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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 2017

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 2017.

In the third quarter of 2017, the global economy gathered pace in its moderate growth. However, a number of uncertainties remained, especially those arising from the geopolitical environment and changes in global monetary policies, which could affect the global economic recovery. In the US where the Federal Reserve will begin reducing its balance sheet, economic growth continued at a modest rate as the labour market remained positive with inflationary pressures under control. In the Eurozone, the economy performed better with improvement in certain economic indicators. Driven by demand from China and the developed economies, the ASEAN economies maintained their upward momentum, with key members reporting double-digit export growth. In the Mainland of China, growth continued to stabilise as the Government implemented a proactive fiscal policy and stable monetary policy, while deepening supply-side reform. Hong Kong’s economic growth remained moderate, with improved performance in international trade, the asset market, cross-border financial activities and private consumption.

Financial Performance Highlights

- In the first nine months of 2017, the Group’s net operating income before impairment allowances grew by 14.0% year-on-year.
- **Net interest income and net interest margin increased on a year-on-year basis.** The Group was proactive in managing its assets and liabilities. Both advances to customers and debt securities investments increased with an enhanced average yield. The Group also captured market opportunities to improve the average yield of balances and placements with banks.
- **Commission income from securities brokerage and funds distribution rose year-on-year and quarter-on-quarter as a result of opportunities opening up from the continuous improvement in investment sentiment and the launch of diversified investment services.**
- **Loan quality was solid with credit costs staying at a low level.**
- The Group remained committed to sustainable development through innovation and transformation as well as regional development. **It achieved satisfactory results in key business areas. Both advances to customers and deposits from customers continued to expand in the third quarter.**

Financial Performance

The table below summarises the key performance figures of the continuing operations[#] of BOC Hong Kong (Holdings) Limited and its subsidiaries (collectively known as the “Group”) in the nine months ended 30 September 2017 and in the third quarter of 2017:

Key Performance of the Group’s continuing operations						
	Nine months ended		Year on year change	Quarter ended		Quarter on quarter change
	30 Sep 2017	(Restated) 30 Sep 2016		30 Sep 2017	(Restated) 30 Jun 2017	
<i>HK\$m, except percentages</i>						
Net operating income before impairment allowances	35,598	31,229	+14.0%	12,034	12,002	+0.3%
Operating expenses	(9,381)	(8,931)	+5.0%	(3,228)	(3,091)	+4.4%
Operating profit before impairment allowances	26,217	22,298	+17.6%	8,806	8,911	-1.2%

[#] The financial information provided in this announcement reflects only that of the Group’s continuing operations, and the comparative information has been restated accordingly. The operating results of Chiyu Banking Corporation Limited are reported as discontinued operations. Following the completion of the share acquisition of Bank of China (Thai) Public Company Limited and the acquisition of the Indonesia business of Bank of China (“BOC”) on 9 January and 10 July 2017 respectively, the Group has applied the merger accounting method in the preparation of financial statements for the combination with entities under common control in 2017. The comparative information has also been restated accordingly.

Nine months ended 30 September 2017 compared with the same period in 2016

In the first nine months of 2017, net operating income before impairment allowances of the Group’s continuing operations rose by 14.0% year-on-year, mainly contributed by the growth in net interest income resulting from the expansion in average interest-earning assets and the rise in net interest margin. The Group was proactive in managing its assets and liabilities, with increased average balances and enhanced average yield from higher-yielding assets, such as advances to customers and debt securities investments. The Group also capitalised on opportunities in the interbank market to improve the average yield of balances and placements with banks. Net fee and commission income increased year-on-year. With improved investment sentiment in the market, the Group launched a series of diversified investment services, resulting in significant growth in commission income from securities brokerage and funds distribution. Commission income from currency exchange, trust and custody services, and bills also rose. However, commission income from credit cards, insurance, loans and payment services dropped. Net trading gain of the banking business declined, mainly due to the net loss from foreign currency swap contracts.

Operating expenses increased, reflecting the Group’s continuous investment in its service capabilities, business systems and platforms to support long-term business growth.

Net charge of impairment allowances on loans decreased year-on-year. There was a net reversal of individually assessed impairment allowances this year, mainly due to loan repayments by certain corporate customers, as compared with a net charge in the same period last year. Net charge of collectively assessed impairment allowances increased, in line with the growth in advances to customers.

2017 Q3 compared with 2017 Q2

In the third quarter of 2017, net operating income before impairment allowances of the Group's continuing operations rose moderately by 0.3% from the second quarter. Net interest income decreased quarter-on-quarter, due to the lower net interest margin amid intense market competition. Nevertheless, the continuous expansion in average interest-earning assets partly offset the negative impact of the narrowing of net interest margin. Although net interest income fell somewhat on a quarter-on-quarter basis, it maintained strong growth year-on-year. Net fee and commission income in the third quarter increased slightly. As investment sentiment in the market continued to improve, the Group achieved satisfactory quarter-on-quarter increases in commission income from securities brokerage, insurance and funds distribution. Commission income from currency exchange as well as trust and custody services also grew. All of these factors helped to offset the decrease in loan commissions. At the same time, net trading gain of the banking business improved as a result of the decrease in net loss from foreign currency swap contracts.

Operating expenses increased as compared with the last quarter. However, there was a reversal of certain expenses in the second quarter, resulting in a lower base for comparison.

Net charge of impairment allowances on loans decreased quarter-on-quarter, mainly attributable to a lower loan growth in the third quarter as compared with the second quarter. Hence, there was a lower net charge of collectively assessed impairment allowances.

Financial Position

As of 30 September 2017, the Group's total assets had fallen slightly from the end of June 2017. The decline was mainly due to the decrease in balances with banks and other financial institutions. This was partially offset by the increases in advances to customers and securities investments. Advances to customers rose during the quarter, with increases in loans for use in Hong Kong in industry sectors such as property development, financial concerns, manufacturing, stockbrokers and information technology, as well as individual residential mortgage loans. Trade finance and loans for use outside Hong Kong also increased. Deposits from customers rose with increases in current accounts and savings deposits, leading to a higher proportion of current and savings deposits. The Group's classified or impaired loan ratio remained stable.

Business Review

In the third quarter of 2017, the Group achieved satisfactory growth in its key business areas and conducted its asset integration in the ASEAN region in an orderly manner. It completed the acquisition of the Indonesia business of BOC on 10 July. The Group captured opportunities from the Belt and Road Initiative, the ASEAN region and the internationalisation of RMB to expand its customer base and business scale. The Group also supported the development of the Guangdong-Hong Kong-Macau Bay Area in accordance with BOC's strategy of integrated developing mechanism in Guangdong, Hong Kong and Macau to expedite the expansion of cross-border business. Beyond this, the Group remained focused on developing its local business and its eight key business platforms to drive business diversification, while also expanding the mid- to high-end customer base and improving the efficacy of its branches. What's more, the Group continued to advance financial technology as part of its strategy to accelerate the e-Finance ecology and secure its leapfrogging development.

In the **Personal Banking** business, the Group captured market opportunities and focused on providing a better experience for customers. It introduced diversified and multi-channel investment services and professional products tailored to customer needs and organised a series of customer activities and investment seminars that increased customers' transaction volumes. During the quarter, the Group launched the BOCHK All Weather China Income Fund and a number of best-selling multi-asset (equity and fixed income) funds, which were well received by mid- to high-end investment customers. Satisfactory performance was recorded in securities brokerage, funds distribution and the treasury products business, with encouraging year-on-year growth in related commission income. The Group continued to refine its business model for high-end customers and set up new concept service centres. It organised the Worldwide Wealth Management Expo 2017 in September, featuring investment reviews by renowned speakers. The Group also focused on the development of payroll services to expand the market for local civil servants. In the cross-border business, the Group captured development opportunities in the Guangdong-Hong Kong-Macau Bay Area, strengthened its collaboration with BOC, and enhanced the customer referral mechanism and service flow to provide a one-stop service for more cross-border mid- to high-end customers. In line with its business development plans for the Bay Area, the Group together with BOC Guangdong Branch and the Guangdong Pilot Free Trade Zone Nansha Area of Guangzhou ("Nansha FTZ") launched BOC Business Services Guangdong-Hong Kong Connect in September to provide a business registration application service on behalf of customers for Hong Kong and foreign investors who plan to invest in Nansha FTZ. These initiatives contributed to satisfactory growth in the total number of mid- to high-end customers and their assets under management. In celebration of the centenary of BOC's service to Hong Kong, the Group launched large-scale promotional activities and a series of online and offline marketing and sales campaigns under the theme of BOCHK's centenary celebration to reinforce its brand image. Among these activities was the issuance of the Bank of China (Hong Kong) Centenary Commemorative Banknote in a HK\$100 denomination.

In line with its overall business strategy, the Group promoted innovative technology for its distribution channels as well as products during the quarter to promote the rapid development of e-Finance. In August, a new official BOCHK WeChat account was launched to provide customers with new experience that integrates social media and banking services. Additionally, the Group advanced its e-channel strategy to its ASEAN entities in support of its regional business development. Finger vein authentication for ATMs was launched progressively, allowing customers to conduct transactions safely and conveniently, without the need for passwords. What's more, the Group promoted the development of e-channel facilities, including Smart Mobile Banking and Cognitive Virtual Agent. Steady progress was also made in mobile payments and social media marketing through cross-industry collaboration with some of the largest Internet and communications companies to enhance overall competitiveness.

The Group's **Corporate banking** business used its competitive edge in internationalisation and business diversification to develop market opportunities along the Belt and Road and across ASEAN with enhanced product and service innovation. During the quarter, the Group also assisted its ASEAN entities to arrange syndicated loans for leading local enterprises. It strengthened its relationships with large corporate clients and arranged a number of significant syndicated loans with market influence. Market opportunities in the capital market helped to expand the bond underwriting business, allowing the Group to successfully expand its customer base and scale up the size of bond issues. In the cross-border business, the Group continued to capitalise on its business leadership in the Mainland and Hong Kong, with greater collaboration among BOC's entities to provide financial solutions for Mainland corporates. In July, the Group and BOC Guangdong Branch with the Guangdong Province Administration for Industry and Commerce launched Guangdong-Hong Kong Business Registration and Banking Services Connect. With

the implementation of cross-border remote handling procedures, the Group is aiming to help foreign-invested enterprises in Guangdong Province for Hong Kong investors register their businesses and support the cooperation and development of economic and trading activities in Guangdong and Hong Kong. The Group remained focused on developing local business, enlarging its business scale with family-owned businesses, and expanding its customer base among chambers of commerce and second- and third-tier listed companies. Along with the branch transformation that is integrating commercial centres and branches, the Group enhanced its service capabilities for SME customers to achieve satisfactory income growth. In the institutional business, the Group expanded its client base through the introduction of differentiated products and co-operations. In the IPO business, it was the sole receiving bank for an IPO that attracted the most funds in Hong Kong during the year, and maintained its number one market share in related business. Additionally, the Group leveraged on the synergy from leading products, used the advantages from the development of corporate treasury centres in Hong Kong and the Group's regional transformation to further develop its cash pooling and cash management businesses, which enabled it to acquire more deposits from corporate customers. It also continued to reinforce its competitive edge in trade finance products and optimised its product range to provide customers with a variety of integrated financial service solutions with scenario-based applications for its products. The Group also promoted the application of new technology, including Blockchain, to traditional products and accelerated the development of its global transaction banking system.

In the **Treasury Segment**, the Group took advantage of market opportunities and explored customer needs to provide innovative treasury products and services. Satisfactory growth was recorded in structured products, currency exchange and the banknote business. The Group also strengthened its leading position in the banknote business by setting up a custodial vault for foreign currency banknotes inventory at the BOC Shanghai Branch. Additionally, it supported BOC Guangxi Branch's development as a banknote centre for ASEAN currencies. In September, the Group successfully issued its 2017 Phase 1 RMB financial bonds (Panda bonds) in the Mainland interbank bond market with an issue size of RMB9 billion, making it the largest issue size of Panda bonds so far. This issue was actively subscribed by offshore investors, thereby opening up the Mainland interbank bond market. Moreover, the Group continued to be prudent in managing its banking book investments, while remaining alert to market changes in order to enhance returns.

The Group's **Insurance Segment** continued to capitalise on its diversified distribution channels, increased sales volumes from non-banking channels and developed innovative products and value-added services, all of which enhanced its market competitiveness. During the quarter, the SmartRetire Annuity Insurance Plan was launched to cater for customers' needs for flexible financial planning and life protection. Leveraging new technology, it also provided the e-policy available online to give customers access to information and content on their policies.

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 2017.**

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, 30 October 2017

As at the date of this announcement, the Board comprises Mr CHEN Siqing (Chairman), Mr YUE Yi (Vice Chairman and Chief Executive), Mr REN Deqi*, Mr GAO Yingxin*, 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*