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 FIRST QUARTER OF 2024

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 first quarter of 2024.

While the global economy gradually stabilised in the first quarter of 2024, it continued to be influenced by the tightening of monetary policies by various major central banks. US inflation was sticky and remained elevated. Despite the Federal Reserve's indication on possible rate cuts this year, the timing and magnitude of those cuts remain uncertain. Price levels in Europe generally trended downwards but remained resilient, and as a result the European Central Bank had not cut its key interest rates. In the Chinese mainland, production and demand improved steadily, and price levels were broadly stable, while imports and exports witnessed rapid growth. Meanwhile, the People's Bank of China ("PBoC") adopted counter-cyclical measures, including lowering the reserve requirement ratio and interest rates in order to further boost investment and consumer demands. The Southeast Asian economy maintained a relatively rapid growth, with foreign trade activities rebounded, tourism continuing to recover, and overall price levels remaining stable.

The Hong Kong economy experienced ongoing recovery overall, with exports of merchandise trade and inbound tourism gradually picking up, and business sentiment stabilising. The Hong Kong Dollar exchange rate remained stable, and foreign exchange and money markets continued to operate smoothly. The Hong Kong Monetary Authority ("HKMA") and the PBoC announced six policy measures to deepen financial cooperation between the Chinese mainland and Hong Kong, further consolidating Hong Kong's position as an international financial centre and global offshore RMB business hub.

Financial Performance Highlights

- In the first quarter of 2024, the Group's net operating income before impairment allowances increased by 16.8% from the same period last year and 5.4% from the previous quarter.
- If the funding income or cost of foreign currency swap contracts were included, net interest income would have increased by 20.5% and net interest margin would have widened by 11 basis points year-on-year to 1.61%. This scenario is reflective of the Group proactively managing its assets and liabilities to capture opportunities from rising market interest rates, resulting in a widening of the loan and deposit spread. Net interest margin would have narrowed 7 basis points quarter-on-quarter, as HKD market interest rates dropped notably from the previous quarter.
- The Group seized business opportunities from the resumption of commercial activities, and improvement in travel and consumer confidence. It also enhanced its range of insurance products and services to meet the demands for legacy planning. Net fee and commission income increased by 1.5% compared with the same period last year, and rebounded by 30.6% from the previous quarter. The quarter-on-quarter rebound was mainly due to the increase in commission income from loans, investment-related, insurance and other non-credit-related businesses.
- Balanced growth was achieved in deposits from customers and advances to customers, which increased by 2.4% and 1.7% respectively from the end of 2023.
- Classified or impaired loan ratio was 1.04%, which remained below the market average.
- Liquidity coverage ratio, net stable funding ratio and capital ratio remained solid.

Financial Performance

The table below summarises the key performance figures of the Group in the first quarter of 2024:

Key Performance Figures of the Group					
HK$'m, except percentages	**2024 Q1**	2023 Q1	2023 Q4	Compared with 2023 Q1	Compared with 2023 Q4
Net operating income before impairment allowances	**17,793**	15,233	16,874	+16.8%	+5.4%
Operating expenses	**(3,985)**	(3,871)	(4,528)	+2.9%	-12.0%
Operating profit before impairment allowances	**13,808**	11,362	12,346	+21.5%	+11.8%

2024 Q1 compared with 2023 Q1

In the first quarter of 2024, the Group's net operating income before impairment allowances increased by 16.8% year-on-year to HK$17,793 million. If the funding income or cost of foreign currency swap contracts were included, net interest income would have increased by 20.5% year-on-year to HK$14,297 million. Net interest margin stood at 1.61%, up 11 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. Net fee and commission income increased by 1.5% on a year-on-year basis to HK$2,542 million. This was mainly due to the Group seizing business opportunities from the resumption of commercial activities and improvement in travel and consumer confidence, while strengthening its range of insurance products and services to meet the demands for legacy planning. As a result, commission income from loans, insurance, funds distribution, currency exchange, credit card business, and trust and custody services increased. However, commission income from securities brokerage decreased due to the subdued investor sentiment in the market.

Operating expenses increased by 2.9% year-on-year, as staff costs rose, along with increased investment in information technology, business promotion and telecommunications expenses. The Group's cost to income ratio was 22.40%, maintaining a satisfactory level relative to industry peers.

The Group's net charge of impairment allowances increased by HK$590 million year-on-year to HK$883 million. This was mainly due to a lower base for comparison resulting from the reversal of impairment allowances made in the first quarter last year owing to improved parameter values of the Group's expected credit loss model, driven by the positive macroeconomic outlook. At the same time, this was in part because of additional impairment allowances made in the first quarter of this year in response to changes in the internal ratings of certain customers. The annualised credit cost of advances to customers and other accounts was 0.21%.

2024 Q1 compared with 2023 Q4

The Group's net operating income before impairment allowances increased by 5.4% quarter-on-quarter. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have narrowed by 7 basis points compared with the previous quarter. In the same context, net interest income would have decreased by 4.7% quarter-on-quarter. This was mainly owing to the notable drop in HKD market interest rates from the previous quarter, which led to a narrowing of the loan and deposit spread. This negative impact was partially offset by a continuous rise in the average yield of securities investments as a result of the Group's dynamic management of its banking book securities investments. Net fee and commission income rebounded by 30.6% from the previous quarter, mainly attributable to an increase in commission income from loans, funds distribution and management, securities brokerage, insurance, currency exchange, trust and custody as well as payment services.

Operating expenses decreased by 12.0% quarter-on-quarter, as staff costs, premises and equipment and business-related expenses dropped.

Net charge of impairment allowances decreased by HK$2,770 million quarter-on-quarter. This was due to a higher base for comparison resulting from the impairment allowances made in the previous quarter related to the downgrading of certain customers and an increase of impairment allowances made in relation to certain non-performing customers.

Financial Position

As of 31 March 2024, the Group's total assets amounted to HK$3,902,015 million, an increase of 0.9% from the end of 2023. This was primarily due to an increase in advances to customers, as well as securities investments and other debt instruments. Deposits from customers increased by 2.4% from the end of 2023 to HK$2,564,722 million. Time, call and notice deposits increased, while CASA deposits decreased. The CASA ratio was 44.2%, down 3.2 percentage points from where it stood at the end of 2023. Advances to customers increased to HK$1,731,630 million, up 1.7% from the end of 2023. Classified or impaired loan ratio stood at 1.04%, which remained below the market average. The Group's liquidity coverage ratio, net stable funding ratio and capital ratio remained solid.

Business Review

In the first quarter of 2024, the Group deeply cultivated local business and consolidated its market position in Hong Kong. It expanded its target customer base, unleashed key business potential, and actively enhanced comprehensive service capabilities, so as to strengthen its core competitive advantages. Seizing business opportunities in the Greater Bay Area, the Group promoted the steady development of its businesses relating to people's livelihood, cross-border service, technology innovation and green finance, further reinforcing its leading advantages in the Greater Bay Area and maintaining leadership in RMB business. Reflecting its commitment to regional development, it stepped up its efforts to capture new market opportunities and improve regional management mechanisms. Staying true to its ESG-led commitment to sustainable high-quality growth, the Group pushed forward the development of sustainable green finance business. In order to become a comprehensive digital bank and support the implementation of the Group's development strategies, it accelerated the integration of business and technology in its key areas of business and continued to develop scenario-based, comprehensive, seamless, data-driven, smart banking services and experiences. Meanwhile, it implemented comprehensive risk management and firmly adhered to the risk "bottom line".

In **Personal Banking business**, the Group launched various insurance products during the quarter to satisfy the protection needs of customers at different life stages, to help them achieve their long-term wealth maximisation and legacy planning goals, as well as short-term targets of wealth accumulation and savings with life protection. It continued to capitalise on its advantages in cross-border financial service. To help customers seize cross-border wealth management opportunities, it launched the "BOC Cross-boundary Wealth Management Connect 2.0" service and expanded its product offering to nearly 400 qualified investment products. The Group optimised the payment and financing solutions of its Greater Bay Area Loan service by rolling out its new cross-border remittance service. This supports the implementation of facilitative measures on the remittances for property purchase by Hong Kong and Macao residents in the Mainland cities in the Greater Bay Area, announced by the HKMA and the PBoC. The Group's optimised solutions enable Hong Kong residents to remit HKD, RMB or other foreign currencies directly from Hong Kong to mainland banks for settlement of Greater Bay Area home purchasing payments. In cooperation with a third-party real estate agency and mortgage broker, the Group introduced an interest-free BOC Express Cash Instalment Loan promotional scheme, providing customers with financial flexibility to prepay the entire rent, deposit and agency fee in one lump sum. In addition, a "Talent Schemes Zone" was set up within its Home Expert mobile application, to help customers entering Hong Kong under the Top Talent Pass Scheme better understand the local property purchasing process and settle down in Hong Kong as soon as possible. Reflecting its commitment to becoming a digital bank, the Group continued to enhance the digital mobile banking experience for customers by introducing new features to its mobile banking application. These included cheque deposit and precious metals account opening services, enabling customers to enjoy convenient banking services from the comfort of home. The Group promoted the e-LaiSee service on BoC Pay and mobile banking, with a view to encouraging customers to distribute red packets in a more convenient and environmentally friendly way.

In **Corporate Banking business**, the Group continuously strengthened its cooperation with blue-chip enterprises and high-quality commercial customers, with a view to refining its integrated product and service capabilities to meet the demands of corporate customers from Hong Kong, the Chinese mainland and Southeast Asia for integrated financial services. During the quarter, it stepped up efforts to promote the development of its key businesses, including trade finance, payment and settlement services, and maintained its leading position in cash pooling business. It continuously enhanced custody and trust service capabilities, with total assets under custody from corporate and institutional clients recording a steady increase. The Group fully supported the business development of SMEs by facilitating cross-border match-making and exchange. At the same time, it strengthened cooperations with government semi-official organisations to organise a range of seminars focusing on SME transformation and upgrading towards new industrialisation, with a view to helping clients become more competitive. Against the backdrop of deepening integration within the Greater Bay Area, it enhanced collaboration with BOC's institutions in the region, seized business opportunities arising from new policies, and stepped up efforts to improve product innovation, so as to facilitate the cross-border financing needs of key industries and target customers. Highlighting the Group's determination to expand its green finance business, it arranged green and sustainability-linked loans with a number of enterprises and assisted the HKSAR Government's issue of approximately HK$6 billion worth of digital green bonds. The Group promoted the cross-boundary use of e-CNY, reinforcing the foundation for normalisation of e-CNY transactions between corporate customers in the Chinese mainland and Hong Kong, and contributing to the development of e-CNY ecosystem.

In the **Treasury Segment**, the Group proactively responded to market changes and placed emphasis on maintaining stable business growth. Ongoing digital advances enabled the Group to improve its online servicing, transaction processing and risk management capabilities. It put considerable effort into developing diversified products and integrated services, achieving satisfactory results in both trading and client businesses. It focused on cultivating the offshore RMB market by expanding the various usage of RMB, which further consolidated and enhanced its professional reputation in RMB business. Meanwhile, the Group actively supported mutual market access schemes such as Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, Bond Connect and Swap Connect, contributing to the prosperity and development of financial markets in the Chinese mainland and Hong Kong. In light of the HKMA's "Expansion of Eligible Collateral for the RMB Liquidity Facility", it executed Hong Kong's first repo transaction collateralised by onshore RMB denominated debt securities under Northbound Bond Connect during the quarter. 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 approach to managing risks, while seeking fixed-income investment opportunities to enhance returns.

In its **Southeast Asian business**, the Group continuously strengthened regional integrated collaboration and captured opportunities from China's new development paradigm and global industry relocation. Leveraging its advantages of all-around services accessible at any point of contact, it prioritised the development of the Belt and Road and "Going Global" projects, as well as serving large corporate customers in the region. It continuously enriched the local financial ecosystems with an offering of diversified products and services. The Group actively promoted the digital transformation of its Southeast Asian business. It pushed forward the establishment of the integrated fund system for the Ho Chi Minh City Branch, the Phnom Penh Branch and the Vientiane Branch, thus improving automation of front, middle and back-end business operations and management processes. During the quarter, Ho Chi Minh City Branch launched its NAPAS Fastfund 247 service, which enables real-time sending and receiving of funds in VND. Following Vientiane Branch's launch of China-Laos Railway Online payment Project in 2023, an encouraging market response saw nearly 100,000 tickets being purchased through the branch. Yangon Branch successfully executed its first cross-border salary remittance for a Myanmar worker.

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 31 March 2024.**

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, 29 April 2024

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*