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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 FIRST QUARTER OF 2022

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 first quarter of 2022.

In the first quarter of 2022, the US economy continued to expand and its labour market rapidly improved. The Federal Reserve completed its asset purchase programme and kicked off the increase of its benchmark rate by 25 basis points. In Europe, the European Central Bank accelerated its exit from bond purchases. However, there were heightened uncertainties arising from the prevalence of geopolitical risks and the economic and inflation outlooks. The Mainland economy maintained its momentum of stable recovery with the first-quarter GDP up 4.8% year-on-year. The COVID-19 pandemic situation deteriorated in Southeast Asia with certain countries once tightening their containment measures, constraining the region’s economic recovery.

Hong Kong experienced a severe fifth wave of the COVID-19 pandemic, which weighed on domestic economic activities. The HKSAR Government introduced counter-cyclical measures, committing over HK\$170 billion in order to cope with the challenges. 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 quarter of 2022, the Group’s net operating income before impairment allowances increased by 25.0% from the previous quarter and 6.0% from the same period last year.
- If the funding income or cost of foreign currency swap contracts were included, net interest income would have increased by 3.4% quarter-on-quarter and 4.1% year-on-year, amid a rise in market interest rates. Net interest margin would have stood at 1.08%, up 2 basis points from the previous quarter but down 3 basis points from the same period last year.
- Net fee and commission income increased by 29.1% from the previous quarter, but decreased by 22.0% compared with the same period of the previous year. The year-on-year drop was mainly due to the severity of the pandemic’s fifth wave in Hong Kong, weakened investor sentiment in the market and delays in business activities.
- Solid growth was achieved in deposits from customers and advances to customers, which increased by 2.9% and 4.5% respectively from the end of 2021.
- Loan quality remained benign, with the classified or impaired loan ratio standing at 0.27%.
- 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 2022:

Key Performance Figures of the Group					
<i>HK\$m, except percentages</i>	2022 Q1	2021 Q1	2021 Q4	Compared with 2021 Q1	Compared with 2021 Q4
Net operating income before impairment allowances	14,224	13,422	11,375	+6.0%	+25.0%
Operating expenses	(3,875)	(3,766)	(4,640)	+2.9%	-16.5%
Operating profit before impairment allowances	10,349	9,656	6,735	+7.2%	+53.7%

2022 Q1 compared with 2021 Q1

In the first quarter of 2022, the Group's net operating income before impairment allowances increased by 6.0% year-on-year to HK\$14,224 million. If the funding income or cost of foreign currency swap contracts were included, net interest income would have increased by 4.1% year-on-year to HK\$8,537 million. Net interest margin stood at 1.08%, down 3 basis points from the same period last year, which was mainly attributable to inflows of short-term funds, leading to growth in average interest-earning assets. The Group proactively managed its assets and liabilities by increasing investment in higher-yielding assets, stabilising CASA deposits, strengthening management on tenor and constantly optimising its asset-liability structure. Net fee and commission income decreased by 22.0% on a year-on-year basis to HK\$2,917 million. The drop was mainly due to the severity of the pandemic in Hong Kong, weakened investor sentiment in the market and delays in business activities, which resulted in a decrease in commission income from securities brokerage, insurance, funds distribution, credit card business, bills, trust and custody and payment services. Meanwhile, commission income from loans and currency exchange increased. Net trading gain increased year-on-year, mainly reflecting changes in the mark-to-market value of certain debt securities investments and interest rate instruments caused by market interest rate movements.

Operating expenses increased by 2.9% year-on-year. The Group remained committed to pushing forward the reform and optimisation of its business flows by achieving low-carbon, streamlined and efficient operations, and to meeting additional requirements with internal resources while at the same time ensuring appropriate investment in its key businesses and strategic priorities. Staff costs, advertising and business promotion expenses rose, while premises and equipment, depreciation and amortisation as well as other operating expenses remained stable. The Group's cost to income ratio was 27.24%, maintaining a satisfactory level relative to industry peers.

The Group's net charge of impairment allowances amounted to HK\$923 million, an increase of HK\$600 million year-on-year, mainly owing to impairment allowances made during the quarter relating to the internal rating downgrade of certain corporate customers and resulting from changes to the parameter values in the expected credit loss model, which was updated to take into consideration the increased uncertainty in macroeconomic outlook arising from the pandemic. The annualised credit cost of advances to customers was 0.23%, up 15 basis points from the same period of the previous year.

2022 Q1 compared with 2021 Q4

The Group's net operating income before impairment allowances increased by 25.0% quarter-on-quarter. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have expanded by 2 basis points compared with the previous quarter. This was mainly attributable to the increase in the average yield of advances to customers, debt securities investments and other debt instruments in light of rising market interest rates, as well as the Group's proactive management of its assets and liabilities. This, together with an increase in average interest-earning assets, resulted in a quarter-on-quarter increase of 3.4% in net interest income. Net fee and commission income rose by 29.1% from the previous quarter, which was mainly driven by growth in commission income from loans, securities brokerage, funds distribution, currency exchange and bills. Meanwhile, commission income from credit card business, insurance, trust and custody and payment services decreased. Net trading gain increased quarter-on-quarter, mainly reflecting changes in the mark-to-market value of certain debt securities investments and interest rate instruments caused by market interest rate movements.

Operating expenses decreased by 16.5% quarter-on-quarter, as staff costs, premises and equipment and business-related expenses dropped.

Net charge of impairment allowances increased by HK\$381 million quarter-on-quarter, mainly owing to impairment allowances made during the quarter resulting from changes to the parameter values in the expected credit loss model, which was updated to take into consideration the increased uncertainty in macroeconomic outlook arising from the pandemic and the higher loan growth in this quarter.

Financial Position

As of 31 March 2022, the Group's total assets amounted to HK\$3,604,914 million, a decrease of 0.9% from the end of 2021, mainly due to a decrease in balances from banks and other financial institutions. Deposits from customers increased by 2.9% from the end of 2021 to HK\$2,398,059 million, mainly driven by CASA deposits while time, call and notice deposits were broadly unchanged. The CASA ratio was 66.1%, up 0.8 percentage points from that at the end of 2021. Advances to customers increased to HK\$1,671,526 million, up 4.5% from the end of 2021. There was broad-based growth, 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 0.27%. The Group's liquidity coverage ratio, net stable funding ratio and capital ratio remained solid.

Business Review

In the first quarter of 2022, the Group adhered to its strategic goal of “building a first-class regional banking group”. It actively seized market opportunities, enhanced its competitive edge in professional services, and played its part in expediting Hong Kong’s economic recovery. By leveraging its financial strength, the Group joined hands with Hong Kong people from all walks of life in the fight against the pandemic and navigated the difficult times alongside them. It fostered environmental, social and governance (“ESG”) concepts and actively promoted green and sustainable development. The Group continued to deepen its local market presence in Hong Kong and enhanced its integrated service capabilities. It actively integrated into the development of China’s opening-up policy and deepened cross-border financial cooperation in the Greater Bay Area. It actively leveraged its regional synergies and made solid progress in regional business development. In line with the trend of RMB internationalisation, the Group reinforced its leading position in the offshore RMB market. With a view to enriching its scenario-based financial service ecosystem, it actively promoted digitalisation and technology-empowered transformation. The Group implemented comprehensive risk management and strictly adhered to a bottom-line mindset of risk management.

In **Personal Banking business**, the Group enhanced its pandemic-related financial support initiatives, and continued to support and participate in various financial support schemes and relief measures introduced by the HKSAR Government and the HKMA, including further extending the application deadline of its mortgage principal moratorium plan, which helped to alleviate the cash-flow pressures of personal customers affected by the pandemic. To mitigate the impact from temporary closure of a number of branches amid the pandemic, the Group strengthened its online financial services in order to ensure effective business operations, with steady growth recorded in the number of customers using its electronic platforms compared to the previous year-end. It further enriched its mobile banking product offering by introducing secondary trading services for bonds, while enhancing the customer experience through a new investment portfolio performance overview function. It enhanced its e-LaiSee service, with the total amount of electronic red packets distributed through mobile banking and BoC Pay increasing by nearly 40% year-on-year. In addition, a FPS bundled account function was made available for the first time to young customers aged 11 to 17 via mobile banking, with the aim of encouraging e-LaiSee collection through mobile banking. In order to promote sustainable development, the Group extended its Green Mortgage Plan to first and second-hand purchases of all green buildings accredited with BEAM Plus Platinum or Gold certification from both private developers and government-subsidised residential projects. In addition, the Group was the first bank to become a Platinum Patron member of the Hong Kong Green Building Council, and stepped up its efforts to further promote green buildings and encourage low-carbon living. The Group continued to promote Bank of China Cross-Boundary Wealth Management Connect services with promotional and account opening offers, with its aggregate transaction volume of both Southbound and Northbound services ranking amongst the top tier in Hong Kong. To satisfy surging demand for RMB products and fulfil customers’ investment and wealth management needs, the Group leveraged its prominent position in RMB business and introduced a series of “RMB One” packages featuring comprehensive offers of different RMB products and services such as securities, funds, life insurance, time deposits and foreign exchange. It also promoted a 3-month introductory waiver of stock trading brokerage fees, enabling new customers to carry out unlimited transactions and capture investment opportunities through the online platform.

In **Corporate Banking business**, the Group continued to push forward integrated regional operations, by promoting business development and collaboration in countries along the Belt and Road, in Southeast Asia and across the Asia-Pacific region, with a view to fostering the synergistic development of its regional business. It enhanced cooperation with Bank of China's branches in the Chinese mainland and captured opportunities arising from financial policies related to cross-border RMB services, so as to support the development of key infrastructure, industries and customers in the Chinese mainland with diversified products and services, and contribute to financial interconnectivity in the Greater Bay Area. During the quarter, the Group signed a Memorandum of Understanding with The Hong Kong Mortgage Corporation Limited on a framework for infrastructure loans, with the aim of jointly promoting Hong Kong's position as an international infrastructure financing hub. The Group continued to strengthen its cooperation with market-leading corporates as well as commercial and SME customers in Hong Kong by providing integrated and digitalised financial services and constantly enhancing its online service capabilities, with a view to improving customers' experience and satisfying their diversified business needs. It proactively undertook its corporate social responsibilities and promoted inclusive finance by fully supporting and implementing the HKSAR Government's various measures and further enhancing its financial support initiatives to assist SMEs as they navigate growing challenges in the operating environment. It maintained the leading market share in IPO receiving bank business, based on the number of listings on the Main Board of the Stock Exchange of Hong Kong. The Group further promoted the development of key products such as cash pooling, with several outstanding projects commended by professional media groups. It also rolled out an online loan application function for corporate customers, allowing them to apply for loans through online portals, including Corporate Internet Banking ("iGTB NET") and Corporate Mobile Banking ("iGTB MOBILE"), by entering the required information and uploading documents. It continuously promoted the ESG concepts by developing the range of its green finance products and services, including issuing "sustainable and smart living" themed green bonds in HKD with total issue size of HK\$2 billion and providing green advisory services to help its clients' business transformation towards sustainable development.

In the **Treasury Segment**, the Group continuously strengthened its market research capabilities and actively captured market opportunities, thus achieving satisfactory growth in trading business. It continued to provide its customers with stable and convenient services amid the pandemic. It enhanced the automated and digitalised service and trading capabilities of its treasury business, which contributed to steady development in client business. It strengthened RMB product innovation, cultivated offshore RMB markets and promoted RMB business. The Group took a prudent approach to managing its banking book investment portfolio, closely monitored worldwide interest rate adjustments and pre-emptively responded to market volatilities under the rate hike cycle. It planned for and actively controlled risks while seeking fixed income investment opportunities to enhance returns.

Regarding its **regional business**, the Group strengthened integrated collaboration, successfully acquired a number of major clients and businesses in the region, and made progress in its Southeast Asian industrial park projects. It actively seized market opportunities with the Manila Branch successfully participating in the Government of the Philippines' USD sovereign bond issuance. It strengthened management by business unit and steadily improved its regional service and risk management capabilities. The Group continued to push forward digital transformation, with BOC Thailand rolling out a new generation of the iGTB platform as well as launching PromptPay 24/7 real-time fund transfer and QR code remittance services, and the Phnom Penh Branch introducing its UnionPay QR code service via mobile banking. The Group's Southeast Asian entities also actively explored business opportunities by organising online business conferences and seminars. During the quarter, the Jakarta Branch joined hands with the Indonesian Chinese Chamber of Commerce to organise an online seminar relating to the market outlook for 2022 and the optimal implementation of the bilateral local currency settlement ("LCS") agreement between China and Indonesia. The Group also achieved concrete results in RMB business development. The RMB clearing volume of the Manila Branch in the first quarter exceeded 85% of the entire Philippines market. BOC Thailand strengthened cooperation with a renowned securities company in the local market to promote mutual financial market access. The Vientiane Branch and Brunei Branch both successfully launched their first RMB trade-related business transactions.

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 2022.**

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 2022

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**, Madam FUNG Yuen Mei Anita**, Mr KOH Beng Seng**, Mr LAW Yee Kwan Quinn** and Mr TUNG Savio Wai-Hok**.*

* Non-executive Directors

** Independent Non-executive Directors