

Chief Executive's Report



YUE YI
Vice Chairman &
Chief Executive

In 2016, the global economy continued its mild growth pace while economic development on the Mainland reached a “new normal” and Hong Kong’s economy slowed to an almost five-year low. In this challenging operating environment, we diligently implemented the Group’s business strategy and executed the decisions of our Board. Taking advantage of market opportunities, we proactively explored new markets and introduced reforms and innovation. As a result, we attained another year of record results and elevated our brand and market position. We were named the Strongest Bank in Asia Pacific and Hong Kong for the third consecutive year and the Best Retail Bank in Hong Kong for the second consecutive year by *The Asian Banker*. We also received awards in many other business areas.

The Group’s profitability continued to rise in 2016. Profit attributable to the equity holders grew by 105.7% year-on-year to HK\$55,503 million, with adjusted profit¹ increasing by 6.8% to HK\$23,712 million. Non-interest income rose 8.8% from 2015, bringing its share of net operating income before impairment allowances up by 1.76 percentage points. As at 31 December 2016, total assets amounted to HK\$2,327,781 million, edging down 2.3% compared with the end of 2015 and basically filling the gap

in total assets from the disposal of NCB. Return on average total assets (“ROA”) and return on average shareholders’ equity (“ROE”) stood at 2.38% and 26.47%, respectively. The Group maintained a strong capital base, with a total capital ratio of 22.35% and Tier 1 capital ratio of 17.69%, up 4.49 percentage points and 4.80 percentage points respectively. Our liquidity position remained sound as we adhered to the regulatory requirements governing the liquidity coverage ratio (“LCR”). We also took proactive measures to optimise our asset and liability structure, with net interest margin rising from 1.29% in the first half of 2016 to 1.35% in the second half. Our asset quality improved continuously, with the classified or impaired loan ratio of 0.20%, down 0.03 percentage points compared with the end of 2015 and below the market average.

The Group grasped market opportunities and achieved sustainable and healthy business development in 2016. We endeavoured to support Belt and Road projects and Mainland enterprises going global. We also contributed to support the development of small- and medium-sized enterprises (“SMEs”) and Hong Kong’s real economy, while upgrading our services to government and public sector entities. In addition, we pushed forward the transformation

¹ Without taking into consideration factors such as profit from discontinued operations and gain from disposal of certain equity instruments.

of our personal banking model and pursued business innovation. The development of the conventional deposit and loan business and agency business advanced in tandem. We also strengthened our cross-border services to meet the rising demand for overseas asset deployment by Mainland customers. This has enabled us to acquire more new customers. We expanded our treasury business by responding swiftly to market trends and introducing new financial products related to trading and investment. We also became the only overseas bank in the benchmarking of the Shanghai Gold price on the Shanghai Gold Exchange.

In pursuit of business diversification, we enhanced our eight major business platforms, namely credit cards, private banking, life insurance, asset management, cash management, custody, trust as well as securities and futures. To solidify our foundation for the sustainable development of our corporate banking business, we worked towards establishing a global transaction banking platform, explored collaborative business model of commercial and investment banking, and transformed our business under an asset- and capital-light model.

We reinforced our strength as a clearing bank and improved our core competitiveness in the RMB business. As the only clearing bank with both the China International Payment System ("CIPS") and the China National Advanced Payment System ("CNAPS") as our clearing channels, we continued to lead outstandingly in clearing volume among offshore markets. We obtained all business qualifications for Shenzhen-Hong Kong Stock Connect, following the earlier launch of Shanghai-Hong Kong Stock Connect. These included our appointment as the sole Settlement Bank for Northbound Trading by the Hong Kong Securities Clearing

Company Limited. We also achieved rapid growth in the central bank customer segment and pursued new business opportunities related to the inclusion of RMB in the Special Drawing Rights ("SDR") basket of currencies.

As at the end of 2016, the Group had HK\$1,507,501 million in customer deposit balances and HK\$973,071 million in customer loan balances, up 9.8% and 11.7% year-on-year respectively, both growing faster than the market average. In addition, we made good progress in business related to the cross-border capital pool. We achieved a first-place ranking for the twelfth consecutive year as lead arrangers for syndicated loans in the Hong Kong and Macau region, and for the sixth consecutive year maintained the largest market share in the initial public offering ("IPO") receiving bank business. Moreover, our market share for new mortgage loans reached a four-year high.

We remained committed to promoting sustainable development through innovation and transformation as well as regional development. We made solid progress in our key business areas and strengthened our foundation for further development. First, we made substantial progress in our transformation from a local bank into a regional bank through asset restructuring. In 2016, we completed the transfer of NCB shares, the largest bank acquisition in Asia (excluding Japan), and recorded a profit of HK\$30 billion, and also completed the acquisitions of Bank of China (Malaysia) Berhad. BOCHK's first overseas institution was opened in Brunei, completing BOC's financial service coverage to all 10 ASEAN nations. In the first quarter of 2017, we completed the acquisitions of Bank of China (Thai) Public Company Limited, and the disposal of all of our 70.49% interest in Chiyu. We entered into Acquisition Agreements with our parent bank in relation to the acquisitions of the Indonesia business and Cambodia business.

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Second, we launched a branch network transformation project which expanded our service coverage to a comprehensive range from a retail focus. To fully capitalise on the Group's most extensive branch network in Hong Kong, we launched a full scale transformation of our branches, spurred on by the success of our pilot run. We upgraded our service capabilities to better serve SMEs and mid- and high-end personal customers with an integrated platform for a better customer experience.

Third, we stepped up our efforts in innovation to promote the development of financial technology ("FinTech") and mobile finance. We pioneered a number of Internet finance products, including a blockchain technology application for property valuation, our iService 24-hour video banking service, finger vein authentication, an interactive robot to provide customer-centric assistance, a Smart Investment Contest and QR-code based payments. Through all of these initiatives, we raised the intelligent service levels of our branches to give us a new competitive advantage in customer service. As a result, our customer base expanded notably in terms of Personal Internet Banking, Mobile Banking and Corporate Internet Banking, while our mobile payments, WeChat banking and other new service channels have become more appealing to young customers.

Fourth, as a domestic systemically important bank, we strictly adhered to the laws and guidelines set out by regulatory institutions and requirements of the Board and took the initiative to prevent various risks. We also improved our risk governance system and management to support the Group's sustainable and healthy development. We promoted a proactive risk management philosophy of planning ahead

and managing more professionally and proactively. In addition, we drove business innovation with appropriate risk controls to accommodate relevant needs. Internal control and compliance management were also strengthened to prevent and tackle internal and external fraud. Additionally, we refined the Group's anti-money laundering measures and procedures for more effective control. We optimised our IT risk management framework and set up an intelligent cyber-security platform to contain these risks. We also improved our emergency response capability and reputational risk management.

For 2017, the international political and economic environment will remain complicated. The trend of subdued economic growth will continue globally amid weak trade performance, low interest rates and high risk. Rising protectionism and anti-globalist sentiments may cause greater uncertainty. All these, together with the competitive challenges from FinTech development, will make the operation and development of banks more difficult. Nevertheless, we also see many favourable factors and great opportunities. Although there will be downward pressure on the Hong Kong economy, it will be cushioned by a largely stable job market, sound public finances and ample liquidity. The banking industry will benefit from the further development of the major national strategies such as the Belt and Road Initiative, and Hong Kong's role as a super-connector. The RMB's inclusion into the SDR currency basket and its rise as a reserve and investment currency will also create new business opportunities for banks. What's more, we believe that continuous support from the Mainland of China will help Hong Kong further enhance its position and role in the economic development and

opening-up of the Mainland. Hong Kong, in its role as an important international financial centre and with its unique One Country, Two Systems advantage, will continue to attract more businesses from the Mainland and overseas. BOCHK will also enjoy unprecedented opportunities with the support of its parent bank in consolidating BOC Group's Southeast Asia institutions and driving regional development.

The year 2017 marks the 20th anniversary of the return of Hong Kong to the motherland and the BOC's centenary of service to Hong Kong. On this special occasion, all sectors in society will pay greater attention to the Group, and our employees look forward to our future development with great anticipation. In the year ahead, the Group will fully implement various reform measures to increase efficiency and profits. We are confident in our prospects and have already developed and deployed a wide range of business strategies and measures. We will continue to develop our local business while exploring opportunities in Southeast Asian markets, particularly for our corporate banking business. We will also leverage our advantages to expand our cross-border business, while stepping up our regional expansion in Southeast Asia. In pursuit of business diversification, we will increase the development of our eight key business platforms. In addition, we will raise our professional standards and sharpen our competitive edge in the financial markets. We will remain focused on solidifying our deposit business, prudent management of our assets and liabilities as well as disciplined cost control. Our organisational structure and business processes will be optimised to improve the customer experience. In view of the potential of Internet finance to improve our competitiveness and productivity, we will continue to accelerate technological innovation.

We will strengthen our risk management and internal control to ensure compliance with various regulatory requirements. We will promote a good corporate culture and team building at all levels of the Group. As a socially responsible organisation, we aim to elevate our market influence and brand image, while contributing to Hong Kong's economic development and its long-term prosperity and stability, as well as improving the livelihood of the people.

On a final note, I would like to take this opportunity to express my heartfelt thanks to our customers, shareholders and friends for their generous support, as well as to the Board of Directors for their wise guidance, and to all of my colleagues for their diligence and contributions. What's past is prologue, and the new century is ushering in a new journey. We firmly believe that we are well positioned to create greater value for our stakeholders, given the Group's solid foundation and brand advantage, as well as our resolute and concerted efforts.



YUE Yi

Vice Chairman & Chief Executive
Hong Kong, 31 March 2017