

# Message from the President



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2018 marked the first year for Bank of China to implement its new development strategy. With the aim of building BOC into a world-class bank in the new era, we advanced our work on all fronts by persistently enabling advancement through technology, driving development through innovation, delivering performance through transformation and enhancing strength through reform, and therefore achieved solid performance in the year.

At the end of 2018, the Group's total assets stood at RMB21.27 trillion, its total liabilities amounted to RMB19.54 trillion and the equity attributable to shareholders of the Bank was RMB1.61 trillion according to International Financial Reporting Standards, representing an increase of 9.25%, 9.23% and 7.82% respectively from the prior year-end. The Group achieved a profit for the year of RMB192.4 billion, a year-on-year increase of 4.03%. The Bank's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio stood at 11.41%, 12.27% and 14.97% respectively, all meeting regulatory requirements.

In 2018, the Bank actively responded to changes in the external environment, and achieved steady growth. First, our operating income saw a continued increase. The Group's operating income reached RMB503.806 billion, up 4.14% year on year. Second, our operating efficiency improved steadily. The Group's cost-to-income ratio was 28.09%, down 0.25 percentage point from the previous year. Third, our business structure was constantly improved. The contribution of personal banking operating revenue of the Group further increased. Overseas business maintained favourable growth momentum, and unique strengths were continuously

consolidated. Notably, the Bank's capacity to offset risk was significantly strengthened. The allowance for loan impairment losses to non-performing loans reached 181.97%, an increase of 22.79 percentage points compared with the previous year.

**The Bank persistently enabled advancement through technology, and accelerated the construction of a digital bank.** The Bank continuously improved the functions of mobile banking, with the volume of its mobile banking transactions exceeding RMB20 trillion. It accelerated the development of an intelligent outlet service system by setting up smart counters at all outlets and promoting mobile and cash-based smart counters, thus greatly improving outlet productivity. It launched door-to-door account opening services for corporate customers, shortening the handling time to 30 minutes. It established the "Cyber Defense" anti-fraud platform based on big data and AI technology. The Bank completed the infrastructure of distributed private cloud platform, big data platform, and AI platform to support business innovation. It decisively advanced the construction of a "multi-region, multi-centre" IT infrastructure, and put the Xi'an Cloud Centre into operation. Our technology service capacity continued to improve, and our IT capacity grew 16.6% year on year. It ranked 2nd in the number of FinTech invention patent applications in the global financial industry.

**The Bank upgraded its products and services in order to drive development through innovation.** The number of new products increased 126% year on year, injecting new vitality into our business development. The Bank participated in the construction of the financial module of "single

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window” of the customs, and launched an innovative electronic collective letter of guarantee service for customs duty payment. It handled the first batch of crude oil futures trading and provided a package of related financial services, as well as completing operations for the internationalisation of first batch of iron ore futures and the Pure Terephthalic Acid (PTA) futures. The Bank released the intelligent investment advisory product “BOC Robot Advisor”, recording a transactions volume of RMB5.7 billion. It issued the Railway e Card in an effort to expand the scenarios in rail transport. In addition, the Bank launched an appointment service for online foreign-currency withdrawal for personal customers. It put into operation an integrated financial service platform for supply chain, as well as a cloud technology-backed payment platform, thus boosting innovation in its product portfolios.

**The Bank endeavoured to deliver performance through transformation with the aim of supporting high-quality economic development.** Relying on its leading advantages in global operations, the Bank took the initiative to serve the country’s expansion of opening-up. It sped up its efforts in free trade zones, becoming one of the first pilot banks in the free trade account system of Hainan. It cooperated with China Foreign Exchange Trade System and took the lead in launching the CFETS-BOC Traded bond index in Singapore. Steady progress was made in its overseas regional management and network. Six Southeast Asian institutions were integrated with BOCHK, the professional role of overseas business centres was strengthened, and the intensive operation and management was gradually enhanced. The Bank pushed forward its comprehensive services, strengthened effective synergy of commercial

banking business with securities, insurance, funds, and investment banking, providing its customers with efficient package services. Thus its comprehensive operation maintained favourable growth momentum. The Bank’s asset-light strategy yielded excellent results. The development of asset-light businesses such as old-age pension accelerated, and the Group’s credit risk weight declined by 1.3 percentage points.

**The Bank continuously improved its management mechanisms in order to enhance strength through reform.** The Bank developed plans for 11 key fields including information technology, corporate finance, personal finance, financial markets, and global operations, and took solid steps to implement the Group’s strategy. It reformed its incentive and constraint mechanism and resource allocation mechanism so as to strengthen value creation. It improved its allocation mechanism for staff costs to emphasise long-term performance, and implemented five-year thorough personal appraisal for high-ranking employees. It steadily advanced the structural reform of the Head Office, and refined the organisational structure of equity investment and comprehensive service management, transaction banking, and inclusive finance. The Bank improved the management mode and clarified the development strategies of its branches in provincial capitals, thus enhancing the competitiveness of those institutions.

**The Bank remained committed to prudent operations and strengthened risk management on all fronts.** The Group’s asset quality was basically stable during the year. Domestic branches disposed of non-performing assets of RMB152.5 billion, and outstanding loans and outstanding non-performing

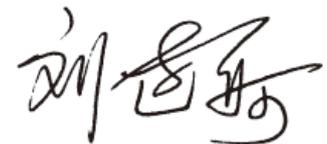
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loans granted to industries with severe overcapacity decreased by RMB10.1 billion and RMB3.3 billion, respectively. The Europe-Africa collective approval centre was established to strengthen the management and control of overseas credit risk. The Bank paid close attention to market changes, took strong measures to deal with fluctuations in emerging markets, strengthened daily monitoring and pre-warning of bonds, and intensified the proactive management of market risk. It reinforced its anti-money laundering system, strengthened the construction of branch-level monitoring and analytical centres, and consolidated the compliance management of domestic and overseas institutions so as to comprehensively upgrade its level of compliance in an all-round manner.

In 2019, the Bank will earnestly implement the decisions and arrangements of the CPC Central Committee and the State Council on economic and financial work, advance its implementation of the development strategy, and strive to take our work to a new level. First, we will dedicate ourselves to serving the real economy, moderately accelerate capital spending, boost the development of inclusive finance, actively support private economy, increase efforts to expand our customer base and liability business in a comprehensive manner, and thus improve the quality and efficiency of our development. Second, we will focus on infrastructure construction, solidifying the foundation of technology, products and services, and channels, driving development through innovation, in order to sustain our development. Third, by capitalising on our advantages and characteristics, we will push forward our global operations and comprehensive services, and strengthen synergy and cohesion within the Group to enhance coordination

and efficiency. Fourth, we will guard against financial risks, and continuously tighten comprehensive risk management, especially of credit risk, compliance and anti-money laundering risk, internal control and operational risk, market risk and liquidity risk, firmly hold the bottom line for compliance and risk management, in order to guarantee safe and prudent operation.

Heading into my second year with the Bank, I would like to take this opportunity to extend my gratitude to the Board of Directors and the Board of Supervisors for their guidance and support, to all employees at home and abroad for their hard work, and to our investors and friends from all sectors of society for their trust and support. In 2019, under the strong leadership of the CPC Central Committee and the State Council, I will work with the management to earnestly implement the decisions and plans of the Board of Directors, accept supervision from the Board of Supervisors, be honest and pragmatic, and diligently carry out work with innovative spirit. Together, we will strive hard with all our efforts to build BOC into a world-class bank in the new era, and repay our customers, investors and society for their trust and support with exceptional performance.



**LIU Liange**  
President

29 March 2019