Transcript of Analyst Briefing for
Interim Results 2019

Part 1: 2019 Interim results presentation

Chief Executive Gao Yingxin

Good afternoon, ladies and gentlemen. Before going into our results, I am pleased to introduce to you our new Deputy Chief Executive Mr. Qiu Zhikun. Mr. Qiu joined us in July to take charge of our Southeast Asian business. He has long been engaged in managing BOC's overseas entities, and has ample management experience and a broad international vision. I am convinced his arrival will drive forward our Southeast Asian business development and create even stronger momentum.

Now, I am going to give you our strategy overview for the first half of 2019.

Since the start of the year, the local banking industry has faced various challenges. These include slowing global economic growth, rising trade protectionism and loosening monetary policies. At the same time, the further expansion of China's "opening-up" efforts and the launch of the Outline Development Plan for the Greater Bay Area provide new momentum to Hong Kong.

Pursuing the strategic mission of building a "Top-class Full-service and Internationalised Regional Bank", we actively coped with market environment changes, firmly adhered to a customer-centric principle, and steadily drove our business innovation and transformation. As a result, our growth quality has improved, as can be seen in the stable financial indicators.

In the first half of this year, our profit attributable to equity holders and other equity instrument holders grew to HK$17.949 billion, up 2.2% year-on-year. Our ROE was 12.5%, while our total capital ratio remained healthy and stood at 23%. Same as the interim dividend per share in recent years, our Board has declared an interim dividend of HK$54.5 cents per share.

Throughout our long history, Hong Kong has always been our core market. By deepening local market penetration, we have built an even more solid and diverse foundation for our sustainable development.

In the first half, our personal banking franchise further improved, with the number of mid-to-high end customers rising by 7.8%. We sustained our leading position in the new residential mortgage loans market. We accelerated the development of our mobile banking platform with active users increasing by 20.6% from the end of the previous year.

We continued to maintain our leading positions as the top syndicated loans arranger in the Hong Kong and Macao region, as well as a top IPO receiving bank. We supported Hong Kong’s strategy to develop into a hub for corporate treasury business. In April this year, we successfully launched our global transaction banking platform iGTB NET, to provide our corporate customers one-stop, regional online integrated services. We also sped up the development of key businesses such as cash management, trade finance etc. Our efforts helped us to maintain our market leadership in the cross-border cash pooling business.

We consolidated our leading position in RMB business. In the first six months of 2019, the offshore RMB clearing value handled by BOCHK reached RMB129.3 trillion, up 19.7%. We completed the first settlement deal in the primary market for negotiable CD under Bond Connect. Our custody funds value for Bond Connect also hit a new high.

To support financial inclusion, we have cancelled all service charges for integrated banking, and general banking accounts for personal customers in Hong Kong since 1st of August. We fully participated in supportive measure program launched by the government for SME, and continued to meet the financing needs of quality commercial and industrial corporates as well as SME customers, sustaining a faster loan growth than our peers in SFGS market. We launched “Business Lite Account” so as to provide simplified account opening to start-up companies and foreign companies investing in Hong Kong. The number of our Business Integrated Account for small enterprises has increased by 6.9%. In particular, the SME sector was experiencing some impact and difficulties. We have decided to launch a series of supportive measures for SMEs so as to sail through this difficult period together.

We see the Greater Bay Area as a key market for us and have successfully tapped it by offering livelihood finance. We pushed forward regional interconnectivity and further strengthened our featured cross-border services. As at the end of June, our mid-to-high end cross-border customer base increased by 12.8% from the end of last year.

As part of our strategy to pursue financial innovation in the GBA, in March this year, we became the first bank to launch a brand new attestation service that allows Hong Kong residents to open a Mainland bank account. As of

June, the number of applicants for this service had already exceeded 50,000. We continued to enhance the cross-border payment, funds transfer and bill payment functions of our BoC Pay, which is now already available to non-BoC users. Following the Guangdong-Hong Kong Business Registration and Banking Services Connect, we cooperated with BOC's local branches and extended such services to Shenzhen and Shanghai in April and May respectively, which will make business registration easier for Hong Kong corporates and individuals going into the Mainland market. BOCHK Asset Management Company launched the "BOCHK All Weather Greater Bay Area Strategy Fund", the first thematic bond fund in the market.

Southeast Asia is a growth market with strong potential for our Bank. Earlier this year, we successfully integrated the BOC Branch in Laos, and further enhanced our regional presence. At the same time, we have fully implemented a differentiated regional management model to improve our synergies and growth quality.

Our corporate banking stepped up co-marketing efforts and closed a number of deals for projects involving roads and bridges, communication equipment, oil and energy, as well as seaports and airports. These projects gave us a great chance to become part of the mainstream markets in the Southeast Asia. We also made solid progress in our personal banking business, as we completed the pilot launch of "BOC Wealth Management" brand in Malaysia, and enriched our product shelf with more investment fund and bond products. Our financial markets unit further strengthened its business line management, to enhance the capabilities of our Southeast Asian trading teams, and our regional RMB business growth.

In the first half, our Southeast Asian entities grew their net operating income before impairment allowances by 22.8% year-on-year, to HK$1.39 billion. Their customer deposits and loans reached HK$51 billion and HK$44.9 billion respectively. The corresponding growth rates were 6.7% and 12.9% from the end of the previous year. In addition, we continued to strengthen our regional credit risk management. Their NPL ratio stood at 1.27%, which is a manageable level.

In order to earn the trust of stakeholders, and ensure our solid operations on a sustainable path, we firmly pushed forward the development of our customer-centric corporate culture, and service model. We revisited customer journey, and improved customer value by enriching service scenarios, improving branch network layout, and pursuing digital operations.

Employees are our biggest asset. We take care of their career development, and provide them better workplace. By doing so, we hope to build a stronger sense of belonging in us. We prompted our colleagues to fulfill our bank values in their daily work by sticking to customer first principle and defending the risk redline. These values and concepts are important in ensuring our solid and compliant operation.

Deeply rooted in Hong Kong for more than a century, BOCHK has always been repaying the society. In the future, we will continue to pursue long-term sustainable development by aligning the interest of our stakeholders in ESG issues. We will make relentless contributions to Hong Kong’s prosperity and stability, livelihood improvement, environmental protection and financial inclusion.

This marks the end of our strategy review. Next, Madam Sui Yang, our CFO, will walk you through the detailed financial and business performance in the first half of this year.

Chief Financial Officer Sui Yang

Thank you, CE Gao.

In the first half, BOCHK achieved continuous growth in operating earnings, with key financial and risk indicators remaining solid.

As at the end of June, our customer deposits exceeded the HK$2 trillion mark, up 6.3% from the end of previous year, notably higher than the market average. Our deposit market share in Hong Kong further expanded by 0.64 percentage points to 14.85%.

We continuously strengthened our mid-to-high end customer base in personal banking, and cultivated stronger relationship with large corporate and financial institution customers, which paid off well for our deposit business. Thanks to our integrated solutions that combine payroll, wealth management and payment services, as well as our expansion in cash management, settlement and IPO receiving bank businesses, our CASA saw steady growth. In the first half, our CASA balances increased by 5.3% from the end of last year generally outperforming the market.

As at the end of June, our customer loans were HK$1.35 trillion, up 6.7% from the end of last year. Our loan market share in Hong Kong increased by 0.26 percentage points to 12.90%, with solid growth in the major loan categories.

We proactively expanded our local business and satisfied the financing demands of large corporates, high-quality commercial and industrial firms, and SME customers. Loans for use in Hong Kong grew by HK$50 billion or 6%. We overcame global economic headwinds, and actively captured cross-border, Southeast Asian and other overseas market opportunities by strengthening collaboration with BOC, and undertaking joint-marketing with our Southeast Asian entities. As a result, loans for use outside Hong Kong increased by HK$20 billion or 5.6%. We earnestly explored customer demand, and grew our trade finance book by HK$15.1 billion.

In the first half, HIBOR rose amid fluctuations while LIBOR and SHIBOR continued to fall. Against such a backdrop, we proactively managed our assets and liabilities by refining asset structure, and expanding the size of average interest-earning assets. We also strived to enhance the returns of customer loans and debt securities investments, while stablising funding costs. Adjusted for swap related impact, the Group's net interest margin rose 13 basis points year-on-year to 1.69%, with net interest income rising by 12.2%.

Our net fee and commission income was HK$6.05 billion, 6.6% lower than the same period of last year. This drop was mainly due to a decrease in securities brokerage and funds distribution incomes, which went down by 36% and 16% year-on-year respectively, as a result of the weak market sentiment. In addition, our loan commission fee income struggled to achieve year-on-year growth due to a high base effect.

In the face of complicated market conditions, we proactively explored business opportunities. We enhanced our insurance product and portfolio innovation, and drove the insurance fee income growth of 34% year-on-year. Our banknote business penetrated further into local, Mainland and Southeast Asian markets, and grew its currency exchange income by 21%. Our net fee and commission income rose by 25% from the second half of 2018, mainly driven by income from loans commission, insurance, funds distribution and securities brokerage.

We continued to maintain good efficiency. Our total operating expenses were HK$7.53 billion, up 7.4% year-on-year. Cost-to-income ratio edged up by 0.4 percentage points year-on-year to 25.8%, which continued to compare favorably against our local peers.

Within this, staff costs grew by 5%, mainly due to annual salary adjustment and an increase in staff members. Due to the adoption of the *Hong Kong Financial Reporting Standard 16* this year, our premise and equipment expenses dropped by 24% while our depreciation charges increased by 41%. According to the new standard, property leases are accounted for as right-of-use assets and relevant rents are represented in the depreciation expense of right-of-use assets.

We consistently adhered to the principle of pursuing compliant and legal operations, and comprehensively enhanced our management capabilities in risk management, compliance and internal control, as well as AML. We continuously improved the standard and effectiveness of our risk management in order to ensure solid business development.

The Group's classified or impaired loan ratio was 0.20%, relatively stable from the end of 2018. Credit cost was 0.11%, edging up by 1 basis point compared with the full year level of 2018. We provided adequate coverage for our portfolio, and our provision coverage ratio reached 227.5%.

As of the end of June, our on-balance sheet non-bank Mainland exposure accounted for 21.47% of our total assets, standing at a relatively low level among peers. Within these exposures, the non-performing loan ratio was 0.14%, lower than the Group average.

Our capability to withstand liquidity risk was further enhanced. This was evidenced by our solid liquidity position. In the first half of 2019, our average LCR was 170%, and our NSFR as at end of June was 119.15%, both at levels above regulatory requirements.

This concludes the review of our first half results. Let me now pass it back to CE Gao who will talk about our second half priorities.

Chief Executive Gao Yingxin

Thank you, CFO Sui.

Looking into the second half, the IMF made several downgrades to global growth forecasts, and the prospects of China-US trade friction remained uncertain. In addition, the recent social unrest in Hong Kong has started creating negative impact on its economic development.

On the bright side, Hong Kong’s special status and advantages in a new round of reform and opening-up of China remain unchanged. More opportunities will arise from the Belt and Road Initiative for Hong Kong as an international service hub, and for ASEAN, as a direct beneficiary along the route. Under the Outline Development Plan for the GBA, more supportive policies will be launched and create additional benefits to enterprises and individuals in the GBA, whereas the collaboration between Guangdong, Hong Kong and Macao will make more material progress. We continue to see solid internal drivers for Hong Kong’s future development. In particular, the Hong Kong government will launch more measures to boost the local economy, by supporting the commercial sector and the labor market, and easing livelihood difficulties.

In the second half, we will steadily implement our strategy, and strengthen our execution ability. We will strive to make greater contributions to Hong Kong’s economic growth, improvement of people’s livelihood, integration with the state’s development plan, and the joint-development of the GBA into a beautiful common home.

We will continue to focus on the Hong Kong local market to cement our foundation for sustainable development. We will take the lead in driving financial innovation and collaboration in the GBA. In addition, we will further deepen and enhance the regional management model of our Southeast Asian entities, and speed up in building our regional competitive advantages. We will continue to invest in fintech innovation and pursue our ESG development, to achieve high-quality sustainable development.

Amid a complicated operating environment, we will further refine our asset and liability management, optimise our business mix, and enhance the management of all types of risks. Our goal is to ensure solid operations across all business lines, and maintain healthy financial conditions, and therefore keep on generating steady growth for our stakeholders.

That is the end of our presentation, thank you. You are welcome to ask any questions.

Part 2: Question and answer session of analyst briefing

Gary Lam from HSBC: Amid the current macro and market environments, will you adjust your risk appetite in the second half of this year? Where will the loan growth come from? Given your CET1 ratio has come above 20% for the first time, which areas do you plan to deploy for growth? Where are the opportunities?

Chief Executive Gao Yingxin: Our loan growth outpaced the market in the first half, and fell within our full-year guidance of high-single-digit loan growth. Macro uncertainty was the major reason behind the weak market loan growth stemming from a weakened customer demand. However we have a diversified customer base composing of Hong Kong corporations, Mainland "going global" enterprises, Southeast Asian firms and multinational companies. At the same time, we closely collaborated with our parent bank, and played an important role in Bank of China's internationalisation strategy. These were the reasons why we were able to capture quality loan growth opportunities in this environment. Overall speaking, we will keep our risk-appetite unchanged and are confident in achieving high-single digit loan growth for the full year.

Deputy Chief Executive Wang Bing: In the first half of this year, our loan growth exceeded the market average by 2.5 percentage point. Our growth was relatively balanced, attributable to not just the loans for corporate and individual customers in Hong Kong, but also the loans for use outside Hong Kong, which saw decent increase. This has proved our customer advantage. In addition to our solid local and cross-border customer bases, in recent years we also witnessed very satisfactory loan growth in the Southeast Asian market. Given the respectable economic growth of Southeast Asia, which is a key region for Belt and Road collaboration and industry migration, and considering also our projects in the pipeline, we remain confident in sustaining our Southeast Asian loan growth at a pace similar to the previous year. Therefore, to echo CE Gao, we are confident in achieving a high-single digit loan growth for the full-year despite the uncertain market environment.

Chief Financial Officer Sui Yang: The improvement in our capital ratio in the first half of this year was mainly due to the accumulation of after-tax earnings. Looking to the future, aside from meeting regulatory requirements, the major priorities of our capital management are mainly supporting our business developments in the local market, Southeast Asia, and the Greater Bay Area. As to dividend policy, we will continue to maintain our stable dividend policy and the payout guidance of 40-60% of earnings unchanged. Taking into account the issuance of AT1 capital instrument last year, we will fully consider the relevant impact of the new type of capital instrument on the shareholder interest when deciding on our full-year dividend, so as to strike a balance between the interests of our shareholders and the long-term development of BOCHK.

Tian Yafei from Citigroup: Given the moderating market loan growth, what strategy did BOCHK adopt to gain market share? If BOCHK grows its loans in line with market in the second half this year, will you be able to manage funding cost better and achieve more improvement in the net interest margin? Separately, what is your RMB business strategy amid a depreciating RMB currency exchange rate?

Deputy Chief Executive Wang Bing: The reason behind the weak market loan growth was mainly the uncertain macroeconomic environment. Thanks to our solid customer base, diversified loan businesses and adequate projects in the pipeline, we therefore were able to capture market demand and outpace our peers in terms of loan growth.

Chief Financial Officer Sui Yang: In the first half of this year, we achieved a balanced growth between our loans and deposits, while the market deposits increased softly by a mere 1.7% with nearly flat month-on-month growth in July. We will prudently manage our funding cost in accordance with market changes. In addition, our current account and savings account (CASA) deposits increased at a good pace in the first half of the year. Looking at the statistics for July, the market also enjoyed decent CASA deposit growth while time deposits fell by a fairly large degree. This trend should be favourable for funding cost control. That said, market interest rate movements and deposit competition will still impose pressure on funding cost. We will adopt various measures such as promoting fintech innovation, payroll, IPO receiving bank, settlement and cash management businesses, in order to bring in more residue funds and support CASA deposit growth.

Deputy Chief Executive Yuan Shu: With regard to the question on RMB depreciation's impact, in fact the volatility of RMB exchange rate against USD has been within normal range since the start of the year. In addition, the net currency exposure of our RMB business was very small, at the same time we have not seen any material impact on our asset quality as a result of RMB depreciation.

Jemmy Huang from JP Morgan: With respect to the bank's Expected Credit Loss (ECL) Model, and given the change of the external environment, will you consider using a set of more conservative assumptions in the second half of the year? Within the eight Southeast Asian countries under your service coverage, which of them showed fastest growth, and which of them displayed higher risk?

Chief Credit Officer Stanley Yung: In the second half of last year, we incurred more provision charges due to worsening economic outlook affected by factors such as China-U.S. trade friction. Based on the current development, we believe that our ECL model assumptions have already reflected the relevant impact. Our credit cost was 0.11% in the first half of this year, edging up by 1 basis point from the full year level of 2018, and being relatively stable compared with our peers. Looking into the second half of this year, despite the existence of many uncertainties weighing on banking operation, we will adhere to our long-standing and prudent risk management principles. We will continue to earnestly implement credit managements throughout pre-lending, underwriting and post lending stages, so as to strive for a relatively stable credit cost.

Chief Executive Gao Yingxin: In the first half of this year, our Southeast Asian entities achieved income, loan and deposit growths all above the group average. The most distinctive change after integrating our Southeast Asian entities with BOCHK is that we are able to leverage our regional development advantage, which enables us to follow closely the movement of Hong Kong and Mainland based companies going global, and to proactively expand into the mainstream local corporate community. We have made good progress and will achieve more notable results in the future. For example, our Jakarta Branch has become the top foreign bank in their local market with notable growth in profits and assets, and effective results in risk management. We also see solid momentum in Vietnam, Malaysia and the Philippines, and strong potential in the rest of Southeast Asian markets. Next step, we will pursue quality and sustainable development by picking good customers and projects with stringent risk control as primary principle.

Victor Wang from CICC: The Hong Kong banking industry is facing many uncertainties at the moment, such as global economic slowdown and rate cuts by a number of central banks, in addition to the continuous social unrest in recent months in Hong Kong. We have heard that some clients are moving their assets to other countries such as Singapore. Is there any impact on local loan demand? With slower growth pace, will BOCHK's capital ratio above 20% be too high? What factors do you consider when formulating your capital management plan?

Chief Executive Gao Yingxin: Amid the current economic environment, controlling risk has become the top priority for Hong Kong's banking industry. Although we have not seen noticeable increase in credit risk, we need to keep an eye on liquidity and market risks. As an international financial centre, Hong Kong offers a wide variety of banking services, whereas local corporate banking business mainly focuses on industrial, commercial and SMEs. Due to the impact of the macro environment, there could be some change to loan demand. Given the current trend that industry and supply chains are shifting towards Southeast Asia, and riding on our transformation strategy from a municipal bank to a regional bank, we can follow our clients and provide services to meet their needs. With infrastructure construction further expedited, and governance systems and financial regulatory standards significantly enhanced in Southeast Asia, this market offers us a promising prospects. The key to success lies in a bank's risk management and development capabilities which we believe BOCHK possesses. These capabilities allow us to capitalise on the Southeast Asian opportunities.

As to your question on our capital management, nowadays regulatory requirement on capital has been constantly increasing. As a Domestic Systematically Important Authorised Institution, BOCHK needs to satisfy a higher capital requirement. Taking into account the regulatory requirement, as well as the need of supporting solid loan growth, we believe our capital ratios are at an appropriate level. We will remain flexible on our capital management should other opportunities or development needs arise.

Steven Chan from Haitong International: In the first half of this year, which industries or sectors within BOCHK's loan book showed an increase in non-performing loan ratio? What is the outlook for non-performing loan ratio of your Southeast Asian business? Also, compared with traditional banks, the personal loan business of virtual bank may incur higher risk. Given that the Hong Kong economy is facing recession risk and rising unemployment, will you change the development strategy of virtual bank "Livi", in particular for its loan business?

Chief Credit Officer Stanley Yung: As at end of Jun 2019, BOCHK's non-performing loan ratio edged up to 0.20% from 0.19% at the end of last year, mainly due to the credit rating downgrade of two corporate clients, one of which was from Bank of China (Malaysia) Berhad. So far we have not seen any systematic risk in our loan portfolio. Looking forward to the second half of this year and on the basis in the first half, we should be able to keep our non-performing loan ratio at a relatively low level with sufficient provisions.

Chief Operating Officer Zhong Xiangqun: There are three distinctive differences between virtual banking and traditional banking with respect to structure, and form of products and services. First, it is scenario integration. Second, it is the application of new innovative financial technologies, such as big data, cloud computing, and AI analysis. Lastly, it is data-based service. Therefore the products provided by virtual banks such as payment, deposit and loan, will not be the same as those provided by traditional banks which are more standardised. Regarding changes in customers' behaviours and repayment capabilities, virtual banks can continuously monitor series of data under their service scenarios and conduct self-correction, based on which they can perform post-lending monitoring and produce risk alerts, in order to achieve effective risk control. Virtual banking, which is just at a beginning stage, offers significant potential. The existence of a new ecosystem and a changing external environment provide room for its development.

Chief Executive Gao Yingxin: The primary goal of BOCHK's virtual banking development is to facilitate transformation of traditional commercial banking. Being increasingly customer centric and customer experience oriented, we will pursue digitalised and agile bank development through integration of a wide array of service scenarios and the ecosystem. At the same time, BOCHK is also making changes in itself, and push forwards digitalisation at a measured pace starting from payment business.