

# Message from the Chief Executive



In 2019, growth momentum in the global economy weakened while China-US trade negotiations made slow progress. Hong Kong was impacted by weak external demand and domestic social unrest. Despite encountering unprecedented difficulties and challenges in its operation management and business development, BOCHK earnestly carried out the plans and decisions of the Board of Directors and continued to pursue its strategic goal of "Building a Top-class, Full-service and Internationalised Regional Bank". We remained united in the face of various challenges, and expedited technological innovation and digital transformation, striving to achieve high-quality growth and sustainable development. We endeavour to provide financial services to the public and our communities while maintaining sound operation.

**The Group achieved steady growth in profitability alongside relatively rapid business expansion, with financial indicators remaining solid.** In 2019, the Group's profit grew to HK\$34,074 million, up 4.3% year-on-year. As of 31 December 2019, the Group's total assets increased by 2.4% from the end of 2018 to HK\$3,026,056 million. Total deposits from customers and total advances to customers grew to HK\$2,009,273 million and HK\$1,395,883 million respectively, up 5.9% and 10.2% from the end of last year, outpacing the corresponding average market growth rates. Return on average shareholders' equity ("ROE") of the Group was 11.51%. Adjusted for swap-related impact, net interest margin was 1.69%, up 6 basis points year-on-year. The cost

to income ratio of 28.52% remained well below the market average. The total capital ratio was 22.89% and the Tier 1 capital ratio was 19.90%, both above the market average. Our liquidity remained ample, with liquidity indicators exceeding regulatory requirements. The classified or impaired loan ratio was 0.23%, which continued to be below the market average.

**The Group is committed to strengthening its core capabilities in digitalisation in order to push forward its business transformation.** Taking a top-down approach to promoting the development of digital banking, we formulated a blueprint for BOCHK's digital transformation as well as an IT 3-Year Plan. We adhered to "technology-led" strategy and leverage fintech to empower our business. We strengthened the application of biometric authentication. Finger vein authentication has now been extended to all of BOCHK's automated and iService teller machines in Hong Kong. We carried out data governance planning and completed the first phase of the construction of BOCHK's digital management platform. Our property valuation process has been optimised through the application of blockchain technology, which is now used in approximately 85% of our property valuations, with over 70,000 cases processed in total since its application. We became the first bank in Hong Kong to connect via API to eTradeConnect, a blockchain-based trade finance platform facilitated by the Hong Kong Monetary Authority ("HKMA"). In order to build an open platform for cross-industry integration, we have



opened up access to more than 90 Open APIs and worked with more than 130 partners.

We made good progress in driving innovative payment solutions, and facilitated the construction of an ecosystem covering key areas such as government services, charity, education, daily consumption and transport. To facilitate mobile payment for clothing, food, accommodation and transport, we provided a comprehensive service solution by integrating a variety of existing payment instruments with FPS as a core infrastructure. We launched an e-Donation platform, the first of its kind in Hong Kong, to provide solutions for charities to process donations. The Group is committed to promoting cross-border financial innovation, market connectivity and resource flow within the Guangdong-Hong Kong-Macao Greater Bay Area. To that end, we became the first bank to launch a pilot mainland personal account opening attestation service for Hong Kong residents, facilitating the linking of mobile apps in the Chinese mainland for digital payment. As of the end of 2019, the total number of applicants exceeded 90,000. We upgraded our Mobile Banking, with enhanced features for investment, insurance, payment, credit card and remittance. The total number of personal mobile banking active users increased by 36.9% compared to the prior year-end and over 80% of transactions were conducted via digital channels, up 4 percentage points year-on-year. To facilitate the transition from traditional service platforms to online, we actively promoted the digitalisation of our service outlets, built an omni-channel synergistic service model, sharpened our digital capabilities and established integrated mobile service platforms for personal and corporate customers. At the same time, we launched innovative services such as the Global Transaction Banking Platform, online account opening for personal customers, a virtual assistant and upgraded Mobile Banking. We built a smart operation system in which Robotic Process Automation (“RPA”) and Optical Character Recognition (“OCR”) technology are applied in middle and back office operations so as to improve efficiency and enhance operational risk management.

We established an innovative mechanism, an organisational structure and a corporate culture that all align with our digital transformation strategy. We also organised cross-departmental agile project teams. To step up our efforts to nurture fintech talents, we participated in the HKMA’s Fintech Career Accelerator Scheme and organised the “BOCHK Hackathon” to identify and bring in promising fintech innovators. In March 2019, Livi VB Limited, a joint venture formed with JD Digits and Jardine Matheson, was among the first financial institutions in Hong Kong to be granted a virtual banking licence.

**The Group leveraged its professional service capabilities to fully support Hong Kong’s economic and financial development.** BOCHK remained the top mandated arranger in the Hong Kong and Macao syndicated loan market, and maintained a market-leading position in the IPO main receiving bank business. We continued our efforts to solidify Hong Kong’s position as a global offshore RMB business hub, with the RMB business volumes cleared via BOCHK accounting for 70% of the world’s total offshore RMB business volumes. Our RMB insurance business sustained its leading market share for the ninth consecutive year. We served as the top underwriter for new mortgage loans. BOCHK is committed to supporting Hong Kong’s development as a hub for corporate treasury centres. We secured market leadership in cash pooling business, with our customer base further expanded. We supported local SMEs by promoting the SME Financing Guarantee Scheme (“SFGS”) introduced by the HKSAR Government and by launching a number of relief initiatives to help ease SMEs’ cash flow pressures. The total amount approved for the SFGS in 2019 increased by nearly five times compared to last year. In addition, the Hong Kong Financial Research Institute of Bank of China was established as Bank of China’s first overseas research institute. The institute aims to strengthen collaboration and the sharing of global research resources with Bank of China, further empowering us to continue our active role in maintaining Hong Kong’s long-term prosperity and stability.

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**The Group expedited its regional development and achieved satisfactory results in its integrated operation in Southeast Asia.** With the completion of the acquisition of BOC Vientiane Branch, the Group now has extended its operation to eight countries in Southeast Asia. As of the end of 2019, customer deposits and loans of the Group's Southeast Asian entities increased by 18.3% and 26.7% respectively from the end of the previous year, while net operating income before impairment allowances increased by 16.4% year-on-year. On 21 September 2019, BOC Financial Services (Nanning) Co., Ltd. was officially established following a plaque unveiling ceremony. This signified a new milestone in the centralisation of the Group's operations in Southeast Asia. In addition, we actively promoted the use of RMB in Southeast Asia. BOC Manila Branch was officially appointed by the People's Bank of China ("PBOC") as the clearing bank for RMB business in the Philippines. In addition to its role as the clearing bank for RMB business in Malaysia, BOC Malaysia was designated as the RMB clearing bank for Labuan, an offshore financial centre in Malaysia.

**The Group applied bottom-line thinking to risk management and remained committed to guarding against various risks.** We closely monitored financial markets and strengthened situation analysis while properly mitigating the impacts of the China-US trade negotiations and conditions in Hong Kong. The analysis and monitoring of the operating conditions of customers in affected industries was further enhanced. Risk management plans and measures were formulated in an effort to support our customers through this difficult time. BOCHK optimised the management of its assets, liabilities and liquidity, and continued to refine its liquidity stress tests and plans to ensure its capability to meet payment obligations under different scenarios. We attached great importance to implementing effective anti-money laundering management and compliance control. The effectiveness of our regional risk management and service capabilities continued to enhance. We strictly adhered to regulatory requirements to ensure lawful operation.

During the social unrest that continued for months in Hong Kong, certain BOCHK branches and self-service facilities were subjected to varying degrees of vandalism. Through concerted efforts of every member of the Group, we were able to overcome these challenges, respond actively and minimise the impact of the violent incidents as much as we could. BOCHK ensured the safety of its customers and employees, the security of bank assets and customer information, and the continued normal operation of the Bank. During this period, the majority of our branches remained open to the public apart from some that had to be closed temporarily for repairs. We would like to express our heartfelt thanks to our customers and people from various sectors of the community for demonstrating their concern, understanding and support to BOCHK in so many ways during this trying time.

**The Group is committed to fulfilling its corporate social responsibilities and promoting green and sustainable development.** During the year, we announced to donate in full the net proceeds of HK\$627 million from the sale of the BOCHK Centenary Commemorative Banknote to local charitable causes. Of this, HK\$200 million was dedicated to supporting a number of charitable projects in cooperation with the Community Chest of Hong Kong, Tung Wah Group of Hospitals and Po Leung Kuk. As for the remaining HK\$427 million, an open call was launched for charitable project proposals. The Group was awarded "Best Bank for CSR in Hong Kong" by *Asiamoney* for the second consecutive year. The Group formulated a green and sustainable financial plan that further optimised its ESG governance structure, while integrating the concept of sustainable development into its core values and corporate culture. At the same time, we have stepped up our efforts in developing sustainable financial products such as green bonds, green loans and green investments. We actively assisted customers in the issuance of green bonds as an adviser.



In 2020, the risks arising from global geopolitical tensions and the potential impact of various countries' increasingly internally-oriented policies remain relatively severe. The China-US trade negotiations and the domestic situation in Hong Kong will be the key factors affecting Hong Kong's economic and financial stability. The COVID-19 outbreak since the beginning of the year has been hindering Hong Kong's economic growth to some extent. However, the more challenges we face, the more we need to work together to overcome them. BOCHK took the lead in launching financial support initiatives during the epidemic, and will continue to explore more effective measures to help local enterprises and communities navigate through the difficult times during this economic downturn. As always, with challenges come opportunities. The HKMA continued to push forward its seven initiatives of "New Era of Smart Banking", which will drive forward fintech development. It also announced plans to promote green and sustainable development, which will create positive momentum for green businesses such as green bonds, green loans and green funds. The ongoing development of the Belt and Road Initiative and the signing of the Regional Comprehensive Economic Partnership ("RCEP") provide new opportunities for the economy of Southeast Asia. Meanwhile, the Central Government promulgated 16 measures to benefit Hong Kong. These measures will further help Hong Kong people purchase properties, invest, live, work, start businesses, and access medical treatments in the Greater Bay Area, as well as driving demand for cross-border financial services such as mortgage, wealth management and payment. As the country further accelerates the opening up of its capital markets, Hong Kong, which serves as a hub providing foreign investors with access to the mainland, will benefit from increasing opportunities in businesses including asset management, custody services and institutional business. New opportunities will arise for Hong Kong's banking industry as the country advances the two-way opening up of its financial industry, including relaxing restrictions on foreign companies' shareholdings and business activities, and continuing to enhance the mutual financial market access between the mainland and Hong Kong. With the PBOC's efforts to expand the use of RMB in cross-border

and international transactions, especially in neighbouring countries and in countries along the Belt and Road, Hong Kong will continue to play its role as an RMB business hub.

BOCHK will continue to relentlessly pursue its strategic goals and execute its strategic plans in line with the approach of "boosting vitality, enhancing agility and achieving breakthroughs in key areas". We will strengthen the foundations of our future growth, accelerate business transformation, expedite the digitalisation of the Bank, enhance our regional development capabilities, holding to the risk management bottom line, and contribute to the economic and social development of Hong Kong by promoting high-quality and sustainable development.

In closing, I would like to take this opportunity to report certain changes in the Group's senior management. On 12 November 2019, the Group appointed Mr ZHUO Chengwen as Chief Risk Officer. On 8 July 2019, the Group appointed Mr QIU Zhikun as Deputy Chief Executive, overseeing the Group's strategic planning and Southeast Asian business. On behalf of all my colleagues, I warmly welcome Mr ZHUO Chengwen and Mr QIU Zhikun to the Group.

I earnestly believe that through the concerted efforts of our committed, united and innovative colleagues, BOCHK will seize the opportunities that lie amidst the challenges and achieve breakthroughs in reform. Together, we will forge ahead on the road to building a top-class, full-service and internationalised regional bank.

**GAO Yingxin**

Vice Chairman & Chief Executive  
Hong Kong, 27 March 2020