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 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 third quarter of 2019.

The third quarter of 2019 saw a continuous downward pressure on global economic growth amid rising uncertainties. US economic growth slowed as the Federal Reserve shifted its monetary policy stance, making two interest rate cuts in July and September respectively. The Eurozone economy experienced an even more acute downtrend and the European Central Bank announced a highly accommodative monetary policy. The Chinese mainland economy was largely stable, with stronger policy support partially alleviating the negative impacts arising from heightened downward pressures on global economic slowdown and rising trade protectionism. The Southeast Asian regional economy remained generally sound, with some countries implementing a more accommodative monetary policy.

Hong Kong's economic growth momentum decelerated notably amid the global economic slowdown, trade friction between China and the US, and the recent social incidents. Tourism, hotel accommodation, retail, and import and export sectors were considerably affected, resulting in a rebound in unemployment rate. Despite elevated volatility in the equity market, its financial system continues to operate effectively and its banking system remains robust and sound.

Financial Performance Highlights

- In the first nine months of 2019, **net operating income before impairment allowances** of BOC Hong Kong (Holdings) Limited and its subsidiaries (collectively known as the "Group") **grew by 7.4% compared with the same period of the previous year and 3.0% from the previous quarter**.
- The Group proactively managed its assets and liabilities on the back of rising market interest rates, and effectively controlled its deposit costs and improved the average yield of its assets. If the funding income or cost of foreign currency swap contracts were included, **net interest margin would have widened 10 basis points year-on-year to 1.70%** and net interest income would have increased by 10.5% year-on-year.
- Amid weakened investor sentiment in the market, net fee and commission income experienced a decline from the high levels of the same period last year. It also dropped from that of the previous quarter, as a fall in investments and private consumption.
- **Solid growth in deposits from customers and advances to customers, increasing 4.6% and 9.6% respectively from the end of 2018.**
- **Loan quality was benign, with the classified or impaired loan ratio at 0.20%.** Credit cost relating to advances to customers was relatively stable.
- 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 nine months ended 30 September 2019 and in the third quarter of 2019:

Key Performance of the Group						
	Nine months ended			Quarter ended		
HK$'m, except percentages	**30 Sep 2019**	(Restated) 30 Sep 2018	Year on year change	**30 Sep 2019**	30 Jun 2019	Quarter on quarter change
Net operating income before impairment allowances	**44,269**	41,217	+7.4%	**15,100**	14,667	+3.0%
Operating expenses	**(11,669)**	(10,831)	+7.7%	**(4,141)**	(3,954)	+4.7%
Operating profit before impairment allowances	**32,600**	30,386	+7.3%	**10,959**	10,713	+2.3%

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.

Nine months ended 30 September 2019 compared with the same period in 2018

In the first nine months of 2019, the Group's net operating income before impairment allowances rose by 7.4% year-on-year to HK$44,269 million. If the funding income or cost of foreign currency swap contracts were included, net interest income would have increased by 10.5% year-on-year to HK$32,175 million. This increase was driven by an 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 1.70%, up 10 basis points year-on-year. This was mainly attributable to the Group's proactive management of its assets and liabilities on the back of rising market interest rates on a year-on-year basis, achieving an effective control on deposit costs and an improvement in the average yield of its assets. Net fee and commission income was HK$8,443 million, down 4.9% from the high levels of the same period last year. Investor sentiment in the market weakened, dampening local stock market performance and transaction volumes, which resulted in a decrease in commission income from securities brokerage and funds distribution. Commission income from insurance business registered satisfactory growth as the Group strengthened innovation in its insurance products and services. Commission income from loans, currency exchange, payment as well as trust and custody services also grew. There was also an increased net gain from the disposal of certain debt securities investments this year.

Operating expenses increased by 7.7% year-on-year. Staff costs rose, mainly due to annual salary increment and increased headcount. Depreciation and other operating expenses also rose as a result of ongoing investment in the Group's service capabilities to support long-term business development. Cost to income ratio was 26.36%, maintaining cost efficiency at a solid level in the banking industry.

The Group's net charge of impairment allowances amounted to HK$1,192 million. Credit cost relating to advances to customers was 0.11%, up slightly by 1 basis point from last year's full-year figure. Impairment allowances increased this year as a result of the higher growth in advances to customers and the downgrading of certain corporate customers.

2019 Q3 compared with 2019 Q2

In the third quarter of 2019, the Group's net operating income before impairment allowances amounted to HK$15,100 million, increasing by 3.0% from the second quarter. If the funding income or cost of foreign currency swap contracts were included, net interest income would have increased by 1.8% quarter-on-quarter, with net interest margin rising 1 basis point from the last quarter to 1.72%. During the quarter, investments and private consumption dropped as a consequence of the market environment, resulting in a quarter-on-quarter drop of 16.7% in net fee and commission income. Commission income from loans, credit card, insurance, bills, securities brokerage and funds distribution decreased. Meanwhile, commission income from payment and trust and custody services increased from the last quarter. Net trading gain rose from the last quarter, with an increased gain from foreign exchange transactions.

Operating expenses increased by 4.7% compared to the previous quarter, as staff costs rose.

In the third quarter of 2019, the Group's net charge of impairment allowances amounted to HK$399 million, a decrease from the second quarter. This decrease was attributable to there being a higher base for comparison, owing to impairment allowances made in the second quarter relating to the downgrading of certain corporate customers. At the same time, this decrease was partially offset by an increase in impairment allowances resulting from changes to the parameter values in the expected credit loss model, which was updated this quarter to take into consideration changes in macroeconomic outlook.

Financial Position

As of 30 September 2019, the Group's total assets stood at HK$3,009,672 million, an increase of 1.8% from the end of 2018. Deposits from customers amounted to HK$1,985,669 million, up 4.6% from the end of 2018. The Group continued to proactively manage its assets and liabilities and optimised its deposit structure. In the third quarter, savings deposits increased, demand deposits and current accounts fell, and time, call, notice and structured deposits decreased. The CASA ratio was 55.9%, up 0.5 percentage point from that at the end of June 2019. Advances to customers increased to HK$1,388,843 million, up 9.6% from the end of 2018. In the third quarter, loans for use in Hong Kong, trade financing and loans for use outside Hong Kong increased. The Group's asset quality was benign, with the classified or impaired loan ratio at 0.20%. 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 third 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 steadily driving business innovation and transformation by actively responding to market changes, deepening its local market commitment and adhering to its customer-centric philosophy. The Group proactively advanced its development in the Guangdong-Hong Kong-Macao Greater Bay Area, consolidating its leading market position there among major businesses. It successfully created new kinds of customer value by supporting the mutual development of financial technology ("fintech") and business. It continued to push forward its regional development in Southeast Asia, enhancing synergistic efficiencies and development quality. In addition, the Group closely monitored changes in the global economic and financial situation, enhanced its internal risk controls and cultivated a stronger bank culture, so as to achieve sustainable development.

In **Personal Banking** business, the Group maintained deposit growth by collaborating with other units of the Group to promote the development of payroll services, wealth management and payment businesses. It consolidated its leading market position in new mortgages by expanding its mortgage business for new residential properties and Home Ownership Scheme flats and promoting the development of online applications for mortgages. To meet customer needs for savings and protection, the Group enriched its insurance product packages with a focus on retirement planning and wealth inheritance and offered online application for a greater range of products. As part of its efforts to promote financial inclusion, BOCHK removed service fees for its personal integrated banking services and general banking accounts as of 1 August 2019. To better address customers' day-to-day banking needs, it enhanced the functionality and user interface of its mobile banking service to include fund transfer, remittance, insurance and credit card related services, as well as enriching the investment market and foreign exchange information its mobile app provides. During the quarter, BOCHK was awarded "Best Data Analytics Initiative, Application or Programme", "Best Blockchain Initiative, Application or Programme" and "Digital Wallet of the Year" by *The Asian Banker* in the first Excellence in Retail Financial Services and Technology Innovation Hong Kong Awards, in recognition of the contributions the Group's personal banking business has made to advancing innovative products and services.

The Group's **Corporate Banking** business adheres to a customer-centric philosophy, with a focus on enhancing its comprehensive service capabilities. As a result, it achieved continuous expansion of its customer base, with balanced growth in all business areas. It strengthened its collaboration with BOC and gave full play to the competitive advantages arising from its regional synergies to 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 helped its Southeast Asian entities to expand the high-quality customer bases in their respective local markets and successfully completed a number of key projects, effectively enhancing the Group's market influence in the region. It invested in the local Hong Kong market to support the development of local commercial and SME customers and actively cooperated with the HKSAR Government to launch measures to ease local SMEs' operational and cash flow pressures. The Group also actively participated in the development of the Guangdong-Hong Kong-Macao Greater Bay Area, Free Trade Zones and Xiongan New Area by providing financing support and expert advisory guidance. It strengthened collaboration with BOC and 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. Meanwhile, it arranged a number of sizable syndicated loans with notable market influence and also expanded its bond underwriting business. It continued to improve its services to local commercial customers by providing them with e-payment collection services, integrated payment and settlement solutions, and treasury products and services. In its institutional business, the Group maintained its leading market share as the main receiving bank for IPOs and deepened its business relationships with central banks, sovereign institutions and international financial institutions. In addition, the Group continued to enhance its scenario-based and online services and promoted the construction of financial infrastructure and e-channels. It also improved the development of its cash pooling and treasury centre businesses so as to enhance its integrated and regional service capabilities in Southeast Asia and the Greater Bay Area.

In the **Treasury Segment**, by deepening its research capabilities and actively responding to market changes, the Group was able to achieve solid business growth in fixed income, derivative and structured products for its customers. The Group diligently enhanced collaboration with other units of the Group and improved its service capacity so as to foster the development of product amalgamation and business diversification. With the aim of sharpening its comprehensive service capabilities, the Group increased investment in technology and enhanced system functionalities. It continuously implemented business unit management, so as to drive forward the integrated development of its regional business. The Group actively expanded its wholesale banknotes business globally to reinforce its competitive advantages. BOCHK was awarded "Hong Kong Domestic Foreign Exchange Bank of the Year" by *Asian Banking & Finance* in recognition of its solid business performance. By continuously and closely monitoring market changes and remaining alert to risk, the Group took a cautious approach to managing its banking book investments and continued to adjust its investment portfolio in order to respond to changes in interest rates and achieve solid returns.

Regarding its **regional business**, the Group's corporate banking segment strengthened marketing collaboration with its Southeast Asian entities and successfully acquired major clients in their local markets. At the same time, it actively developed its business relationships with institutional clients and promoted RMB products and treasury business. During the quarter, BOC Thailand completed its first RMB/Thai Baht forward foreign exchange transaction; BOC Malaysia completed its first interest rate swap transaction; Ho Chi Minh City Branch undertook the largest single Euro/US Dollar spot transaction since its establishment; and Manila Branch completed its first major RMB/Philippine Peso currency exchange transaction. In personal banking, a cross-border attestation service to open BOCHK personal accounts was launched in BOC Malaysia, Jakarta Branch and Manila Branch. The Group also optimised the digital infrastructure of its Southeast Asian entities with the launch of a new regional version of mobile banking in BOC Malaysia, Ho Chi Minh City Branch, Manila Branch, Phnom Penh Branch and Vientiane Branch, thus uniting its mobile banking brand image across the region. The Group also enriched its wealth management product offering, with Jakarta Branch becoming the first bank to distribute RMB insurance products in its local market.

In **fintech** development, the Group kept pace with market trends and stayed aligned with changes in market demand so as to expedite its transformation into a digital bank. By applying innovative fintech developments such as big data, artificial intelligence, blockchain, biometric authentication and open API in financial products, service processes, operations management and risk control, the Group was able to continuously improve its service levels and strengthen customer stickiness. The Faster Payment System ("FPS") platform was utilised to strengthen cooperation with merchants and public entities, and the application of FPS in mobile payment scenarios was continuously increased. The service capacity of the Group's BoC Pay mobile application became more comprehensive, covering merchants in all aspects of daily life including food and beverage, clothing, supermarkets, travel, entertainment, home and lifestyle, and electronic products. The Group continued to undertake open banking development via open API technologies. Cooperation with third-party service providers was strengthened by fully leveraging the resources and advantages of the Group, as evidenced by the provision of a new cross-platform online loan application service. In addition, in line with its transformation into a digital bank, robotic process automation technology was gradually introduced to handle middle and back office operational processes, in a bid to enhance operational efficiency and reduce operational risks. In recognition of its innovative achievements in technology and IT development, BOCHK received the "Fintech Initiatives Award" at the Shenzhen-Hong Kong Fintech Awards organised by the HKMA and Shenzhen Municipal Financial Regulatory Bureau.

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 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, 30 October 2019

As at the date of this announcement, the Board comprises Mr LIU Liange (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*