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 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 third quarter of 2022.

In the third quarter of 2022, the operating environment was characterised by mounting challenges and complexity. Given heightened inflation in the US, the Federal Reserve continued to increase the benchmark rate and accelerated its balance sheet reduction programme, which led to signs of moderation in US economic growth. Despite a relatively high degree of uncertainty in the geopolitical and economic outlook in Europe, the European Central Bank began its interest rate hike cycle in order to cope with rising inflation. The Chinese mainland economy maintained stable recovery momentum due to the implementation of a series of economic stimulus measures. Central banks in Southeast Asia also raised interest rates in light of rising inflation.

Despite an emergent impact on local interest rates from rapid rate hikes in other countries, Hong Kong's financial system continued to operate effectively and its banking system remained robust. In response to a deteriorating external environment, a weakened stock market performance, an adjustment in property prices and dampened consumer demand as well as investor sentiment, the HKSAR Government launched a new phase of the Consumption Voucher Scheme to stimulate the local economy, and the unemployment rate gradually declined.

Financial Performance Highlights

- In the first nine months of 2022, the Group's net operating income before impairment allowances increased by 11.8% compared with the same period of the previous year, while that of the third quarter increased by 13.7% from the previous quarter.
- If the funding income or cost of foreign currency swap contracts were included, net interest income and net interest margin would have increased by 18.7% and 17 basis points year-on-year respectively, as a result of the Group proactively managing its assets and liabilities to capture opportunities from rising market interest rates. In the third quarter, if the funding income or cost of foreign currency swap contracts were included, net interest income and net interest margin would have increased by 27.5% and 35 basis points respectively on a quarter-on-quarter basis.
- Owing to the volatile pandemic situation, dampened investor sentiment, delays in business activities and weakened consumer demand, net fee and commission income decreased by 21.9% year-on-year, while that of the third quarter increased by 6.2% from the previous quarter.
- Steady growth was achieved in deposits from customers and advances to customers, which increased by 3.4% and 4.6% respectively from the end of 2021.
- Asset quality was benign, with the classified or impaired loan ratio standing at 0.47%.
- Liquidity coverage ratio, net stable funding ratio and capital ratio remained stable.

Financial Performance

The table below summarises the key performance figures of the Group in the first nine months ended 30 September 2022 and in the third quarter of 2022:

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 2022**	30 Sep 2021		**30 Sep 2022**	30 Jun 2022	
Net operating income before impairment allowances	**42,026**	37,607	+11.8%	**14,794**	13,008	+13.7%
Operating expenses	**(11,960)**	(11,767)	+1.6%	**(4,134)**	(3,951)	+4.6%
Operating profit before impairment allowances	**30,066**	25,840	+16.4%	**10,660**	9,057	+17.7%

Nine months ended 30 September 2022 compared with the same period in 2021

In the first nine months of 2022, the Group's net operating income before impairment allowances increased by 11.8% year-on-year to HK$42,026 million. If the funding income or cost of foreign currency swap contracts were included, net interest income would have increased by 18.7% year-on-year to HK$29,296 million. Net interest margin stood at 1.27%, up 17 basis points from the same period last year, which was mainly attributable to the Group proactively managing its assets and liabilities to capture opportunities from rising market interest rates, which resulted in a widening of the loan and deposit spread and increased contribution from net free funds. Net fee and commission income decreased by 21.9% year-on-year to HK$7,510 million. The drop was mainly due to the volatile pandemic situation in Hong Kong, persistently dampened investor sentiment in the market, delays in business activities and weakened consumer demand, which resulted in a decrease in commission income from securities brokerage, insurance, funds distribution, bills, loans, credit card business, trust and custody as well as payment services. Meanwhile, commission income from currency exchange increased. Net trading gain increased year-on-year, mainly due to growth in currency exchange income from customer transactions as well as changes in the mark-to-market value of certain interest rate instruments caused by market interest rate movements.

Operating expenses increased by 1.6% year-on-year. The Group sought to allocate resources efficiently in order to meet its basic operating needs and ensure strategic implementation, while optimising its existing cost base so as to achieve balanced growth in expenses and income. At the same time, it actively implemented low-carbon operational initiatives. It also endeavoured to maximise utilisation of available resources so as to manage increasing costs. Staff costs, advertising, anti-pandemic supplies and charitable donation expenses rose, while premises and equipment expenses as well as depreciation and amortisation remained stable. The Group's cost to income ratio was 28.46%, maintaining a satisfactory level relative to industry peers.

The Group's net charge of impairment allowances amounted to HK$1,697 million, an increase of HK$94 million year-on-year. This was mainly attributable to an increase in impairment allowances caused by the downgrading of certain corporate advances as well as the updating of the parameter values of the Group's expected credit loss model to take into consideration increased uncertainty arising from the pandemic, persistent geopolitical risks and heightened global inflation. The annualised credit cost of advances to customers and other accounts was 0.15%, up 0.02 percentage points from the same period of the previous year.

2022 Q3 compared with 2022 Q2

In the third quarter of 2022, the Group's net operating income before impairment allowances amounted to HK$14,794 million, an increase of 13.7% compared to the second quarter. If the funding income or cost of foreign currency swap contracts were included, net interest margin would have expanded by 35 basis points to 1.54% compared with the previous quarter, while net interest income would have increased by 27.5% quarter-on-quarter to HK$11,633 million, as a result of the Group's proactive management of its assets and liabilities amid rising market interest rates. Net fee and commission income increased by 6.2% from the previous quarter. Commission income from insurance, credit card business, currency exchange as well as trust and custody services increased quarter-on-quarter, while that from loans, securities brokerage, funds distribution and bills decreased. The Group further optimised the investment mix of its banking book portfolio, leading to reduced volatility in the mark-to-market value of certain interest rate instruments caused by market interest rate movements, and thus a quarter-on-quarter decrease in net trading gain.

Operating expenses were up 4.6% quarter-on-quarter, mainly reflecting an increase in staff costs and advertising expenses.

In the third quarter of 2022, the Group recorded a net reversal of impairment allowances of HK$17 million, as the net reversal on exposures mainly arising from the decreased credit risk exposures and changes to the internal ratings of certain customers more than offset the net charge from the updating of the parameter values of the Group's expected credit loss model.

Financial Position

The Group proactively optimised its asset and liability structure and cautiously managed its banking book investments. As at 30 September 2022, the Group's total assets amounted to HK$3,635,565 million, a decrease of 0.1% from the end of 2021. Deposits from customers increased by 3.4% from the end of 2021 to HK$2,409,356 million. CASA deposits decreased, while time, call and notice deposits increased. The CASA ratio was 56.6%, down 8.7 percentage points from that at the end of 2021. Advances to customers increased to HK$1,672,576 million, up 4.6% from the end of 2021. There was broad-based growth in advances to customers, with an increase in loans for use in Hong Kong and loans for use outside Hong Kong while trade financing decreased. Asset quality was benign, with the classified or impaired loan ratio standing at 0.47%. The Group's liquidity coverage ratio, net stable funding ratio and capital ratio remained stable.

Business Review

In the third quarter of 2022, the Group accelerated its strategic goal of building a first-class regional banking group and deepened the implementation of Bank of China ("BOC") Group's 14th Five-Year Plan. It enhanced its competitive edge in professional services and helped to expedite Hong Kong's economic recovery. Adhering to its ESG philosophy of sustainable and high-quality development, the Group cultivated its green development capabilities and gave full play to the financial industry's role in facilitating low-carbon transition. The Group continued to deepen its local market presence in Hong Kong and enhance its integrated service capabilities, with a view to reinforcing its core competitive advantages. It actively capitalised on the opening-up of the Chinese mainland and bolstered cross-border collaborations within the Greater Bay Area. It seized regional development opportunities to enhance the quality of its regional businesses, while focusing on key areas to maintain its prominent position in RMB business. Meanwhile, the Group consolidated its technological foundations in order to advance digital transformation, and implemented a comprehensive risk management regime so as to uphold its bottom-line defence against risk.

In **Personal Banking business**, the Group continued to promote its premium brand. In order to meet the online wealth management needs of high net-worth customers, it upgraded its mobile banking RM Chat service, a remote financial management tool exclusively available to its premium Private Wealth customers, by introducing a market-first "RM Chat Investment by Video Service" delivered via the Bank's own platform. This allows customers to arrange video-conferences with their dedicated relationship managers and carry out fund investments remotely. Meanwhile, the Group rolled out a brand new "Bank For Future" themed marketing campaign to better serve young Wealth Management customers. This offers a diversified range of products and services that embrace the three key "future bank" elements of "Beyond Digital", "Beyond Green" and "Beyond Border", with the aim of enabling customers to manage their wealth independently and meet their financial goals across different life stages. The Group also continually enhanced its applications of digital technology, including launching its "PickAStock" stock analytic tool and improving the fund subscription process for mobile banking. To support sustainable development, it introduced Hong Kong's first sustainable infrastructure fund and an RMB-denominated decarbonisation-themed fund, allowing retail investors to capture opportunities from sustainable investment products, and launched "BOC Life iGreen Savings Insurance Plan", Hong Kong's first-ever green insurance plan certified by an independent third-party professional institution. Meanwhile, the Group maintained its leading market position in online insurance. To enhance customer experience, it worked with BOC to introduce timely and facilitative measures for cross-border customers, including expanding the coverage of its attestation service. At the same time, it improved the account opening efficiency of its Bank of China Cross-Boundary Wealth Management Connect service by continuously optimising its online workflows, including by launching "E-Application for Southbound Cross-border Account Opening via Attestation Service".

In **Corporate Banking business**, the Group enhanced its business collaboration with BOC entities and captured opportunities arising from financial policies related to cross-border RMB services, so as to support the development of key industries and customers with diversified products and services. It monitored the development plan of and business opportunities from Hong Kong's Northern Metropolis Development Strategy, and provided comprehensive financial support to developing interconnectivity in the Greater Bay Area. The Group strengthened its cooperation with market-leading corporates as well as commercial and SME customers in Hong Kong by providing integrated and digitalised financial services, with a view to satisfying their diversified business needs. It launched "BOC Connect", a one-stop business platform that provides customers with updates on market information and business opportunities. At the same time, it seized Special Purpose Acquisition Company ("SPAC") business opportunities by launching a new escrow account service during the quarter. It continued to maintain the leading market share in IPO main receiving bank business in terms of both the number of listings and total funds raised on the Main Board. The Group accelerated the development of key products such as cash pooling and constantly improved its online service capabilities in order to enhance customer experience. It enriched its green finance products and services suite and arranged several landmark green and sustainability-linked financing projects during the quarter. At the same time, its green brand image was strengthened through a series of promotions and marketing campaigns. The Group partnered with S&P Dow Jones Indices to launch the first climate transition index targeting the Guangdong-Hong Kong-Macao Greater Bay Area, thus facilitating the transition towards a greener economy and society in the Greater Bay Area. It organised the "BOCHK Corporate Low-Carbon Environmental Leadership Awards" with the Federation of Hong Kong Industries to promote environmentally-conscious practices among enterprises in the Greater Bay Area, and co-organised the "Green Finance for Low-Carbon Technologies" symposium with the Alliance for Green Commercial Banks to promote the research and application of innovative low-carbon technologies in the green transitions of traditional industries.

In the **Treasury Segment**, the Group actively seized business development opportunities by closely monitoring market trends, thus achieving stable growth in its trading business. It further pushed forward digital transformation and technological advancement, with notable improvements made in its online servicing and transaction processing capabilities. Giving full play to its professional competencies, it strengthened its market analysis and enhanced the variety of products and services offered to clients, with satisfactory results recorded in client business. The Group expedited the innovation and promotion of RMB products and placed emphasis on cultivating the offshore RMB market, with its RMB business scale registering satisfactory growth momentum. During the quarter, it assisted BOC Sydney Branch to issue RMB senior unsecured securities. It became an inaugural member of the Hong Kong International Carbon Market Council launched by Hong Kong Exchanges and Clearing Limited with a focus on developing Hong Kong into a regional and international carbon market. The Group took a cautious approach to managing its banking book investments and closely monitored worldwide interest rate adjustments. It responded promptly to market volatility during the interest rate hike cycle and took a pre-emptive approach to managing risk while seeking fixed-income investment opportunities to enhance returns.

Regarding its **Southeast Asian business**, the Group continuously strengthened integrated collaboration, leveraged its synergistic advantages and capitalised on opportunities from the enactment of the Regional Comprehensive Economic Partnership, with an emphasis on developing Belt and Road and "Going Global" projects and seizing business opportunities from large corporate customers in the region. The Group strengthened its management-by-business-unit approach across its Southeast Asian entities and enhanced its service capabilities by expanding the range of products and services offered in the region. Meanwhile, the Group deepened digital empowerment, with Manila Branch launching an online foreign exchange service for corporate customers along with new bulk payroll and bulk payment functions on its intelligent Global Transaction Banking (iGTB) platform; BOC Malaysia introducing "ESG+Cashless Campus Project", a pioneering breakthrough in terms of scenario-based application, and BOC Thailand completing the upgrading of the local settlement system and improving its comprehensive service capabilities in payment and settlement.

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 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, 28 October 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**, Mr LEE Sunny Wai Kwong** and Mr TUNG Savio Wai-Hok**.*

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