

Chairman's Statement



TIAN Guoli
Chairman

In 2016, we witnessed another year of sustained low growth in the global economies, characterised by depressed international investment and trade. The low growth trajectory of the developed countries continued, as did the moderating growth trend in developing countries. In global politics and the world's economies, frequent Black Swan events increased volatility substantially across financial markets. At home, the Chinese government began tackling the challenges of inadequate internal growth drivers and accumulated financial risks by introducing measures such as supply-side reform to encourage quality of growth and efficiency. These efforts have met with some initial success. During the year, the growth of the Chinese economy fell within a reasonable range, and its long-term fundamentals remained positive.

As an open economy, Hong Kong had to contend with many adverse externalities that caused weak economic performance. On the bright side, a robust labour market continued to support the local economy. However, abundant liquidity in the Mainland of China reduced the attractiveness of offshore borrowing by Chinese enterprises in Hong Kong. To a certain degree, this also hampered financing activities in Hong Kong. In the local stock market, investment sentiment stabilised somewhat following the massive correction in the early months of the year.

Competition among banks was intense, and asset quality in the banking sector trended lower.

In spite of such a complicated operating environment, BOCHK was able to rise to these challenges. In line with our parent bank's strategic goal of "Serving Society and Delivering Excellence", we continued with the steady implementation of the Group's new transformation plan as set out by the Board of Directors.

During the year, BOCHK successfully disposed its shares in NCB, completed the acquisition of Bank of China (Malaysia) Berhad and officially opened the BOCHK Brunei Branch. All of these transactions represent a promising start in our strategy to transform BOCHK from a municipal bank into a regional bank. Additionally in early 2017, we successfully acquired Bank of China (Thai) Public Company Limited and entered into Asset Purchase Agreements with BOC in relation to the acquisition¹ of the Indonesia Business and the Cambodia Business, respectively. In March 2017, we completed the disposal of our interests in Chiyu Banking Corporation Limited. At the same time, we remained committed to providing quality financial products and services for corporate customers based in the Mainland of China, Hong Kong and Southeast Asia, as well as for multinational corporations. We also strengthened collaboration with

¹ For further information on the acquisitions, please refer to the announcement made by the Group on 28 February 2017.

our Southeast Asia operations, which achieved some early satisfactory results. Capitalising on the significant opportunities arising from the national Belt and Road Initiative and from Chinese enterprises going global, we met the diverse demands for financing by these enterprises by offering merger and acquisition loans, trade finance, syndicated loans, settlement and currency exchange. I am also pleased to note that for 12 consecutive years, BOCHK succeeded in keeping its top ranking as an arranger in the Hong Kong-Macau syndicated loan market. In addition to this, we continued our close collaboration with our parent bank, BOC, to develop our business further in the Free Trade Zones of the Mainland of China. We also promoted product innovation while leveraging BOC Group's global network and diversified platforms with the aim of providing the best cross-border banking services in the market.

In 2016, BOCHK continued to capitalise on its RMB franchise and cement further its leading position in the local RMB market. As the sole RMB clearing bank in Hong Kong, BOCHK has been enhancing its clearing service capabilities and, in July 2016, received permission from the People's Bank of China to participate in China's Cross-border Interbank Settlement System ("CIPS"). This made us the first offshore bank to join CIPS as a direct participant and the only clearing bank to offer clearing services through both CIPS and the China National Advanced Payments System (CNAPS), further expanding Hong Kong's coverage in RMB clearing. In another important development, in October 2016, Renminbi was formally included in the Special Drawing Rights (SDR) basket of the International Monetary fund. Taking advantage of this opportunity, BOCHK was able to expand its client base into the central bank and sovereign institution segment. After the official launch of the Shenzhen-Hong Kong Stock Connect programme in December 2016, BOCHK obtained all the associated business qualifications to become the sole Settlement Bank for Northbound Trading and a provider of

cross-border fund settlement for Southbound Trading. We continued to serve as the designated bank of the China Securities Depository and Clearing Corporation Limited (CSDCC) for settlement and currency exchange services. As global usage of the RMB continues for transaction, payment, trade finance, investment and central reserves, this will open up even greater prospects for the offshore RMB business. Accordingly, the Group will continue to adhere to its customer-centric principles and strive to become customers' first choice in offshore RMB services.

In 2016, BOCHK continued to deepen its local market penetration. Our branch network transformation strategy along with our existing competitive advantages enabled us to produce successful results in all major business areas. As part of our branch network transformation project, we optimised our customer management flow for SME customers, which led to a significant enhancement in both service efficiency and the customer experience. In our Wealth Management business, we raised our brand image, which helped us in achieving faster growth in the number of mid-to-high end customers and cross-border customers acquired, as well as in the total value of assets under management. We also continued to maintain our strong competitive edge in our eight key business platforms, namely, credit cards, private banking, life insurance, asset management, cash management, custody, trust, and securities and futures, all of which showed healthy development in the period. Good progress was made in the development and deployment of e-finance and our Big-data platform, which went into operation once the relevant infrastructure was constructed. We launched new services such as Apple Pay, Small-value Transfer, i-Service, and Instant Loan during the year. We also led the market in adopting blockchain technology in our mortgage valuation service, which helped to increase operating efficiency and served as a model of how to turn innovative ideas into

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reality. These efforts will not only benefit local FinTech development but also help elevate BOCHK's market position and brand recognition.

For our achievements during the year, BOCHK was named the Strongest Bank in Asia Pacific and Hong Kong and received the Best Retail Bank in Hong Kong and Wealth Management Business of the Year by *The Asian Banker*. Additionally, BOCHK received the Best Consumer Digital Bank in Hong Kong award by *Global Finance* and Listed Company Award of Excellence (Blue Chip) by *the Hong Kong Economic Journal*. For the ninth year in a row, BOCHK won the Best SME's Partner Award from the Hong Kong General Chamber of Small and Medium Business.

In 2016, BOCHK outpaced the market in key business areas such as loan growth, while increasing income and optimising the asset-liability structure. Throughout the year, we maintained our high standards of risk management, compliance and control, while key operating indicators such as capital adequacy ratios, liquidity coverage and asset quality all maintained at healthy levels. In short, this set of full year results was encouraging and achieved a fine balance between risk and return.

I am pleased to report that the Group delivered another year of record profits in 2016. During the year, the Group achieved strong growth in profit attributable to the equity holders, which grew by 105.7% year-on-year to HK\$55,503 million. Earnings per share were HK\$5.2496. Adjusted profit² increased by 6.8%, ahead of our major peers. Underpinned by these favourable results, the Board has recommended a final dividend of HK\$0.625 per share. Together with the interim dividend of HK\$0.545 per share, the full year dividend will be HK\$1.170 per share. On a normal basis, the Company's total dividend payout as a percentage of profit

attributable to the equity holders will be 48.4%. The realised gains of HK\$29,956 million from the sale of our equity stake in NCB substantially increased the capital ratios of the Group. Taking into account various factors and the Board's view that the long-term development of the Group should be balanced with the interests of shareholders, the Company paid a special dividend of HK\$0.710 per share after the 2016 interim results to reward public shareholders for their long-standing support of BOCHK over the years.

On 6 June 2016, Mr SHAN Weijian retired as an Independent Non-executive Director and ceased to be the chairman of the Audit Committee and a member of Remuneration Committee of the Company. Dr CHOI Koon Shum was appointed as an Independent Non-executive Director of the Company. On behalf of the Board, I would like to take this opportunity to express our great appreciation to Mr SHAN for his valuable contributions to the Company during his tenure of service, and welcome Dr CHOI to the Board. I believe Dr CHOI will bring new thinking to the Group with his extensive experience in the food industry, real estate development and international trade as well as technology and finance-related businesses. On 26 October 2016, due to a change in work arrangements, Mr CHAN Chun Ying resigned as the Board Secretary and Company Secretary of the Company and Bank of China (Hong Kong) Limited; he was succeeded by Mr LUO Nan. On behalf of the Board, I would like to thank Mr CHAN for his contributions to the Group during his tenure and to welcome Mr LUO to assume his position.

The year 2016 not only marked a successful new chapter in BOCHK's strategic transformation, but also another year of record results for us. This would not have been possible without the wisdom and guidance of the Board, the enthusiasm of our entire staff, the trust and loyalty

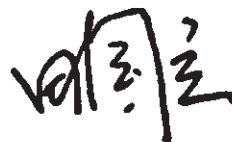
² Without taking into consideration factors such as profit from discontinued operations and gain from disposal of certain equity instruments.

of our customers and the long-standing support of our shareholders, to whom I express my sincere gratitude.

If I may provide my perspective on what lies ahead in 2017, the banking industry will continue to face a mix of challenges and opportunities. Global politics and the world economy will remain full of complexity, uncertainty and cumulative financial risks. "De-globalisation" and reverse movements in liquidity are likely to cause a negative impact, which cannot be ignored. As a result, the world's major economies will find it increasingly difficult to align their monetary and fiscal policies. With the lack of clarity on the movement of US interest rates, the tightening of the Mainland's management of capital outflow, and the pre-emptive expansion of Chinese banking peers into the overseas market, competition in the banking industry looks set to intensify, presenting more challenges for business development and risk management. As China continues driving the Belt and Road Initiative forward, an increasing number of Mainland enterprises are eyeing globalisation opportunities, particularly in the markets of Southeast Asia. In its role as an international financial centre, Hong Kong can act effectively as a super-connector between China and the world by leveraging its robust legal system, highly efficient financial infrastructure and international talent pool. With the introduction of a series of market friendly policies by the Hong Kong SAR Government, including a preferential taxation arrangement and other government initiatives, setting up treasury centres in Hong Kong will become more attractive for multinational and Chinese corporations. This will help to generate enormous demand for banking and financial services, as well as other professional services. Furthermore, there has been growing demand for overseas asset allocation by Mainland enterprises and individuals, which will translate into potential business opportunities for a diverse range of banking services.

The momentum created by the Belt and Road Initiative, together with the growing integration of Guangdong Province, Hong Kong and Macau, should allow BOCHK to accelerate its regional development strategy by leveraging BOC Group's advantages of scale in both its overseas and domestic operations. This will involve focusing more on cross-border business, engaging with the local market and further developing our eight key business areas. In addition, we will continue to drive innovation and enhance our competitiveness in FinTech. In a challenging operating environment of increasing capital requirements and more rigorous regulation, it will also be critical for us to continue strengthening our asset-and-liability management, carefully monitoring our operating expenses and internal controls, and optimising our capital structure in order to ensure sustainable growth in the future.

Finally, I would like to note that the year 2017 marks the BOC's centenary of service to Hong Kong. During this centennial anniversary, we will continue to pursue opportunities for our business development and, as a socially-responsible corporate citizen, to contribute towards long-term prosperity and stability of Hong Kong. For the Group as a whole, this centennial year also represents a new chapter in our development. This is why we and everyone on our staff are pledged to continue pursuing excellence and to build on our solid foundation for the next 100 years for the benefit of shareholder value maximisation.



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Chairman

Hong Kong, 31 March 2017