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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 THIRD QUARTER OF 2016**

**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 in the third quarter of 2016.

In the third quarter of 2016, the global economic growth remained slow. The US economic growth moderated over the past few quarters, raising uncertainty over the pace of interest rate hike by the Fed. In Europe, growth momentum remained modest as the impact of Brexit only caused limited disruptions to the United Kingdom and European economy. As for Mainland China, economic growth was gradually stabilised, and the process of economic restructuring was on track. In Hong Kong, economic activity was rather tepid overall amid external economic conditions. However, the labour market remained resilient, with the unemployment rate staying near full employment level. In general, the operating environment for Hong Kong banks remained challenging due to subdued global growth, depressed international trade and continued low market interest rates.

### **Financial Performance Highlights**

- In the first nine months of 2016, the Group’s net operating income before impairment allowances grew by 3.1% year-on-year. Excluding the one-off gain in the same period last year, the growth would have been higher.
- The Group’s effective control on deposit pricing and an improved deposit mix with **the higher proportion of current and savings deposits resulted in a year-on-year decrease in deposit costs**. This, coupled with the **increase in advances to customers**, alleviated the negative impact on net interest income caused by the year-on-year decrease in the average interest spread of RMB business. **Net interest income in the third quarter improved on a quarter-on-quarter basis.**
- **Commission income from securities brokerage and funds distribution in the third quarter increased from the last quarter.**
- The Group remained proactive in managing assets and liabilities and recorded a higher net gain on foreign exchange swap contracts on a year-on-year basis.
- **Loan quality stayed solid in the third quarter. Net charge of impairment allowances on loans decreased from the last quarter.**
- The Group maintained a proactive operating strategy to achieve **solid development in key areas**. Total assets grew from the end of June 2016 with **increases in both advances to customers and deposits from customers.**

## Financial Performance

The table below summarises the key performance figures of the continuing operations<sup>#</sup> of BOC Hong Kong (Holdings) Limited and its subsidiaries (collectively known as the “Group”) in the nine months ended 30 September 2016 and in the third quarter of 2016:

Key Performance of the Group’s continuing operations						
<i>HK\$’m, except percentages</i>	Nine months ended		Year on year change	Quarter ended		Quarter on quarter change
	30 Sep 2016	(Restated) 30 Sep 2015		30 Sep 2016	30 Jun 2016	
Net operating income before impairment allowances	<b>31,227</b>	30,299	+3.1%	<b>10,482</b>	11,255	-6.9%
Operating expenses	<b>(8,891)</b>	(8,398)	+5.9%	<b>(3,071)</b>	(2,973)	+3.3%
Operating profit before impairment allowances	<b>22,336</b>	21,901	+2.0%	<b>7,411</b>	8,282	-10.5%

<sup>#</sup> The financial information provided in this announcement reflects only that of the Group’s continuing operations. The operating results of Nanyang Commercial Bank, Limited are reported as discontinued operations.

### *Nine months ended 30 September 2016 compared with the same period in 2015*

In the first nine months of 2016, net operating income before impairment allowances of the Group’s continuing operations rose by 3.1% year-on-year. Excluding the one-off gain in the same period last year, the growth would have been higher. The increase was driven by the growth in net trading gain of the banking business, mainly due to the net gain from foreign exchange swap contracts in 2016 versus the net loss in the same period of 2015. Also contributing to the increase in net operating income was the higher net operating income of the Group’s insurance segment. Net fee and commission income increased slightly with strong commission income growth from loans and insurance, while commission income from credit cards, bills, payment services and currency exchange also increased. However, commission income from securities brokerage and funds distribution dropped notably amid weakening investor sentiment in the first half of the year. Net interest income was lower due to the narrowing of net interest margin, but was partially offset by the expansion in average interest-earning assets. The drop in net interest margin was mainly due to the decrease in the average interest spread of RMB business, caused by the drop in RMB market interest rates, the lower long-term interest rates versus short-term interest rates in the first quarter, and the increase of RMB funds from the clearing bank business. The negative impact of these factors on net interest margin was partially offset by the Group’s effective control on deposit pricing, an improved deposit mix with the higher proportion of low-interest and interest free deposits, and increased advances to customers.

Operating expenses increased, reflecting the Group’s efforts to strengthen its resource allocation and continuous investments in service and infrastructure enhancements to support business growth.

Net charge of impairment allowances on loans increased, mainly due to the higher net charge of collectively assessed impairment allowances as a result of the growth in advances to customers.

## *2016 Q3 compared with 2016 Q2*

In the third quarter of 2016, net operating income before impairment allowances of the Group's continuing operations fell by 6.9% from the second quarter but rose by 10.5% from the first quarter. Net interest income was higher quarter-on-quarter, driven by the expansion in average interest-earning assets. Net interest margin narrowed slightly quarter-on-quarter, but was notably higher than that of the first quarter. The narrowing was primarily due to the increase in lower-yielding short-term debt securities investments, partially offset by the decrease in RMB deposit costs. Net fee and commission income fell from its high level in the last quarter as loan commissions dropped on a quarter-on-quarter basis. Nevertheless, commission income from securities brokerage and funds distribution grew satisfactorily as investor sentiment improved in the third quarter. Commission income from currency exchange, trust and custody services as well as payment services also increased. Net trading gain of the banking business decreased, due to the lower net trading gain from foreign exchange and foreign exchange products.

Operating expenses increased due to higher staff costs and advertising expenses.

Net charge of impairment allowances on loans decreased from the last quarter with the lower net charge of both individually and collectively assessed impairment allowances.

### **Financial Position**

As of 30 September 2016, the Group's total assets had grown from the end of June 2016. The growth was mainly driven by the increase in securities investments and advances to customers, partially offset by the decrease in cash and balances with banks and other financial institutions. Advances to customers rose during the quarter, with the increase in loans for use in Hong Kong covering various industry sectors, including property development, wholesale and retail trade as well as manufacturing. Deposits from customers also increased. The proportion of current and savings deposits rose further, as demand deposits and current accounts as well as savings deposits grew, while time, call and notice deposits fell slightly. The Group's classified or impaired loan ratio remained stable.

### **Business Review**

In the third quarter of 2016, the Group continued to have breakthrough in its business development and made solid progress in its regional transformation by successfully capturing opportunities from the implementation of China's national strategies. It focused on its branch network transformation and accelerated the development of its eight key business platforms. In addition, the Group supported the development of omni-channels as well as innovative financial technologies (FinTech) in order to create a new competitive edge in the market. During the quarter, BOCHK was named the Strongest Bank in Asia Pacific and Hong Kong by *The Asian Banker* for the third consecutive year in recognition of its excellent financial performance and ability to continuously increase profitability.

In the **Personal Banking** business, the Group focused on optimising its distribution channels to better meet the needs of customers. With the branch network transformation, the Group was able to strengthen its service capabilities for SME customers and advanced the development of its wealth management business for mid-to-high end customers. As a result, strong growth was recorded from the beginning of the year in the number of new Business Integrated Accounts, deposits from customers, employee/employer payroll services and new credit card merchant accounts. The Group also recorded satisfactory growth in the Bancassurance business through the promotion of tailored insurance products to customers. The Group remained customer-centric during the period and conducted a series of marketing campaigns and cross-selling activities to targeted customer segments, including mid-to-high end and youth customers, that helped to strengthen their main bank relationships. In September, it launched the *Wealth Management* revamp campaign and organised a “Wealth Management Expo 2016”, with the Group’s investment specialists and guest speakers invited to share market trends and opportunities, which was well received by participants. Its cross-border banking services were also enhanced through closer cooperation with Bank of China (“BOC”). Additionally, the Group launched its iService, a 24-Hour Video Banking Service to address customers’ banking needs beyond the opening hours of branches and enriched its mobile payment services such as Small Value Transfer and Apple Pay. It was committed to the study and development of other new technologies, including biometric authentication and blockchain applications. The Group was also in continuous cooperation with the Hong Kong Monetary Authority and other statutory bodies to foster the development of FinTech in Hong Kong.

The Group’s **Corporate Banking** business continued to capture opportunities arising from the Belt and Road initiative and expanded in Southeast Asia. Through closer collaboration with BOC, the Group successfully arranged syndicated loans and provided financing solutions for enterprises going global and leading corporates from Southeast Asia to support their major projects in these countries. Additionally, the Group deepened its relationships with large corporate customers and successfully completed financing projects for a number of merger and acquisition transactions. New customers belonging to trade associations, local family-owned businesses and second- and third-tier listed companies were also acquired by cultivating the local market and strengthening customer relationships. With the full implementation of the branch network transformation, the Group further enhanced its ability to serve SME customers and made a concerted effort to drive business integration between commercial centres and branches, which led to solid increases in sales, referrals and cross-selling business. With regard to the institutional business, the Group secured new relationships with overseas central banks and successfully acted as the receiving bank for one of the year’s largest IPOs in Hong Kong, thereby maintaining its number one market share in related business. What’s more, the Group pioneered the launch of ePresentation under Letter of Credit, further increasing its competitive edge in trade finance service.

In the **Treasury Segment**, the Group leveraged its conventional competitive advantages and remained focused on the development of innovative products and services that meet customer needs, resulting in the satisfactory growth of its foreign exchange and banknotes businesses. During the quarter, the Group reinforced its leadership in the banknotes business and successfully secured new business relationships with financial institutions and central banks in countries in Southeast Asia, Europe and along the Belt and Road. Additionally, the Group continued to be proactive in the management of its banking book investments in order to enhance returns, while remaining alert to risks.

The Group's **Insurance Segment** broadened its range of products and services to meet customers' needs during the quarter. By optimising service procedures and facilities in support of its cross-border business, the Group succeeded in capturing opportunities from customers visiting from the Mainland China. The Group maintained its leading position in the Hong Kong RMB insurance market and continued to focus on diversifying its distribution channels in order to reach different customer segments, leading to increased business volume from non-bank channels. At the same time, the Group launched a number of marketing campaigns through different promotional channels with the aim of establishing closer customer relationships.

## 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 2016.**

**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, 26 October 2016

*As at the date of this announcement, the Board comprises Mr TIAN Guoli\* (Chairman), Mr CHEN Siqing\* (Vice Chairman), Mr YUE Yi (Vice Chairman and Chief Executive), Mr REN Deqi\*, Mr GAO Yingxin\*, Mr XU Luode\*, Mr LI Jiuzhong, Madam CHENG Eva\*\*, Dr CHOI Koon Shum\*\*, Mr KOH Beng Seng\*\* and Mr TUNG Savio Wai-Hok\*\*.*

\* Non-executive Directors

\*\* Independent Non-executive Directors