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

(Incorporated in Hong Kong with limited liability)

(the "Company", Stock Code: 2388)

FINANCIAL AND BUSINESS REVIEW FOR THE THIRD QUARTER OF 2021

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 the Company and its subsidiaries (collectively known as the "Group") in the third quarter of 2021.

In the third quarter of 2021, the US economy recovered at a faster pace than other advanced economies, with the Federal Reserve beginning to discuss scaling down its asset purchase programme. In Europe, several countries continued to show signs of economic recovery following the further relaxation of pandemic containment measures. China's economic growth gradually returned to normal levels, underpinned by the 0.5% reduction in the reserve requirement ratio announced by the People's Bank of China, which enabled more effective market liquidity adjustments. Strict containment measures remained in place in Southeast Asia given the severity of the regional COVID-19 pandemic situation, constraining the region's economic recovery.

The pandemic situation in Hong Kong was largely under control and there was a further decline in the unemployment rate. Despite increasing stock market volatility, Hong Kong's financial system continued to operate effectively and its banking system remained robust.

Financial Performance Highlights

- In the first nine months of 2021, the Group's net operating income before impairment allowances decreased by 12.4% compared with the same period of the previous year, while that of the third quarter rebounded by 8.0% from the previous quarter.
- If the funding income or cost of foreign currency swap contracts were included, net interest margin would have decreased by 28 basis points year-on-year and net interest income would have decreased by 11.9%, amid falling market interest rates. In the third quarter, if the funding income or cost of foreign currency swap contracts were included, net interest margin would have remained relatively stable and net interest income would have increased by 4.7% on a quarter-on-quarter basis.
- Owing to improved investor sentiment in the beginning of the year, coupled with the gradual recovery of the Hong Kong economy, net fee and commission income grew by 16.6% from the same period last year, while that of the third quarter rebounded by 1.4% from the previous quarter.
- Steady growth was achieved in deposits from customers and advances to customers, which increased by 5.6% and 7.1% respectively from the end of 2020.
- Loan quality remained benign, with the classified or impaired loan ratio standing at 0.29% as at the end of September.
- 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 nine months ended 30 September 2021 and in the third quarter of 2021:

Key Performance Figures of the Group						
	Nine months ended		Year on year change	Quarter ended		Quarter on quarter change
HK$'m, except percentages	**30 Sep 2021**	30 Sep 2020		**30 Sep 2021**	30 Jun 2021	
Net operating income before impairment allowances	**37,607**	42,937	–12.4%	**12,557**	11,628	+8.0%
Operating expenses	**(11,767)**	(11,615)	+1.3%	**(4,185)**	(3,816)	+9.7%
Operating profit before impairment allowances	**25,840**	31,322	–17.5%	**8,372**	7,812	+7.2%

Nine months ended 30 September 2021 compared with the same period in 2020

In the first nine months of 2021, the Group's net operating income before impairment allowances decreased by 12.4% year-on-year to HK$37,607 million. If the funding income or cost of foreign currency swap contracts were included, net interest income would have been HK$24,685 million, representing a year-on-year decrease of 11.9%. This decrease was mainly attributable to a narrowing of the loan and deposit spread amid falling market interest rates and intense market competition for deposits and loans, as well as a drop in the average yield of debt securities investments. This caused the Group's net interest margin to decline 28 basis points year-on-year to 1.10%. In response to challenges in the market environment, the Group actively optimised its deposit mix by growing its CASA deposits and achieving an increase in advances to customers and debt securities investments, thus counteracting the negative impacts from falling market interest rates. The Group continued to step up its efforts to enhance its integrated service capabilities and captured market opportunities amid satisfactory investor sentiment in the beginning of the year. Net fee and commission income increased by 16.6% year-on-year to HK$9,612 million as a result, with growth in commission income from securities brokerage, funds distribution and insurance. With Hong Kong's pandemic situation largely under control, the local economy gradually recovering, and the HKSAR Government making efforts to boost economic growth via its Consumption Voucher Scheme, there was broad-based growth in commission income from traditional banking businesses. However, commission income from currency exchange dropped due to ongoing travel restriction measures.

Operating expenses increased by 1.3% year-on-year to HK$11,767 million. The Group remained committed to achieving low-carbon, streamlined and efficient operations by optimising its business flows and putting low-carbon operation initiatives into practice, while at the same time ensuring investments in its strategic priorities in human resources and digital transformation. Staff costs and information technology related expenses rose as a result, while depreciation and amortisation as well as other operating expenses dropped. The Group's cost to income ratio was 31.29%, maintaining a satisfactory level relative to industry peers.

The Group's net charge of impairment allowances amounted to HK$1,603 million, a decline of HK$331 million or 17.1% from the same period of the previous year, as the parameter values of the Group's expected credit loss model improved this year. The change was also attributable to there being a higher base for comparison as a result of impairment allowances made in the same period last year, when the Group updated the parameter values of its expected credit loss model to take into consideration increased uncertainty in the macroeconomic outlook arising from the outbreak of the COVID-19 pandemic. The annualised credit cost of advances to customers was 0.13%, down 0.03 percentage points year-on-year.

2021 Q3 compared with 2021 Q2

In the third quarter of 2021, the Group's net operating income before impairment allowances amounted to HK$12,557 million, an increase of 8.0% compared to the second quarter. If the funding income or cost of foreign currency swap contracts were included, net interest income would have increased by 4.7% quarter-on-quarter to HK$8,431 million while net interest margin would have remained relatively stable, resulting from the Group's proactive efforts in achieving a balance between scale and yield amid a persistently low interest rate environment. Net fee and commission income rebounded by 1.4% from the previous quarter, owing to a rise in commission income from securities brokerage, insurance, bills, and trust and custody services from the last quarter. Meanwhile, commission income from loans, funds distribution and payment services dropped.

Operating expenses increased by 9.7% quarter-on-quarter to HK$4,185 million, mainly reflecting an increase in staff costs.

In the third quarter of 2021, the Group's net charge of impairment allowances amounted to HK$421 million, a decrease of HK$438 million or 51.0% from the second quarter. This decrease was attributable to there being a higher base for comparison, owing to impairment allowances made in the second quarter relating to the downgrading of certain corporate customers. At the same time, this was in part because of the lower loan growth in the third quarter which led to a lower charge in impairment allowances.

Financial Position

As of 30 September 2021, the Group's total assets stood at HK$3,560,155 million, an increase of 7.2% from the end of 2020. Deposits from customers amounted to HK$2,305,077 million, up 5.6% from the end of 2020, mainly driven by growth in CASA deposits, while time, call and notice deposits were broadly unchanged. The CASA ratio was 68.5%, up 1.7 percentage points from that at the end of 2020. Advances to customers increased to HK$1,603,550 million, up 7.1% from the end of 2020. Adjusting for the impact of IPO financing at the end of June 2021, there was broad-based growth in advances to customers in the third quarter, with an increase in loans for use in Hong Kong, loans for use outside Hong Kong and trade financing. Asset quality was benign, with the classified or impaired loan ratio standing at 0.29%. The Group's liquidity coverage ratio, net stable funding ratio and capital ratio remained solid.

Business Review

In the third quarter of 2021, the Group remained committed to its strategic goal of building a first-class regional banking group. It actively embraced environmental, social and governance concepts and vigorously promoted green finance so as to advance sustainable and high-quality development. The Group leveraged Hong Kong's role as a regional financial hub to offer competitive banking services. It continued to develop its local market in Hong Kong and enhanced its integrated service capabilities. The Group captured business opportunities arising from the Guangdong-Hong Kong-Macao Greater Bay Area, actively prepared to undertake businesses related to the development of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. It strengthened its strong franchise in the offshore RMB market, so as to provide customers with featured cross-border services. It enhanced the development of its regional footprint in Southeast Asia and leveraged its regional synergies to serve Chinese and local high-quality customers in the region. Moreover, the Group accelerated its digital transformation and stepped up its pandemic prevention and control measures while closely monitoring market changes and adhering to bottom-line thinking so as to ensure its steady and solid operations. During the quarter, BOCHK was named as the Best Chinese Bank for the Greater Bay Area by *Asiamoney* and was voted as the Most Outstanding Company in Hong Kong – Banking Sector in *Asiamoney*'s Asia's Outstanding Companies Poll.

In **Personal Banking business**, the Group became the first retail bank in Hong Kong to launch personal green time deposit plans, offering RMB personal green time deposit plans to high-end customers of its premium Private Wealth service in order to help high-net-worth individuals to capture opportunities from green finance and jointly promote sustainable economic development. In its mortgage business, the Group launched Hong Kong's first Green Mortgage Plan, pioneering the integration of green finance into the home purchasing journey. The Home Expert mobile application has been continuously enhanced to provide customers with comprehensive services for property purchase planning and online mortgage application. In order to better serve the ever-growing customer segment of young millionaires, the Group revamped the image of its Wealth Management service by injecting vitality and digital elements, thus providing customers with a diversified experience in interactive wealth management, digital investment, financial information and lifestyle fulfilment. In addition, the Group pioneered the launch of the NotALot and Securities Widget services in its mobile banking to meet the demand for convenient investment services from younger customers and investment beginners. Meanwhile, in line with the HK$5,000 Consumption Voucher Scheme disbursed by the HKSAR Government, the Group promoted the binding of electronic payment tools and BoC Bill integrated billing services, as well as offering a tenfold gift point reward on BOC credit cards coupled with merchant discounts covering dining, shopping and entertainment. On 18 October 2021, the Group was among the first batch of banks in Hong Kong to embark on Cross-Boundary Wealth Management Connect services and officially launched Bank of China Cross-Boundary Wealth Management Connect Southbound and Northbound services, providing customers of nine mainland cities in the Greater Bay Area and Hong Kong with qualified investment products and services that meet their demands for cross-boundary wealth management and asset allocation solutions.

In **Corporate Banking business**, the Group continued to promote its integrated regional operations and adhered to its strategy of organically combining integrated and differentiated management. It continuously promoted business development in countries along the Belt and Road and in Southeast Asia, and strengthened collaboration in the Asia-Pacific region in order to foster the synergistic development of its regional business. The Group enhanced cooperation with Bank of China's branches in the Chinese mainland so as to proactively engage in the development of major regions such as the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Delta and the Beijing-Tianjin-Hebei region. By offering diversified products and services, it supported the development of key industries and customers in the Chinese mainland, including those in the new infrastructure and biomedicine sectors, thus contributing to financial interconnectivity in the Greater Bay Area. The Group strengthened its cooperation with leading local corporates as well as high-quality commercial and SME customers in Hong Kong by providing integrated and digitalised financial services to satisfy their diversified business needs. It proactively undertook its corporate social responsibilities and promoted inclusive finance by collaborating and fully supporting a number of measures introduced by the HKSAR Government to assist SMEs in addressing their business challenges. The Group launched the ERP Cloud Service – Accounting Cloud to allow SME customers to use safe and reliable one-stop cloud accounting services free of charge. It also promoted sustainable development by continuously enriching its green products and services suite and acting as a green finance advisor, so as to encourage and assist its clients' business transformation towards sustainable development. The Group maintained the largest market share in IPO receiving bank business based on the number of listings on the Main Board of the Stock Exchange of Hong Kong. It further accelerated the development of key products such as cash pooling business, and continuously improved its online service capabilities in order to enhance customer experience. In recognition of its excellent and highly professional services, a cash pooling project that BOCHK provided to a multinational logistics corporation was awarded Best Cash Management Project in Hong Kong in 2021 by *The Asian Banker*.

In the **Treasury Segment**, the Group continuously enhanced its service capabilities in online trading transactions, product integration and integrated services, thus achieving satisfactory growth in client business. It enhanced RMB product innovation and promotion, leading to rapid development in RMB business. In its Southeast Asian entities, the Group continuously deepened management by business units in order to uplift the trading capabilities of its Southeast Asian businesses. It also proactively participated in Bond Connect related business and was named Bond Connect Top FX Settlement Bank for the second time by Bond Connect Company Limited. With the official launch of Southbound Trading under Bond Connect on 24 September 2021, the Group successfully completed the first batch of bond trades under Southbound Trading, providing customers with a full range of products and services. The Group closely monitored worldwide interest rate adjustments and continued to take a cautious approach to managing its banking book investments. It planned ahead and actively sought fixed income investment opportunities to enhance returns while remaining alert to risk. During the quarter, the Group successfully issued the world's first certificate of deposit benchmarked to the Hong Kong Dollar Overnight Index Average ("HONIA"), becoming the first bank to issue HONIA-linked debt securities and thereby enriching the spectrum of investment options available to the market and promoting HONIA as a new pricing benchmark.

Regarding its **regional business**, the Group continued to enhance integrated collaboration and successfully developed and reinforced its marketing efforts to major customer segments and businesses in the region. The Group accelerated the digital development of its Southeast Asian entities as BOC Malaysia launched eWealth Banking on its mobile banking platform, becoming the first bank in Malaysia to offer a platform for one-stop investment and wealth management services, as well as introducing an eKYC remote account opening service via mobile banking. With China and Indonesia officially implementing bilateral transactions through local currency settlements agreement on 6 September 2021, the Group actively participated in related settlement business with the Jakarta Branch completing a number of RMB/IDR exchange and remittance transactions on the first day of implementation. It actively supported the collaboration mechanism among BOC Guangxi Branch, the Group's three Southeast Asian entities including BOC Thailand, the Phnom Penh Branch, the Brunei Branch, as well as three local commercial banks in Thailand, Cambodia and Brunei, paving way for the promotion of RMB internationalisation in Southeast Asia. As a strategic partner, the Manila Branch actively assisted the Philippines to participate as the guest of honour in the China International Fair for Investment and Trade held in Xiamen of Fujian Province, enhancing the prospects and confidence of China-Philippines investment and trading collaboration and reinforcing the Manila Branch's ability to capture business opportunities arising from Philippines-based foreign investments and Chinese going global enterprises.

GENERAL

This announcement may contain forward-looking statements that involve risks and uncertainties. The Company's shareholders and potential investors should not place undue reliance on these forward-looking statements, which reflect our belief only as of the date of these statements. These forward-looking statements are based on the Group's own information and information from other sources we believe to be reliable. The Group's actual results may be materially less favourable than those expressed or implied by these forward-looking statements, which could depress the market price of the Company's American Depositary Shares and local shares.

The Company's shareholders and potential investors should note that **all the figures contained herein are unaudited. Accordingly, figures and discussions contained in this announcement should in no way be regarded as to provide any indication or assurance on the financial results of the Group for the period ended 30 September 2021.**

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 October 2021

As at the date of this announcement, the Board comprises Mr LIU Liange (Chairman), Mr LIU Jin* (Vice Chairman), Mr SUN Yu (Vice Chairman and Chief Executive), Mr LIN Jingzhen*, Madam CHENG Eva**, Dr CHOI Koon Shum**, Mr KOH Beng Seng**, Mr LAW Yee Kwan Quinn** and Mr TUNG Savio Wai-Hok**.*

* *Non-executive Directors*
** *Independent Non-executive Directors*