



2018 Interim Results

2018.08.29



Mobile access QR code for
2018 Interim Results Announcement

▶ **Forward-looking Statement Disclaimer**

This presentation and subsequent discussions may contain forward-looking statements that involve risks and uncertainties. These statements are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may or will, or may be expressed as being the results of actions that may or are expected to occur in the future. You should not place undue reliance on these forward-looking statements, which reflect our belief only as of the date of this presentation. These forward-looking statements are based on our own information and on information from other sources we believe to be reliable. Our actual results may be materially less favourable than those expressed or implied by these forward-looking statements which could depress the market price of our Level 1 ADSs and local shares

▶ **New Reporting Basis in this Presentation**

Following the completion of the acquisition of the Indonesia Business and Cambodia Business of BOC on 10 July 2017 and 6 November 2017 respectively, and that of the Vietnam Business and Philippines Business of BOC on 29 January 2018, we have applied the merger accounting method in the preparation of financial statements for the combination of entities under common control. The comparative information for 2017 has been restated accordingly



Management Team

| | |
|--------------------------|---|
| Mr GAO Yingxin | Vice Chairman & Chief Executive |
| Mr LI Jiuzhong | Executive Director and Chief Risk Officer |
| Mr YUAN Shu | Deputy Chief Executive |
| Mr ZHONG Xiangqun | Chief Operating Officer |
| Mdm SUI Yang | Chief Financial Officer |
| Mrs Ann KUNG | Deputy Chief Executive |

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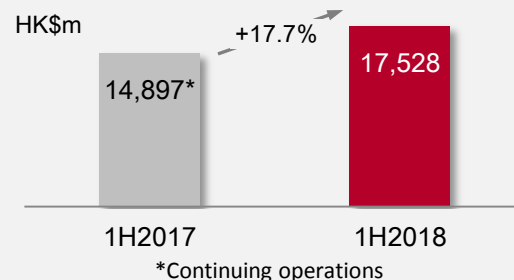
1H2018 Strategy Review



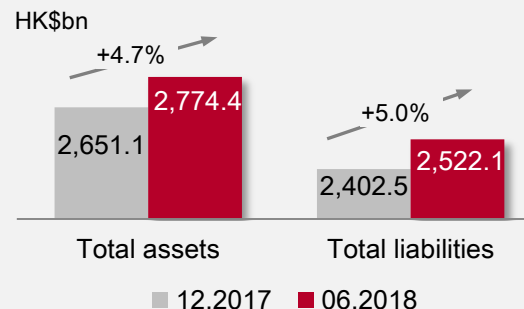
1H2018 Key Highlights

- ▶ Consistently enhanced our profitability with profit attributable to equity holders up 17.7% YoY to HK\$17.5bn
- ▶ Maintained a market leading position by seizing opportunities and remaining committed to the local market in Hong Kong
- ▶ Achieved solid progress in regional development strategy with steady growth in Southeast Asian business
- ▶ Strengthened collaboration within BOC Group through proactive promotion of integrated business development in the Guangdong, Hong Kong and Macao region
- ▶ Promoted the full-service capabilities by expediting development of diversified business platforms
- ▶ Accelerated fintech innovation to gear up as a leading digital bank
- ▶ Ensured balanced, sustainable and high quality growth that is well supported by strict compliance standards and robust risk management

Sustained growth of profit attributable to equity holders



Stable expansion in assets and liabilities



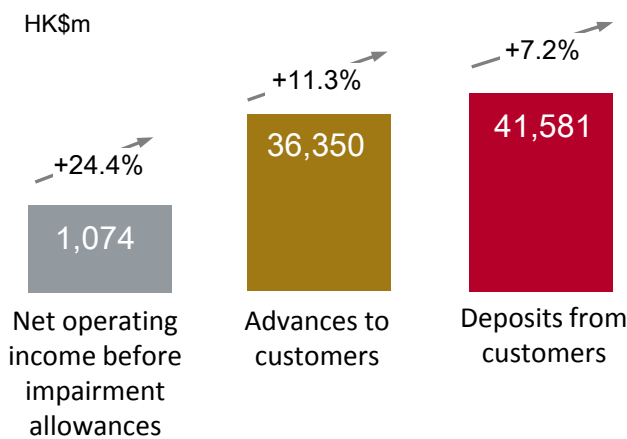
Solid Growth in Southeast Asian Business

Fully leveraged our competitive advantages in business, products and management, strengthened our management capability as a regional headquarters and stepped up support for SEA institutions so as to realise integrated development in the region

- ▶ Improved regional management model by strengthening the function of business frontlines as SBUs, coordinating the mid-office professional management and local operations to control risk and centralising bank-wide back-office operations
- ▶ Promoted integrated development with a primary focus on “Going Global” Chinese enterprises, HK-funded SEA projects, large-scale SEA corporations and overseas Chinese individuals
- ▶ Pushed forward RMB business growth and supported the Central Bank of the Philippines to successfully issue **RMB1.46** billion of Panda Bonds in China’s interbank bond market
- ▶ Prioritised system construction of risk controls and compliance management for SEA institutions, focusing on policy and mechanisms, organisational structure, professional staff and IT system support
- ▶ Enhanced the IT application levels and management capability of SEA institutions by promoting the Smart Counter project and providing support to complete regional IT system integration



Solid Business Growth of Southeast Asian institutions



*Growth rate for net operating income before impairment allowances is on a YoY basis while growth rate for loans and deposits is on a YTD basis

Proactive Efforts in Integrated Development for the Greater Bay Area

In line with BOC's strategic plan, BOCHK leverages BOC group's internationalised and diversified advantages, and fully performs its role as the chair of the integrated development committee, seeking to become the first-choice bank in the Greater Bay Area by strengthening collaboration with its sister companies and developing products in account management, wealth management and payment for HK and Macao residents residing in the Greater Bay Area

Recent progress

Launched cross-border payment to support people's livelihood in the Greater Bay Area

- Launched **mobile payment service** of BOC PAY & a dual currency card to facilitate **cross-border payment**
- Promoted **cross-border two-way RMB cash pooling services**

Created an integrated service experience

- Commenced mutual recognition programme for its Wealth Management Brand offering a **consistent experience** to wealth management customers in the Greater Bay Area

Development strategy

- ▶ Provide convenient financial services to personal clients by promoting integrated development of account, payment, products, services and support
- ▶ Offer cross-border business services to link up quality HK corporates with mainland projects related to people's daily life
- ▶ Leverage its competitive edge in customer, products and channels in order to design quick and convenient application scenarios to support quality living in the Greater Bay Area
- ▶ Provide comprehensive financial solutions for IT and innovative companies to support the Greater Bay Area in becoming an international innovation hub by leveraging our diversified platform of commercial banking, investment banking and insurance services

Continuous Enhancement in Full Service Capabilities

Credit Card

BOCCC

Cardholder spending and merchant acquiring volume up **12.5%** and **19.1%** YoY respectively, maintained **leading position** in UnionPay merchant acquiring and card issuance business in HK

Expedited development of cash pooling and treasury centre businesses. Successfully launched global cash management platform, becoming the **first-choice bank** for cross-border pooling services

Cash Management

BOCHK

Private Banking

BOCHK

Acquired high net worth clients with customer base up **15.0%** YTD and average AUM up **40.8%** YoY

Grew client base at home and abroad. Total assets under custody stood at **HK\$1.17tr**. Maintained leading position in "Bond Connect" custody business

Custody

BOCHK

Life Insurance

BOC Life

Net insurance premium income up **34.9%** YoY, maintained leading position in RMB life insurance business. Overall ranking rose to **4th** in 1Q2018

Diversified distribution channels and enhanced service capacities. MPF AUM up **13.3%** YoY with a market share of **7.5%**

Trustee

BOCI-Prudential Trustee

Asset Management

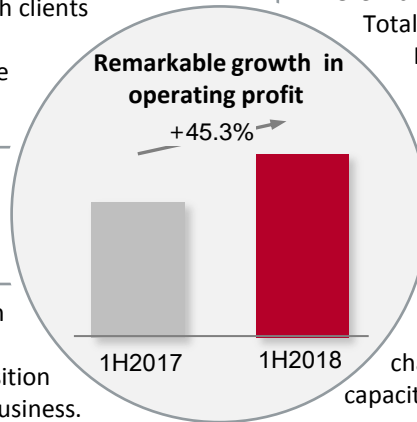
BOCHK Asset Management

Increased product mix and client spectrum as well as deepened business relationship with existing customers. Average AUM up **19.8%** YoY

Total transaction volume of securities brokerage grew **83%** YoY, underpinned by enlarged client base, product and service ranges

Securities and Futures

Po Sang Securities & Futures



New Development Underpinned by Fintech

Mobile Banking

Launched **Smart Mobile Banking 3.0** which supports fingerprint authentication, facial recognition and mobile token, resulting in higher service efficiency and better customer experience

Mobile Payment

Introduced brand new **BOC Pay**, the first e-wallet in the Hong Kong market that supports one-stop cross-border QR code payment, providing a fast and simple mobile payment experience

Smart Branches

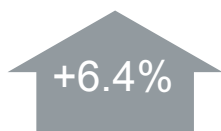
Science Park Banking Services Centre commenced operations with newly introduced 24-hour video banking services, exemplifying our exploration of the “bank branch of future”

System Integration

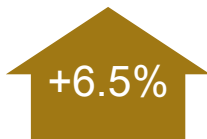
Completed the **core-banking system integration** project of BOC Group and further solidified our technological foundations

Social Contributions

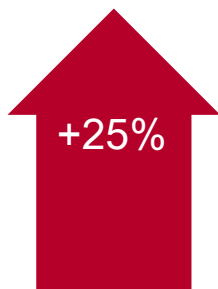
Hosted **BOCHK Hackathon** - “Future Bank and AI” to promote fintech development and application in HK banking sector



Growth rate of personal internet banking active customers



Growth rate of young digital banking customers



Growth rate of personal mobile banking active customers

Shenzhen Fintech Award

2018 Excellent Brand of Fintech – Banking

Block Chain Application (First to market)

Intelligent Robot Assistant (First to market)

Finger-vein authentication (First to market)

Fingerprint authentication Voiceprint recognition Video bank WeChat bank

Digital Banking Initiative of the Year, Mobile Banking Initiative of the Year, Service Innovation of the Year of Hong Kong region in 2018



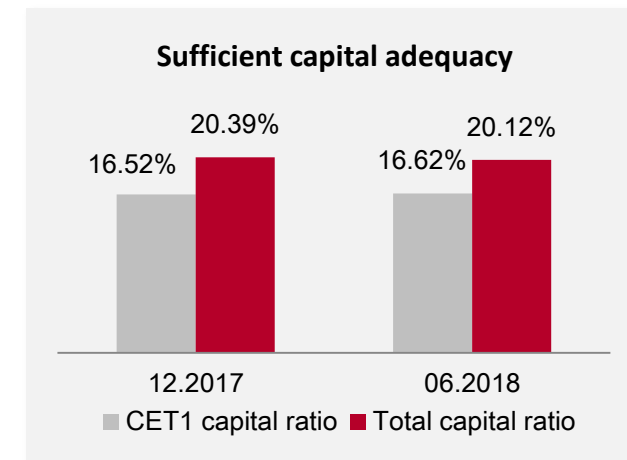
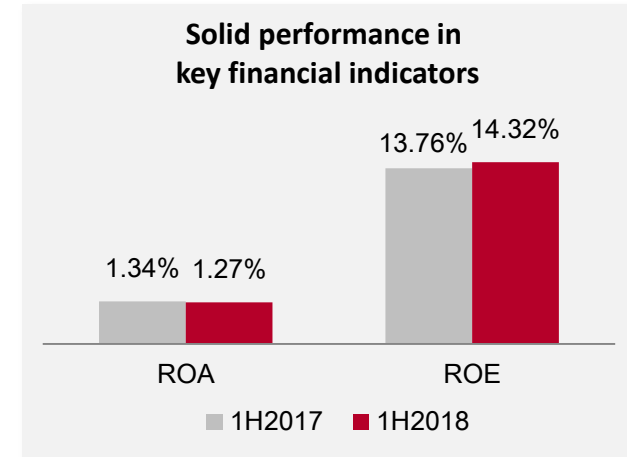
1H2018 Financial Performance



Robust Growth in Profitability

| Income statement summary (HK\$m) | 1H2018 | 1H2017 | Change |
|--|---------------|---------------|--------------|
| Net operating income before impairment allowances | 27,557 | 23,815 | 15.7% |
| Operating expenses | (7,000) | (6,238) | 12.2% |
| PPOP | 20,557 | 17,577 | 17.0% |
| Net charge of impairment allowances | (342) | (354) | -3.4% |
| Operating profit | 20,215 | 17,223 | 17.4% |
| Profit attributable to equity holders (continuing operations) | 17,528 | 14,897 | 17.7% |

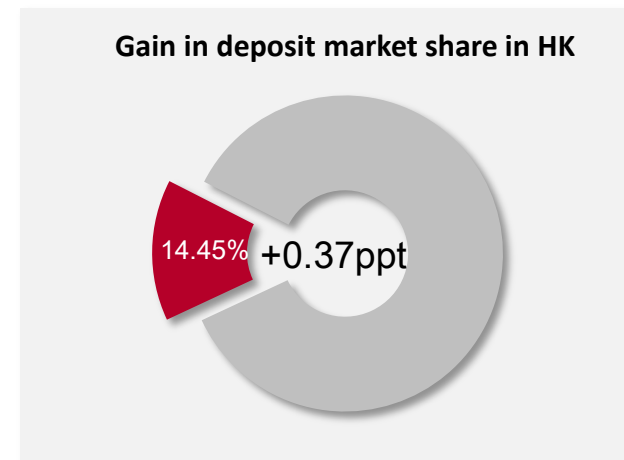
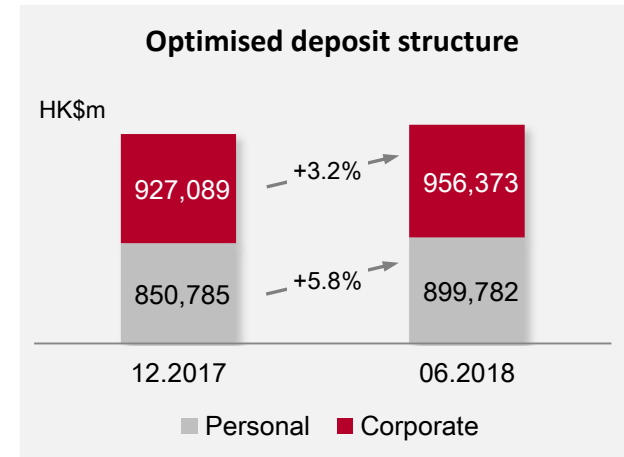
| Balance sheet summary (HK\$m) | 06.2018 | 12.2017 | Change |
|--|------------------|------------------|-------------|
| Total assets | 2,774,445 | 2,651,086 | 4.7% |
| Securities investments | 784,552 | 704,526 | 11.4% |
| Advances to customers | 1,230,508 | 1,146,426 | 7.3% |
| Total liabilities | 2,522,120 | 2,402,463 | 5.0% |
| Deposits from customers | 1,856,155 | 1,777,874 | 4.4% |
| Capital and reserves attributable to equity holders | 248,045 | 244,018 | 1.7% |



Sustained Growth in Customer Deposits

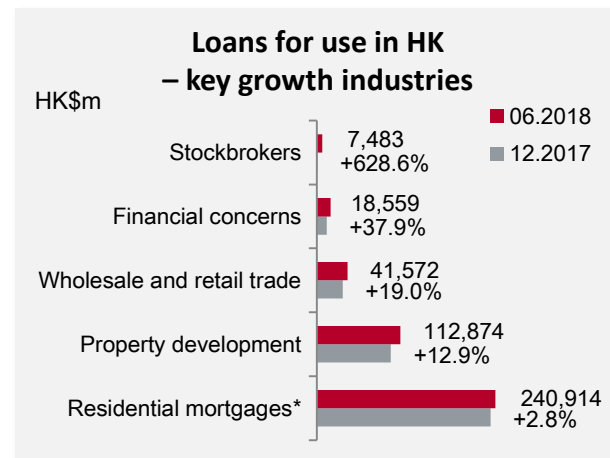
| HK\$m | 06.2018 | 12.2017 | Change |
|--------------------------------------|------------------|------------------|-------------|
| Demand deposits and current accounts | 213,583 | 203,837 | 4.8% |
| Saving deposits | 851,691 | 913,192 | -6.7% |
| Time, call and notice deposits | 788,306 | 658,061 | 19.8% |
| Structured deposits | 2,575 | 2,784 | -7.5% |
| Total deposits from customers | 1,856,155 | 1,777,874 | 4.4% |
| CASA ratio | 57.4% | 62.8% | -5.4 ppt |

- ▶ Complemented payroll account services with comprehensive wealth management solutions. Personal deposits grew by **5.8%** from end of previous year
- ▶ Developed business relationships with a number of major central banks, national treasuries and sovereign funds in order to drive deposit expansion
- ▶ Served as the main receiving bank of equity IPOs that raised a total of HK\$**40.2** billion, representing a market share of **83.8%**

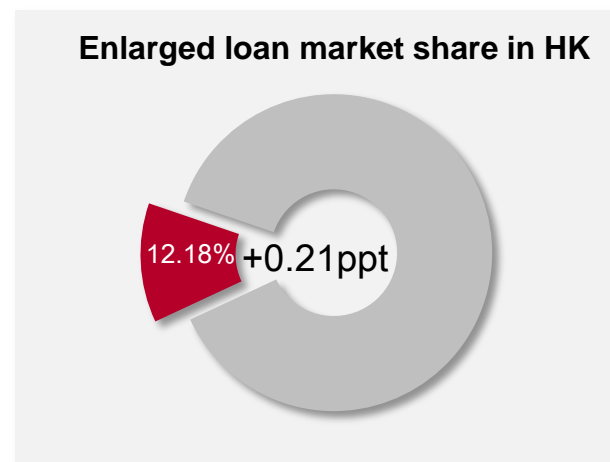


Solid Growth in Customer Loans

| HK\$m | 06.2018 | 12.2017 | Change |
|--------------------------------------|------------------|-----------|--------|
| Loans for use in Hong Kong | 810,253 | 759,038 | 6.7% |
| Industrial, commercial and financial | 475,183 | 436,754 | 8.8% |
| Individuals | 335,070 | 322,284 | 4.0% |
| Trade finance | 70,492 | 78,196 | -9.9% |
| Loans for use outside Hong Kong | 349,763 | 309,192 | 13.1% |
| Total advances to customers | 1,230,508 | 1,146,426 | 7.3% |



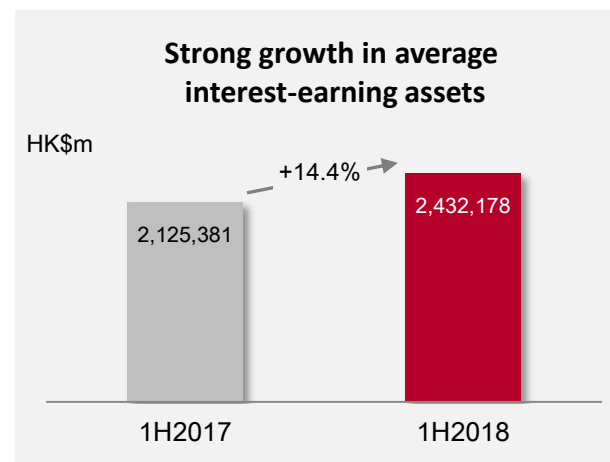
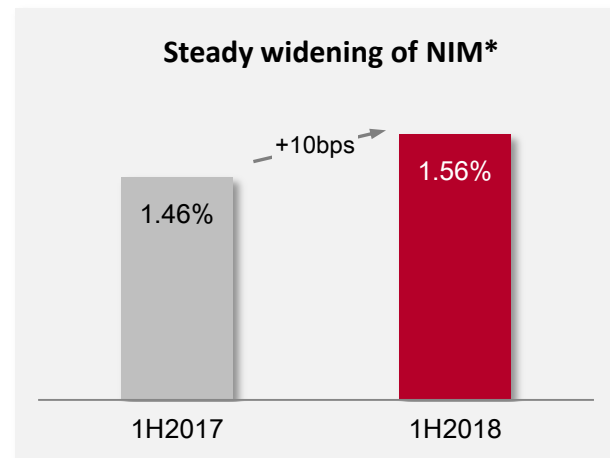
- ▶ Reinforced our competitive edge in the syndicated loan business and maintained our position as **top mandated arranger** in the Hong Kong and Macao syndicated loan market
- ▶ Strengthened our services to local industrial, commercial and small business retail customers to enhance market competitiveness with SME loans **growing satisfactorily**
- ▶ Enhanced our brand image as a mortgage expert with the setup of **6** mortgage centres; supported the promotion of the “Reverse Mortgage Programme “ and maintained the **largest** market share in the reverse mortgage market



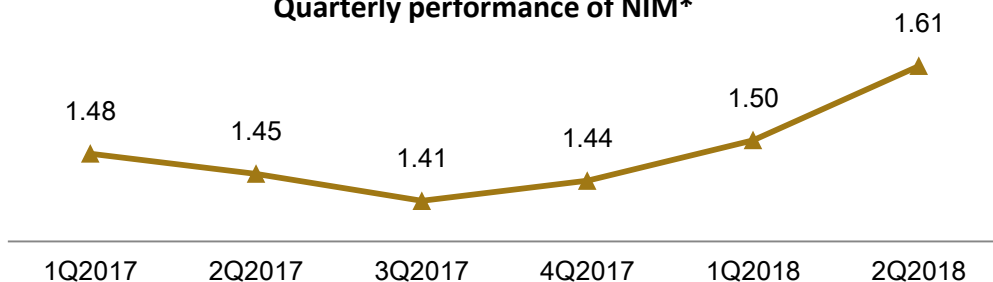
* Excluding loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme

Stable Margin Expansion

| HK\$m | 1H2018 | 1H2017 | Change |
|---|---------------|--------|--------|
| Net interest income | 18,490 | 17,196 | 7.5% |
| Average yield of total interest-earning assets | 2.37% | 2.24% | 13bps |
| Balances and placements with banks and other financial institutions | 1.95% | 2.44% | -49bps |
| Debt securities investments | 2.15% | 1.88% | 27bps |
| Advances to customers | 2.67% | 2.39% | 28bps |
| Average rate of total interest-bearing liabilities | 1.00% | 0.73% | 27bps |
| Deposits and balances of banks and other financial institutions | 1.05% | 0.90% | 15bps |
| Current, savings and time deposits | 0.90% | 0.64% | 26bps |
| Net interest margin | 1.53% | 1.63% | -10bps |
| Net interest margin (adjusted)* | 1.56% | 1.46% | 10bps |



Quarterly performance of NIM*

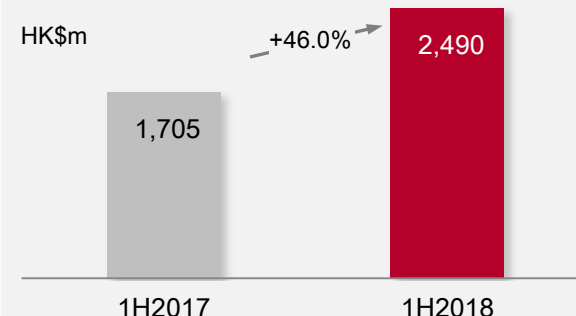


*Included the funding income or cost of FX swap contracts

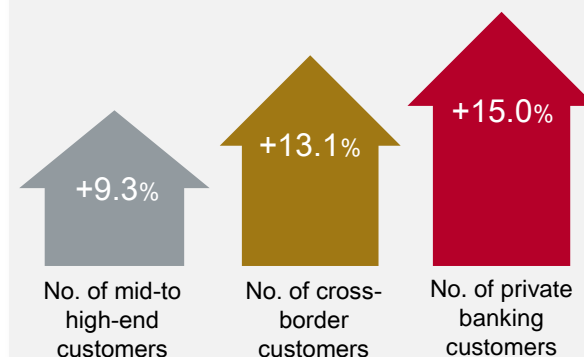
Steady Growth in Fee Income

| HK\$m | 1H2018 | 1H2017 | Change |
|--------------------------------------|--------------|--------|--------|
| Net fee and commission income | 6,474 | 5,778 | 12.0% |
| Investment and insurance | 2,490 | 1,705 | 46.0% |
| • Securities brokerage | 1,524 | 940 | 62.1% |
| • Funds distribution | 552 | 440 | 25.5% |
| • Insurance | 414 | 325 | 27.4% |
| Traditional business | 3,584 | 3,821 | -6.2% |
| • Credit card | 453 | 430 | 5.3% |
| • Loan commissions | 1,707 | 2,076 | -17.8% |
| • Bills commissions | 400 | 393 | 1.8% |
| • Payment services | 321 | 319 | 0.6% |
| • Currency exchange | 243 | 172 | 41.3% |
| • Trust and custody services | 301 | 245 | 22.9% |
| • Others | 159 | 186 | -14.5% |

Significant growth in net commission income related to investment and insurance



Continued enhancement of customer base

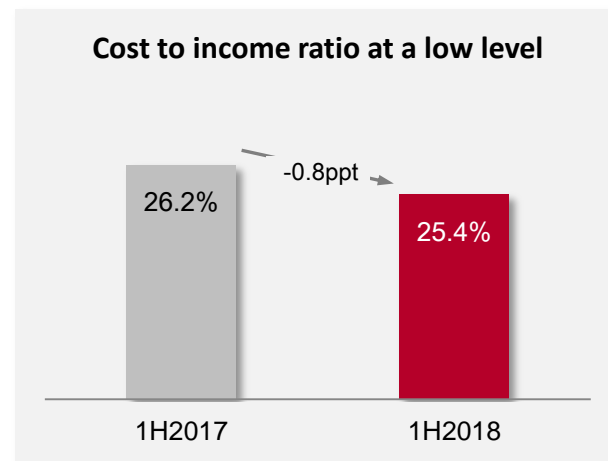
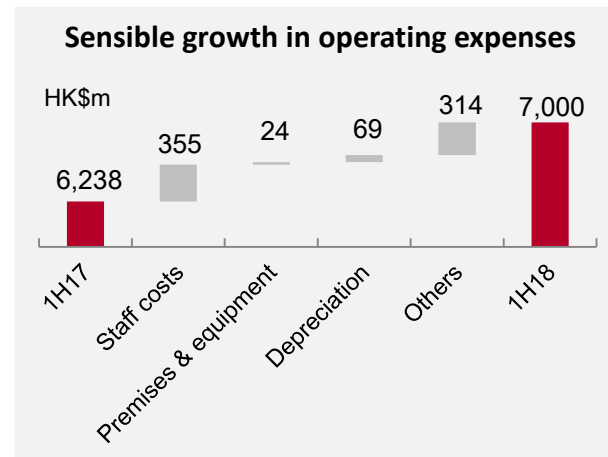


- ▶ Fee and commission income businesses generally delivered favourable performance, supported by our ongoing initiatives to grow mid-to-high-end and cross-border customers, optimise channels and service functions, and expand our range of products and services

Effective Cost Efficiency Control

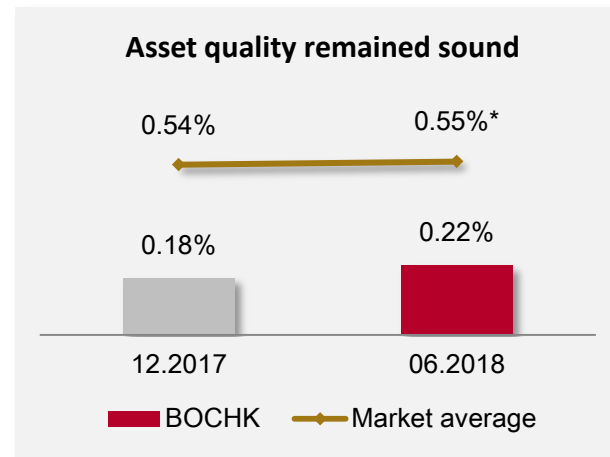
| HK\$m | 1H2018 | 1H2017 | Change |
|---------------------------------|--------------|--------------|--------------|
| Staff costs | 4,053 | 3,698 | 9.6% |
| Premises & equipment expenses | 856 | 832 | 2.9% |
| Depreciation | 996 | 927 | 7.4% |
| Others | 1,095 | 781 | 40.2% |
| Total operating expenses | 7,000 | 6,238 | 12.2% |

- ▶ Staff costs increased 9.6%, mainly due to annual salary increment as well as increases in staff headcount and performance-related remuneration
- ▶ Premises & equipment expenses increased 2.9% due to investment in enhancing business systems and platforms, and increased rental expenses
- ▶ Depreciation increased 7.4%, largely due to higher charges for IT infrastructure, while charges for premises also increased
- ▶ Other expenses increased 40.2%, mainly due to the reversal of certain expenses in 1H2017 which lowered the base for YoY measurement. Other contributors included communication and promotional expenses which also increased due to enhanced business volume



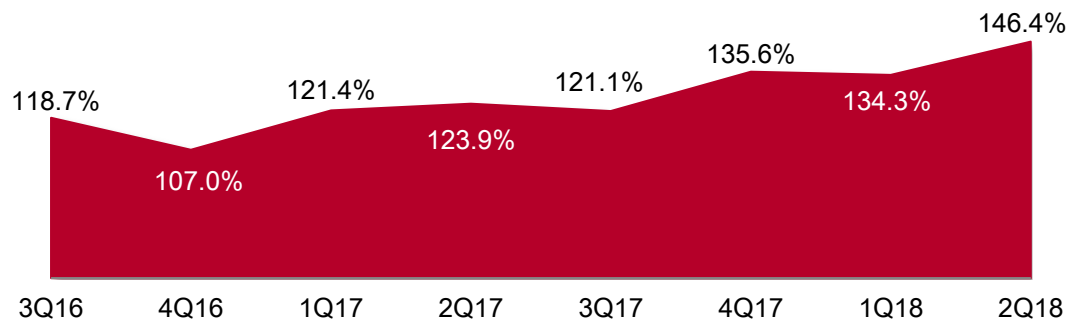
Solid Performance in Key Risk Indicators

| HK\$m | 06.2018 | 12.2017 | Change |
|--|--------------|-----------|----------|
| Total advances to customers | 1,230,508 | 1,146,426 | 7.3% |
| Classified or impaired loan ratio | 0.22% | 0.18% | +0.04ppt |
| Total loan impairment allowances | 5,150 | 4,106 | 25.4% |
| Total loan impairment allowances as a % of total advances to customers | 0.42% | 0.36% | +0.06ppt |
| Provision coverage | 193.1% | 197.5% | -4.4ppt |

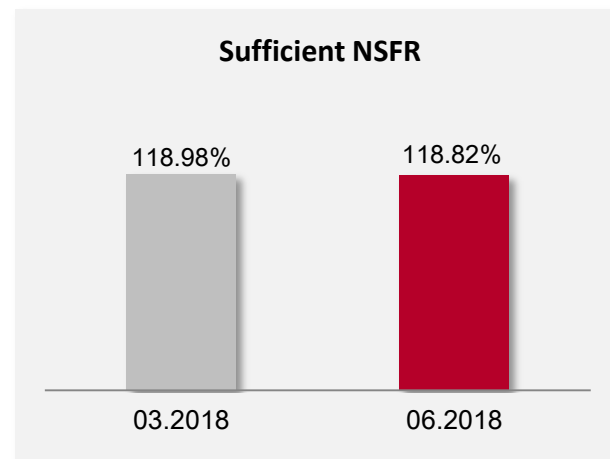


*Data as of the end of March

Continuous enhancement in LCR



Sufficient NSFR





2H18 Outlook and Business Focus



Opportunities

- **The Chinese economy will extend its stable growth and favourable outlook** with economic structural adjustments moving in a positive direction and the vibrant development of new industries, new products and new dynamics
- **Southeast Asian economies will sustain growth** underpinned by consumption and investment demand which will serve as key growth drivers in the second half of the year
- **The Hong Kong economy will maintain stable expansion** supported by steady performance in trade and private consumption
- **The Greater Bay Area will create new space for the development of** financial services related to people's livelihood, innovation, Silkroad area and environmental protection

Challenges

- **Marked increase in global economic risks** arising from trade protectionism, and normalisation in global monetary policy, as well as pressure on emerging market currencies and financial markets
- **China-U.S trade dispute may escalate further**, presenting downside risk for global economy, and China government still has policy room to alleviate the negative impact
- **Uncertainty brought by interest rate normalisation** as the expected Fed rate hike in the second half of this year could cause a widening gap between HKD and USD rates, creating potential fund outflows and therefore stronger pressure on interest rates in Hong Kong

Strategic goal

Accelerate the building of a top-class, full-service and internationalised regional bank

- ▶ Speed up technology innovation and product R&D to pursue digitalisation
- ▶ Remain customer-centric and deepen local market commitment to increase growth quality
- ▶ Strive to become the first choice for banking customers in the Greater Bay Area through integrated development of the Guangdong-Hong Kong-Macao region
- ▶ Strengthen regional management model to drive Southeast Asian business growth
- ▶ Enhance internal risk controls and develop a stronger bank culture to support balanced and long-term sustainable development
- ▶ Adhere to a people-oriented principle and reinforce staff support and talent building
- ▶ Undertake corporate social responsibilities and enhance brand image



Q&A Session

