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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 FIRST 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 first quarter of 2018.

In the first quarter of 2018, the global economy maintained relatively rapid growth. The US economy maintained moderate growth amid the approval of its tax reform bill and the announcement of its infrastructure investment plan, while its trade protectionist measures brought additional uncertainty to the global economy. The US Federal Reserve raised the federal funds target rate again in March and continued to normalise its monetary policy. The Eurozone economy performed well, improving in a number of key economic indicators. Driven by demand from China and the developed economies, the ASEAN economies continued to expand, with key members reporting double-digit export growth. The economy in the mainland of China outperformed expectations and recorded improvements in key economic indicators compared to the end of 2017, as the Government implemented a proactive fiscal policy and a stable and neutral monetary policy while deepening supply-side reform. Hong Kong’s economic growth remained relatively rapid, with a positive outlook in international trade, tourism, retail, employment and the asset markets.

Financial Performance Highlights

- **The Group’s net operating income before impairment allowances grew by 18.3% year-on-year and 5.8% quarter-on-quarter.**
- Advances to customers increased and market interest rates rose, which led to **the increase in net interest income (“NII”) and the rise in net interest margin (“NIM”) (including the funding income or cost of foreign currency swap contracts) on both a year-on-year and quarter-on-quarter basis.**
- **Commission income from securities brokerage, insurance and funds distribution rose both year-on-year and quarter-on-quarter** as a result of the opportunities from satisfactory investor sentiment in the market and the Group’s commitment in enriching diversified investment services.
- Loan quality was benign. Capital ratio and liquidity coverage ratio remained solid.
- The Group achieved satisfactory results in key business areas. Total assets expanded from the end of 2017, with both **advances to customers and deposits from customers recording promising growth.**

Financial Performance

The table below summarises the key performance figures of the continuing operations[#] of BOC Hong Kong (Holdings) Limited and its subsidiaries (collectively known as the “Group”) in the first quarter of 2018:

Key Performance of the Group’s continuing operations					
<i>HK\$’m, except percentages</i>	2018 Q1	(Restated) 2017 Q1	(Restated) 2017 Q4	Compared with 2017 Q1	Compared with 2017 Q4
Net operating income before impairment allowances	13,814	11,674	13,053	+18.3%	+5.8%
Operating expenses	3,418	3,101	4,338	+10.2%	-21.2%
Operating profit before impairment allowances	10,396	8,573	8,715	+21.3%	+19.3%

[#] 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 in the preparation of financial statements for the combination with entities under common control in 2018. The comparative information has also been restated accordingly.

2018 Q1 compared with 2017 Q1

In the first quarter of 2018, net operating income before impairment allowances of the Group’s continuing operations rose by 18.3% year-on-year. This was driven mainly by growth in net interest income, which resulted from an expansion of the Group’s average interest-earning assets and a rise in net interest margin. Advances to customers increased and market interest rates rose, which led to the rise in net interest margin (including the funding income or cost of foreign currency swap contracts). Net fee and commission income registered broad-based year-on-year growth. Capturing opportunities from satisfactory investor sentiment in the market and the Group’s commitment to enriching its diversified investment services, commission income from securities brokerage, insurance and funds distribution increased. Commission income from currency exchange, trust and custody services, loans, credit cards and bills also recorded stable growth. There was an increase in currency exchange income from customer transactions. Net gain on other financial assets decreased year-on-year, as a gain was recorded on the disposal of certain debt securities investments in the same period of the previous year.

Operating expenses increased, reflecting the Group’s continuous investment in its service capabilities and the optimisation of its business systems and platforms to support long-term business growth.

The Group’s net charge of impairment allowances on loans increased year-on-year, due to the growth in advances to customers and the adoption of Hong Kong Financial Reporting Standard (“HKFRS”) 9, “Financial Instruments” from 1 January 2018 with comparative information not restated. The resulting impairment under HKFRS 9 would be more forward-looking than that under Hong Kong Accounting Standard 39 and the corresponding impairment requirement would be higher.

2018 Q1 compared with 2017 Q4

Net operating income before impairment allowances of the Group's continuing operations increased by 5.8% on a quarter-on-quarter basis. Net interest income rose, owing to a widening of net interest margin and an expansion in average interest-earning assets. Net fee and commission income increased, with commission income from securities brokerage, insurance and funds distribution continuing to rise amid satisfactory investor sentiment in the market. Commission income from loans, currency exchange and trust and custody services also rose. However, commission income from credit cards, bills and payment services dropped. Net gain on other financial assets fell from the last quarter, mainly due to a gain on the disposal of certain debt securities investments recorded in the last quarter.

Operating expenses decreased, due to lower staff costs and business-related expenses.

The Group's net charge of impairment allowances on loans decreased quarter-on-quarter, as it had increased its impairment allowances for a certain loan portfolio in the previous quarter.

Financial Position

As of 31 March 2018, the Group's total assets had grown to HK\$2,837,130 million, up 7.0% from the end of 2017. Deposits from customers increased by 5.3% to HK\$1,872,564 million, which led to an increase of 5.7% and 13.2% in advances to customers and securities investments, amounting to HK\$1,211,824 million and HK\$797,609 million respectively. There was an increase in loans for use in Hong Kong in industry sectors such as wholesale and retail trade, financial concerns, manufacturing, property development and information technology, as well as individual residential mortgage loans. Trade finance and loans for use outside Hong Kong also increased. The Group's asset quality was benign. Capital ratio and liquidity coverage ratio remained solid.

Business Review

The Group aims to "Build a Top-class, Full-service and Internationalised Regional Bank". In the first quarter of 2018, it achieved satisfactory growth in its key business areas and conducted the asset integration in Southeast Asia in an orderly manner. The acquisition of the Vietnam and Philippines businesses of BOC was completed on 29 January. The Group enhanced its diversified service capabilities and expanded its customer base and business scale by capturing opportunities from the Belt and Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area, as well as by deepening cross-border collaboration with BOC Group. It continued to develop the local market in Hong Kong, supported the growth of its high-quality commercial and SME customers, and launched diversified products and customised services to acquire more mid- to high-end clients. The Group also strengthened innovation in financial technology ("Fintech") and upgraded its e-Finance capabilities in order to become a leading digitalised bank.

In the **Personal Banking** business, the Group focused on providing diversified products and differentiated services. With the launch of various deposit and loan offers tailored to clients' needs, the Group achieved notable growth in deposits and new personal loans. It enhanced customer development by optimising service channels, upgrading its Wealth Management service model and forming a "Sky Relationship Manager" team to provide customised services to clients, which, coupled with a series of promotional campaigns, led to an increase in mid- to high-end customers. Moreover, a brand new Wealth Management Centre was launched in China Hong Kong City to offer an enhanced experience to high-end customers via its professional team, differentiated design and advantageous location. In terms of cross-border business, the Group focused on the integrated development in Guangdong, Hong Kong and Macao, pushed forward regional collaboration and referral, enhanced its brand reputation and enhanced cross-border customer services. Seizing market opportunities, the Group enriched its products and services and became the first retail bank in Hong Kong to launch funds with a Belt and Road Initiative investment theme. Satisfactory performance was recorded in securities brokerage, funds distribution and treasury products business during the quarter.

In line with its overall business strategy, the Group continued to enhance its e-Finance capabilities. The brand new BOCHK Mobile Banking service was introduced during the quarter, featuring a new interface, as well as convenient transfer and professional investment services, providing customers with a better mobile banking experience. The Group also proactively developed mobile payments, including the launch of Smart Account and its binding with WeChat Pay. In addition, the mobile banking application has adopted facial and fingerprint authentication while Call Centre has enabled voice recognition, making transactions safer and more convenient. The Group also won two awards from ET Net and Metro Finance respectively in recognition of its application of finger vein authentication technology in banking services. It will continue to integrate and upgrade the e-channel facilities of its Southeast Asian institutions in order to bolster regional expansion. As part of its efforts to promote Fintech development and application in the Hong Kong banking sector, the Group held the "BOCHK Fintech Hackathon" competition with the theme of "Future Bank and Artificial Intelligence" to explore innovative solutions and identify outstanding Fintech talents.

Corporate Banking business gave full play to its competitive advantages in collaboration within BOC, diversified services and regional synergy to push forward the integration of its Southeast Asian businesses and to explore business opportunities along the Belt and Road and across Southeast Asia. With a focus on mainland enterprises going global, Hong Kong corporates' investment projects in Southeast Asia and large local companies, the Group continuously expanded its customer base and business coverage. It remained committed to developing local markets and deepening its relationships with large corporate clients by arranging a number of significant syndicated loans and several financing projects with notable market influence. It continued to improve its services 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 so as to mutually enhance market competitiveness. Leveraging the competitive edge arising from the Group's branch network in Hong Kong, it continued to enhance its service capabilities to local corporate customers.

The Group also seized opportunities in the capital markets to expand its bond underwriting business, allowing it to successfully grow its customer base and underwrite bond issues at greater scale, further optimising the business structure. In the institutional business, the Group enhanced its business relationships with central banks, sovereign institutions and international financial institutions, driving relatively rapid growth in deposits from such institutions. It also maintained its leading market share as the main receiving bank for IPOs. In addition, the Group accelerated the development of its cash pooling and treasury centre businesses, enhanced innovation in its transaction banking business and pushed forward the regionalised, scenario-based and comprehensive development of its products and services, so as to meet clients' needs for one-stop financial services.

In the **Treasury Segment**, the Group took advantage of market opportunities, strengthened product innovation and continued to improve service capabilities. Satisfactory growth was recorded in the currency exchange, derivatives, fixed income and banknote businesses. The Group's leading position in the banknote business was further consolidated. It was invited by the National Bank of Cambodia to strengthen exchanges with it regarding banknote business, and achieved good results. At the same time, the Group continued to take a cautious approach in managing its banking book investments by adjusting its investment portfolios to respond to market changes and enhance fund returns, while remaining alert to risk.

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. During the quarter, a new life insurance savings plan "Target 3 Years Insurance Plan" and an upgraded product "SmartUp Plus Whole Life Insurance Plan" were launched to meet customers' needs for flexible financial planning and protection. Both were well received by customers. Seminars covering diverse topics were organised to enhance customer relationships. A brand new BOC Life WeChat account was also launched to provide customers with up-to-date information in a more comprehensive and effective manner. Large outdoor billboards carrying the theme of "protection regardless of distance" were erected in several districts across Hong Kong to increase customer attention.

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 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, 27 April 2018

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