

Chief Executive's Report



YUE Yi

Vice Chairman & Chief Executive

In 2015, the overall banking environment was both complicated and challenging. The ongoing downturn in the global economy, slowing economic growth in the Mainland of China and greater volatility in international financial markets all put pressure on the Hong Kong economy. In this difficult business environment with intensifying market competition, we not only implemented the Board's decisions and the Group's development strategy effectively but also delivered satisfactory business results. We successfully captured market opportunities to expand our businesses, drove product innovation and increased business integration to enhance our customer service capabilities. We also strengthened our risk control, internal control and compliance management. Moreover, our market position and brand image continued to improve. We were named the Strongest Bank 2015 in Asia Pacific and Hong Kong by *The Asian Banker* and the Bank of the Year in Hong Kong 2015 by *The Banker*. Our major businesses were also recognised with a number of awards.

The Group's profitability continued to increase in 2015. Profit attributable to the equity holders achieved a new high of HK\$26,796 million, up 9.0%. Non-interest income reported strong growth. As at 31 December 2015, total assets were HK\$2,367,864 million, up 8.2% compared with the end of last year. Return on

average total assets ("ROA") and return on average shareholders' equity ("ROE") were 1.19% and 14.51% respectively. The Group maintained a strong capital base, with a total capital ratio of 17.86% and Tier 1 capital ratio of 12.89%, up 0.35 percentage point and 0.51 percentage point respectively. Our liquidity position remained sound as we adhered strictly to regulatory requirements on the liquidity coverage ratio ("LCR"). In addition, our asset quality was benign, with the classified or impaired loan ratio staying at 0.24%, which was below the market average.

Leveraging our strengths to capture market opportunities, we improved our services to customers and achieved steady and solid development in a number of areas. First, we remained customer-centric to better serve all customer segments. In response to market changes and customer needs, we continued to drive innovation in products and services and refined our business processes. We also provided a full range of financial, investment and wealth management services to personal, corporate, SME and institutional customers, as well as high quality cross-border services to multinationals, cross-border customers, Mainland enterprises going global, central banks and super-sovereign organisations. This led not only to growth in our customer base but also to higher levels of customer satisfaction.



Second, we actively developed our businesses and achieved satisfactory performance. The growth of customer deposits and customer loans outperformed the market and gained market share compared with the last year end. We maintained our leading market positions in areas such as RMB business, syndicated loans, residential mortgage loans and UnionPay cards. For the 11th consecutive year, we ranked first as the lead arranger for syndicated loans in the Hong Kong and Macau region, and maintained the largest market share of the IPO receiving bank business for five years in a row. Moreover, we gained the largest share of the market in new mortgage loans.

Third, we captured business opportunities and further consolidated our leadership in the RMB business. We strengthened our clearing bank infrastructure and extended our clearing service hours for our RMB Real Time Gross Settlement System (RMB RTGS) in Hong Kong, further enhancing our real time RMB clearing services to overseas participating banks and RMB clearing banks in other regions. In 2015, the total transaction amount increased by 30% year-on-year to over RMB220 trillion, and the number of RMB transactions grew by about 43% to 4.25 million. We also became the sole settlement bank for Shanghai-Hong Kong Gold Connect. What's more, we completed the world's first repo transaction as an offshore RMB business participating bank in the interbank bond market on the Mainland, and successfully issued the first RMB financial bond ("Panda bond") by an international commercial bank in the Mainland interbank bond market.

As a systemically important domestic bank, we endeavour to enhance our management standards. We proactively managed our assets and liabilities, and continuously refined our risk management policies

and mechanisms to meet regulatory requirements. In addition to this, we further strengthened our anti-money laundering management by implementing more specialised monitoring procedures, systems and framework. We also upgraded our IT risk and network security in order to contain risks more effectively, optimised our emergency handling mechanism, and improved our emergency response capabilities and reputational risk management.

To support our long-term development, we implemented several key tasks in 2015. First, in line with the strategic plans of BOC and BOCHK in the ASEAN region and Hong Kong, we pushed forward the disposal of NCB and the proposed restructuring of the assets in the ASEAN region. This opened a new chapter in BOCHK's transformation from a local bank into a regional bank. On 18 December 2015, we entered into a Sale and Purchase Agreement in relation to the disposal of NCB shares with Cinda Financial Holdings Co., Limited. All arrangements in relation to the transfer of NCB shares and the restructuring of our banking businesses and assets in certain ASEAN countries have been progressing as planned.

Second, to fully capitalise on the Group's most extensive branch network in Hong Kong and increase productivity, we launched a branch transformation project to provide more customer-centric services. Through this project, we aim to enrich the product offerings and functions of our branch network, reinforce our ability to serve corporate and SME customers, and upgrade our investment and wealth management services. We will also optimise our business processes and operations to provide premier financial services to all customer segments.

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Third, to sharpen the Group's competitive edge, we defined our eight major business platforms, namely, credit cards, private banking, life insurance, asset management, cash management, custody, trust, and securities and futures. We are channelling more resources into these platforms to accelerate their development and have made good progress on this front so far.

Fourth, in line with the ongoing development of the Internet, big data and cloud computing technologies, we set up an Internet finance development plan in order to integrate Internet technology with the traditional banking business. During the period, we stepped up the use of new media in our marketing and promotional initiatives and took the lead in rolling out Internet-based financial products, including the WeChat account inquiry service and Online Loan 360 Service. We were also among the first banks in Hong Kong to launch e-Cheques. This has helped improve our ability to attract customers, particularly the young segment. According to the latest market survey¹, BOCHK has the largest market share (34%) of young customers aged 18–24 in Hong Kong.

Looking at 2016, the world economy is expected to continue undergoing profound adjustment. We may face slower growth, more prominent structural problems, increasing financial market volatility, and greater foreseeable as well as unforeseeable risks. The road to a global recovery will remain long and bumpy.

At the same time, Internet finance will continue to mushroom and diminish the intermediary role of traditional commercial banks. The banking industry faces many difficulties and challenges; however, these

challenges are often accompanied by opportunities. We are confident in our future and see huge opportunities in the implementation of China's important strategies, including the Belt and Road initiative, RMB internationalisation and Free Trade Zones. We also look forward to Hong Kong's rapid development as a super-connector in international finance, trade and shipping, as well as the Group's continuing transformation from a local bank into a regional bank.

As a mainstream bank with roots firmly planted in Hong Kong for nearly 100 years, we will continue to carry out the Group's development strategy. We will capture market opportunities to develop corporate banking, personal banking and our treasury business, in order to cater for the different needs of our customers and support the economic development of Hong Kong.

With the RMB's inclusion into the SDR basket of currencies, we will develop innovative products and gain a leading edge in the market. We will seize opportunities in this era of pan-asset management and accelerate the development of our eight major business platforms for a greater contribution to the Group. With our customer-centric focus, we will press on with the transformation of our branch outlets, accelerate the adoption of Internet finance and reinforce synergy through cross-channel integration and collaboration to further enhance our service capabilities. We will also step up our collaboration with the domestic and overseas institutions of our parent bank, in particular those in Guangdong, Hong Kong and Macau, tap further into overseas markets such as Southeast Asia and expand the scope of our business development.

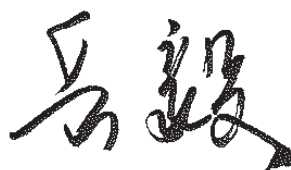
¹ Source: RFi Group's Global Retail Banking Cross-sell Report-2015

In addition, we will focus on heightening professionalism among our staff and increasing leanness and effectiveness in risk control, internal control and compliance in our operations, as these are all essential for a sustainable and healthy business. To enhance the Group's competitiveness, we will continue to develop our corporate culture, upholding our philosophy of customer-centric service and market-oriented competition at all levels of the Group. We will also focus on reinforcing our culture of innovation, responsibility, communication and execution. Fulfilling social responsibilities is also an important commitment of the Group. We will continue to help the disadvantaged and support education and environmental protection. We are committed to contributing to Hong Kong's economic development, improving the livelihood of local people and working towards the long-term prosperity and stability of the community.

Finally, I would like to take this opportunity to note changes on our senior management team. Madam ZHU Yanlai resigned as Deputy Chief Executive (Strategic Planning and Management) due to her age and continues to serve the Group as a consultant. Mr HUANG Hong resigned as Deputy Chief Executive (Financial Markets) of the Group due to other job engagements within the BOC Group. On behalf of the Group, I extend my sincere appreciation and deep respect to Madam ZHU and Mr HUANG for their dedication and outstanding contributions. We also welcomed three new senior management members – Mr LIN Jingzhen, Deputy Chief Executive (Corporate Banking), Mr YUAN Shu, Deputy Chief Executive (Financial Markets) and Mr ZHONG Xiangqun, Chief Operating Officer – who have all fully demonstrated outstanding professionalism,

competence and teamwork since joining the Group. They will join other members of the management team to lead the Group and our staff to a new level of excellence.

We believe that with the continuing support of our customers and business associates, as well as the sage counsel of the Board, we will forge ahead with a stronger sense of mission and responsibility. We remain committed to promoting the Group's sustainable development through innovation and transformation, as well as its regional development, with the aim of creating greater value for our stakeholders.



YUE Yi

Vice Chairman & Chief Executive
Hong Kong, 30 March 2016