot Programme under the HKMA, became a founding member of the Project Ensemble Architecture Community, and vigorously promoted the implementation of cross-border central bank digital currency projects.

We continued to refine our diversified products and services, supporting society to adopt low-carbon lifestyles, while nurturing new growth drivers for sustainable development. During the first half, we increased our green and sustainable loan balance by 18%, ESG funds for sale by 38% and banking book ESG bond investment by 18%. Once again, we assisted the HKSAR Government in issuing a multi-currency digital green bond, as well as being appointed as the custodian bank for its digital green bond issuance for the second consecutive year. We introduced Hong Kong's first carbon footprint tracking function in our mobile banking to encourage citizens to live low-carbon lifestyles. We were also honoured to receive carbon neutrality certifications for BOC Tower and the Bank of China Building in Hong Kong, making us the first bank in the city to be certified as carbon-neutral for owned premises. We continued to demonstrate our care for society. In the first half, we carried out more than 13 charitable projects and recorded a total of more than 12,300 voluntary service hours. We dedicated ourselves in supporting the real economy and responding to social issues, through implementation of HKMA's 9 measures to support SMEs' development, while utilising our advantages in both online and offline channels, to meet home purchase demand of our customers, and all in all, contribute to the high-quality sustainable development of Hong Kong's society and economy.

Deputy Chief Executive and Chief Financial Officer Liu Chenggang: Since the start of the year, we have constantly grown our core businesses, and effectively managed our assets and liabilities to cope with market interest rate fluctuations, while seizing opportunities from the recovery in capital markets to improve our fee income and other non-interest income. At the same time, we prudently controlled operating expenses and strengthened risk management. As a result, our after-tax profit in the first half grew 13% year-on-year to HK$20.5 billion.

In response to market competition and continued time deposit migration, we strictly controlled funding costs and deepened customer relationships by expanding our cross-border and payroll businesses, while also tapping customer demand in clearing, custody and treasury business. As at end of June, our customer deposits grew by 5.8% to HK$2.65 trillion, taking our local market share up to 15.7%. CASA ratio was 45.5%, up 1.3 percentage points from end of March.

We actively responded to market challenges, captured opportunities in the Hong Kong, GBA, Southeast Asian and key overseas markets and further enhanced intra-group collaboration, to provide diversified financing solutions such as syndicated and project financing, green loans and mortgages. Customer loans reached HK$1.7 trillion, with our local market share increasing to 16.5%. Within this, loans for use in Hong Kong remained stable while trade finance increased by 8.3%.

In response to volatile market interest rates, we proactively managed our assets and liabilities, secured the performance of loans and deposits, sensibly adjusted our bond investments, to increase yield levels. Adjusted for swap impact, NIM expanded by 5 basis points year-on-year to 1.61%. Net interest income grew by 15% to HK$28.8 billion. Within this, second quarter NIM was 1.62%, up 1 basis point from the previous quarter.

During the first half, net fee income rebounded by 1.8% year-on-year and 17.6% half-on-half. We captured opportunities in wealth management and enhanced the product and service suite for funds and insurance, resulting in 27.2% and 10.1% year-on-year growth in commission income from funds distribution and insurance. Supported by the recovery of tourism industries, commission income from currency exchange rose 43.5%. Income from credit card business remained stable, with retail cardholder spending and merchant acquiring volume in Hong Kong increasing by 9.8% and 7.0%, respectively.

With a constant focus on the Group’s strategic development priorities, we optimised resource allocation, strengthened cost control and upheld the concept of low-carbon operations. Our operating expenses increased by 3.4% to HK$8.1 billion. Our cost-to-income ratio improved by 2.5 percentage points to 23.0%, outperforming local peers.

We deepened comprehensive risk management. By dynamically adjusting credit strategies and refining credit risk management mechanisms and measures, we successfully maintained our asset quality at a solid level.

As at the end of June, our non-performing loan (NPL) ratio edged up 1 basis point from the end of last year to 1.06%, continuing to outperform the market average. Annualised credit cost was 0.25%, up 11 basis points year-on-year but down 36 basis points half-on-half. Total impairment allowances increased by 9 basis points to 0.96% of total loans, further consolidating our capability to withstand potential risks.

We continued to strengthen capital management. As at the end of June, our total capital ratio increased to 22.17%, while our CET1 capital ratio stood at 20.05%, mainly due to continued earnings growth. At the same time, we reasonably controlled our RWA, which grew by only 0.6%. Liquidity remained abundant, with our average first-half LCR and NSFR standing at 237% and 141%, respectively.

Chief Executive Sun Yu: Looking to the second half, the global political and economic landscape is expected to undergo fresh changes. Uncertainties will persist regarding the direction of monetary policy changes among major economies. Banks will face ongoing challenges in balancing business growth with effective risk management. On a positive note, the Chinese mainland will continue to cultivate new quality productive forces and deepen high-level opening up, further consolidating and strengthening its economic growth momentum. By proactively aligning with national development strategies and measures that benefit the city, the HKSAR Government will attract key enterprises, talent and capital, and enhance regional collaboration to reinforce its status as an international financial centre. In addition, other promising initiatives such as Belt and Road cooperation and RCEP, will continue to present new development opportunities for the banking industry in Hong Kong.

In the second half, we will focus on sharpening risk management and control, achieving foundational breakthroughs and maintaining solid profitability. We will remain committed to consolidating and enhancing the quality and efficiency of our regional, integrated and digital financial services, while upholding our risk bottom-line and diligently pushing forward key tasks.

Our goal is to consistently outperform the market in our core businesses, continually expand the scale of diversified income sources, maintain highly cost-efficient operations, and strengthen control over asset quality, while striving for solid business growth and financial results. We will be fully dedicated to supporting high-quality economic and social development, thus creating value for our shareholders, customers, employees and all sectors of society.

Question and Answer Session

Gary Lam from HSBC: Given the RMB business grew rapidly in the first half, what is the RMB business outlook with the expected expansion of programs such as Stock Connect schemes and RMB counter services. As BOCHK has increased its interim dividend, will buyback, dividend increase or M&A be considered to enhance capital efficiency in the future?

Chief Executive Sun Yu: In the first half, good progress has been made in RMB internationalisation. The RMB currency firmly maintained its 4th position as a global payment currency, while its function as a cross-border financing currency and the attractiveness of RMB assets further improved. The Hong Kong RMB market had become more active, as reflected in the solid performance measured by various business indicators. Hong Kong's RMB funding pool hit a new high, with rapid growth in both RMB deposits and loans. We achieved good results in RMB business development. We leveraged the RMB clearing bank advantage and expanded our clearing business. In the first half, RMB clearing volume via Hong Kong grew by 95%, accounting for about 80% of the global offshore total. RMB clearing volumes of BOC Malaysia and the Manila Branch increased by 71% and 25% respectively. The Cambodia Branch proactively prepared for the commencement of clearing bank business, and we launched LCS arrangement in Indonesia. In addition, we recorded over 20% growth in RMB fund sales amount year-on-year. In the first quarter, our RMB insurance product sales increased by about 50% in terms of new standard premium, sustaining the top market ranking for consecutive 12 years.

Looking ahead, the RMB internationalisation will continue to advance in a prudent manner, creating many business opportunities. As the only RMB clearing bank in Hong Kong, we are confident in leveraging our established capabilities to better capture market opportunities. With the U.S. starting to cut interest rates, changes and adjustments in RMB interest rates and exchange rates are expected. We will launch suitable products and services based on market conditions and customer needs to maintain our leading position in RMB business.

Deputy Chief Executive and Chief Financial Officer Liu Chenggang:
In the first half, our capital ratios continued to improve, mainly driven by increase in retained earnings. Taking into account the sufficient capital levels and the solid earnings growth, and to share the fruitful results with our shareholders, we adhered to a prudent and optimistic principle, and appropriately increased the interim dividend amount, distributing an interim dividend per share of HK$0.57 for 2024, up 8.2% compared with the same period of last year, which was a relatively high level in recent years.

For a long time, BOCHK has pursued a solid dividend policy, striving to balance between shareholder interest maximisation and our long-term development. In response to investors' suggestions, we closely followed the development of regulatory requirements and policy changes, proactively explored opportunities in regionalisation and integrated development, and advanced study on the formats and methods concerning business plans, asset growth and capital tools, to pursue effective resource utilisation and endeavour to enhance shareholder returns.

As regards our dividend policy, we have been gradually increasing the dividend payout ratio within the scope of our risk appetite in recent years. For the full year of 2024, our payout ratio guidance remains between 40-60%. We will take full consideration of investor returns, regulatory requirements and business development opportunities, while enhancing our profitability, so as to strive for sustainable and increasing shareholder returns.

Winnie Wu from Bank of America: Faced with the property market downturn in Hong Kong, BOCHK's CRE NPL ratio excluding mainland clients stood at 0.16%, which was lower than that of the peers. Currently, as some sectors including retail are not performing well, what risk indicators should the management focus on? Will real estate exposure decrease in the future? What is the outlook for NPL? The overall loan balance remained flat in the first half with some sectors still growing, what were the main drivers? What factors will drive loan growth in the future?

Deputy Chief Executive and Chief Risk Officer Xu Haifeng: Amid a high interest rate environment, Hong Kong's property market has remained under pressure since early this year. Some local property enterprises faced increasing liquidity pressure. Faced with this challenge, we closely monitored market changes and operating situations of our customers and timely reviewed the loan ratings. Currently, overall risk remains manageable, which is reflected in the following aspects.

First, as of the end of June, excluding the mainland CRE loans, our corporate real estate loan balance was HK$262.0 billion, down 4.7%

from the end of last year. The relevant NPL ratio was 0.16% while asset quality remained sound.

Second, in terms of loan structure, for the above HK$262.0 billion, 83% was for use in Hong Kong, of which nearly 60% was for property development. By loan category, construction loans accounted for about 18%; secured loans about 29%, with collateral mainly located in Hong Kong and the relevant average LTV ratio not exceeding 45%, which stood at a healthy level, and the risk was manageable.

Third, in terms of customer structure, our Hong Kong property customers are mainly large local blue-chip companies with stable financial conditions.

Looking ahead to the second half, the high interest rate environment will continue to weigh on market demand, coupled with an increase in the short-term supply of new homes and office space, Hong Kong's real estate market will still face cyclical pressure. That said, while the HKSAR Government is actively promoting economic development, a range of initiatives including removal of property market cooling measures, together with the market expectation of the Fed's rate cut in the year, will help improve the repayment ability of property customers. Property sector is an important part of Hong Kong's economy. We will proactively expand customer demand and endeavour to provide diverse and integrated financial service solutions, while adhering to our long-standing, prudent and solid risk management policies, to ensure the asset quality to remain at a sound level.

Deputy Executive Wang Huabin: In the first half, the global economic and financial environment has been uncertain, and loan demand in the

Hong Kong market remained weak, with system loans down by 1.9%. Leveraging our solid customer base and diverse market layout, we seized business opportunities and stabilised our loan base. At the end of June, our total customer loans were HK$1.70 trillion, remaining largely flat from the end of last year, outperforming the market by 1.8 percentage points with the local market share rising to 16.5%.

In the second half, although the global economic recovery is expected to improve, uncertainties remain. From the perspective of the three major markets of us, namely Chinese mainland, Hong Kong and Southeast Asia, we see both opportunities and challenges. BOCHK will adhere to the work principle of "seeking progress while maintaining stability". On the basis of adhering to the risk bottom-line, we will seize market opportunities, fully committed to supporting real economy and promote the high-quality development of the loan business. Specifically, our strategy will be as follows:

First, we will seize business opportunities from the development of new productive forces, and enhance industry layout. We will closely follow the construction of the national modern industrial system, focus on strategic and emerging industries such as new energy, advanced manufacturing and electronic information, and increase marketing and development efforts for high-quality customers through onshore and offshore collaboration. We will continue to optimise the tech finance service model, deepen cooperation with technology innovation platforms, "niche" enterprises, and leading technology companies, increasing the proportion of technology-related corporate loans.

Second, we will strengthen regional coordination and seize the opportunities arising from closer economic and trade exchanges between China and ASEAN. We will continue to strengthen the leading role of Hong Kong headquarters, coordinate with Southeast Asian entities, proactively serve large domestic clients and "Going Global" Chinese enterprises, with focus on areas such as new energy vehicles, cross-border e-commerce and electricity, to provide comprehensive financial services for enterprises. At the same time, we will strengthen cooperation with BOC branches in Singapore, Sydney, Tokyo, Seoul, and other Asia-Pacific locations, to seize business opportunities in syndicated loans and project financing.

Third, we will capture the opportunity of RMB internationalisation. Currently, with the inverted interest rates between RMB and HKD/USD, demand for RMB loans is relatively strong. We will fully leverage the advantages of offshore RMB business, enrich the application scenarios of RMB in trade and capital account, and meet the offshore RMB financing needs of enterprises, to promote solid growth of RMB loans.

As always, we will continue to set our base in Hong Kong, the cross-border GBA, Southeast Asian and overseas markets, focus on customer needs, and proactively serve the real economy, striving to balance among "scale, efficiency and risks", so as to achieve solid development in our loan business, and strive to outperform the market for the full year.

Hou Dekai from CICC: In the second quarter, amid the HIBOR decline, BOCHK had a positive surprise in NIM performance, aided by rising bond investment yields. What will be the future strategy for the duration of the bond investment portfolio? How much support is still available for the NIM? Additionally, loans for use on the Chinese mainland declined in the first half as shown in the Non-bank Mainland Exposure, what was the main reason?

Deputy Chief Executive and Chief Financial Officer Liu Chenggang: Amid an environment of fluctuating interest rates, we continued to promote business growth while proactively managing our assets and liabilities, resulting in satisfactory NIM performance, which was mainly due to several reasons. First, we managed to secure the deposit and loan performances, with 5.8% deposit growth and flat loan growth in the first half, outperforming the market by 2.6 and 1.8 percentage points, respectively, and driving the growth in the average interest-earning assets. Second, faced with a downward trend in interest rates, we strictly controlled fixed deposit costs and maturities, and gradually stabilised the CASA ratio. Third, we dynamically managed our bond investments in the banking book, with bond investment yields rising by 95 basis points year-on-year. Fourth, we steadily advanced our Southeast Asian business, with the NIM of our Southeast Asian entities increasing by 37 basis points year-on-year in the first half, positively contributing to the Group's margin.

In terms of bond investments, we proactively prepared for the interest rate down-cycle, appropriately extended the duration of bond portfolios and increased investment scale, balancing investment returns and interest rate risks, within the manageable range of risk indictors. At the same time, we had stable deposit sources and maintained liquidity indicators such as LCR and NSFR at a high level, while having sound capital adequacy ratios, enabling us to appropriately utilise bond investments to withstand pressures from falling interest rates.

Deputy Chief Executive and Chief Risk Officer Xu Haifeng: In recent years, the market has seen notable interest rate inversion, with Hong Kong market rates higher than those on the Chinese mainland, leading to reduced loan demand from mainland customers. Meanwhile, we controlled our exposures in accordance with various indicators to ensure manageable risks.

Sam Wong from Jefferies: Does BOCHK have any M&A plan at the current stage? In the first half, the net operating income of the Southeast Asian entities accounted for 7% of the Group's total, what is the future target?

Deputy Chief Executive and Chief Financial Officer Liu Chenggang: BOCHK is a regional banking group providing integrated services. We maintain an open attitude towards any asset or capital-related projects. Taking the complexities in the relevant regulatory approvals and actual implementation into account, we will aim for easy targets first and seek to enhance capital returns through improving core business profitability.

Deputy Chief Executive Li Tong: Driven by consumption and exports, Southeast Asian countries saw continued economic recovery in the first half, with 6 major ASEAN countries growing by 4.6% in terms of GDP. As of the end of June, the deposits and loans of our Southeast Asian entities increased by 17.4% and 8.6% respectively from the end of last year. Net operating income grew by 30.8% year-on-year.

The above performance was mainly due to the effective implementation of the integrated operation approach and the "one branch, one policy" strategy. Firstly, we further strengthened regional collaboration and deepened cooperation with the parent bank's Asia Pacific and mainland institutions, focusing on expanding "Belt and Road" and "Going Global" projects and regional large customer businesses. The Jakarta Branch and BOC Thailand participated in several important syndicated loan projects and actively promoted local green finance development. Secondly, we continued to enhance the development of RMB business. The RMB clearing volumes of BOC Malaysia and the Manila Branch grew rapidly, while the RMB clearing system of the Phnom Penh Branch in Cambodia successfully came into operation, and the RMB treasury business volume of Southeast Asian entities doubled year-on-year. Thirdly, we boosted the regional brand building of "Wealth Management", expanding the mutual recognition of the wealth management brand among BOC's mainland branches, BOC's overseas institutions, and BOCHK as well as the Southeast Asian entities. Multiple regional online and offline activities were organised to introduce the latest talent and family office policies of the HKSAR Government, developing an integrated brand and fostering regional collaboration. We also supported the Southeast Asian entities to participate in the UnionPay International global payment interconnection plan, and optimise the online payment experience of domestic customers.

In the second half, we will adhere to our development strategy. Firstly, we will seize the opportunities from the transfer of industrial chains and the new development pattern of the country, with a focus on major projects and key customers, by further strengthening products and services, to support the comprehensive financial needs of customers. Secondly, we will actively leverage offshore RMB business capabilities, fully support the use of RMB in the region, and help steadily and prudently promote RMB internationalisation. Thirdly, we will closely follow the “dual-carbon” plans of Southeast Asian countries and enhance the level of green financial services of the local entities. Fourthly, we will continue to promote digital transformation with a focus on mobile banking, mobile payment and iGTB platform, while driving function optimisation and service promotion. Under the premise of adhering to the risk bottom-line, we will pursue steady development of the Southeast Asian business and expand the contribution to the globalisation of BOC Group.

Michael Zhang from Citigroup: In the first half, the loan commission fee income was affected by the credit demand. If interest rates are cut in the second half, will it stimulate loan growth and drive recovery in the related fee income? Also, can you provide an update on the development of wealth management business. Furthermore, what are the main drivers of credit risk and credit costs in the second half? What is the overall risk outlook?

Deputy Chief Executive Chan Man: Since early this year, despite the headwinds faced by Hong Kong’s economy, we proactively responded and seized market opportunities by focusing on customer needs for southbound and northbound consumption and wealth succession, and strengthening product and service innovation, to expand fee income sources. In the first half, our net fee income was HK$5.0 billion, up 1.8% year-on-year. Among them, investment and insurance related fee income increased by 7.2%, and non-credit traditional business income grew by 6.9%.

Specifically, we grew the fee income from insurance and funds distribution by 10% and 27% respectively, while recording steady growth in credit card fee income due to increase in cardholders' spending volume. We proactively developed institutional business with solid growth in trust and custody service fee income, and captured the opportunities of tourism industry recovery to grow currency exchange income by 44% year-on-year.

For the second half, the macroeconomic outlook for the Chinese mainland and Hong Kong is expected to continue improving, while the downtrend in interest rates will provide support to economic recovery. In addition to that, the HKSAR Government is committed to promoting the Mega event economy and boosting tourism development, which will drive the performance of consumption-related businesses such as credit card service and currency exchange. Meanwhile. we will also capture the opportunities in securities brokerage, funds distribution and insurance businesses, and strive to achieve a stable fee income for the full year.

Regarding wealth management development, Hong Kong's total AUM had stood steadily above HK$31 trillion in 2023, with continued and high-volume net money inflows into private banking and wealth management businesses. We further enriched exclusive products and service experience for high-end customers, and continuously improved the high-end customer service chain through close collaboration with various units within the Group such as corporate banking, our Southeast Asian entities and the parent bank BOC, to expand both local and cross-border customer bases. In the first half, the number of our high-end customers increased by 10% year-on-year, or up 4.7% from the end of last year, among which the number of private wealth customers increased by 17.8% year-on-year. At the same time, the AUM of our Private Banking increased steadily. The number of young customers opening accounts under “TrendyToo” increased by nearly 50% year-on-year, while the number of new individual cross-border customers increased by more than 20% year-on-year, or up 10% from the end of last year, of which the growth contribution of mid-to-high-end customers exceeded 60%.

Overall speaking, we will continue to strengthen cross-departmental coordination and optimise customer structure by focusing on traditional wealth management clients and actively expanding into younger demographics, while making sustained efforts in stock brokerage, insurance, and funds distribution businesses. Based on past experience, there will be more business opportunities in services such as insurance and bonds during an interest rate downcycle. At the same time, we will also leverage big data analysis and other technologies in targeted marketing and providing attentive services to our clients.

Deputy Chief Executive and Chief Risk Officer Xu Haifeng: At the end of June, our NPL was 1.06%, up 1 basis point from the end of last year, remaining largely stable while outperforming the market average of 1.79% at the end of March. Overall credit quality was controllable without any systemic risk. In the first half, while ensuring the high-quality development of our loan business, we continued to strengthen the monitoring of high-risk loan portfolios, enhanced the review of customer internal ratings and loan ratings, and increased provisions to mitigate potential risks. Total loan impairment allowances were HK$2.067 billion, up HK$0.842 billion year-on-year. Annualised credit costs were 25 basis points, up 11 basis points year-on-year. At the end of June, the NPL provision coverage ratio was 90.4%, up 7.5 percentage points with total loan provision ratio up 0.09 percentage point to 0.96%, maintaining provisions at a sufficient level.

For the second half, the economies of the Chinese mainland and Hong Kong are expected to continue to improve. Hong Kong's overall goods exports will steadily increase. A wide range of policy initiatives launched by the HKSAR Government will be conducive to promoting the development of the real estate and tourism industries. However, the high-interest rate environment will continue to affect customers' repayment ability, and risk management in the banking industry remains challenging. We will strive to balance between business development and asset quality, and while proactively supporting the real economy, we will continue to improve risk control mechanisms and measures, prevent the formation of new NPLs, and dispose of existing NPLs. We will strive to maintain a relatively stable NPL ratio for the full year and are confident in continuing to outperform the market average. At the same time, we will adhere to our long-standing and prudent strategy, make sufficient provisions, and endeavor to keep credit costs relatively stable in the second half compared with the first half.

Jemmy Huang from JP Morgan: With the implementation of Basel III finalised package in 2025, what impact is expected on BOCHK? With BOCHK's average LTV for secured corporate real estate loans at about 45%, what types of clients do you see higher risk? Have you taken any measures to manage those risks?

Deputy Chief Executive and Chief Risk Officer Xu Haifeng: According to the Basel III implementation timeline, starting from 1st January next year, the internal rating approach will be used. We are fully prepared and have made proper arrangement. Overall speaking, it will benefit us and reduce our RWA in terms of calculation. In the following stage, we will effectively prepare for the capital calculation. As mentioned earlier, the average LTV for our property clients was below 45% and our real estate loan exposure was primarily to large blue-chip companies. Beside collaterals, we also have corporate guarantees and cash flow support from clients, and therefore overall risks remain manageable.