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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 2018

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 2018.

The global economy continued its expansion trend in the third quarter of 2018, albeit heightened risks and diverging growth momentum among the major economies. The US economy achieved solid growth with accelerating GDP growth. Eurozone economic growth, however, slowed somewhat. Downward pressures on emerging market economies intensified, due to a number of factors, including trade protectionism, US interest rate hikes and a stronger US dollar, as well as geopolitical and market confidence issues in certain economies. However, the macro environment for Southeast Asian countries remained generally stable. The Chinese mainland economy continued to grow steadily thanks to the fiscal and monetary policy support, which partially offset the impact of rising trade protectionism.

Hong Kong’s economic growth remained solid, with continuous expansion in international trade, tourism, retail and employment. Liquidity in the Hong Kong banking sector remained ample, although market interest rates rose further on the back of US interest rate hikes. The local stock market corrected notably in the third quarter amid escalating trade friction and monetary policy normalisation among the major economies. Market turnover also dropped from the second quarter.

Financial Performance Highlights

- In the first nine months of 2018, net operating income before impairment allowances of BOC Hong Kong (Holdings) Limited and its subsidiaries (collectively known as the “Group”) grew by 14.4% compared with the same period of the previous year.
- Owing to rising market interest rates and the Group’s proactive management of assets and liabilities, the loan and deposit spread widened and the average yield of the Group’s debt securities investments was enhanced. **Net interest margin (including the funding income or cost of foreign currency swap contracts) rose 15 basis points year-on-year to 1.60%.** This, together with growth in average interest-earning assets, led to an increase of 8.3% in net interest income.
- By capturing market opportunities and extending its diversified income sources, the Group achieved **solid year-on-year growth in commission income from securities brokerage, insurance, currency exchange, trust and custody services, credit card business, funds distribution and payment services.**
- Achieved solid results in key business areas in the first three quarters, with **advances to customers and deposits from customers increasing 8.2% and 4.8% respectively from the end of 2017.**
- The CASA ratio grew steadily from the last quarter-end to 57.8%.
- **Loan quality was benign, with the classified or impaired loan ratio at a mere 0.19%.**
- Liquidity coverage ratio, net stable funding ratio and capital ratio remained solid.

Financial Performance

The table below summarises the key performance figures of the continuing operations[#] of the Group in the nine months ended 30 September 2018 and in the third quarter of 2018:

Key Performance of the Group's continuing operations						
HK\$m, except percentages	Nine months ended		Year on year change	Quarter ended		Quarter on quarter change
	30 Sep 2018	(Restated) 30 Sep 2017		30 Sep 2018	30 Jun 2018	
Net operating income before impairment allowances	41,127	35,953	+14.4%	13,570	13,743	-1.3%
Operating expenses	(10,812)	(9,510)	+13.7%	(3,812)	(3,582)	+6.4%
Operating profit before impairment allowances	30,315	26,443	+14.6%	9,758	10,161	-4.0%

[#] The financial information provided in this announcement reflects only that of the Group's continuing operations. The operating results of Chiyu Banking Corporation Limited are reported as discontinued operations. Following the completion of the acquisition of the Vietnam and Philippines businesses of Bank of China ("BOC") on 29 January 2018, the Group has applied the merger accounting method for the combination with entities under common control in the preparation of financial statements in 2018. The comparative information has also been restated accordingly.

Nine months ended 30 September 2018 compared with the same period in 2017

In the first nine months of 2018, net operating income before impairment allowances of the Group's continuing operations rose by 14.4% year-on-year to HK\$41,127 million. Net interest income amounted to HK\$28,204 million, an increase of 8.3%. Including the funding income or cost of foreign currency swap contracts, net interest margin was 1.60%, up 15 basis points year-on-year. This was mainly attributable to a rise in market interest rates. At the same time, the Group continued to proactively manage its assets and liabilities, with the widening of its loan and deposit spread and the rise in the average yield of its debt securities investments. Average interest-earning assets also expanded. Net fee and commission income was HK\$8,873 million, up 1.6% year-on-year. The Group captured market opportunities and made a concerted effort in extending its diversified income sources. Commission income from securities brokerage, insurance, currency exchange as well as trust and custody services rapidly increased, while commission income from credit card business, funds distribution and payment services also grew steadily. However, loan and bills commission income dropped. The net trading gain of the Group's banking business increased year-on-year. This was attributable to a net gain from foreign currency swap contracts in 2018, as compared with a net loss in the same period of the previous year, as well as growth in currency exchange income from customer-driven business.

Operating expenses increased by 13.7% year-on-year. Staff costs rose, mainly due to annual salary increment, increased headcount, and an increase in performance-related remuneration. Premises and equipment expenses, depreciation and other operating expenses also rose as a result of the ongoing investment in the Group's service capabilities and the optimisation of its business systems and platforms to support long-term business growth. Cost to income ratio was 26.29%, a solid level relative to industry peers.

In the first nine months of 2018, the Group's net charge of impairment allowances* amounted to HK\$906 million, mainly reflecting the impact from the growth in advances to customers, the downgrading of certain corporate advances and advances in the personal loan portfolio, as well as from the updating of parameter values in the expected credit losses assessment model.

* From 1 January 2018 onwards, the Group has adopted Hong Kong Financial Reporting Standard 9 ("HKFRS 9"), "Financial Instruments". Under this new standard, the recognition and measurement of impairment differs from that under Hong Kong Accounting Standard 39 ("HKAS 39"), "Financial Instruments: Recognition and Measurement". Changes in the impairment of the Group's financial assets in the comparative periods of 2017 remain in accordance with HKAS 39. Comparative information has not been restated.

2018 Q3 compared with 2018 Q2

In the third quarter of 2018, net operating income before impairment allowances of the Group's continuing operations was HK\$13,570 million, decreasing by 1.3% from the second quarter, as net fee and commission income decreased by 15.1% quarter-on-quarter to HK\$2,399 million. Investor sentiment weakened since the beginning of the third quarter and this has dampened the performance and transaction volumes of the local stock market, resulting in a decrease in investment and insurance business related commission income, including those from securities brokerage, insurance and funds distribution. Commission income from loans, bills and credit card business also dropped. Meanwhile, commission income from currency exchange, payment services as well as trust and custody services continued to increase. Net interest income amounted to HK\$9,714 million, up 1.5% quarter-on-quarter. Including the funding income or cost of foreign currency swap contracts, net interest margin was 1.69%.

Operating expenses increased by 6.4% as compared with the previous quarter. Staff costs, premises and equipment expenses, depreciation and other operating expenses increased.

In the third quarter of 2018, net charge of impairment allowances amounted to HK\$564 million, which increased somewhat from the second quarter, mainly due to the impact from the updating of parameter values in the expected credit losses assessment model after taking into consideration the changes in macroeconomic outlook and the downgrading of certain corporate advances.

Financial Position

As of 30 September 2018, the Group's total assets stood at HK\$2,861,638 million, an increase of 7.9%, or 3.1%, from the end of 2017 and from the end of June 2018 respectively. Deposits from customers increased by 4.8%, or 0.4%, from the end of 2017 and from the end of June 2018 respectively to HK\$1,862,919 million. In the third quarter, savings deposits grew by 3.0%, demand deposits and current accounts fell by 6.6% while time, call, notice and structured deposits were down by 0.6%. The CASA ratio was 57.8%. Advances to customers increased by 8.2%, or 0.8%, from the end of 2017 and from the end of June 2018 respectively to HK\$1,240,936 million. During the quarter under review, there was an increase of 0.1% in loans for use in Hong Kong, reflecting increased business activity in industry sectors such as transport and transport equipment, property development and property investment, and individual residential mortgage loans. Loans for use outside Hong Kong increased by 3.7%, while trade finance decreased by 4.8%. The Group's asset quality was benign, with the classified or impaired loan ratio falling 0.03 percentage points from the end of June 2018 to 0.19%. Securities investments decreased by 0.4%, or 10.5%, from the end of 2017 and from the end of June 2018 respectively to HK\$701,863 million. The liquidity coverage ratio and net stable funding ratio remained solid. The Group's capital ratio stayed at a high level. On 14 September 2018, BOCHK issued additional tier 1 capital securities of an aggregate principal amount of US\$3 billion, in order to optimise its capital structure.

Business Review

In the third quarter of 2018, the Group continued to adhere to its strategic goal of "Building a Top-class, Full-service and Internationalised Regional Bank". In pursuit of digitalisation, it accelerated technological innovation and product research and development. It continued to enhance its growth quality by deepening its local market commitment, with a focus on enhancing services for local industrial and commercial customers as well as individual customers. The Group also strengthened its regional development in order to ensure sustainable growth in its Southeast Asian business and strived to become the first-choice bank for customers in the Greater Bay Area. In addition, the Group closely monitored changes in the global economy and financial markets, and continuously enhanced its risk management and internal control to support balanced and long-term sustainable development.

In the **Personal Banking** business, the Group seized market opportunities and strived to implement a customer-oriented and data-driven service model. During the quarter, the Group deepened relationships with mid- to high-end customers and launched a series of promotional campaigns, including the Worldwide Wealth Management Expo 2018, to enhance its brand image in professional wealth management services. With the launch of its US stock brokerage services, the Group now provides a one-stop stock brokerage service via a brand-new interface. Focusing on the development of the younger customer segment, the Group took advantage of the university term commencement period by actively promoting mobile payment and banking services to attract university students. Fully supporting the Life Annuity Scheme promoted by the HKSAR Government, the Group enriched its elderly protection services for retirees. It also cooperated with various foreign chambers of commerce and professional associations to provide SME customers with all-round financial service solutions. In addition, the Group combined financial services with the basic necessities of daily life to actively enrich its innovative product ranges. Refinement of RMB cross-border direct remittance for mainland Chinese travelling to Hong Kong, together with the relaxation of remittance limits, helped to improve customer experience. The Group also pushed forward positively to the Guangdong-Hong Kong-Macao Greater Bay Area infrastructure planning. It was committed to meeting the needs of residents in Guangdong, Hong Kong and Macao as relating to account opening, payment, general banking, financing and other financial services. The extension of a banking network in Hong Kong International Airport and Hong Kong West Kowloon Rail Station (the terminus of the Guangzhou-Shenzhen-Hong Kong Express Rail Link) provided Hong Kong customers travelling northbound with featured financial services and products, including brand mutual recognition, BOC UnionPay Dual Currency Card and insurance protection services across the Greater Bay Area. All of these efforts have helped to foster a high-quality lifestyle destination that is ideal for living, working and travelling.

The Group's **Corporate Banking** business gave full play to the competitive advantages arising from its diversified services, regional synergies and collaboration within BOC Group to push forward the integration of its Southeast Asian businesses and explore business opportunities along the Belt and Road, including the Southeast Asia. The Group continuously expanded its customer base and optimised its business mix. During the quarter, the Group arranged a syndicated loan for a leading local enterprise in Southeast Asia. It remained committed to developing local markets and deepening its relationships with large corporate clients by arranging a number of sizeable project financing and debt issuing projects. In terms of cross-border business development, the Group continued to capitalise on its competitive edge in the mainland and Hong Kong and strengthened its collaboration with other BOC entities. In August, it joined hands with the Hong Kong Chinese Enterprises Association and the Chinese Banking Association of Hong Kong in order to host the Guangdong-Hong Kong-Macao Greater Bay Area Financial Summit Forum, with a view to further strengthening cross-border financial cooperation and enhancing BOC's brand image in the Greater Bay Area. It continued to improve its service to local commercial customers by deepening business cooperation with family-owned businesses, chambers of commerce and listed companies in Hong Kong, supporting them by establishing a convenient and effective financial services platform that aims to mutually enhance market competitiveness. It continued to enhance its service capabilities to local corporate customers, including by providing integrated settlement solutions. During the quarter, BOCHK received two awards from the SME Partner Awards of Excellence 2018 organised by *Hong Kong Economic Journal*, namely prizes for "Guangdong-Hong Kong-Macao Greater Bay Area Commercial Banking Services" and "Retail and Business Integrated Services". In its institutional business, the Group enhanced business relationships with central banks, sovereign institutions and international financial institutions, driving relatively steady growth in deposits from such institutions. It also maintained its leading market share as the main receiving bank for IPOs. In addition, the Group continued to improve its service capabilities and enhanced the scenario-based and integrated applications of its products and services. It also accelerated the regional development of its cash pooling and treasury centre businesses, with a view to sharpening the competitiveness of its products and services for different types of customers in Hong Kong, the Chinese mainland and Southeast Asia. In recognition of its professionalism, BOCHK was awarded "Best Trade Finance Bank in Hong Kong" and "Best Corporate Trade Finance Deal in Hong Kong" by *The Asian Banker* for the second time and was named "Hong Kong Domestic Cash Management Bank of the Year" by *Asian Banking & Finance* for the fifth consecutive year.

In the **Treasury Segment**, the Group continued to strengthen both its trading and service capabilities. Satisfactory growth was recorded in its foreign exchange, fixed income and precious metal trading businesses. Leveraging its expertise in wholesale banknotes business, the Group proactively expanded its banknotes business in Hong Kong, the Chinese mainland and Southeast Asia, further reinforcing its competitive edge. At the same time, the Group continued to take a cautious approach to managing its banking book investments by closely monitoring market changes and seeking investment opportunities to enhance returns while remaining alert to risk. During the third quarter, the Group continuously adjusted its investment portfolio in order to respond to changes in interest rates and achieve solid returns.

The Group's **Insurance Segment** continued to capitalise on its diversified distribution channels, proactively extended its sales reach to different customer segments through its bancassurance channels and made a concerted effort to expand its non-banking channels in order to increase sales volumes. It received the "Professional Insurance Service Award" at the 2018 Professional Financial Institution Service Awards organised by *Hong Kong Commercial Daily*. The Group was able to enhance customer experience through innovative technology with the launch of Easy Chat, a cross-platform artificial intelligence chatbot service. Easy Chat supports three online and social media platforms, trilingual conversation and Mini-talk. It has responded to over 10,000 enquiries since its launch in May this year. During the quarter, the Group launched a new critical illness product, SmartGuard Critical Illness Plan, so as to offer comprehensive protection to customers. A new immediate annuity life insurance product, Smart Immediate Annuity Plan, was also launched to provide customers with all-round retirement protection and a wide choice of annuity products. The Group organised customer activities, including annuity product seminars, to enhance its customer relationships and professional image.

In respect of its **regional business**, the Group continued to push forward the logical integration of its Southeast Asian entities, improved its integrated regional management model and implemented differentiated development strategies. At the same time, the Group expanded into local mainstream markets and explored potential key customer relationships with the aim of actively promoting the marketing and expansion of projects in related regions. The Group also actively developed its business relationships with institutional clients, promoting RMB products and treasury operations. During the quarter, BOC Malaysia was officially designated as the RMB settlement bank for Labuan Island.

The Group actively participated in the development of **innovation and technology**, adhering to the concept of "navigated by technology, driven by innovation". The Group continuously strengthened O2O integration and remained committed to becoming a customer-centric digital bank. During the quarter, it cooperated with UnionPay to launch the BOC Pay mobile app, the first Greater Bay Area cross-border e-wallet to support secure, fast and efficient QR code payment services, allow P2P small value transfer services via mobile phone number and email address and provide a one-stop mobile payment service platform for customers and merchants. At the same time, in support of the Faster Payment System introduced by the HKMA, the Group provided diversified, year-round HKD and RMB real-time interbank transfer and cross-platform payment solutions for personal and corporate customers, creating a new mobile payment experience and laying a solid foundation for the launch of further innovative financial products in the future. The new mobile banking app launched in the first half of the year has been well received by the market, earning positive feedback. There was continued growth in the total number of newly-registered customers and active users using e-channels, including internet and mobile banking, which in turn led to a steady increase in the total number of related transactions. Customers are now able to connect their bank accounts to the BOCHK WeChat official account in order to conduct account enquiries, apply for products, make service appointments and access the latest information at any time. The WeChat official account also provides a simple and revolutionary micro-banking experience that has been well received by customers. The Group's e-banking services received international recognition, with BOCHK named as the "Best Consumer Digital Bank in Hong Kong" in the World's Best Digital Bank Awards 2018 organised by *Global Finance*.

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 2018.**

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 2018

As at the date of this announcement, the Board comprises Mr CHEN Siqing (Chairman), Mr GAO Yingxin (Vice Chairman and Chief Executive), Mr LIN Jingzhen*, 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*