

Message from the Chief Executive



2017 witnessed the continued recovery of the global economy. The mainland economy remained stable with good growth momentum, while Hong Kong's economy grew at its fastest pace in recent years. The operating environment for the banking industry in Hong Kong improved, though market competition remained intense. With 2017 marking the centenary of BOC's service to Hong Kong, we earnestly adhered to the Group's strategies and carried out the Board of Directors' decisions. We strived for steady advancement in our operations and management by capturing business opportunities and introducing reforms and innovations. As a result, we effectively implemented our strategy and further enhanced the reputation of our century-old brand. In 2017, we were awarded Bank of the Year in Hong Kong for the third time by *The Banker* in the UK and the Strongest Bank in Asia Pacific and Hong Kong for the fourth consecutive year by *The Asian Banker*.

Time flies like an arrow. I assumed the position of Vice Chairman and Chief Executive of BOCHK in March 2015. Now, as I retired from my position, those last three years seem to have passed very quickly.

During the past three years, thanks to the leadership of the Board of Directors, the clear development strategies of the Group, the devoted efforts of all of our employees and the support received from various sectors in Hong Kong, the Group experienced healthy and rapid development, sustained growth in asset size, successively recorded new highs in profitability and increased the market share of its major businesses. As of the end of 2017, the total deposits and advances of the Group had increased by more than 40% compared with the end of 2014, while our asset quality outperformed the market. Our market influence continued to increase and our operating results and development strategies were highly recognised by the market. Total shareholder return and market capitalisation recorded an accumulated growth of over 70% and 50%, respectively.

During the past three years, we grasped market opportunities and underwent transformation. By pushing forward the share transfers of NCB and Chiyu and restructuring the Southeast Asian institutions of our parent bank, we steadily transformed from a local bank into an internationalised regional bank. Leveraging our competitive advantages, we deepened local market



penetration, promoted Fintech innovation, and implemented our branch network transformation which increased the overall service capabilities of our branches and enhanced customer experience.

During the past three years, we made every endeavour to support the national Belt and Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area, support SMEs and the real economy in Hong Kong, and use Fintech to provide residents from remote areas and the underprivileged with greater access to convenient and high-quality banking services. Capitalising on our advantages as Hong Kong's RMB clearing bank, we reinforced and enhanced Hong Kong's status as an international financial centre and global offshore RMB business hub. Furthermore, we strictly abided by the law and took the initiative to prevent various risks. We also devoted ourselves to charitable causes and youth development. With 2017 marking the centenary of BOC's service to Hong Kong, we organised a series of celebration activities and donated a sum of HK\$200 million to various charitable projects. We remained committed to contributing to Hong Kong's economic development, well-being improvement and long-term prosperity and stability.

I am fortunate enough to have my 38-year career at BOC draw to a close at the outset of BOCHK's new centenary journey, and in such a vibrant city as Hong Kong. I am also fortunate to have taken part in the implementation of "One Country, Two Systems". Looking back at my career development in BOC, where I started as a junior employee and was gradually promoted up the ranks, I have always found myself in the embrace of the Bank's care and nurture, as well as the help and support of my dear colleagues.

I would like to take this opportunity to extend my sincere gratitude for the teaching and advice given by BOC's predecessors, former management and former colleagues, the dedication shown by the staff, the guidance provided by the Board of Directors, and the trust and support I have received from investors and our friends in various sectors. In my gratitude, I will always care about BOC's business development and wish it every success.

Mr GAO Yingxin, the new Chief Executive, has been serving at BOC for more than 30 years. He has recorded significant achievements in the operations and management of various banking businesses. In addition, he has worked in Hong Kong for 10 years, and so is familiar with both the city and BOCHK. He will surely be able to lead BOCHK to greater success and a new era of excellence.

At the outset of this new centenary journey, under the leadership of the parent bank, BOCHK is committed to developing into a top-class, full-service and internationalised regional bank. I believe that BOCHK will open up new horizons for its development and enjoy an even brighter future.

YUE Yi

Hong Kong, 29 March 2018

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In 2017, the Group earnestly carried out the Board of Director's decisions and strived for steady advancement in its operations and management. We again achieved a record high profit from continuing operations, further expanded our asset size and recorded solid performance in our financial indicators. Profit attributable to equity holders reached HK\$31,070 million, and profit from continuing operations rose by 15.9% from 2016 to HK\$28,481 million. As of 31 December 2017, total assets increased 12.4% from the end of 2016 to HK\$2,645,753 million. Return on average shareholders' equity ("ROE") on continuing operations and return on average total assets ("ROA") on continuing operations stood at 13.49% and 1.14% respectively, both higher than in 2016. The asset-liability structure was optimised, with net interest margin (adjusted) rising 5 basis points from 2016 to 1.44%. Net interest income and net fee and commission income grew by 33.4% and 7.8% year-on-year respectively. Commission income from securities brokerage and funds distribution increased significantly by 34.3% and 34.0% year-on-year respectively.

The Group continued to seize opportunities, leverage its professional service capabilities and proactively develop its businesses, with satisfactory growth in major businesses. As of the end of 2017, deposits from customers and advances to customers grew to HK\$1,774,297 million and HK\$1,144,459 million respectively, up 16.5% and 15.8% from the end of 2016. The amount of new mortgage loans was the highest in recent years, and we secured the largest market share of the Reverse Mortgage Programme. Moreover, we ranked first as mandated lead arranger in the Hong Kong and Macao syndicated loan market for the 13th consecutive year, and maintained the largest market share in the initial public offering ("IPO") receiving bank business for the 7th consecutive year. We supported the implementation of Bond Connect and acted as the sole designated bank of the Hong Kong Central Moneymarkets Unit, as well as becoming Bond Connect's sole channel for the settlement of cross-border funds. In 2017, the total transaction volume processed via the RMB RTGS system exceeded a total value of RMB210 trillion, well ahead of the world's other offshore RMB markets.



The Group's strategy has been well implemented and all major initiatives were carried out effectively. We completed the share transfer of Chiyu and pushed forward the restructuring of our Southeast Asian institutions in an orderly manner. The branches and subsidiaries in Malaysia, Thailand, Indonesia, Cambodia, Vietnam and the Philippines have been integrated into the Group, while our self-established Brunei Branch runs smoothly. Regional management started to bear fruit, as the institutions that have joined us achieved laudable performance in terms of overall profitability, total assets, deposits from customers and advances to customers. Capitalising on the opportunities arising from the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area development, we promoted synergistic development and enhanced cross-border collaboration among Guangdong, Hong Kong and Macao. We acted as the Chairman of a committee within BOC for promoting such collaborative development and progress has been made. We introduced the Guangdong-Hong Kong-Macao Business Registration and Banking Services Connect, in cooperation with BOC Guangdong Branch and the Guangdong Province Administration for Industry & Commerce. The Group increased resources for Fintech innovation and advocated financial inclusion for the general public. Constant breakthroughs in the application of innovative technologies such as blockchain, biometric authentication and big data have been made. We actively promoted the development of smart branches and launched a new official BOCHK WeChat account and a mobile

application for BOC Life. Both the number of customers using e-channels and the number of transactions recorded satisfactory growth. We continued to optimise the BOCHK iService 24-hour video banking service and introduced payment services such as WeChat Pay to further enhance customer experience.

The Group diligently performs its duties in accordance with relevant laws and regulations. Continuous efforts are made in enhancing standards and practices in respect of risk management, internal control and anti-money laundering ("AML"). We strictly adhered to regulatory requirements by introducing reforms to our banking culture, promoting a sound corporate culture in order to facilitate the implementation of our development strategy. Liquidity remained sound and asset quality was further improved. Classified or impaired advances to customers decreased by 8.9% from the end of 2016, and the classified or impaired loan ratio stood at 0.18%, well below the market average, representing a decrease of 0.05 percentage points from the end of 2016. We further enhanced the Group's AML measures so as to achieve more effective control. The Group is building a regional risk management system to enhance the risk management and internal control capabilities of its Southeast Asian institutions.

In celebration of the 20th anniversary of Hong Kong's return to the motherland and the centenary of Bank of China's service to Hong Kong, the Group gave back to society

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and carried on its tradition of promoting patriotism and love of Hong Kong. We successfully held a series of centenary celebration activities that attracted wide participation and support from across society, further promoting our brand reputation. We successfully issued the Bank of China (Hong Kong) Centenary Commemorative Banknote, and will use the net proceeds generated from the banknote sales for local community projects and charitable causes. Upholding the principle of caring for our community, we increased resources for community and charitable activities. In 2017, we participated in a total of 28 charitable programmes and donated a sum of HK\$200 million. During the year, the Group acted as the Chairman Bank of the Hong Kong Association of Banks and the Chairman of both the Hong Kong Chinese Enterprises Association and the Chinese Banking Association of Hong Kong, seeking development opportunities for the banking industry with its peers, and to develop the economy and improve people's livelihood together with Chinese enterprises in Hong Kong.

In 2018, the global economy is expected to maintain steady growth. China and the countries and regions along the Belt and Road route will be the key drivers of economic development. Based on the lofty blueprint outlined by the 19th National Congress, the country is currently developing a modernised economy and setting the stage for opening up on all fronts. This will generate impetus and create growth opportunities for the world as well as

promising opportunities for Hong Kong. The new HKSAR Government has focused on improving the economy and people's livelihood, and playing an active role in promoting the Belt and Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area. Its continued efforts in enhancing Hong Kong's traditional advantages and identifying new economic growth drivers will bring enormous business opportunities to the Hong Kong banking industry.

We aim to "Build a Top-class, Full-service and Internationalised Regional Bank". We will uphold our beliefs, strive to tackle problems, drive our growth through technology and innovation, ensure compliance with laws and regulations, embrace our corporate culture and adopt a people-oriented and steadfast management approach in the design and implementation of our diverse business strategies and measures. These strategies include stepping up the restructuring of our Southeast Asian institutions to promote regional development, speeding up technological innovation and product development to promote digital development, and accelerating the building of diversified platforms and the integration of the commercial banking and investment banking businesses to promote development on all fronts. In addition, we will deepen market penetration in Hong Kong, promote financial inclusion, focus on Guangdong-Hong Kong-Macao interconnectivity for Bank of China Group and step



up cross-border business development. We will ensure sustainable and steady development by strengthening risk management as well as compliance and internal control. More efforts will be made to improve management fundamentals and staff team building, so as to enhance our governance capability. We will proactively fulfil our social responsibility and promote our brand image. With the goal of making a greater contribution to enhancing Hong Kong's status as an international financial centre and promoting its long-term stability and prosperity, the Group will continue to provide practical support to the HKSAR Government in governing and executing its policies in accordance with the law.

Last but not least, I would like to take this opportunity to report changes in the Group's senior management. Mr YUE Yi ceased to be Vice Chairman and Chief Executive of the Group from 1 January 2018 due to reason of age. In the past three years, under the leadership of Mr YUE, together with guidance from the Board of Directors and support from various sectors, the Management and staff delivered good operating results and laid a solid foundation for future development. Moreover, due to reassignment, Mr LIN Jingzhen resigned as Deputy Chief Executive (Corporate Banking) in February this year. On behalf of the staff, I would like to extend our gratitude for Mr YUE's and Mr LIN's contributions to the Group's business development.

I am honoured to be appointed as Vice Chairman and Chief Executive at the outset of the Group's new centenary journey. I would like to take this opportunity to thank our customers, shareholders and various sectors for their long-standing support, the Board of Directors for its wise guidance and the staff for their diligence and endeavour. This new era calls for new achievements. We believe that, by virtue of the Group's century-old foundations, the great strength of our brand and the concerted efforts made by our staff, we will gradually develop into a top-class, full-service and internationalised regional bank, and continue to deliver greater value for our stakeholders.

GAO Yingxin

Vice Chairman & Chief Executive

Hong Kong, 29 March 2018