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 2019

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 first quarter of 2019.

The first quarter of 2019 saw a moderation in the growth momentum of the global economy. The US economy slowed notably, as the impact of tax reform and regulatory easing measures faded gradually and the country also experienced a government shutdown. The Eurozone economy continued its decelerating growth trend in the face of sizeable downward pressures. In Southeast Asia, the regional economy remained generally stable. The Chinese mainland economy continued to grow steadily. The increasing fiscal and monetary policy support could help partially offset the impact from rising trade protectionism.

Hong Kong, as a small and open economy, was adversely affected by China-US trade friction, financial market volatility and a modest correction in the property market. However, these downward pressures were partly mitigated by positive factors, including further expansion in employment, tourism and government spending. Liquidity in the Hong Kong banking sector remained ample. Financial market sentiment improved, and both stock market performance and transaction volumes recovered.

Financial Performance Highlights

- In the first quarter of 2019, **net operating income before impairment allowances** of BOC Hong Kong (Holdings) Limited and its subsidiaries (collectively known as the "Group") **grew by 4.8% compared with the same period of the previous year and 8.9% from the previous quarter.**

- Owing to rising market interest rates and the Group's proactive management of its assets and liabilities, the average yield of the Group's advances to customers, debt securities investments and other debt instruments was enhanced. **Net interest margin (including the funding income or cost of foreign currency swap contracts) rose 17 basis points year-on-year to 1.67%.** This, together with growth in average interest-earning assets, led to a year-on-year increase of 9.4% in net interest income.

- Amid volatility in investor sentiment in the market and a slowdown in loan demand, the Group's net fee and commission income fell from the high levels of the same period last year but rebounded from the previous quarter, achieving quarter-on-quarter growth in commission income from securities brokerage, insurance, funds distribution, loans and currency exchange.

- The Group achieved balanced growth in deposits and loans, with **deposits from customers and advances to customers increasing 4.9% and 4.5% respectively from the end of 2018.**

- **Loan quality was benign, with the classified or impaired loan ratio at a mere 0.18%.**

- 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 2019:

Key Performance of the Group					
HK$'m, except percentages	**2019 Q1**	(Restated) 2018 Q1	(Restated) 2018 Q4	Compared with 2018 Q1	Compared with 2018 Q4
Net operating income before impairment allowances	**14,502**	13,839	13,318	+4.8%	+8.9%
Operating expenses	**(3,574)**	(3,423)	(4,375)	+4.4%	-18.3%
Operating profit before impairment allowances	**10,928**	10,416	8,943	+4.9%	+22.2%

Note: Following the completion of the acquisition of Vientiane Branch of Bank of China Limited on 21 January 2019, the Group has applied the merger accounting method for the combination with entity under common control in the preparation of its financial statements in 2019. The comparative information has also been restated accordingly.

2019 Q1 compared with 2018 Q1

In the first quarter of 2019, the Group's net operating income before impairment allowances rose by 4.8% year-on-year to HK$14,502 million. Net interest income amounted to HK$9,895 million, an increase of 9.4%, driven by improvement in net interest margin and growth in average interest-earning assets. Including the funding income or cost of foreign currency swap contracts, net interest margin was 1.67%, up 17 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, achieving an increase in the average yield of its advances to customers, debt securities investments and other debt instruments. Net fee and commission income was HK$3,167 million, down 13.2% from the high level of the same period last year. Investor sentiment in the market has weakened since the third quarter of 2018, dampening local stock market performance and transaction volumes, which resulted in a decrease in commission income from securities brokerage and funds distribution. Loan commissions also decreased. Meanwhile, commission income from insurance, currency exchange and payment services maintained growth momentum. Net trading gain and net gain on other financial assets increased year-on-year.

Operating expenses increased by 4.4% year-on-year. Staff costs rose, mainly due to annual salary increment and increased headcount. The Group's cost to income ratio was 24.64%, a solid level relative to industry peers.

In the first quarter of 2019, the Group's net charge of impairment allowances amounted to HK$257 million, up HK$74 million year-on-year. This increase was attributable to there being a lower base for comparison as a result of the better macroeconomic outlook in the Group's expected credit losses assessment model in the same period of last year. Credit cost was 0.07%, unchanged from that of the same period last year.

2019 Q1 compared with 2018 Q4

The Group's net operating income before impairment allowances increased by 8.9% on a quarter-on-quarter basis. Net fee and commission income rebounded as investor sentiment in the market improved moderately in the first quarter, resulting in an increase in commission income from securities brokerage, insurance and funds distribution. Commission income from loans and currency exchange also increased. Net trading gain and net gain on other financial assets also increased quarter-on-quarter. However, a drop in market interest rates lowered the average yield of advances to customers, leading to the narrowing of the loan and deposit spread. Including the funding income or cost of foreign currency swap contracts, net interest margin was down 4 basis points from the last quarter to 1.67%, resulting in a quarter-on-quarter decrease of 11.8% in net interest income.

Operating expenses decreased by 18.3% as compared with the previous quarter, as staff costs and business-related expenses dropped.

The Group's net charge of impairment allowances decreased by HK$77 million quarter-on-quarter. This decrease was attributable to there being a higher base for comparison as a result of the impairment allowances made in the last quarter relating to the downgrading of certain corporate advances. Credit cost was down 0.03 percentage points quarter-on-quarter.

Financial Position

As of 31 March 2019, the Group's total assets stood at HK$2,914,172 million, a decrease of 1.4% from the end of 2018, mainly due to a decrease in balances with banks and central banks. Deposits from customers increased by 4.9% from the end of 2018 to HK$1,990,274 million. Demand deposits and current accounts rose by 9.9%, savings deposits grew by 3.7%, while time, call, notice and structured deposits were up by 4.8%. The CASA ratio was 56.0%. Advances to customers increased by 4.5% from the end of 2018 to HK$1,324,541 million. There was an increase of 2.8% in loans for use in Hong Kong. Trade finance grew by 26.3% while loans for use outside Hong Kong increased by 4.6%. The Group's asset quality was benign, with the classified or impaired loan ratio falling 0.01 percentage point from the end of 2018 to 0.18%. The liquidity coverage ratio and net stable funding ratio remained solid. The Group's capital ratio remained at a high level.

Business Review

In the first quarter of 2019, the Group continued to adhere to its strategic goal of "Building a Top-class, Full-service and Internationalised Regional Bank". It devoted itself to enhancing its comprehensive financial service capabilities by deepening its local market commitment and adhering to its customer-centric philosophy. The Group proactively participated in the development of the Guangdong-Hong Kong-Macao Greater Bay Area and consolidated its leading market position among major businesses in the Greater Bay Area. It developed influential products by combining technology and business. It continued to push forward its business development in Southeast Asia with the aim of making the region a major future growth engine for the Group. In addition, the Group closely monitored changes in the global economic and financial situation, enhanced internal risk controls and cultivated a stronger bank culture, so as to support its balanced and long-term sustainable development.

In **Personal Banking** business, the Group improved its deposit structure by collaborating with other units of the Group to promote payroll and payment businesses. It effectively consolidated its market share in new mortgages by expanding its business in mortgage refinancing, mortgages for new homebuyers and mortgages through the Home Ownership Scheme. To meet customers' needs for savings and protection, the Group enriched its insurance product packages with a focus on retirement planning and wealth inheritance. It continued to drive the digitalisation of its business processes and introduced 24/7 e-mortgage applications via mobile banking and the BOCHK website. Through the application of new technologies such as blockchain and open API, the Group became the first bank to partner with an online real estate platform to provide mortgage planning services to customers. Aiming to provide instant, comprehensive and accurate information for customers, it took the lead in launching an open API developers' portal by collaborating with third party service providers. It introduced an online life insurance application channel and launched its first e-endowment insurance product. During the quarter, BOCHK was granted approval by the People's Bank of China to become the first pilot bank in Hong Kong to officially launch a Chinese mainland personal account opening attestation service to Hong Kong residents. At the same time, the Group accelerated the digitalisation of its attestation service for BOCHK account opening for Chinese mainland residents, and launched Greater Bay Area Service Connect to enhance brand recognition among personal customers in Guangdong, Hong Kong and Macao. Meanwhile, a cross-border payment service was added to the Group's BoC Bill integrated payment collection platform to meet customers' needs in cross-border e-payment in the Greater Bay Area. During the quarter, BOCHK was awarded the Best Retail Bank in Hong Kong by *The Asian Banker* in its International Excellence in Retail Financial Services Awards for the third time, in recognition of its exceptional performance in the retail banking industry.

The Group's **Corporate Banking** business adheres to a customer-centric philosophy, with a focus on enhancing its comprehensive service capabilities for customers. In pursuit of the expansion of its customer base and business scale, it gave full play to the competitive advantages arising from its regional synergies and strengthening of collaboration with BOC Group to develop the local market in Hong Kong and actively explore business opportunities in countries along the Belt and Road and in Southeast Asia, with a focus on serving Chinese mainland "Going Global" enterprises, Hong Kong corporates' investment projects in Southeast Asia, and major large-sized local corporates in the region. During the quarter, the Group assisted BOC in arranging the Philippine Economic Briefing, which successfully enhanced the market recognition and brand influence of the Group. Meanwhile, it continued to consolidate its strong franchise in the Hong Kong syndicated loan business by arranging a number of sizable syndicated loans and project financing deals with notable market influence. The Group also expanded its bond underwriting business, further optimising its business structure. Regarding business development in the Greater Bay Area, the Group captured opportunities in terms of customers, projects, products and business collaboration, with a focus on serving key business areas with appropriate products and services in order to further enhance its cross-border financial service capabilities. The Group continued to improve its services to local commercial customers by providing them with electronic payment collection services, integrated payment and settlement solutions, and treasury products and services. In its institutional business, the Group enhanced business relationships with central banks, sovereign institutions and international financial institutions, driving sustainable development 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 enhance its service capacity in scenario-based products and promoted the construction of financial infrastructure. It also improved the regional development of its cash pooling and treasury centre businesses in Southeast Asia and the Greater Bay Area, so as to enhance overall competitiveness.

In the **Treasury Segment**, the Group continued to strengthen its trading capabilities, thus driving continuous growth in foreign exchange, fixed income and emerging market business. The Group diligently invested in its systems and optimised its business models so as to foster product amalgamation, business diversification and improvement in service capabilities. Leveraging its professional competences, it recorded solid growth in banknotes business and further enhanced its market position. It also pushed forward its regional development with a view to accelerating the expansion of its treasury business in Southeast Asia. During the quarter, BOCHK was named the Best Currency Swap Member and received the Opening Contribution Award from the China Foreign Exchange Trade System. 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 first quarter, the Group continuously adjusted its investment portfolio in order to respond to changes in interest rates and achieve solid returns.

In respect of its **regional business**, following the official integration of BOC Vientiane Branch into BOCHK on 21 January, the Group's regional management structure has been further optimised, with operating entities in eight Southeast Asian countries. The Group continued to promote the implementation of its regional management model, putting into place differentiated development strategies. At the same time, it proactively expanded into local mainstream markets and actively developed its business relationships with institutional clients, promoting RMB products and treasury business. BOC Malaysia officially launched its Wealth Management service, providing mid- to high-end customers with one-stop cross-border wealth management and financial services. BOC Thailand facilitated an asset management company in becoming a RMB Qualified Foreign Institutional Investor, while the Ho Chi Minh City Branch successfully handled the first cross-border RMB entrusted settlement business in Vietnam's non-border area, thus continuously expanding the Group's strong RMB franchise in the Southeast Asian region.

The Group actively participated in the development of **innovation and technology** and expedited its fintech innovation. The Innovation and Optimisation Centre (the "Centre") was established last December to explore and accelerate the transformation of the Group's products and services. Together with the adoption of agile methodologies and the increased application of innovative technologies, the Centre is dedicated to keeping BOCHK ahead of customer needs and changes in the competitive environment. At the same time, the Group accelerated strategic resource investment to support its transformation into a digital bank. Applying innovative fintech such as big data, AI, blockchain, biometrics and open API in financial products, service processes, operational management and risk control, the Group was able to improve overall service levels and address customer "pain points". On 27 March 2019, Livi VB Limited ("Livi"), a joint venture company owned by the Company, JD New Orbit Technology (Hong Kong) Limited and JSH Virtual Ventures Holdings Limited, was granted a banking licence by the Hong Kong Monetary Authority to conduct virtual banking businesses. With the goal of fostering fintech innovation, promoting financial inclusion and enhancing customer experience, Livi brings a unique, brand-new and distinctive banking experience to Hong Kong. Using state-of-the-art technologies such as AI, blockchain, big data and smart risk modelling, Livi creates a secure, simple, seamless, a combination of living and banking services. Livi will take an innovative approach to providing flexible solutions, anytime and anywhere, to complement the everyday lives of consumers as well as the business operations of SMEs. For further information on the granting of the virtual banking licence, please refer to the announcement made by the Company on 27 March 2019.

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 2019.**

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 2019

As at the date of this announcement, the Board comprises Mr LIU Liange (Vice Chairman), Mr GAO Yingxin (Vice Chairman and Chief Executive), Mr LIN Jingzhen*, Madam CHENG Eva**, Dr CHOI Koon Shum**, Mr KOH Beng Seng**, Mr LAW Yee Kwan Quinn** and Mr TUNG Savio Wai-Hok**.*

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