

Message from the Chief Executive



In 2018, BOCHK earnestly carried out the plans and decisions of the Board of Directors and continued to pursue our strategic goal of building a top-class, full-service and internationalised regional bank, amid challenging macroeconomic headwinds. We took full advantage of new opportunities, successfully implemented our strategies and carried out various new activities while strengthening our risk management and control. Together, these efforts translated into satisfactory operating results.

The Group recorded new heights in profitability with expanded business scale. In 2018, the Group's profit attributable to equity holders grew to HK\$32,000 million, up 12.0%, compared with profits from continuing operations of 2017. As of 31 December 2018, total assets increased to HK\$2,952,903 million, up 11.4% from the end of 2017. Deposits from customers and advances to customers increased by 6.6% and 10.5% from the prior year-end to HK\$1,895,556 million and HK\$1,266,705 million respectively, outpacing average market growth rates.

Our quality of growth steadily improved and financial indicators remained healthy. The Group's return on average shareholders' equity from continuing operations was 12.83%, up by 0.73 percentage points compared to last year. Net interest margin rose steadily. Fee and commission income from currency exchange, insurance, trust and custody services and securities brokerage rose by 36.3%, 16.6%, 14.1% and 5.5% respectively, while fee and commission income from credit card and payment services also increased. The classified or impaired loan ratio was 0.19% and the cost to income ratio was 27.90%, both well below the market average. During the year, the Bank successfully issued Additional Tier 1 (AT1) capital securities amounting to US\$3 billion and also completed the tender offer and redemption of its subordinated notes amounting to US\$877 million, further optimising its capital structure. This issuance outshone other investment-grade AT1 projects across Asia in terms of scale, and was recognised as "Best Hong Kong Deal" by *FinanceAsia* and "Best Bank Capital Bond" by *The Asset* in 2018.



The Group continued to enjoy distinct business advantages and reinforced its market position. We remained the top mandated arranger in the Hong Kong and Macao syndicated loans for the 14th consecutive year and maintained the largest market share in IPO receiving bank business for the eighth year in a row. Leveraging Hong Kong's inherent advantages and the opportunities brought about by the HKSAR Government's tax policy for corporate treasury centres, we retained our market leadership in cross-border cash pooling business by facilitating customers involved in the Belt and Road Initiative to establish their overseas fund management platforms through us. The Bank continued to serve as a major wholesaler of banknotes both in Hong Kong and the Chinese mainland. Our provision of wholesale foreign-currency banknotes contributed to about 90% of the total supply in Hong Kong. Our RMB business further strengthened, with RMB clearing transaction values processed via BOCHK accounting for approximately 75% of the total RMB clearing transaction values of the world's offshore markets. During the year, we assisted enterprises and institutions in issuing green bonds denominated in USD, EUR and RMB, accounting for nearly 30% of the total value of green bonds issued in Hong Kong in 2018. We maintained our leading market position in the residential mortgage market and topped the list in terms of market share in the reverse mortgage market.

The Group achieved solid progress and synergy in its regional development. During the year, we completed the acquisitions of BOCHK Ho Chi Minh City Branch and BOC Manila Branch. Together with the earlier acquisitions of businesses in Malaysia, Thailand, Indonesia, Cambodia, as well as the establishment of Brunei Branch, the integration of our Southeast Asian entities is in good progress. In addition, BOC Vientiane Branch was integrated with the Group on 21 January 2019. During the reporting period,

based on our entities' varied business characteristics, we adopted a differentiated management approach to drive integrated business development in the region. According to Hong Kong Financial Reporting Standards, our seven Southeast Asian entities recorded a total net operating income before impairment allowances of HK\$2,287 million, up 27.6% from 2017. Deposits from customers and advances to customers increased by 17.1% and 20.0% respectively compared with the end of last year. These increases in total net operating income, deposits and advances were above that of the Group as a whole. According to statistics compiled in line with local regulatory requirements, the non-performing loan ratio of the seven Southeast Asian entities stood at 1.14%, down by 0.04 percentage points as compared with the end of 2017. BOC Manila Branch set up the first self-governed financial organisation outside China which facilitates the trading of RMB and a local currency. This supported the launch of the RMB-Peso direct trade market in the Philippines. In addition, BOC Malaysia has been appointed as the RMB settlement bank for Labuan Island, the offshore financial centre of Malaysia.

We are actively involved in the development of the Guangdong-Hong Kong-Macao Greater Bay Area, and endeavour to facilitate the integration of Hong Kong into the nation's development plans. BOCHK chairs a committee within BOC to promote synergistic development among the operations in Guangdong, Hong Kong and Macao. Through our collaboration with BOC Group, the Integrated Financial Service Solution in the Guangdong-Hong Kong-Macao Greater Bay Area was introduced, covering three major product suites, namely Payment Connect, Financing Connect and Services Connect. We are dedicated to designing new systems and mechanisms as well as developing new products to promote cross-border flows. Over 200,000

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Pay as You Go – BOC Dual Currency Cards have been issued. BoC Pay, the mobile App that adopted international EMV standards, supports payments at 600,000 merchants and bill payments in the Greater Bay Area. We will continue to attend to the financial needs of northbound Hong Kong and Macao residents for account opening, payment, financing and wealth management. We strive to provide suitable financial services that support the building of the Guangdong-Hong Kong-Macao Greater Bay Area into a high-quality living zone for living, working and leisure travel.

Our commitment to foster innovation notched up a number of considerable achievements in new technological applications. During the year, we put into operation the Faster Payment System (“FPS”) and Phase II of the Cross-border Interbank Payment System (“CIPS”) for RMB. These have helped lay a stronger foundation for our future digital development. In the FPS market, we enjoyed a leading position in terms of the number of registered customers and transaction volumes. With the launch of our new mobile banking service, the number of active users increased by over 60% from the end of 2017 and in particular, the young customer segment (aged 18-35) jumped over 70%. The construction of a transaction banking platform is underway. In addition, continuous enhancements were made to our IT system functions. An Innovation and Optimisation Centre has been established to explore the operational model of agile project teams. We also took the lead in introducing finger vein authentication for ATM cash withdrawals and applying blockchain technology to property valuation. The Science Park Banking Services Centre, meanwhile, served as a pilot site equipped with a 24-hour Video Teller Machine.

We continued to diligently perform our duties in accordance with relevant laws and regulations while implementing measures to foster a sound bank culture. In an effort to

prevent and mitigate financial risks, as well as ensuring healthy business development, we continued to enhance our risk management standard and effectiveness by upgrading the management system for various types of risks, compliance, internal control and anti-money laundering (“AML”). To strengthen the management capabilities of our Southeast Asian entities as well as enhancing our regional risk management system, we formulated and implemented the *Guidelines on Risk Management, Compliance and Internal Control*. In addition, the *Implementation Plan on Cultural Development of BOCHK* was devised to promote a sound corporate culture, in compliance with the HKMA’s requirements for advancing bank culture reform. In this respect, we are dedicated to becoming a role model in the industry, meeting the expectations of regulatory authorities and being recognised by society.

The Group is committed to corporate social responsibility by serving society and caring for its employees. For the benefit of grassroots communities and to meet the genuine needs of the underprivileged, we stepped up our community investment and refined our mechanisms and strategies to focus on poverty alleviation, helping the disadvantaged, and youth development. In 2018, we made donations to more than 20 charity projects, and devised and adopted a number of measures to support youth development in Hong Kong. As part of our caring efforts, we reviewed a series of policies related to employee remuneration and benefits, and continued to improve the working environment. We strive to grow with our employees, and have put in place a rigorous talent selection process, a systematic training programme for nurturing talent and an effective incentive scheme to motivate staff, all in an effort to provide a stage for talented employees who aspire to pursue a career at BOCHK. We were named “Strongest Bank in Asia Pacific and Hong Kong”



for the fifth year in a row and the “Best Retail Bank in Hong Kong” for the third time by *The Asian Banker*, and “Best Bank for CSR in Hong Kong” by *Asiamoney*.

In 2019, Hong Kong banks will face greater difficulties and uncertainties amid a challenging external operating environment. At the same time, however, there are enormous opportunities arising from China’s continued opening-up and the acceleration of supply-side structural reform. The full development of the Guangdong-Hong Kong-Macao Greater Bay Area will add new impetus to Hong Kong’s economic growth and drive massive demand for cross-border finance, livelihood finance, industrial finance and fintech innovation. The Belt and Road Initiative will bring new business opportunities for the Southeast Asian market. The local market in Hong Kong also has great potential to grow. All of these will present BOCHK with unparalleled opportunities for further growth.

The year 2019 marks the 70th anniversary of the founding of the People’s Republic of China, the first year of the development of the Guangdong-Hong Kong-Macao Greater Bay Area, and a crucial year for evaluating the performance of BOCHK in its regional development. The Group will relentlessly pursue its strategic goals and execute its strategic plans. Our business transformation will be accelerated in order to tap the potential of different growth drivers. We will expedite BOCHK’s development into a top-class, full-service and internationalised regional bank by carrying out management reform, strengthening our foundation for future growth and bolstering our risk management.

Finally, I would like to take this opportunity to report on certain changes to the Group’s senior management. Due to reassignment, Mr LI Jiuzhong resigned as Executive Director and Chief Risk Officer of the Company in March 2019. On behalf of the staff, I would like to extend our gratitude for Mr LI’s outstanding contributions to the Group during his tenure of service. On 17 December 2018, the Group appointed Madam WANG Qi as Deputy Chief Executive overseeing legal and compliance and operational risk, as well as strategic planning, and Mr WANG Bing as Deputy Chief Executive (Corporate Banking), overseeing corporate banking business. We welcome Madam WANG Qi and Mr WANG Bing to the Group.

The time is now right for us to set sail and embark on our new journey. I believe that through the concerted efforts of our colleagues, who are diligent, committed, proactive, innovative and willing to rise to challenges, BOCHK will move forward and build itself into a top-class, full-service and internationalised regional bank, creating ever greater value for its stakeholders.

GAO Yingxin

Vice Chairman & Chief Executive
Hong Kong, 29 March 2019