中銀香港(控股)有限公司
BOC HONG KONG (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(the "Company", Stock Code: 2388)

2015 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors of the Company (the "Board") is pleased to announce the audited results of the Company and its subsidiaries for the year ended 31 December 2015. This announcement, containing the full text of the 2015 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. Printed version of the Company's 2015 Annual Report will be delivered to the Company's shareholders who have chosen to receive printed version and will also be available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at www.bochk.com in mid April 2016.

Financial Highlights

	2015	2014	Change
For the year	**HK$'m**	HK$'m	+/(-)%
Net operating income before impairment allowances[1]	**40,942**	37,903	8.0
Operating profit[1]	**28,175**	27,029	4.2
Profit before taxation[1]	**28,952**	27,398	5.7
Profit for the year[1]	**24,668**	22,455	9.9
Profit attributable to the equity holders of the Company[1]	**23,969**	21,927	9.3
Per share	**HK$**	HK$	+/(-)%
Basic earnings per share[1]	**2.2670**	2.0739	9.3
Dividend per share	**1.2240**	1.1200	9.3
At year-end	**HK$'m**	HK$'m	+/(-)%
Total assets	**2,367,864**	2,189,367	8.2
Issued and fully paid up share capital	**52,864**	52,864	–
Capital and reserves attributable to the equity holders of the Company	**192,578**	176,714	9.0
Financial ratios	**%**	%	
Return on average total assets[2]	**1.19**	1.19	
Return on average shareholders' equity[3]	**14.51**	14.65	
Cost to income ratio[1]	**28.91**	28.30	
Loan to deposit ratio[4]	**63.25**	64.79	
Average liquidity ratio[5]	**–**	42.17	
Average value of liquidity coverage ratio[5]			
First quarter	**101.90**	–	
Second quarter	**109.89**	–	
Third quarter	**104.00**	–	
Fourth quarter	**106.52**	–	
Total capital ratio[6]	**17.86**	17.51	

1. The financial information for the year 2015 is from continuing operations and the comparative information has been restated accordingly.
2. Return on average total assets = $\frac{\text{Profit for the year}}{\text{Daily average balance of total assets}}$
3. Return on average shareholders' equity

$$= \frac{\text{Profit attributable to the equity holders of the Company}}{\text{Average of the beginning and ending balance of capital and reserves attributable to the equity holders of the Company}}$$

4. Loan to deposit ratio is calculated as at year end. Loan represents gross advances to customers. Deposit represents deposits from customers including structured deposits reported as "Financial liabilities at fair value through profit or loss". The ratio for the year 2015 excludes assets held for sale and liabilities associated with assets held for sale.
5. The average liquidity ratio is computed on the solo basis (the Hong Kong offices only). The average value of liquidity coverage ratio is computed on the consolidated basis which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.
6. Total capital ratio is computed on the consolidated basis for regulatory purposes that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.

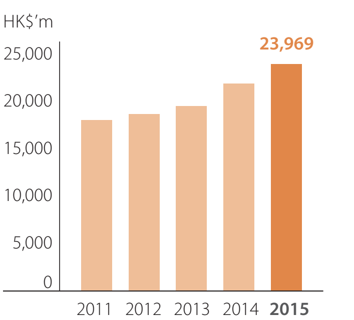
Five-Year Financial Summary

The financial information of the Group for the last five years commencing from 1 January 2011 is summarised below:

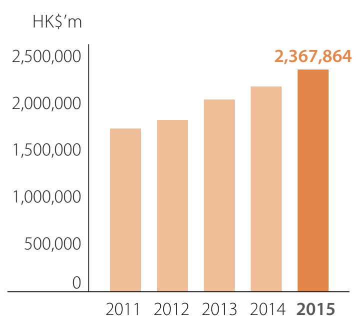
	2015	2014	2013	2012	2011
For the year	**HK$'m**	HK$'m	HK$'m	HK$'m	HK$'m
Net operating income before impairment allowances[1]	**40,942**	37,903	34,640	30,830	26,722
Operating profit[1]	**28,175**	27,029	24,312	20,916	19,677
Profit before taxation[1]	**28,952**	27,398	24,564	22,873	21,827
Profit for the year[1]	**24,668**	22,455	20,377	19,319	18,437
Profit attributable to the equity holders of the Company[1]	**23,969**	21,927	19,554	18,702	18,054
Per share	**HK$**	HK$	HK$	HK$	HK$
Basic earnings per share[1]	**2.2670**	2.0739	1.8495	1.7689	1.7076
At year-end	**HK$'m**	HK$'m	HK$'m	HK$'m	HK$'m
Advances and other accounts[2]	**920,214**	1,014,129	924,943	819,739	755,229
Total assets	**2,367,864**	2,189,367	2,046,936	1,830,763	1,738,510
Daily average balance of total assets	**2,311,560**	2,112,622	1,890,403	1,734,388	1,823,989
Deposits from customers[2,3]	**1,407,560**	1,483,224	1,327,980	1,229,131	1,146,590
Total liabilities	**2,169,871**	2,007,895	1,883,928	1,675,689	1,605,327
Issued and fully paid up share capital	**52,864**	52,864	52,864	52,864	52,864
Capital and reserves attributable to the equity holders of the Company	**192,578**	176,714	158,813	150,969	129,765
Financial ratios	**%**	%	%	%	%
Return on average total assets	**1.19**	1.19	1.22	1.24	1.14
Cost to income ratio[1]	**28.91**	28.30	28.76	30.66	25.07
Loan to deposit ratio[2]	**63.25**	64.79	64.63	63.32	61.00

1. The financial information for the year 2015 is from continuing operations and the comparative information has been restated accordingly.
2. The financial information for the year 2015 excludes assets held for sale and liabilities associated with assets held for sale.
3. Deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".

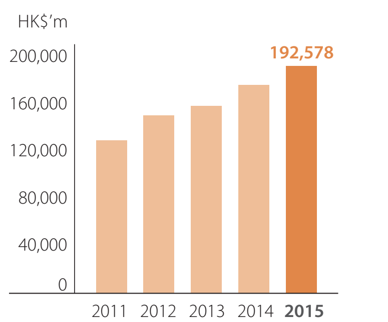
Profit attributable to the equity holders of the Company



Total assets



Capital and reserves attributable to the equity holders of the Company



Chairman's Statement

TIAN Guoli
Chairman

In 2015, the global economies once again fell into a deep correction and struggled to recover, giving rise to a number of risks and challenges. Against a backdrop of shrinking international trade, extreme movements in commodity prices and frequent swings in financial markets, economies across the world continued to be mired in the longest and weakest recovery cycle since the Great Depression of the last century. Some improvement was seen in the developed countries, although the strength of their recovery was relatively weak. China encountered over-capacity issues while emerging economies felt the pinch of subdued internal demand, capital outflows and falling domestic currencies during a period of accelerated economic transition and structural reform. Amid this complexity in the external environment, Hong Kong as an open economy recorded poor foreign trade results. Coincidentally, it also experienced a decline in the number of inbound tourists and saw signs of a cooling down in the property market. Thanks to a steady labour market, private consumption remained resilient and continued to support moderate economic expansion. In the year, liquidity in the Mainland of China eased significantly as market interest rate levels came down. At the same time, competition in the local banking sector further intensified but investor sentiment swung wildly. All these factors combined to create headwinds for banks in Hong Kong. Despite these challenges, the Group was able to develop its businesses and achieve favourable growth in terms of loans, deposits and scale of assets, which drove solid revenue growth. The Group was also proactive in terms of managing its assets and liabilities, enhancing risk management and strengthening its compliance and internal controls. The Group's capital ratios, liquidity and asset quality were all maintained at healthy levels, striking a good balance between risk and return with satisfactory overall performance.

I am therefore pleased to report that the Group delivered another year of record results in 2015, thanks to growth in its core profitability. During the year, the Group achieved a profit attributable to the equity holders of HK$26,796 million, a year-on-year increase of 9.0%. Earnings per share were HK$2.5344. The Board has recommended a final dividend of HK$0.679 per share. Together with the interim dividend of HK$0.545 per share, the full year dividend will be HK$1.224 per share, a growth of 9.3% year-on-year. The Company's total dividend payout as a percentage of profit attributable to the equity holders will be 48.3%.

Closely following our strategic goal of Serving Society, Delivering Excellence, the Group in 2015 carefully implemented its plans of riding on market trends and fully leveraging its own competitive advantages. We aimed to provide a wide variety of high quality financial products and services that suit customer needs in the Mainland of China, Hong Kong, ASEAN and around the world. During the review period, BOCHK exploited business opportunities from corporate customers eyeing globalisation, in particular, a number of large-sized Mainland enterprises. We satisfied their diverse financing needs arising from Belt and Road related infrastructure projects and stepped up our efforts in both cross-regional and cross-business platform cooperation as well as product innovation in close collaboration with our parent bank, BOC. During the year, BOCHK was named the Strongest Bank in Asia Pacific and Hong Kong by *The Asian Banker* and the Bank of the Year in Hong Kong 2015 by *The Banker* magazine. At the same time, we remained the leader in the underwriting of new mortgage loans in Hong Kong, held the top ranking as an arranger in the Hong Kong-Macau syndicated loan market for the eleventh consecutive year and received the Best SME's Partner Award for the eighth consecutive year. We also maintained our strong competitive edge and performance in areas such as securities brokerage, cash management, trust and custody services, private banking, and insurance.

As the sole clearing bank in Hong Kong's offshore RMB market, BOCHK has been making further improvements in its clearing facilities and capabilities. The Hong Kong Real-time Gross Settlement system for RMB now operates 20.5 hours a day to provide highly efficient, convenient and instantaneous clearing services to RMB participating banks across European, American and Asian time zones. Our efforts facilitated the robust development of the offshore RMB market. As a major RMB participating bank in the local market, BOCHK provided cross-border RMB loans and cross-border RMB cash pooling services to customers in the new pilot Free Trade Zones of Guangdong, Tianjin and Fujian. In recent years, the global ranking of RMB in terms of transactions, payments and trade finance has been gradually rising. In December 2015, the International Monetary Fund announced it will include the RMB in its Special Drawing Rights (SDR) basket of currencies, reflecting the widespread and growing recognition of the RMB. This marked a key milestone in the internationalisation of the RMB, which provides even brighter prospects for the offshore RMB market following the gradual launch and implementation of new policies such as Shenzhen-Hong Kong Stock Connect and the Qualified Domestic Individual Investors scheme (QDII2). In the future, the Group will continue to put customers first and strive to become the premier bank in offshore RMB services.

Chairman's Statement

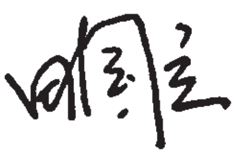
The year 2015 marked a new chapter in BOCHK's history, as the boards of Bank of China Limited and BOC Hong Kong (Holdings) Limited jointly made two significant decisions in May. These decisions concerned the proposed disposal of Nanyang Commercial Bank, Limited ("NCB") and the proposed transfer of certain ASEAN banking assets of BOC to BOCHK Group, after the conclusion of a feasibility study on their business and asset portfolio. Both decisions are congruent with the BOC Group's development strategy and resource deployment in Hong Kong as well as its long-term development strategy in the ASEAN region. It also signifies the start of the transition of BOCHK from a local bank into a regional bank, which will enable it to capture opportunities arising from national initiatives such as The Belt and Road, Going Global Strategy and RMB Internationalisation, as well as enabling the Group to redeploy resources more effectively into high-growth markets in ASEAN. This is an important move to ensure the Group's long-term sustainable growth.

On 6 March 2015, Mr YUE Yi succeeded Mr HE Guangbei in his role as the Vice-chairman, Executive Director and Chief Executive of the Company. With his extensive banking experience and global perspective, Mr YUE will lead the Group's business development to a new level. In the reporting period, the composition of the Board changed, with Mr ZHU Shumin and Mr LI Zaohang resigning as Non-executive Directors. On behalf of the Board, I would like to take this opportunity to express my sincere appreciation for their valuable contributions to the Group during their tenure of service. At the same time, I would like to warmly welcome Mr REN Deqi and Mr XU Luode, who have been appointed as Non-executive Directors. With their strong management experience in the banking industry, Mr REN and Mr XU will bring new thinking to the Group. I would also like to extend a warm welcome to Mr LI Jiuzhong, Chief Risk Officer, who was appointed as an Executive Director. Mr LI will bring his years of management experience with BOCHK to contribute to the development of the Group. In addition, Mr GAO Yingxin was re-designated from Executive Director to a Non-executive Director due to his redeployment within the BOC Group.

Among the changes that took place in the senior management team in 2015, Mr YEUNG Jason Chi Wai retired as the Deputy Chief Executive (Personal Banking) and was succeeded by Mrs KUNG YEUNG Ann Yun Chi. Madam ZHU Yanlai retired as the Deputy Chief Executive (Strategic Planning and Management) and was re-designated as a consultant. Mr LIN Jingzhen was appointed as Deputy Chief Executive (Corporate Banking), and Mr HUANG Hong resigned as Deputy Chief Executive (Financial Markets) due to another work engagement within the BOC Group; Mr YUAN Shu was appointed as his successor. Mr ZHONG Xiangqun was appointed the Chief Operating Officer. On behalf of the Board, I would like to express my deepest appreciation to those former members of the senior management team for their contributions to the Group during their tenure of service, while at the same time welcoming new members in their respective roles. I strongly believe that the outstanding capabilities and experience of Mr LIN Jingzhen, Mr YUAN Shu and Mr ZHONG Xiangqun will be instrumental in moving the Group's business development forward.

Entering 2016, anxiety in global financial markets created turbulence in the major stock indices and currency markets. Hong Kong’s CNH currency rate also experienced abrupt fluctuations, which at one point resulted in a spike in the offshore RMB interest rate with tightened liquidity in the market. With the US commencing its interest rate hike cycle last year, these could introduce uncertainty into economic development and capital flows around the world. Nonetheless, the nation’s Belt and Road initiative will fuel growth momentum along the relevant regions. The RMB remains fundamentally solid and will maintain its stability at a reasonable and balanced level, which means that its internationalisation pace will not moderate. Against this backdrop, we foresee more opportunities arising from the deepening development of offshore RMB business, acceleration of the Going Global Strategy, and further progress in the advancement of regional finance. Riding on the national and regional development trends, BOCHK has devised its strategy and plans for the ASEAN markets. This, coupled with deepened collaboration with the local institutions of our parent bank, BOC, in Guangdong and the Hong Kong and Macau regions, the Group stands to enjoy significant growth potential in the future.

2015 was a year of considerable progress for BOCHK, which made remarkable achievements in its banking business and corporate strategy. These achievements would not have been possible without the wisdom of the Board, the diligence of our staff, the integrity and loyalty of our customers and the long-standing support of our shareholders, to whom I would like to express my heartfelt gratitude. BOCHK will continue to be enthusiastic in the pursuit of continued business growth in 2016. We aim not just to maintain solid growth in our business but also to take our internal management standard to a new level. In the face of the increasing capital requirements of the Basel III Accord and a complex operating environment characterised by macro-uncertainty, BOCHK is well prepared to meet challenges as a result of our advanced planning and optimisation of capital management as well as internal controls, which will ensure strong support for its solid development in the future. With the full commitment of all staff and its members, the Group will continue to pursue excellence, achieve even greater results and strive to create higher value for our shareholders.



TIAN Guoli
Chairman
Hong Kong, 30 March 2016

Chief Executive's Report

YUE Yi
Vice Chairman & Chief Executive

In 2015, the overall banking environment was both complicated and challenging. The ongoing downturn in the global economy, slowing economic growth in the Mainland of China and greater volatility in international financial markets all put pressure on the Hong Kong economy. In this difficult business environment with intensifying market competition, we not only implemented the Board's decisions and the Group's development strategy effectively but also delivered satisfactory business results. We successfully captured market opportunities to expand our businesses, drove product innovation and increased business integration to enhance our customer service capabilities. We also strengthened our risk control, internal control and compliance management. Moreover, our market position and brand image continued to improve. We were named the Strongest Bank 2015 in Asia Pacific and Hong Kong by *The Asian Banker* and the Bank of the Year in Hong Kong 2015 by *The Banker*. Our major businesses were also recognised with a number of awards.

The Group's profitability continued to increase in 2015. Profit attributable to the equity holders achieved a new high of HK$26,796 million, up 9.0%. Non-interest income reported strong growth. As at 31 December 2015, total assets were HK$2,367,864 million, up 8.2% compared with the end of last year. Return on average total assets ("ROA") and return on average shareholders' equity ("ROE") were 1.19% and 14.51% respectively. The Group maintained a strong capital base, with a total capital ratio of 17.86% and Tier 1 capital ratio of 12.89%, up 0.35 percentage point and 0.51 percentage point respectively. Our liquidity position remained sound as we adhered strictly to regulatory requirements on the liquidity coverage ratio ("LCR"). In addition, our asset quality was benign, with the classified or impaired loan ratio staying at 0.24%, which was below the market average.

Leveraging our strengths to capture market opportunities, we improved our services to customers and achieved steady and solid development in a number of areas. First, we remained customer-centric to better serve all customer segments. In response to market changes and customer needs, we continued to drive innovation in products and services and refined our business processes. We also provided a full range of financial, investment and wealth management services to personal, corporate, SME and institutional customers, as well as high quality cross-border services to multinationals, cross-border customers, Mainland enterprises going global, central banks and super-sovereign organisations. This led not only to growth in our customer base but also to higher levels of customer satisfaction.

Second, we actively developed our businesses and achieved satisfactory performance. The growth of customer deposits and customer loans outperformed the market and gained market share compared with the last year end. We maintained our leading market positions in areas such as RMB business, syndicated loans, residential mortgage loans and UnionPay cards. For the 11th consecutive year, we ranked first as the lead arranger for syndicated loans in the Hong Kong and Macau region, and maintained the largest market share of the IPO receiving bank business for five years in a row. Moreover, we gained the largest share of the market in new mortgage loans.

Third, we captured business opportunities and further consolidated our leadership in the RMB business. We strengthened our clearing bank infrastructure and extended our clearing service hours for our RMB Real Time Gross Settlement System (RMB RTGS) in Hong Kong, further enhancing our real time RMB clearing services to overseas participating banks and RMB clearing banks in other regions. In 2015, the total transaction amount increased by 30% year-on-year to over RMB220 trillion, and the number of RMB transactions grew by about 43% to 4.25 million. We also became the sole settlement bank for Shanghai-Hong Kong Gold Connect. What's more, we completed the world's first repo transaction as an offshore RMB business participating bank in the interbank bond market on the Mainland, and successfully issued the first RMB financial bond ("Panda bond") by an international commercial bank in the Mainland interbank bond market.

As a systemically important domestic bank, we endeavour to enhance our management standards. We proactively managed our assets and liabilities, and continuously refined our risk management policies and mechanisms to meet regulatory requirements. In addition to this, we further strengthened our anti-money laundering management by implementing more specialised monitoring procedures, systems and framework. We also upgraded our IT risk and network security in order to contain risks more effectively, optimised our emergency handling mechanism, and improved our emergency response capabilities and reputational risk management.

To support our long-term development, we implemented several key tasks in 2015. First, in line with the strategic plans of BOC and BOCHK in the ASEAN region and Hong Kong, we pushed forward the disposal of NCB and the proposed restructuring of the assets in the ASEAN region. This opened a new chapter in BOCHK's transformation from a local bank into a regional bank. On 18 December 2015, we entered into a Sale and Purchase Agreement in relation to the disposal of NCB shares with Cinda Financial Holdings Co., Limited. All arrangements in relation to the transfer of NCB shares and the restructuring of our banking businesses and assets in certain ASEAN countries have been progressing as planned.

Second, to fully capitalise on the Group's most extensive branch network in Hong Kong and increase productivity, we launched a branch transformation project to provide more customer-centric services. Through this project, we aim to enrich the product offerings and functions of our branch network, reinforce our ability to serve corporate and SME customers, and upgrade our investment and wealth management services. We will also optimise our business processes and operations to provide premier financial services to all customer segments.

Chief Executive's Report

Third, to sharpen the Group's competitive edge, we defined our eight major business platforms, namely, credit cards, private banking, life insurance, asset management, cash management, custody, trust, and securities and futures. We are channelling more resources into these platforms to accelerate their development and have made good progress on this front so far.

Fourth, in line with the ongoing development of the Internet, big data and cloud computing technologies, we set up an Internet finance development plan in order to integrate Internet technology with the traditional banking business. During the period, we stepped up the use of new media in our marketing and promotional initiatives and took the lead in rolling out Internet-based financial products, including the WeChat account inquiry service and Online Loan 360 Service. We were also among the first banks in Hong Kong to launch e-Cheques. This has helped improve our ability to attract customers, particularly the young segment. According to the latest market survey[1], BOCHK has the largest market share (34%) of young customers aged 18–24 in Hong Kong.

Looking at 2016, the world economy is expected to continue undergoing profound adjustment. We may face slower growth, more prominent structural problems, increasing financial market volatility, and greater foreseeable as well as unforeseeable risks. The road to a global recovery will remain long and bumpy.

At the same time, Internet finance will continue to mushroom and diminish the intermediary role of traditional commercial banks. The banking industry faces many difficulties and challenges; however, these challenges are often accompanied by opportunities. We are confident in our future and see huge opportunities in the implementation of China's important strategies, including the Belt and Road initiative, RMB internationalisation and Free Trade Zones. We also look forward to Hong Kong's rapid development as a super-connector in international finance, trade and shipping, as well as the Group's continuing transformation from a local bank into a regional bank.

As a mainstream bank with roots firmly planted in Hong Kong for nearly 100 years, we will continue to carry out the Group's development strategy. We will capture market opportunities to develop corporate banking, personal banking and our treasury business, in order to cater for the different needs of our customers and support the economic development of Hong Kong.

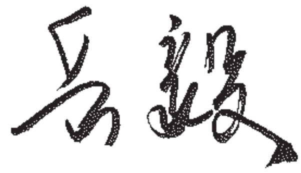
With the RMB's inclusion into the SDR basket of currencies, we will develop innovative products and gain a leading edge in the market. We will seize opportunities in this era of pan-asset management and accelerate the development of our eight major business platforms for a greater contribution to the Group. With our customer-centric focus, we will press on with the transformation of our branch outlets, accelerate the adoption of Internet finance and reinforce synergy through cross-channel integration and collaboration to further enhance our service capabilities. We will also step up our collaboration with the domestic and overseas institutions of our parent bank, in particular those in Guangdong, Hong Kong and Macau, tap further into overseas markets such as Southeast Asia and expand the scope of our business development.

[1] Source: RFi Group's Global Retail Banking Cross-sell Report-2015

In addition, we will focus on heightening professionalism among our staff and increasing leanness and effectiveness in risk control, internal control and compliance in our operations, as these are all essential for a sustainable and healthy business. To enhance the Group's competitiveness, we will continue to develop our corporate culture, upholding our philosophy of customer-centric service and market-oriented competition at all levels of the Group. We will also focus on reinforcing our culture of innovation, responsibility, communication and execution. Fulfilling social responsibilities is also an important commitment of the Group. We will continue to help the disadvantaged and support education and environmental protection. We are committed to contributing to Hong Kong's economic development, improving the livelihood of local people and working towards the long-term prosperity and stability of the community.

Finally, I would like to take this opportunity to note changes on our senior management team. Madam ZHU Yanlai resigned as Deputy Chief Executive (Strategic Planning and Management) due to her age and continues to serve the Group as a consultant. Mr HUANG Hong resigned as Deputy Chief Executive (Financial Markets) of the Group due to other job engagements within the BOC Group. On behalf of the Group, I extend my sincere appreciation and deep respect to Madam ZHU and Mr HUANG for their dedication and outstanding contributions. We also welcomed three new senior management members – Mr LIN Jingzhen, Deputy Chief Executive (Corporate Banking), Mr YUAN Shu, Deputy Chief Executive (Financial Markets) and Mr ZHONG Xiangqun, Chief Operating Officer – who have all fully demonstrated outstanding professionalism, competence and teamwork since joining the Group. They will join other members of the management team to lead the Group and our staff to a new level of excellence.

We believe that with the continuing support of our customers and business associates, as well as the sage counsel of the Board, we will forge ahead with a stronger sense of mission and responsibility. We remain committed to promoting the Group's sustainable development through innovation and transformation, as well as its regional development, with the aim of creating greater value for our stakeholders.



YUE Yi
Vice Chairman & Chief Executive
Hong Kong, 30 March 2016

中国银行(香港)
BANK OF CHINA
Power up Your Wealth
Enrich Banking
Information of Your Choice

Efficiency

Management's Discussion and Analysis

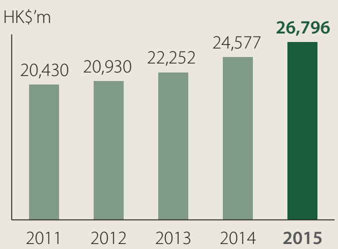
Financial Performance and Conditions at a Glance

The following table is a summary of the Group's key financial results for the year 2015 in comparison with the previous four years. The average value of liquidity coverage ratio is reported for the four quarters of 2015.

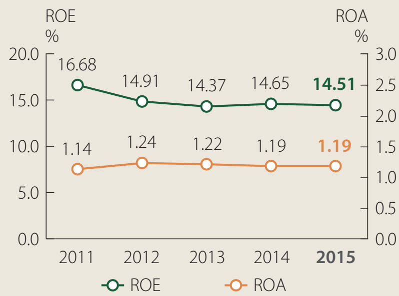
As a result of the Group's proposed disposal of NCB, the Group reported the operating results of NCB in 2015 separately as discontinued operations in the consolidated income statement with comparative information restated. Assets and liabilities of NCB as at 31 December 2015 are presented separately as assets held for sale and liabilities associated with assets held for sale in the consolidated balance sheet. Restatement of assets and liabilities as at 31 December 2014 is not required and a direct comparison between the two years may not be appropriate. As a result, to facilitate year-on-year comparison, selected balance sheet items and related ratios of 2014 are restated and analysed in this Management's Discussion and Analysis while those of 2011-2013 are not restated.

Key Performance Trends

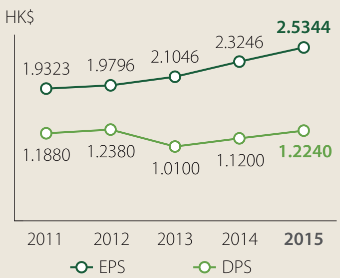
Profit Attributable to the Equity Holders



Return on Average Shareholders' Equity[1] ("ROE") and Return on Average Total Assets[2] ("ROA")



Earnings Per Share ("EPS") and Dividend Per Share ("DPS")



Profit attributable to the equity holders achieved another record high

- The Group's profit attributable to the equity holders increased by 9.0% year-on-year to HK$26,796 million, another record high since listing, with strong growth in non-interest income. Profit attributable to the equity holders from continuing operations increased by 9.3% to HK$23,969 million.

Solid returns with sustainable growth

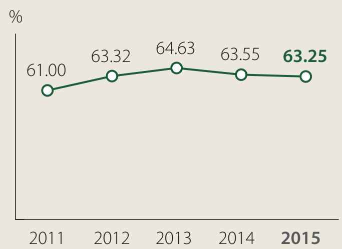
- ROE was 14.51%, down 0.14 percentage point year-on-year, as the increase in average equity outpaced that of profit. Higher average equity was mainly caused by additions of retained earnings and the higher average premises revaluation reserve.
- ROA was 1.19%.

Return to shareholders

- EPS was HK$2.5344. EPS from continuing operations was HK$2.2670. DPS was HK$1.224.

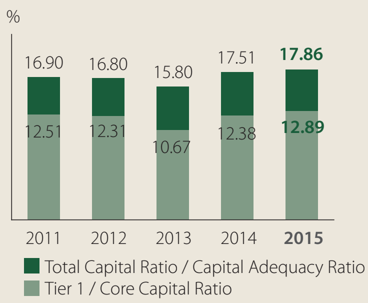
Financial Position

Loan to Deposit Ratio[3]



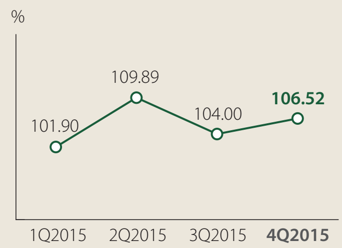
as at 31 December

Capital Ratio[4]



as at 31 December

Average value of Liquidity Coverage Ratio[5]



Loan to deposit ratio at a healthy level

- For the Group's continuing operations, the loan to deposit ratio was 63.25%, down 0.30 percentage point from 63.55% at the end of 2014 on a comparable basis. Advances to customers and deposits from customers increased by 9.7% and 10.2% respectively.

Solid capital position to support business growth

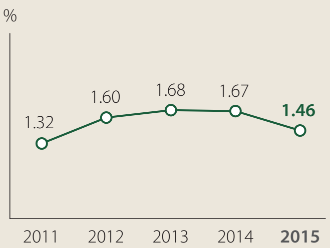
- The Group continued to strengthen its capital and risk-weighted asset management to meet more stringent regulatory requirements and capture long-term business opportunities. The total capital ratio was 17.86% while the Tier 1 capital ratio was 12.89%, up 0.35 and 0.51 percentage point respectively from that at the end of 2014.

Stable liquidity position

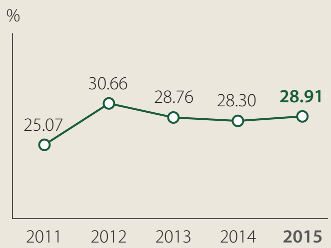
- Average value of liquidity coverage ratio was stable throughout the four quarters of 2015, well above the regulatory requirement.

Key Operating Ratios

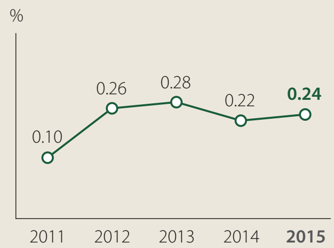
Net Interest Margin ("NIM")



Cost to Income Ratio[6]



Classified or Impaired Loan Ratio[7]



as at 31 December

Narrowing NIM with expanded asset size

- NIM for continuing operations in 2015 was 1.46%, down 21 basis points year-on-year. The decrease was mainly due to the decrease in the average interest spread of RMB assets, caused by the drop in RMB market interest rates and the increase in deposit costs. The decrease in net interest margin was also due to the increase in short-term debt securities investments.

Cautious cost control

- The cost to income ratio for continuing operations in 2015 was 28.91%, up 0.61 percentage point year-on-year, which was at a relatively low level in the industry.

Classified or impaired loan ratio stayed at a low level

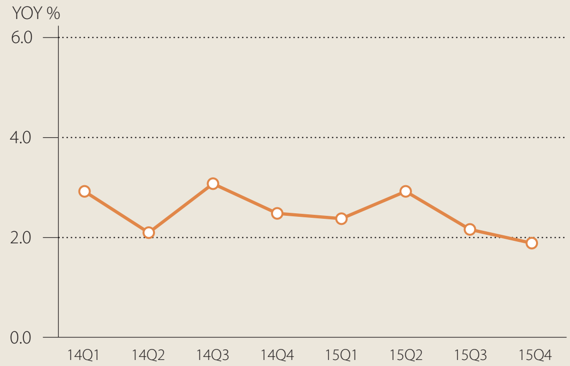
- At the end of 2015, the classified or impaired loan ratio of continuing operations was 0.24%, below the market average.

1. Return on Average Shareholders' Equity as defined in "Financial Highlights".
2. Return on Average Total Assets as defined in "Financial Highlights".
3. Loan represents gross advances to customers while deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".
4. The capital ratios are computed on the consolidated basis for regulatory purposes that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.
5. The implementation of the Basel III liquidity coverage ratio came into effect on 1 January 2015. The average value of liquidity coverage ratio is calculated based on the arithmetic mean of the liquidity coverage ratio as at the end of each working day in the quarter and is computed on a consolidated basis, which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.
6. The financial information for the year 2015 is from continuing operations and the comparative information has been restated accordingly.
7. Classified or impaired loans represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

Economic Background and Operating Environment

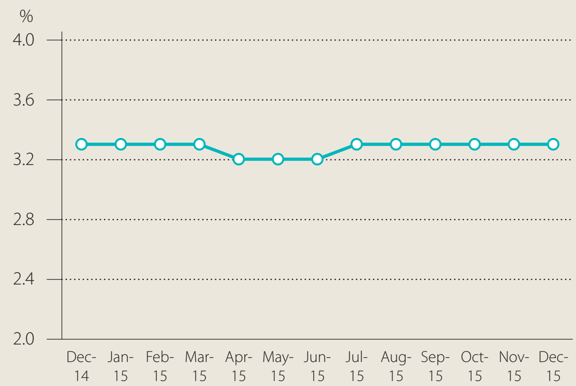
In 2015, the global recovery remained divergent across major advanced economies. In the US, underlying domestic demand stayed solid, and employment continued to grow steadily. The strengthening recovery finally persuaded the US Federal Reserve to raise the federal funds target rate for the first time in almost a decade. By contrast, growth momentum in the Eurozone remained sluggish. This, together with subdued inflation, prompted the European Central Bank to ease monetary policy further. In the Mainland of China, strong headwinds remained amid weakened external demand and overcapacity. The Central Government introduced supportive measures in response to the slowdown in economic expansion.

Hong Kong Real GDP Growth Rate



Source: HKSAR Census and Statistics Department

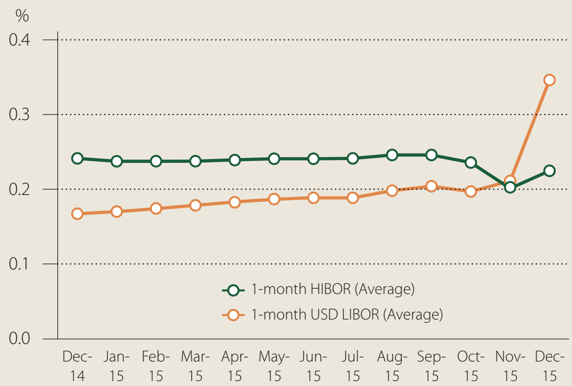
Hong Kong Unemployment Rate



Source: HKSAR Census and Statistics Department

The Hong Kong economy continued to grow moderately, supported by domestic demand and solid labour market conditions. However, the underlying growth momentum declined amid lacklustre export performance and continued weakness in inbound tourism. GDP rose by 2.4% in 2015, the unemployment rate stayed at a low level, and inflationary pressure was moderate with the Composite CPI rising by 3.0% year-on-year in 2015.

HIBOR and USD LIBOR



Source: Bloomberg

Overall liquidity in the Hong Kong banking sector remained abundant, and market interest rates continued at low levels in 2015, despite the notable rise in December. The average 1-month HIBOR and 1-month LIBOR rose slightly from 0.22% and 0.16% respectively in 2014 to 0.23% and 0.20% respectively in 2015. During this period, the average 10-year HKD swap rate and USD swap rate fell from 2.53% and 2.65% respectively in 2014 to 1.99% and 2.18% respectively in 2015. In the Mainland of China, the People's Bank of China ("PBOC") cut its benchmark interest rates for five times in 2015 and also lowered the reserve requirement ratio for five times.

Triggered by the announcement for the launch of the Mainland-Hong Kong Mutual Recognition of Funds scheme, the Hong Kong stock market turned buoyant in the second quarter of the year with transaction volumes increasing significantly. The Hang Seng Index reached the highest point of the year at 28,443 in April. It was then hit by a number of negative financial market events in the third quarter, including the sell-off in the Mainland stock market, volatility in the global foreign exchange market and the plunge in global commodity prices. The Hang Seng Index closed at 21,914 at the end of 2015, down 7.2% on a yearly basis.

The local residential property market showed some signs of consolidation following the introduction of further prudential measures for property mortgage loans by the HKMA and softened local economic growth. As a result, the level of transaction activity in 2015, in terms of the number of agreements for sale and purchase of residential building units, registered a decrease over 2014. Despite the downtrend adjustments in property price towards the end of the year, there was a modest year-on-year increase in the price of private domestic properties in 2015.

In 2015, the offshore RMB business in Hong Kong continued to grow steadily. A number of initiatives were introduced to promote capital account convertibility and the global use of RMB. These included the further expansion of the Free Trade Zones ("FTZs") in Guangdong, Tianjin and Fujian; a relaxation of the policy to allow offshore RMB clearing banks and participating banks to conduct repos in the onshore interbank bond market; the decision to give foreign central banks, sovereign wealth funds and supranational organisations access to the onshore interbank bond market without investment quotas and the onshore foreign exchange market; and the launch of the Mainland-Hong Kong Mutual Recognition of Funds. Furthermore, the International Monetary Fund ("IMF") announced in November 2015 that it will include the RMB in its Special Drawing Rights ("SDR") basket effective 1st October 2016 – a milestone in the development of the RMB. This will promote further confidence in the use of the RMB for international trade and financial transactions, giving more impetus to the internationalisation of the RMB.

The operating environment for banks in Hong Kong remained highly challenging in 2015. Interest rate cuts in the Mainland of China put pressure on offshore loan pricing, while slower economic growth in the Mainland further dampened already-softened loan demand and negatively affected certain industries, which put pressure on asset quality. Additionally, the depreciation of the RMB resulted in a decrease in offshore RMB deposits in Hong Kong and deterred the demand for RMB-denominated trade finance and investment products. Nevertheless, the Mainland's strategic initiatives and deepening economic reform continued to present banks with business opportunities for acquiring new customers and expanding their business coverage.

Outlook for 2016

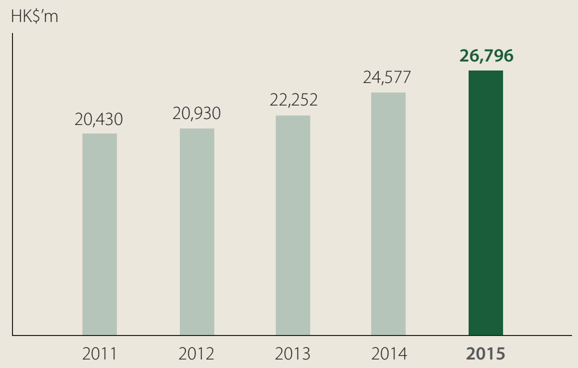
The year 2016 will bring both opportunities and challenges to banks in Hong Kong. The Mainland's Belt and Road initiative will continue to expand the cooperation between the Mainland of China and its neighbouring countries, bringing in new demand for financing and market opportunities. Moreover, the Mainland-Hong Kong Mutual Recognition of Funds and the coming Shenzhen-Hong Kong Stock Connect schemes will build momentum in capital markets and stimulate additional market activities. The accelerated pace of RMB internationalisation and economic reform in the Mainland of China will provide banks with new business opportunities.

However, there are also challenges ahead. The macroeconomic outlook is subject to downside risks, including weaker-than-expected global growth prospects and unexpected shocks from US interest rate normalisation. Challenges in the operating environment of the Mainland will continue to put pressure on certain industries which may lead to further deterioration in asset quality. In Hong Kong, growth momentum is expected to stay moderate as Hong Kong's external trade performance is unlikely to improve in the short-term amid the sluggish global trade flows and domestic demand remains the driver for local economic growth. Development of the RMB business will require growth drivers from a wider range of areas amid the increasing volatility in RMB exchange rates and the narrowing of the onshore and offshore RMB interest rate differential. Banks will also face intensifying competition and comply with more stringent regulatory requirements. Additional resources will be made to cater for compliance, anti-money laundering and financial crime.

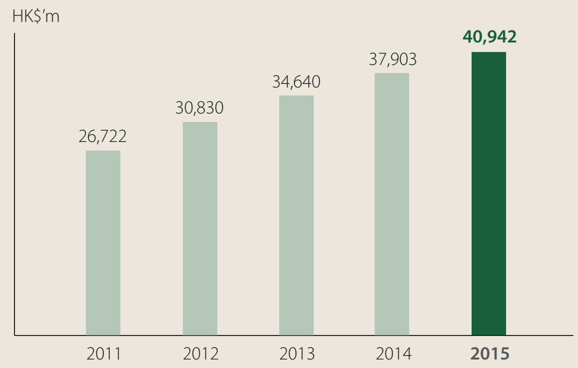
Consolidated Financial Review

Financial Highlights

Profit attributable to the equity holders



Net operating income before impairment allowances*



* Net operating income before impairment allowances for the year 2015 is from continuing operations and the comparative information has been restated accordingly.

HK$'m, except percentages	2015	(Restated) 2014	Change (%)
CONTINUING OPERATIONS			
Net operating income before impairment allowances	**40,942**	37,903	8.0
Operating expenses	**(11,836)**	(10,728)	10.3
Operating profit before impairment allowances	**29,106**	27,175	7.1
Operating profit after impairment allowances	**28,175**	27,029	4.2
Profit before taxation	**28,952**	27,398	5.7
Profit attributable to the equity holders of the Company	**26,796**	24,577	9.0
– from continuing operations	**23,969**	21,927	9.3
– from discontinued operations	**2,827**	2,650	6.7

In 2015, the Group leveraged on its diversified business platforms and responded swiftly to market changes to capture business opportunities in various areas. It remained proactive in managing its balance sheet and continued to deepen collaboration with BOC to extend its customer base. Meanwhile, it maintained prudent risk management to safeguard asset quality. As a result, the Group achieved a new high in profit attributable to the equity holders with key financial ratios staying at healthy levels. For the year 2015, the Group's profit attributable to the equity holders reached HK$26,796 million, representing an increase of 9.0% year-on-year. Profit attributable to the equity holders from continuing operations amounted to HK$23,969 million while that from discontinued operations amounted to HK$2,827 million, representing an increase of 9.3% and 6.7% respectively year-on-year.

For the Group's continuing operations, net operating income before impairment allowances increased by HK$3,039 million, or 8.0%, year-on-year to HK$40,942 million. The increase was driven by the strong growth in net fee and commission income, the increased net gain from the disposal of certain financial assets and the higher net trading gain of the banking business, coupled with higher net operating income of the Group's insurance segment. Net interest income decreased with the lowering of net interest margin, partially offset by the growth in average interest-earning assets. Operating expenses were higher to support the Group's long-term business expansion. The net charge of loan impairment allowances rose as did the net gain from fair value adjustments on investment properties. Meanwhile, the Group recognised deferred tax assets in the second half of the year in respect of the temporary differences arising from taxation incurred by the Group's cross-border businesses, resulting in lower net tax expenses in the year. Profit attributable to the equity holders from continuing operations grew by HK$2,042 million, or 9.3%, compared with 2014.

As compared with the first half of 2015, net operating income before impairment allowances for the Group's continuing operations decreased by HK$518 million, or 2.5% in the second half. Net trading gain of the banking business improved notably, mainly contributed by the net gain on foreign exchange swap contracts and the growth in income from currency exchange transactions. The increase was, however, offset by the decline in net interest income, resulting from the narrowing of net interest margin. Net fee and commission income stayed broadly unchanged. Operating expenses rose. Meanwhile, the Group recognised deferred tax assets in the second half of the year in respect of the temporary differences arising from taxation incurred by the Group's cross-border businesses, resulting in lower net tax expenses in the second half of the year. As a result, profit attributable to the equity holders from continuing operations reduced by HK$203 million, or 1.7%, on a half-on-half basis.

Income Statement Analysis

The following income statement analysis is based on the Group's continuing operations and the comparative information for the year 2014 has been restated accordingly.

Net Interest Income and Margin

HK$'m, except percentages	2015	(Restated) 2014	Change (%)
Interest income	**38,074**	38,693	(1.6)
Interest expense	**(12,335)**	(11,965)	3.1
Net interest income	**25,739**	26,728	(3.7)
Average interest-earning assets	**1,766,079**	1,598,555	10.5
Net interest spread	**1.36%**	1.56%	
Net interest margin*	**1.46%**	1.67%	

* Net interest margin is calculated by dividing net interest income by average interest-earning assets.

The Group's net interest income decreased by HK$989 million, or 3.7%, year-on-year. The decrease was due to the lower net interest margin, partially offset by the growth in average interest-earning assets.

Average interest-earning assets expanded by HK$167,524 million, or 10.5%, mainly supported by the increase in deposits from customers. Average balance of both advances to customers and debt securities investments increased.

Net interest margin was 1.46%, down 21 basis points compared with 2014. The decline was mainly due to the decrease in average interest spread of RMB assets, caused by the drop in RMB market interest rates and increase in RMB deposit costs. The decrease in net interest margin was also due to the increase in short-term debt securities investments. Nevertheless, the Group proactively managed its assets and liabilities and was effective in controlling its deposit pricing and improving its loan yield. The widened loan and deposit spread and the increase in advances to customers partially offset the above negative impact.

The table below summarises the average balances and average interest rates of individual categories of assets and liabilities:

ASSETS	Year ended 31 December 2015		(Restated) Year ended 31 December 2014	
	Average balance HK$'m	Average yield %	Average balance HK$'m	Average yield %
Balances and placements with banks and other financial institutions	**353,345**	**2.31**	386,571	3.00
Debt securities investments	**558,292**	**1.94**	423,446	2.39
Advances to customers	**839,001**	**2.25**	774,300	2.17
Other interest-earning assets	**15,441**	**1.39**	14,238	1.29
Total interest-earning assets	**1,766,079**	**2.16**	1,598,555	2.42
Non interest-earning assets[1]	**545,481**	**–**	514,067	–
Total assets	**2,311,560**	**1.65**	2,112,622	1.83

LIABILITIES	Average balance HK$'m	Average rate %	Average balance HK$'m	Average rate %
Deposits and balances from banks and other financial institutions	**207,438**	**0.87**	176,622	0.79
Current, savings and time deposits	**1,277,429**	**0.74**	1,166,816	0.85
Certificates of deposit issued	**–**	**–**	239	1.01
Subordinated liabilities	**19,560**	**2.25**	19,614	1.38
Other interest-bearing liabilities	**39,214**	**1.76**	35,198	0.91
Total interest-bearing liabilities	**1,543,641**	**0.80**	1,398,489	0.86
Shareholders' funds[2] and other non interest-bearing deposits and liabilities[1]	**767,919**	**–**	714,133	–
Total liabilities	**2,311,560**	**0.53**	2,112,622	0.57

1. Including assets held for sale and liabilities associated with assets held for sale respectively.
2. Shareholders' funds represent capital and reserves attributable to the equity holders of the Company.

Second Half Performance

Compared with the first half of the year, net interest income decreased by HK$845 million, or 6.4%, to HK$12,447 million, due to the lower net interest margin. Average interest-earning assets registered a growth of 5.2% as supported by the increase in deposits from customers. Net interest margin was 1.36%, falling by 20 basis points half-on-half. The drop in RMB interest rates affected the yield of the Group's RMB assets. The decrease in net interest margin was also due to the increase in short-term debt securities investments. The above negative impact was partially offset by lower deposit costs and increase in advances to customers.

Net Fee and Commission Income

HK$'m, except percentages	2015	(Restated) 2014	Change (%)
Credit card business	**3,727**	3,610	3.2
Securities brokerage	**3,397**	2,471	37.5
Loan commissions	**3,286**	1,890	73.9
Insurance	**1,551**	1,447	7.2
Funds distribution	**913**	877	4.1
Payment services	**563**	534	5.4
Bills commissions	**543**	574	(5.4)
Trust and custody services	**473**	442	7.0
Currency exchange	**302**	231	30.7
Safe deposit box	**264**	241	9.5
Others	**722**	630	14.6
Fee and commission income	**15,741**	12,947	21.6
Fee and commission expenses	**(4,276)**	(3,856)	10.9
Net fee and commission income	**11,465**	9,091	26.1

Net fee and commission income reached a new high and grew by HK$2,374 million, or 26.1%, to HK$11,465 million in 2015. The increase was broad-based, reflecting the Group's efforts to leverage on its diversified business platforms. Fee and commission income from loans, securities brokerage, insurance and currency exchange grew strongly. Loan commissions rose by 73.9%, due mainly to strong growth of commission income from corporate loans. Income from securities brokerage grew by 37.5%, as the Group successfully captured opportunities from increased transactions in the local stock market. Income from insurance increased by 7.2% with the rise in business volume. Income from currency exchange rose 30.7%, driven by the higher demand for foreign currency banknotes by customers. Commission income from credit cards, funds distribution as well as trust and custody services also recorded healthy growth. However, commission income from bills decreased, reflecting the subdued trade-related activities. The increase in fee and commission expenses was mainly caused by higher credit card and securities brokerage related expenses.

Second Half Performance

Compared with the first half of 2015, net fee and commission income was broadly unchanged. Commission income from securities brokerage and funds distribution decreased as investment sentiment weakened in the second half of the year. However, loan commissions grew strongly as did income from credit cards, insurance, bills and payment services. Fee and commission expenses were broadly unchanged.

Net Trading Gain/(Loss)

HK$'m, except percentages	2015	(Restated) 2014	Change (%)
Foreign exchange and foreign exchange products	**2,055**	1,461	40.7
Interest rate instruments and items under fair value hedge	**293**	663	(55.8)
Commodities	**57**	62	(8.1)
Equity and credit derivative instruments	**194**	(29)	N/A
Net trading gain	**2,599**	2,157	20.5

Net trading gain was HK$2,599 million, up HK$442 million, or 20.5%, year-on-year. Net trading gain from foreign exchange and foreign exchange products increased by HK$594 million, primarily due to the increase in currency exchange income from customers' transactions and lower net loss on foreign exchange swap contracts*. Net trading gain from interest rate instruments and items under fair value hedge decreased by HK$370 million, mainly attributable to the lower mark-to-market gain of certain debt securities caused by market interest rate movements. The decrease in net trading gain from commodities was due to the decline in bullion transactions. There was a net trading gain from equity and credit derivative instruments as opposed to a net loss in 2014, mainly due to the increased income from equity-linked products and the lower net trading loss from certain equity instruments in 2015.

Second Half Performance

Compared with the first half of 2015, net trading gain increased strongly by HK$1,189 million, or 168.7%. The Group proactively managed its asset allocation and captured the market opportunities among different currencies and markets, there was a net gain on foreign exchange swap contracts* in the second half as opposed to a net loss in the first half. Meanwhile, currency exchange income from customers' transactions also grew satisfactorily. The increases were partly offset by the mark-to-market loss of certain debt securities and the decreased income from equity-linked products.

- Foreign exchange swap contracts are usually used for the Group's liquidity management and funding activities. Under the foreign exchange swap contracts, the Group exchanges one currency (original currency) for another (swapped currency) at the spot exchange rate (spot transaction) and commits to reverse the spot transaction by exchanging the same currency pair at a future maturity at a predetermined rate (forward transaction). In this way, surplus funds in the original currency are swapped into another currency for liquidity and funding purposes with minimal foreign exchange risk. The exchange difference between the spot and forward contracts is recognised as a foreign exchange gain or loss (as included in "net trading gain/(loss)"), while the corresponding interest differential between the surplus funds in the original currency and swapped currency is reflected in net interest income.

Net (Loss)/Gain on Financial Instruments Designated at Fair Value through Profit or Loss (FVTPL)

HK$'m, except percentages	2015	(Restated) 2014	Change (%)
Net (loss)/gain on financial instruments designated at fair value through profit or loss	**(767)**	33	N/A

In 2015, the Group recorded a net loss of HK$767 million on financial instruments designated at FVTPL, compared with a net gain of HK$33 million in 2014. The change was mainly due to the mark-to-market loss of debt securities investments of BOCG Life, which was caused by market interest rate movements, and the net trading loss from equity securities investments under a challenging market environment. The changes in market value of its debt securities portfolio were offset by the corresponding changes in policy reserves, as reflected in the changes in net insurance benefits and claims attributable to the movement of market interest rates.

Second Half Performance

A net loss of HK$600 million was recorded in the second half of the year, up HK$433 million from a net loss of HK$167 million in the first half. The increased net loss was mainly attributable to the net trading loss of equity securities investments of BOCG Life in the second half as opposed to a net trading gain in the first half, partially offset by the mark-to-market changes of its debt securities investments.

Operating Expenses

HK$'m, except percentages	2015	(Restated) 2014	Change (%)
Staff costs	**6,568**	6,033	8.9
Premises and equipment expenses (excluding depreciation)	**1,436**	1,371	4.7
Depreciation on owned fixed assets	**1,732**	1,604	8.0
Other operating expenses	**2,100**	1,720	22.1
Total operating expenses	**11,836**	10,728	10.3

	At 31 December 2015	(Restated) At 31 December 2014	Change (%)
Staff headcount measured in full-time equivalents	**12,576**	12,105	3.9

Total operating expenses increased by HK$1,108 million, or 10.3%, from 2014, as the Group continued to invest in its service capabilities and IT infrastructure to support its long-term business growth. The Group remained focused on disciplined cost control. The cost to income ratio was kept at a low level of 28.91%, below the industry average.

Staff costs increased by 8.9%, mainly due to higher salaries as a result of the annual salary increment and increased headcount, and the increase in performance-related remunerations.

Premises and equipment expenses were up 4.7%, reflecting higher rental and IT costs.

Depreciation on owned fixed assets rose by 8.0%, due to a larger depreciation charge on premises following the upward property revaluation in Hong Kong and on IT equipment as the Group continued to improve its IT infrastructure.

Other operating expenses grew by 22.1%, mainly due to higher promotional expenses and business tax.

Second Half Performance

Compared with the first half of 2015, operating expenses rose by HK$830 million, or 15.1%. The increase was due to higher staff costs and business promotion expenses, as well as depreciation and IT-related expenses in the second half of the year.

Net Charge of Loan Impairment Allowances

HK$'m, except percentages	2015	(Restated) 2014	Change (%)
Net (charge)/reversal of allowances before recoveries			
– individually assessed	**(590)**	77	N/A
– collectively assessed	**(548)**	(399)	37.3
Recoveries	**156**	195	(20.0)
Net charge of loan impairment allowances	**(982)**	(127)	673.2

Total loan impairment allowances as a percentage of gross advances to customers

	At 31 December 2015	(Restated) At 31 December 2014
Loan impairment allowances		
– individually assessed	**0.06%**	0.05%
– collectively assessed	**0.28%**	0.28%
Total loan impairment allowances	**0.34%**	0.33%

The net charge of loan impairment allowances was HK$982 million in 2015, an increase of HK$855 million from 2014. Net charge of individually assessed impairment allowances amounted to HK$590 million, mainly caused by the downgrade of a few corporate advances. Net charge of collectively assessed impairment allowances amounted to HK$548 million, mainly due to the increase in advances to customers.

Total loan impairment allowances as a percentage of gross advances to customers was 0.34%, relatively unchanged from 2014.

Second Half Performance

Net charge of loan impairment allowances increased by HK$52 million, or 11.2%, from the first half of the year. The increase was mainly due to the higher net charge of individually assessed impairment allowances and the lower recoveries, partially offset by the relatively lower net charge of collectively assessed impairment allowances owing to the lower loan growth.

Balance Sheet Analysis

Comparative information of certain balance sheet items at 31 December 2014 are restated to enable analyses on a comparable basis. Related items and ratios for 2011-2013 are not restated.

Asset Deployment

	At 31 December 2015		(Restated) At 31 December 2014		
HK$'m, except percentages	Amount	% of total	Amount	% of total	Change (%)
Cash and balances with banks and other financial institutions	**230,730**	**9.7**	342,242	15.6	(32.6)
Placements with banks and other financial institutions maturing between one and twelve months	**64,208**	**2.7**	19,256	0.9	233.4
Hong Kong SAR Government certificates of indebtedness	**101,950**	**4.3**	90,770	4.1	12.3
Securities investments[1]	**574,998**	**24.3**	439,568	20.1	30.8
Advances and other accounts	**920,214**	**38.9**	850,225	38.8	8.2
Fixed assets and investment properties	**65,695**	**2.8**	62,579	2.9	5.0
Other assets[2]	**109,596**	**4.6**	84,300	3.9	30.0
Assets held for sale	**300,473**	**12.7**	300,427	13.7	–
Total assets	**2,367,864**	**100.0**	2,189,367	100.0	8.2

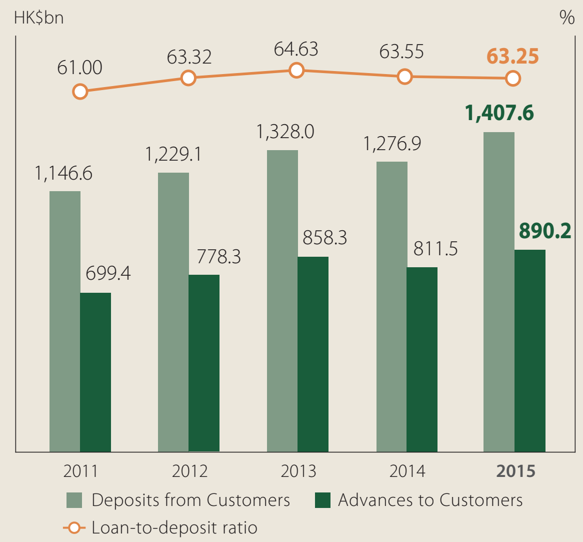
1. Securities investments comprise investment in securities and financial assets at fair value through profit or loss.
2. Interests in associates and a joint venture, deferred tax assets and derivative financial instruments are included in other assets.

As at 31 December 2015, total assets amounted to HK$2,367,864 million, an increase of HK$178,497 million, or 8.2%, from the end of 2014. The Group continued to proactively manage its assets and liabilities to enhance profitability and maintained a balanced growth in both advances to customers and deposits from customers.

Key changes in the Group's total assets include the following:

- Cash and balances with banks and other financial institutions decreased by 32.6%, as funds were redeployed to securities investments and advances to customers.
- Placements with banks and other financial institutions maturing between one and twelve months rose by 233.4%. The Group lengthened the maturity of its interbank placements to gain a higher return.
- Securities investments increased by 30.8%, with increases mainly in government-related and high-quality corporate bonds.
- Advances and other accounts increased by 8.2%, with the growth in advances to customers by 9.7%.
- Other assets grew by 30.0%, which was led by the increase in account receivables, derivative financial instruments and reinsurance assets.
- Assets held for sale represented assets of NCB following the Group's undertaking of the disposal of all the issued shares of NCB.

Advances to customers and deposits from customers[1]



1. Deposits from customers include structured deposits
2. As at 31 December

Advances to Customers

HK$'m, except percentages	At 31 December 2015 Amount	At 31 December 2015 % of total	(Restated) At 31 December 2014 Amount	(Restated) At 31 December 2014 % of total	Change (%)
Loans for use in Hong Kong	**571,487**	**64.2**	502,536	61.9	13.7
Industrial, commercial and financial	**300,766**	**33.8**	252,844	31.2	19.0
Individuals	**270,721**	**30.4**	249,692	30.7	8.4
Trade finance	**79,108**	**8.9**	78,674	9.7	0.6
Loans for use outside Hong Kong	**239,648**	**26.9**	230,276	28.4	4.1
Total advances to customers	**890,243**	**100.0**	811,486	100.0	9.7

The Group leveraged its strong customer base and optimised its customer segments. With the enriched product spectrum, it also fully capitalised on its close collaboration with BOC and the Asia-Pacific Syndicated Loan Centre. It continued to focus on customer selection to achieve quality and sustainable loan growth. Advances to customers grew by 9.7% to HK$890,243 million in 2015.

Loans for use in Hong Kong grew by HK$68,951 million or 13.7%.

- Lending to the industrial, commercial and financial sectors increased by HK$47,922 million, or 19.0%. Lending to the property development, financial concerns, transport and transport equipment and manufacturing sectors grew by 45.0%, 315.4%, 23.5% and 22.5% respectively.
- Lending to individuals increased by HK$21,029 million, or 8.4%. Residential mortgage loans (excluding those under the Government-sponsored home purchasing schemes) grew by 8.5%. Credit card advances rose by 6.4% while other individual loans increased by 12.3%.

Trade finance rose by HK$434 million, or 0.6%, while loans for use outside Hong Kong increased by HK$9,372 million, or 4.1%.

Second Half Performance
With the comparative information at 30 June 2015 restated, advances to customers increased by HK$19,266 million, or 2.2%, amid slowing loan demand in the second half of the year. The growth in loans for use in Hong Kong was partly offset by the decrease in trade finance. Loans for use outside Hong Kong stayed broadly unchanged.

Loan Quality

HK$'m, except percentages	At 31 December 2015	(Restated) At 31 December 2014
Advances to customers	**890,243**	811,486
Classified or impaired loan ratio	**0.24%**	0.22%
Total impairment allowances	**3,009**	2,645
Total impairment allowances as a percentage of advances to customers	**0.34%**	0.33%
Impairment allowances[1] as a percentage of classified or impaired advances	**29.20%**	23.50%

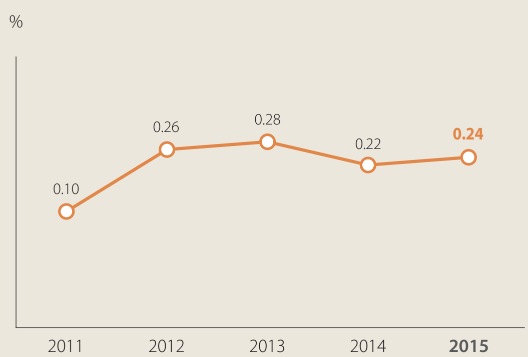
Table below shows the credit quality of the Group's residential mortgage loans and card advances in accordance with the HKMA's reporting requirement.

	At 31 December 2015	At 31 December 2014
Residential mortgage loans[2] – delinquency and rescheduled loan ratio[3]	**0.02%**	0.02%
Card advances – delinquency ratio[3]	**0.20%**	0.17%

	2015	2014
Card advances – charge-off ratio[4]	**1.39%**	1.42%

1. Referring to impairment allowances on advances to customers classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.
2. Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.
3. The delinquency ratio is measured by the ratio of the total amount of overdue advances (more than three months) to total outstanding advances.
4. The charge-off ratio is measured by the ratio of total write-offs made during the year to average card receivables during the year.

Classified or impaired loan ratio



* As at 31 December

The Group's loan quality remained solid. Excluding assets held for sale, the classified or impaired loan ratio was 0.24% as at 31 December 2015. Classified or impaired advances to customers increased by HK$343 million, or 19.6%, to HK$2,096 million on a comparable basis, due to the downgrade of a few corporate loans.

As at 31 December 2015, total impairment allowances, including both individual assessment and collective assessment, amounted to HK$3,009 million. Impairment allowances as a percentage of classified or impaired advances was 29.20%.

The credit quality of the Group's residential mortgage loans and card advances remained sound. The combined delinquency and rescheduled loan ratio of residential mortgage loans was 0.02% at the end of 2015. As compared with 2014, the charge-off ratio of card advances decreased by 0.03 percentage point to 1.39%.

Deposits from Customers*

HK$'m, except percentages	At 31 December 2015 Amount	At 31 December 2015 % of total	(Restated) At 31 December 2014 Amount	(Restated) At 31 December 2014 % of total	Change (%)
Demand deposits and current accounts	**134,069**	**9.5**	96,672	7.6	38.7
Savings deposits	**717,747**	**51.0**	621,944	48.7	15.4
Time, call and notice deposits	**553,173**	**39.3**	555,156	43.5	(0.4)
	1,404,989	**99.8**	1,273,772	99.8	10.3
Structured deposits	**2,571**	**0.2**	3,115	0.2	(17.5)
Total deposits from customers	**1,407,560**	**100.0**	1,276,887	100.0	10.2

* Including structured deposits

The Group maintained a flexible deposit strategy to support business growth while proactively managing deposit pricing. Total deposits from customers rose by 10.2% to HK$1,407,560 million in 2015. Demand deposits and current accounts rose strongly by 38.7% while savings deposits were up 15.4%. Time, call and notice deposits decreased slightly by 0.4%. The proportion of current and savings deposits improved notably. The loan to deposit ratio was 63.25% at the end of 2015, down 0.30 percentage point from the end of 2014.

Second Half Performance

With the comparative information at 30 June 2015 restated, total deposits from customers increased by HK$13,553 million, or 1.0%, in the second half of 2015. Demand deposits and current accounts decreased by 8.7%, while savings deposits went up 12.8%. Time, call and notice deposits declined by 9.0%.

Capital and Reserves Attributable to the Equity Holders of the Company

HK$'m	At 31 December 2015	At 31 December 2014
Share capital	**52,864**	52,864
Premises revaluation reserve	**40,278**	37,510
Reserve for fair value changes of available-for-sale securities	**294**	1,930
Regulatory reserve	**10,879**	10,011
Translation reserve	**191**	778
Retained earnings	**88,072**	73,621
Reserves	**139,714**	123,850
Capital and reserves attributable to the equity holders of the Company	**192,578**	176,714

Capital and reserves attributable to the equity holders of the Company amounted to HK$192,578 million as at 31 December 2015, increasing by HK$15,864 million, or 9.0% from the end of 2014. Retained earnings rose by 19.6%, reflecting the 2015 profit after the appropriation of dividends. The premises revaluation reserve increased by 7.4%, which was attributable to the increase in property prices in 2015. Regulatory reserve rose by 8.7%, mainly due to growth in advances to customers.

Capital Ratio and Liquidity Coverage Ratio

HK$'m, except percentages	At 31 December 2015	At 31 December 2014
Consolidated capital after deductions		
Common Equity Tier 1 capital	**121,089**	110,440
Additional Tier 1 capital	**561**	733
Tier 1 capital	**121,650**	111,173
Tier 2 capital	**46,886**	46,035
Total capital	**168,536**	157,208
Total risk-weighted assets	**943,802**	897,812
Common Equity Tier 1 capital ratio	**12.83%**	12.30%
Tier 1 capital ratio	**12.89%**	12.38%
Total capital ratio	**17.86%**	17.51%

	2015	2014
Average value of liquidity coverage ratio		
First quarter	**101.90%**	–
Second quarter	**109.89%**	–
Third quarter	**104.00%**	–
Fourth quarter	**106.52%**	–
Average liquidity ratio	**–**	42.17%

The capital ratios are computed on the consolidated basis for regulatory purposes that comprise the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.

In order to meet higher capital requirement following the Group's designation as one of the domestic systemically important banks in Hong Kong and to capture future business opportunities, the Group continued to adopt proactive measures to manage its capital and optimise the risk-weights of its assets during the year. The Group's aim is to maintain a solid capital adequacy level to support its sustainable growth strategy.

The Group's capital position stayed solid to support its business growth. At 31 December 2015, the Common Equity Tier 1 ("CET1") capital ratio was 12.83% and the Tier 1 capital ratio was 12.89%, up 0.53 and 0.51 percentage point respectively from that at the end of 2014. Profits net of dividends for the year 2015 drove up CET1 capital and Tier 1 capital by 9.6% and 9.4% respectively. Total risk-weighted assets ("RWA") were up 5.1%, mainly from an increase in credit RWA due to the growth in advances to customers in 2015. The ratio of total RWA for credit risk to Exposure at Default dropped from the end of 2014 as a result of the Group's optimisation of asset mix. Total capital ratio was 17.86%.

The Banking (Liquidity) Rules became effective on 1 January 2015, signifying the implementation of Basel III Liquidity Coverage Ratio ("LCR") in Hong Kong. The liquidity information disclosures reported for the four quarters in 2015 under Basel III are therefore not directly comparable with the disclosure reported for the year 2014.

The average value of LCR is calculated based on the arithmetic mean of the LCR as at the end of each working day in the quarter and the calculation methodology and instructions set out in the HKMA return of liquidity position. The LCR is computed on a consolidated basis, which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.

The Group's liquidity position stayed at a solid level in 2015. The average values of LCR for all four quarters of 2015 were above the regulatory minimum. For details on the LCR, please refer to Note 4.3(A) to the Financial Statements.

Business Review

2015 Business Highlights

Personal Banking

- Customer base of wealth management services expanded. The number of new securities accounts opened doubled from 2014.
- Maintained its market leadership in new residential mortgages and the UnionPay card business. Pioneered the distribution of the first recognised Mainland fund under the Mainland-Hong Kong Mutual Recognition of Funds scheme.
- Enhanced the service capabilities of electronic banking. Launched e-Cheques Services and the first-ever Online Loan 360 Service in Hong Kong. Upgraded the WeChat official account with improved functions.
- Named the Best Retail Bank 2015 in Hong Kong by *The Asian Banker* in its International Excellence in Retail Financial Services Programme. Received the Best Multi-channel Project Award in the Technology Implementation Awards 2015 by *The Asian Banker* and the Mobile Banking Initiative of the Year – Hong Kong award in the *Asian Banking and Finance* Retail Banking Awards 2015.

Corporate Banking

- Captured opportunities made possible by major national strategic initiatives including the Belt and Road and FTZs. Optimised its customer segments and actively developed institutional business by strengthening relationships with overseas central banks, supranational organisations and non-governmental entities. Customer base further expanded.
- Participated in a number of significant syndicated loans for corporates in support of their global financing activities and remained the top mandated arranger in the Hong Kong-Macau syndicated loan market.
- Acted as the receiving bank for a number of major IPOs in Hong Kong, which consolidated its leading position in the market.
- Received the Best SME's Partner Award for the eighth year in a row.

Treasury

- Strategically increased investments in government-related and high-quality corporate bonds.
- First international commercial bank to issue RMB financial bonds (Panda bonds) in the Mainland's domestic interbank bond market.
- Successfully expanded its banknote business to other overseas markets.
- Received the Hong Kong Domestic Foreign Exchange Bank of the Year award in the *Asian Banking and Finance* Wholesale Banking Awards 2015.

RMB Business in Hong Kong

- Maintained its status as the clearing bank and the Primary Liquidity Provider of RMB business in Hong Kong.
- Appointed as the sole settlement bank for Shanghai-Hong Kong Gold Connect.
- Maintained its market position in RMB business. Both the transaction amount and the number of transactions of RMB clearing services grew satisfactorily year-on-year. Reinforced its leading position in the Hong Kong RMB insurance market.
- Launched the RMB Extended Clearing Service.
- Received the Best Onshore Interest Rate Hedging in the Stars of China Awards 2015 by *Global Finance* Magazine and the Best offshore RMB Bond Lead Manager in Hong Kong 2015 in the Global RMB Asset Ranking 2015 award by *The Asian Banker*.

Other new business platforms

- Private Banking business achieved encouraging growth in both the number of clients and their assets under management.
- Enlarged the client base of the custody business and maintained its status as one of the largest RQFII service providers in Hong Kong.
- Cash management services won the Achievement Award for the Best Cash Management Bank in Hong Kong by *The Asian Banker* for the third consecutive year, as well as the Hong Kong Domestic Cash Management Bank of the Year award by the *Asian Banking and Finance* for the second consecutive year.
- BOCG Life received all four awards in the RMB Business Outstanding Awards 2015 – Outstanding Insurance Business, organised by Metro Finance, Metro Finance Digital and Hong Kong *Wen Wei Po*.
- BOCHK AM's BOCHK All Weather CNY Equity Fund was awarded the Most Innovative Product by *Asia Asset Management*.

Business Segment Performance

Profit before Taxation by Business Segments

HK$'m, except percentages	2015	% of total	(Restated) 2014	% of total
CONTINUING OPERATIONS				
Personal Banking	**9,285**	**32.1**	7,352	26.8
Corporate Banking	**10,975**	**37.9**	10,655	38.9
Treasury	**7,801**	**26.9**	9,411	34.4
Insurance	**932**	**3.2**	613	2.2
Others	**(41)**	**(0.1)**	(633)	(2.3)
Total profit before taxation	**28,952**	**100.0**	27,398	100.0

Note: For additional segmental information, see Note 46 to the Financial Statements.

Personal Banking

Financial Results

Personal Banking's profit before taxation was HK$9,285 million in 2015, a growth of HK$1,933 million, or 26.3%, year-on-year. The growth was mainly driven by the increase in net interest income and net fee and commission income.

Net interest income increased by 13.0%. This was mainly driven by the improvement in the loan spread along with the increase in the average balance of deposits and loans. The growth was partially offset by the decrease in the deposit spread. Net fee and commission income grew strongly by 22.8%. This growth was broad-based and mainly attributable to the higher income from securities brokerage, insurance and credit cards. Net trading gain increased by 46.0%, mainly attributable to the increased income from currency exchange transactions and equity-linked products. Net gain on other financial assets increased by 27.1% as the Group captured market opportunities to dispose of certain equity instruments and realised a higher net gain.

Business Operations

The Group's Personal Banking business achieved solid growth in 2015. It maintained its leading position in new mortgage loans and the UnionPay card business, continuously expanded its product and service offerings and recorded satisfactory growth in commission income from the investment and insurance businesses. The Group also provided targeted sales and promotions to different customer segments and registered significant growth in quality customers from the Mainland. What's more, it set up a Cross-border Financial Service Centre, increasing the Group's capabilities in cross-border banking services to personal clients. Meanwhile, the Group continued to optimise its distribution channels to meet the needs of customers. In recognition of its outstanding performance in retail banking, BOCHK was named the Best Retail Bank 2015 in Hong Kong by *The Asian Banker* in its International Excellence in Retail Financial Services Programme.

Maintaining market leadership in residential mortgages

In 2015, market activities in the local residential property market slowed down following further prudential measures introduced by the HKMA, and competition in the local residential mortgage market intensified. To capture business opportunities, the Group focused on enriching its mortgage service portfolio and providing innovative products across all channels. During the year, the Group offered a new fixed-rate mortgage scheme that allows customers to lock in interest expenses ahead of interest rate hikes. It supported The Hong Kong Mortgage Corporation Limited by launching the new Premium Loan Insurance Scheme to expand the Group's subsidised housing business and enhanced the features of Home Ownership Scheme mortgage plans to offer greater product flexibility. The Group also strengthened its relationships with property agents. In addition, the Mortgage Expert mobile application was enhanced with a Mortgage eAssessment function allowing home buyers to obtain a preliminary approval amount for their mortgage loan applications within one minute.

Satisfactory growth in the investment and insurance businesses

The investment and insurance businesses recorded satisfactory growth in commission income from securities brokerage, funds distribution and insurance. During the year, the Group captured market opportunities and stepped up its marketing efforts in view of the volatile market. It strengthened its cross-selling activities to new customers to raise the penetration rate of investment products and provided family securities services to acquire more family customers. As a result, the Group doubled the number of new securities accounts opened from 2014. In addition, the Group provided customers with comprehensive stock quote services and market information relating to shares from both the Mainland and Hong Kong stock market and maintained its market leadership position. As a result, commission income from securities brokerage grew strongly in 2015.

In the funds distribution business, the Group continued to broaden its product offerings to satisfy the diverse needs of its customers. In support of capital market access between the Mainland of China and Hong Kong and following the announcement of the launch of the Mainland-Hong Kong Mutual Recognition of Funds, the Group worked closely with BOC and pioneered the distribution of the first recognised Mainland fund in December. The Group also produced an education video, webpage and series of customer seminars with the aim of helping customers learn about the investment opportunities of Mutual Recognition of Funds.

With regards to the Bancassurance business, the Group maintained its leading position in the Hong Kong RMB insurance market. During the year, the Group continued to provide a diversified range of life insurance and property insurance products and optimised its sales distribution channels. It also held a series of marketing campaigns. Insurance commission income grew satisfactorily.

A recognised leader in the UnionPay card business

Despite weak retail sales in the market, the Group's credit card business delivered a year-on-year growth in both cardholder spending and merchant acquiring volume. It also maintained its leading position in the UnionPay merchant acquiring business and card issuing business in Hong Kong. During the year, a number of new credit cards were launched to meet the needs of different customer segments, and a series of marketing campaigns were conducted to encourage the use of e-Channels. Additionally, the "BOCHK Credit Card" WeChat official account was upgraded to include new services such as account and bonus points balance enquiries; and transaction alert service to further improve the overall customer experience and convenience. These helped maintain the Group's leadership position in terms of the number of WeChat fans under the financial institution official account category.

A growing customer base for wealth management services

The Group made a stronger effort to deepen its existing customer relationships and acquire new customers. During the year, it continued to provide tailored financial solutions to Wealth Management, Enrich Banking and i-Free Banking customers, and deepened customer relationships. It also launched large-scale marketing programmes, including Family Banking-themed promotions and those targeted to university students and youth customers. At the same time, via the multi-dimensional development of employee payroll service, the Group encouraged customers to use its banking services with the aim of becoming their main bank. Through deepening collaboration with BOC and establishment of an effective cross-border sales and service model, the Group recorded a significant growth in quality customers from the Mainland. Furthermore, it set up a Cross-border Financial Service Centre with a dedicated team of Relationship Managers to serve customers across the border, increasing the Group's capabilities in cross-border banking services to personal clients.

In collaboration with business units of the Group as well as BOC's other entities, the Group's Private Banking business further expanded its customer base through a series of client acquisition and referral activities. During the year, it broadened its range of tailored products and services and optimised its business platform to raise brand awareness. The Group worked more closely with BOC's branches in the ASEAN region, to be in line with its regional transformation. Both the number of Private Banking clients and their assets under management achieved an encouraging growth.

Optimising banking channels

In 2015, the Group strived to optimise its distribution channels to meet the needs of customers. At the end of 2015, the Group's (including NCB) service network in Hong Kong comprised 262 branches, including 135 wealth management centres. During the year, the Group continued to roll out new concept branches in strategic areas of Hong Kong to enhance its brand image and appeal to new customers. Automated banking channels were further enhanced in terms of coverage points and facilities.

In response to the rapid development of Internet finance, the Group enhanced the use of new media for sales promotions. It pioneered the launch of customer enquiries function in the WeChat official account and the first-ever Online Loan 360 Service in Hong Kong, which is an Online-to-Offline (O2O) platform to provide online loan services for enhanced protection of customers' data. As initiated by the HKMA, the Group launched e-Cheques Services and was among the first batch of banks to introduce this brand new platform. Other service improvements included functional enhancements to Internet banking, mobile banking and its call centre. In recognition of its well-received electronic platform and outstanding services, BOCHK received the Best Multi-channel Project Award in the Technology Implementation Awards 2015 by *The Asian Banker*, the Mobile Banking Initiative of the Year – Hong Kong award in the *Asian Banking and Finance* Retail Banking Awards 2015 as well as a number of other industry awards during the year.

Corporate Banking

Financial Results

Corporate Banking's profit before taxation was HK$10,975 million, a growth of HK$320 million, or 3.0%, year-on-year. Net fee and commission income grew strongly, partially offset by the net charge of loan impairment allowances.

Net interest income decreased slightly by 0.6%. The positive impact on net interest income with the increase in the average balance of loans and deposits and the improvement in loan spread was offset by the narrowed deposit spread. Net fee and commission income increased strongly by 41.8%, largely led by the growth in loan commissions. There was a net charge of loan impairment allowances as compared with a net reversal last year, mainly due to the net charge of individually assessed impairment allowances caused by the downgrade of a few corporate advances.

Business Operations

In 2015, the Group continued to make good progress in becoming a bridgehead for the internationalisation and diversification of the BOC and provided comprehensive financial support to clients across different regions. Its Corporate Banking business continued to grow in the local sector and made important headway in capturing the increasing demand for cross-border banking services from customers expanding into countries along the Belt and Road. The Group also captured opportunities arising from the development of FTZs and extended its geographical presence by securing relationships with overseas financial institutions and central banks. In the custody business, the Group successfully enlarged its customer base and captured opportunities in new client segments. The Group also enhanced its service capabilities in the cash management business, which was well recognised by the industry.

Capturing opportunities from major national strategic initiatives

In 2015, the Group was active in capturing opportunities from major national strategic initiatives. It succeeded in expanding its customer base with leading enterprises in Hong Kong, the Mainland and overseas. It formulated differentiated strategies that brought tailored services to customers and provided them with funding solutions that support their expansion into countries along the Belt and Road and in the ASEAN region. To capture opportunities made possible by the development of the FTZ policy, the Group took the lead in signing strategic cooperation agreements or loan contracts with a number of enterprises in new FTZs in Guangdong, Fujian and Tianjin and successfully provided cross-border direct loans to these enterprises.

The Group also further deepened its collaboration with BOC. During the year, the co-operation mechanism set up among BOC's Guangdong, Hong Kong and Macau operations in 2014 was optimised and helped complete several significant cross-border loan projects, raising BOC's service capabilities in these three areas. In line with its strategic development, the Group also set up closer cooperation mechanisms with BOC's entities in the ASEAN region, strengthening its comprehensive cooperation in banking products and services and raising BOC's service coverage and overall synergy in the region.

Meanwhile, acting as BOC's Asia-Pacific Syndicated Loan Centre, the Group worked closely with BOC's overseas branches and participated in a number of significant syndicated loans for corporates in support of their global financing activities. Through these activities, it remained the top mandated arranger in the Hong Kong-Macau syndicated loan market. In recognition of its outstanding services in cross-border financing, BOCHK received the Outstanding Corporate/Commercial Banking – Cross-border All-round Services Award at the RMB Business Outstanding Awards 2015 organised by Metro Finance, Metro Finance Digital and Hong Kong *Wen Wei Po* and the Commercial Banking – Excellence Award, Corporate Finance – Excellence Award in the *Bloomberg Businessweek* Financial Institution Awards 2015.

Enhancing business development in the commercial sector

In 2015, the Group improved the management model of SME service, which not only further enhanced its service and sales capabilities but also helped expand its customer base. The Group supported BOC's effective cross-border business platform for business matching and collaboration between the Mainland, local and overseas SMEs to achieve mutual benefits. The Group added a streamlined application and One-hour Preliminary Approval Service to its BOC Small Business Loan service that improved operational efficiency and the customer experience. It also maintained its close contacts with local trade associations by co-organising and sponsoring various business activities and providing the latest market information to reinforce its connections in the local business sector. In recognition of its long-standing support of SMEs in Hong Kong, BOCHK received the Best SME's Partner Award from the Hong Kong General Chamber of Small and Medium Business for the eighth year in a row.

Development of institutional businesses

The Group expanded its institutional businesses in 2015. To carry out its long-term strategies for expanding business in countries along the Belt and Road and in the ASEAN region, the Group strengthened its network of corresponding banks and created extensive cooperation with central banks in these countries. Leveraging BOC's competitive edge in RMB business and global service capabilities, the Group actively developed relationships with overseas central banks and supranational organisations. Locally, the Group expanded cooperation with and offered tailor-made services to non-governmental organisations and entities. During the year, the Group acted as the receiving bank for a number of major IPOs in Hong Kong, which consolidated its leading position in the market. Under the Mainland-Hong Kong Mutual Recognition of Funds scheme, the Group captured opportunities to open southbound settlement accounts for Hong Kong agents of various Mainland asset management companies and strengthened business relationships with foreign asset management companies in the northbound fund business. BOCHK was appointed the sole settlement bank for Shanghai-Hong Kong Gold Connect by Shanghai International Gold Exchange Co. Ltd. ("SGEI"), a wholly-owned subsidiary of Shanghai Gold Exchange.

Enlarging the customer base for custody services

In 2015, the Group strived to enlarge its institutional customer base and capture growing opportunities from new client segments for custody services. It successfully established business relationships with new applicants from overseas and maintained its status as one of the largest Renminbi Qualified Foreign Institutional Investors ("RQFII") service providers in Hong Kong. It made solid progress in Qualified Domestic Institutional Investor ("QDII") by securing its first trust-QDII mandates and also Qualified Domestic Limited Partner deals. In addition, the Group collaborated more closely with BOC and its branches to enhance its service capabilities. At the end of 2015, excluding the RMB fiduciary account for participating banks, total assets under the Group's (including NCB) custody were valued at HK$776.6 billion.

Further expansion of cross-border cash management services

The Group further enhanced its cross-border cash management service capabilities. It worked closely with BOC and completed the implementation of cross-border cash pooling services for a number of large corporate clients and helped them maximise their cash liquidity through onshore and offshore two-way cash sweeping. Following BOCHK's appointment as the sole settlement bank for Shanghai-Hong Kong Gold Connect by SGEI, the Group provides SGEI with funds settlement and cross-border payment services for cross-border gold trading related transactions. In recognition of its outstanding cash management services, BOCHK received the Achievement Award for the Best Cash Management Bank in Hong Kong by *The Asian Banker* for the third consecutive year. It also received the Hong Kong Domestic Cash Management Bank of the Year award in the *Asian Banking and Finance* Wholesale Banking Awards for the second consecutive year. In addition, BOCHK was recognised in the corporate customer poll held by *Asia Money* as the Best Overall Domestic Cash Management Services for Large Sized Corporates and Best Overall Cross-Border Cash Management Services for Large Sized Corporates.

Proactive measures to contain risks

In 2015, the Group adhered to a prudent credit policy with further refinement of Know Your Customers and risk management on key industries. In view of the uncertain economic environment, credit monitoring has been performed on a more frequent and proactive basis. The Group put in place more stringent pre- and post-lending monitoring measures to track early negative signs. Additionally, it stayed alert to its Mainland exposures and remained vigilant in monitoring customers in certain vulnerable industries with the threat of overcapacity. It also established a trigger point to review and manage the concentration risk of Mainland exposures. Finally, to accommodate the Group's business strategy associated with Mainland enterprises going global and in line with the Belt and Road initiative, the Group has been raising related underwriting standards in its credit policies and procedures with the aim of putting in place more efficient and sound risk control measures for the Group's business development in new markets.

Treasury

Financial Results

Treasury's profit before taxation was HK$7,801 million, a decrease of 17.1% from the previous year.

Net interest income decreased by 24.2%, mainly due to the decrease in the average balance of RMB balances and placements with banks, coupled with the decline in the average yield on related assets caused by the drop in market interest rates. The average yield of debt securities investments also declined. The decrease was, however, partially offset by the increase in the average balance of debt securities investments. Net gain on other financial assets increased strongly by HK$455 million or 928.6% as the Group recorded a gain from the disposal of certain debt securities investments in 2015.

Business Operations

In 2015, the Group's Treasury business captured market opportunities and offered time-to-market products to customers with satisfactory growth in customer transactions. The Group reinforced its market leadership in the RMB treasury business and was the first international commercial bank to issue RMB financial bonds (Panda bonds) in the Mainland's domestic interbank bond market. In addition, the Group continued to optimise its RMB clearing service and actively supported the liquidity of the RMB market in Hong Kong.

An active response to customer demand

In line with its customer-centric approach, the Group studied customers' product preferences and requirements to enhance its product distribution capabilities. It offered time-to-market products, launched themed and bundling marketing programmes, revamped the distribution channel for traditional investment products, and strengthened the sales support of the Investment Product Specialist team. During the year, currency exchange, FX Margin and equity-linked investment products were well-received by customers and the related transactions registered a satisfactory growth. In the bond underwriting business, the Group explored diversified business opportunities from the underwriting of dim sum bonds as well as USD and EUR-denominated bonds. The Group also successfully expanded its banknote business to overseas markets. In recognition of its outstanding service in treasury products, BOCHK received the Hong Kong Domestic Foreign Exchange Bank of the Year award in the *Asian Banking and Finance* Wholesale Banking Awards 2015.

Reinforcing market leadership in the RMB treasury business

The Group remained committed to strengthening Hong Kong's position as a major offshore RMB hub and promoted the continuous development of RMB internationalisation. In 2015, in view of changes in RMB interest rates and exchange rates, the Group fully leveraged its competitive edge in RMB business by providing value-preservation solutions and instant market pricing information to customers, resulting in significant growth in corporate and institutional clients businesses. In recognition of its outstanding RMB treasury business, BOCHK received the Best Onshore Interest Rate Hedging in the Stars of China Awards 2015 by *Global Finance* Magazine and the Best offshore RMB Bond Lead Manager in Hong Kong 2015 in the Global RMB Asset Ranking 2015 by *The Asian Banker*.

Optimising RMB clearing service

The Group continued to strengthen its clearing capabilities to ensure the stable development and continuous improvement of its RMB clearing services in Hong Kong and overseas. During the year, the Group extended the clearing service hours of its RMB Real Time Gross Settlement ("RTGS") System to 20.5 hours per day to further enhance the real-time RMB clearing services for participating banks and RMB clearing banks in Europe and the Americas. The Group also launched the innovative Extended Clearing Service in the RMB RTGS System by enhancing the system architecture and adding a new tier of participant called Global Users. This new function provided convenience to participating banks' provision of real-time RMB clearing services to their corresponding banks. In addition, the Group continued to act as an active Primary Liquidity Provider with additional RMB liquidity to stabilise the market. In June, the PBOC enacted a policy that allows offshore RMB clearing and participating banks to take part in the onshore bond repo market, following which the Group completed the first repo transaction as an offshore participating bank.

Maintaining a prudent investment strategy

The Group continued to exercise prudence in managing its banking book investments, while closely monitoring market changes and adjusting its investment portfolio in order to enhance returns, while remaining alert to risks. During the year, the Group adjusted its investment portfolio in response to fluctuations in RMB interest rates and the normalisation of US interest rates. It increased its investments in government-related and high-quality corporate bonds to optimise its investment portfolio. In September, the Group successfully issued RMB1 billion financial bonds (Panda bonds), making it the first international commercial bank to do so in the domestic interbank bond market of the Mainland of China. This landmark transaction not only opened up a new source of funding for the Group, but also set a precedent for other foreign institutions that plan to tap the onshore capital market.

Insurance

Financial Results

Profit before taxation in the Group's Insurance segment was HK$932 million in 2015, up 52.0% from 2014. The growth was mainly driven by improved underwriting income, derived from larger scale of in-force insurance business, and reinsurance profit. Net interest income grew by 3.4%, which was mainly driven by larger scale of securities investments due to net premium income received. During the year, net insurance premium grew robustly by 62.5%.

Business Operations

In 2015, the Group continued to optimise its insurance products and enhanced its marketing and promotional campaigns to increase the sales volume. It reinforced its leading position in the Hong Kong RMB insurance market and remained focused on diversifying its distribution channels to acquire customers from different segments, in particular those with wealth management needs and younger customers.

Continued distribution channel diversification and product enhancement

The Group continued to broaden its product offerings to meet the various needs of customers and diversify its distribution channels to reach different customers segments. During the year, the Group launched a variety of innovative products, including the IncomeRich Annuity Insurance Plan for senior customers, the IncomeShine Whole Life Coupon Plan and the StepUp Whole Life Insurance Plan for customers with savings and wealth management needs, and the Forever Glorious ULife plan for high-net worth customers. By expanding the broker and tied agency channels and launching a new e-Channel, the Group was able to explore different customer segments, especially the younger clientele.

Reinforced leadership in RMB insurance products

The Group reinforced its leading position in the Hong Kong RMB insurance market through product optimisation and innovation amid a slowdown in the RMB insurance market. The Group launched a series of revamped products and products with new features, such as the Target 5 Years Insurance Plan Series, IncomeRich Annuity Insurance Plan, IncomeShine Whole Life Coupon Plan, StepUp Whole Life Insurance Plan, and Forever Glorious ULife Plan, to sustain the growth in the RMB insurance business. In recognition of its outstanding performance, BOCG Life received all four awards in the RMB Business Outstanding Awards 2015 – Outstanding Insurance Business, organised by Metro Finance, Metro Finance Digital and Hong Kong *Wen Wei Po*.

Others

Improving product diversification in asset management

In 2015, BOCHK Asset Management Limited ("BOCHK AM") continued to enhance its product offerings and expand its footprint in other regions. During the year, the Group launched a new retail fund, the BOCHK All Weather CNY Equity Fund, which was well received by customers. This fund aims to achieve long-term capital growth by investing primarily in China A-shares in the Shenzhen stock market through RQFII. With the strong impetus for developing RMB products, the business performance of BOCHK AM was adversely affected by the economic slowdown in the Mainland and the depreciation of the RMB. During the year, BOCHK AM established relationships with other business partners in order to diversify its product offerings and widen its distribution channels. It also established partnerships with BOC's branches in the ASEAN region for customer referrals as well as the promotion of BOCHK AM's services.

In recognition of its outstanding performance, BOCHK AM won the Best RMB Bonds, Offshore, Three Years in its Best of the Best Performance Awards by *Asia Asset Management* in its 2015 Best of the Best Awards. The BOCHK All Weather CNY Equity Fund was awarded the Most Innovative Product under the Best of the Best Country Awards – Hong Kong in the same award. BOCHK AM was also granted the Best-in-Class, High Yield Fixed Income award and the Outstanding Achiever, RMB Fixed Income award in the House Awards of the *BENCHMARK* Fund of the Year Award 2015.

Disposal of Nanyang Commercial Bank, Limited

On 18 December 2015, the Group entered into the Sale and Purchase Agreement with Cinda Financial Holdings Co., Limited ("Cinda Financial") and jointly made an announcement with BOC in relation to the Group's disposal of all the issued shares of NCB (the "Proposed Disposal"). Cinda Financial had been confirmed by Beijing Financial Assets Exchange ("CFAE") as the only qualified bidder in the bidding process and was invited to enter into negotiations with BOCHK on the terms of the Proposed Disposal.

The total consideration for the Proposed Disposal is HK$68 billion, which was determined with reference to various factors, including (i) the net asset value of NCB and the price-to-book multiples achieved in similar transactions in the Hong Kong banking sector; (ii) scarcity value of banking licences in Hong Kong and China; (iii) future development prospects of NCB and Nanyang Commercial Bank (China) Limited ("NCB China"); and (iv) potential synergies between NCB and China Cinda Asset Management Co., Ltd. and its subsidiaries.

Completion of the Proposed Disposal depends upon the satisfaction of certain conditions set out in the Sale and Purchase Agreement. The Group expects to derive a gain before taxation of approximately HK$34,027 million as a result of the Proposed Disposal, which is calculated based on the surplus of the Consideration over the net asset value of NCB as at 31 December 2014, together with the reclassification of the related cumulative translation exchange and revaluation reserve.

However, the actual gain to be recognised could be different from the estimated gain disclosed above owing to (i) the taxes to be incurred on the Proposed Disposal; (ii) change in the net asset value of NCB from 31 December 2014 to the Completion Date; (iii) changes in the cumulative translation exchange and revaluation reserve from 31 December 2014 to the Completion Date; and (iv) the professional charges and expenses arising from the Proposed Disposal for engaging, amongst others, financial, legal and accounting advisors.

For further information on the Proposed Disposal, please refer to the joint announcement made by BOC and the Group on 18 December 2015.

Discontinued operations

Profit from discontinued operations reflected the operating results of NCB after consolidation. Discontinued operations recorded an after-tax profit of HK$2,827 million, representing a year-on-year increase of 6.7%. The increase was attributable to the 21.0% growth of non-interest income, of which net fee and commission income increased by 8.2% and net gain on other financial assets rose by 116.4%. Net interest income was down 9.1% year-on-year. Net interest margin was 1.65%, down 18 basis points from 2014. Classified or impaired loan ratio was 0.44%, a decline of 0.40 percentage point from the end of last year.

Business Focus for 2016

The year 2016 will bring both opportunities and challenges to banks in Hong Kong. The Group will focus on consolidating its leading market position and core businesses in Hong Kong, offering a diverse range of products and services and promoting its strategic transformation and regional development. At the same time, it will adhere to its stringent risk management and controls to safeguard its financial strength and asset quality.

With regards to its customer base, the Group will optimise the mix and boost the business development of its corporate customers. It will also enhance the acquisition of mid- and high-end personal customers. It will seize opportunities from the Mainland's strategic initiatives and policy changes to enhance business penetration of large corporates and to become a more competitive cross-border wealth management platform for mid- and high-net-worth customers. It will further deepen business relationships with the government, public entities, commercial and SME customers in various banking businesses. The Group will continue to enhance its service capabilities to customers and strengthen its business collaboration with BOC's worldwide entities, in particular those in Guangdong, Hong Kong and Macau, to expand areas for business development.

The Group will expand its product offerings and strive to be the premier bank of offshore RMB business. It will capture market opportunities and meet the diverse needs of targeted customers through product innovation, reinforcing the Group's leading position in the offshore RMB business.

To capture opportunities from the new era in asset management, the Group will speed up the development of the eight key business platforms in credit cards, private banking, life insurance, asset management, cash management, custody, trustee and futures. It will leverage the competitive edge of each strategic business platform to deepen product and service penetration to targeted customers and markets to provide support for other business units and for regional expansion.

As regards to its infrastructure, the Group will focus on the branch network transformation to establish an integrated network model to serve retail and commercial customer segments. It will identify targeted customer and service positioning for branches and enrich branch network functions to increase the overall service capabilities and fully enhance the productivity of its branch network. The Group will sharpen its competitive edge in Internet finance by enhancing product and service innovation through the effective use of information technology. It will continue to develop new Internet finance initiatives, push forward various forms of mobile banking service and utilise various mobile application platforms to link the Group's banking services into customers' daily lives. It will also capitalise on BOC's strong competitive edge in cross-border services to develop cross-border e-commerce business.

On 21 May 2015, the Group announced its proposed acquisition from BOC of its banking assets in certain ASEAN countries, and the acquisition work has been progressing smoothly. Expanding into the ASEAN market will transform the Group from a local bank in Hong Kong into a regional bank with cross-border operations. It has put in place a comprehensive matrix-style mechanism for management, cross-region service and referral in the ASEAN region. The Group aims to enhance service capabilities of entities in the ASEAN region and hence become the prevailing bank for banking business domestically.

Regulatory Developments

Designation of Domestic Systemically Important Authorised Institutions ("D-SIBs")

In March 2015, the HKMA designated BOCHK as one of the D-SIBs, which will be required to include a Higher Loss Absorbency (HLA) requirement into the calculation of regulatory capital buffers. In line with the phase-in arrangement in the frameworks issued by the Basel Committee on Banking Supervision, the full amount of HLA requirement will be phased in from 2016-2019 in parallel with the Capital Conservation Buffer and Countercyclical Capital Buffer. In response to the higher regulatory requirement, the Group enhanced its profitability to strengthen its capital base and continued to optimise its management of risk-weighted assets in 2015, resulting in increases in all capital ratios compared with those at the end of 2014. The Group will implement various capital-saving mechanisms and strengthening business units' awareness of capital management to enhance the Group's overall capital position. Additionally, considering the Group's proposed disposal of NCB and the proposed acquisition of BOC's banking assets in certain ASEAN countries, it is expected that the Group will meet all regulatory capital buffer requirements early and maintain its capital position at a solid level.

Growing Importance of Cyber Security Risk Management

The HKMA issued to all authorised institutions a general guidance highlighting the growing importance of proper cyber security risk management given the rise of cyber attacks globally. This guidance provides a detail description of areas for an effective cyber security risk management that authorised institutions are expected to have in place. The Group also pays serious attention to cyber security. It enhanced its technology risk management framework and related policies to strengthen its cyber security and technology risk management. It also introduced best practices in the industry and conducted independent risk assessments on a regular basis. In addition, it promoted respective culture and awareness to all units within the Group.

Technology and Operations

In 2015, the Group continued to upgrade its information technology and business operation infrastructure to support its business growth and improve operational efficiency. It completed the revamp and expansion of its data centre which serves to further improve the information technology production capabilities for supporting the Group's long-term business growth. It launched and enhanced a series of services to strengthen its service capabilities and provide a better customer experience. These included the launch of the AppsDollar platform and e-Cheques services, the kick-off of the Virtual Teller Machine Project, and the enhancement to Electronic Bill Presentment and Payment services. With regards to its operation infrastructure, a new data-processing platform and operation model were deployed to centralise data processing of customer applications at frontline branches.

The Group continued to enhance its infrastructure and reinforce its position as the global hub for RMB settlements. The extension of clearing service hours and the launch of Extended Clearing Service of the RMB RTGS System greatly improved the breadth and depth of the Hong Kong RMB clearing model, with a sharp increase in the clearing volume from Europe and the Americas as well as the increased number of different participants such as overseas central banks and sovereign institutions.

In recognition of the Group's efforts in technological innovation and operational efficiency, BOCG Life's e-Sales & e-Services System won the Digital Transformation Award of the 5th Asia Insurance Technology Award. BOCHK's Trade Services Centre was awarded ISO 9001:2015 Certification as the Group became one of the first financial institutions in Hong Kong to receive this certification in recognition of its consistent products and services for customers. BOCHK also won the Best Champion in Implementing Continual Improvement in Organization and the Best Practice in Process Improvement with Lean in the Asia Quality Best Practice Award.

Credit Ratings

As at 31 December 2015	Long-term	Short-term
Standard & Poor's	A+	A-1
Moody's	Aa3	P-1
Fitch	A	F1

Risk Management

Banking Group

Overview

The Group believes that sound risk management is crucial to the success of any organisation. In its daily operation, the Group attaches a high degree of importance to risk management and emphasises that a balance must be struck between risk control and business development. The principal types of risk inherent in the Group's businesses are credit risk, interest rate risk, market risk, liquidity risk, operational risk, reputation risk, legal and compliance risk, and strategic risk. The Group's risk management objective is to enhance shareholder value by maintaining risk exposures within acceptable limits. The Group has a defined risk appetite statement approved by the Board, which is an expression of the types and level of risk that the Group is willing to take in a controllable way in order to achieve its business goals and to meet the expectations of its stakeholders. For details of the Group's risk management governance structure, please refer to Note 4 to the Financial Statements.

Credit risk management

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, as well as from on- and off-balance sheet transactions of the Group. It arises principally from lending, trade finance and treasury businesses. For details of the Group's Credit Risk Management, please refer to Note 4.1 to the Financial Statements.

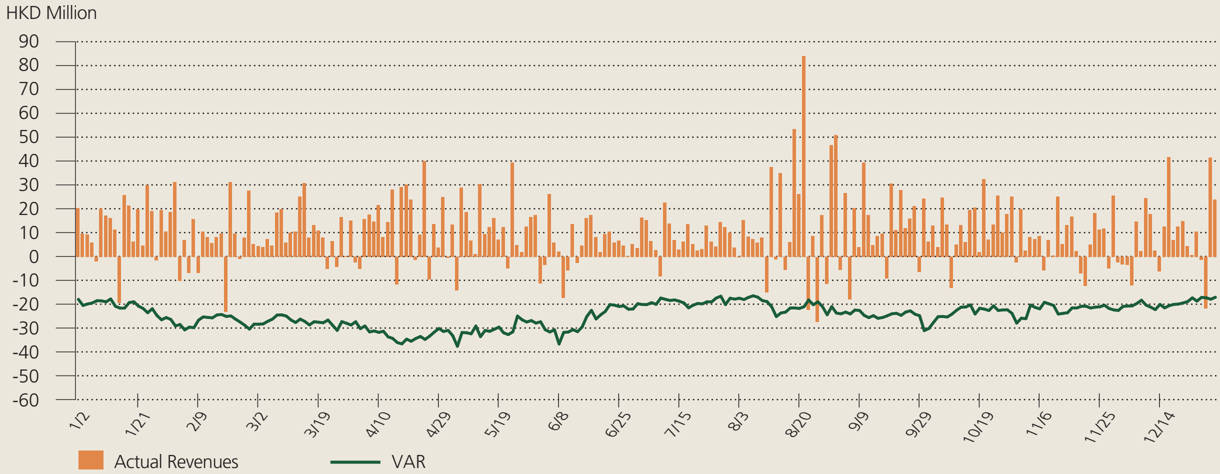
Market risk management

Market risk refers to the risk of loss arising from movements in the value of foreign exchange, interest rate, equity and commodity positions held by the Group due to the volatility of financial market price (foreign exchange rate, interest rate, equity price, commodity price). The Group adopts a moderate market risk appetite to achieve a balance between risk and return. For details of the Group's Market Risk Management, please refer to Note 4.2 to the Financial Statements.

The Group uses the VAR to measure and report general market risks to the Risk Committee ("RC") and senior management on a periodic basis. The Group adopts a uniformed VAR calculation model, using a historical simulation approach and two years of historical market data, to calculate the VAR of the Group and subsidiaries over a one-day holding period with a 99% confidence level, and sets up the VAR limit of the Group and subsidiaries.

The Group adopts back-testing to measure the accuracy of VAR model results. The back-testing compares the calculated VAR figure of market risk positions of each business day with the actual and hypothetical revenues arising from those positions on the next business day. Generally speaking, the number of back-testing exceptions in a rolling 12-month period will not exceed four times, given a 99% confidence level. The graph below shows the back-testing result of the VAR against actual revenues of the Group.

Daily Back-testing in 2015



There were three actual losses exceeding the VAR for the Group in 2015 as shown in the back-testing results.

Interest rate risk management

Interest rate risk means the risks to a bank's earnings and economic value arising from movements in interest rate and term structures of the bank's asset and liability positions. The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are repricing risk, basis risk, yield curve risk and option risk. For details of the Group's Interest Rate Risk Management, please refer to Note 4.2 to the Financial Statements.

Liquidity risk management

Liquidity risk is the risk that banks fail to provide sufficient funds to grow assets or pay due obligations, and need to bear an unacceptable loss. The Group maintains sound liquidity risk appetite to provide stable, reliable and adequate sources of cash to meet liquidity needs under normal circumstances or stressed scenarios; and to survive with net positive cumulative cash flow in extreme scenarios without requesting the HKMA to act as the lender of last resort. For details of the Group's Liquidity Risk Management, please refer to Note 4.3 to the Financial Statements.

Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal process, people and system, or from external events. The risk is inherent in every aspect of business operations and confronted by the Group in its day-to-day operational activities.

The Group has implemented the "Three Lines of Defence" for its operational risk management. All departments or functional units as the first line of defence are the first parties responsible for operational risk management, and carry out the duties and functions of self risk control in the process of business operation through self assessment and self enhancement. The Legal & Compliance and Operational Risk Management Department ("LCO"), together with certain specialist functional units in relation to operational risk management within the Group, including the Human Resources Department, Information Technology Department, Corporate Services Department, Financial Management Department and General Accounting & Accounting Policy Department (collectively known as "specialist functional units"), are the second line of defence. They are responsible for assessing and monitoring the operational risk conditions in the first line of defence, and providing them with guidance. The LCO, being independent from the business units, is responsible for assisting the Management in managing the Group's operational risk, including the establishment and review of the operational risk management policy and framework, designing the operational risk management tools and reporting mechanism, and assessing and reporting the overall operational risk position to the Management and RC. Specialist functional units are required to carry out their managerial duties of the second line of defence with respect to some specific aspects of operational risk and its related issues. Besides taking charge of operational risk management in their own units, these units are also required to provide other units with professional advice/ training in respect of certain operational risk categories and to lead the group-wide operational risk management. Group Audit is the third line of defence which provides independent assessment to the effectiveness and adequacy of the operational risk management framework and is required to conduct periodic audit of the operational risk management activities of various departments or functional units within the Group regarding their compliance and effectiveness and to put forward recommendations for remedial actions.

The Group has put in place an effective internal control process which requires the establishment of policies and control procedures for all the key activities. The Group adheres to the fundamental principle of proper segregation of duties and authorisation. The Group adopts various operational risk management tools or methodologies such as key risk indicators, self-assessment, operational risk events reporting and review to identify, assess, monitor and control the risks inherent in business activities and products, as well as purchase of insurance to mitigate unforeseeable operational risks. Business continuity plans are established to support business operations in the event of an emergency or disaster. Adequate backup facilities are maintained and periodic drills are conducted.

Reputation risk management

Reputation risk is the risk that negative publicity about the Group's business practices, whether genuine or not, will cause a potential decline in the customer base, or lead to costly litigation or revenue decrease. Reputation risk is inherent in other types of risk and every aspect of business operation and covers a wide spectrum of issues.

In order to mitigate reputation risk, the Group has formulated and duly followed its Reputation Risk Management Policy. The policy aims to identify and prevent reputation risk proactively at an early stage when an incident occurs. Since reputation risk is often caused by various types of operational and strategic issues that negatively impact the trust and perception of the Group, all operational and key risks identified are assessed through the established Key Control Self-Assessment framework, including risk assessment tools, to evaluate the severity of their impact on the Group, including the damage to reputation.

In addition, the Group has put in place a comprehensive framework to continuously monitor reputation risk incidents in the financial industry. This continuous monitoring enables the Group to effectively manage, control and mitigate any potential adverse impact from an incident. The Group also adopts robust disclosure practices to keep our stakeholders informed at all times, which helps build confidence in the Group and establish a strong public image.

Legal and compliance risk management

Legal risk is the risk that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operations or financial conditions of the Group. Compliance risk is the risk of legal or regulatory sanctions, financial losses or losses in reputation the Group may suffer as a result of its failure to comply with all applicable laws and regulations. Legal and compliance risks are managed by the LCO, which reports directly to the CRO. As part of the Group's corporate governance framework, the policy for the management of legal and compliance risks is approved by the RC as delegated by the Board.

Strategic risk management

Strategic risk generally refers to the risks that may cause current or future negative impacts on the earnings, or capital or reputation or market position of the Group because of poor business decisions, improper implementation of strategies and inadequacies in the response to the changing market condition. The Board reviews and approves the strategic risk management policy. Key strategic issues have to be fully evaluated and properly endorsed by the senior management and the Board.

The Group regularly reviews its business strategies to cope with the latest market situation and developments.

Capital management

The major objective of the Group's capital management is to maximise total shareholders' return while maintaining a capital adequacy position in relation to the Group's overall risk profile. The Asset and Liability Management Committee ("ALCO") periodically reviews the Group's capital structure and adjusts the capital mix where appropriate to maintain an optimal balance among risk, return and capital adequacy.

To comply with the HKMA's requirements as stated in the Supervisory Policy Manual "Supervisory Review Process", the Group adopts the internal capital adequacy assessment process ("ICAAP") and reviews it annually. Based on the HKMA's guidelines on Pillar II, ICAAP has been initiated to assess the extra capital needed to cover the material risks not captured or not adequately captured under Pillar I, and therefore minimum Common Equity Tier 1 capital ratio, minimum Tier 1 capital ratio and minimum Total capital ratio are determined. Meanwhile, operating ranges for the aforementioned capital ratios have also been established which enable the flexibility for future business growth and efficiency of capital utilisation.

Stress testing

The Group supplements the analysis of various types of risks with stress testing. Stress testing is a risk management tool for estimating risk exposures under stressed conditions arising from extreme but plausible market or macroeconomic movements. These tests are conducted on a regular basis by the Group's various risk management units in accordance with the principles stated in the Supervisory Policy Manual "Stress-testing" published by the HKMA. The ALCO monitors the results against the key risk limits approved by the RC. The Financial Management Department reports the combined stress test results of the Group to the Board and RC regularly.

BOCG Life

BOCG Life's principal business is the underwriting of long-term insurance business in life and annuity (Class A), linked long term business (Class C), permanent health (Class D), retirement scheme management category I (Class G) and retirement scheme management category III (Class I) in Hong Kong. Major types of risk arising from BOCG Life's insurance business are insurance risk, interest rate risk, liquidity risk, credit risk, equity price risk and currency risk. BOCG Life closely monitors these risks and reports to its Risk Management Committee on a regular basis. The key risks of its insurance business and related risk control process are as follows:

Insurance risk management

BOCG Life is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. These risks are managed through the application of underwriting policies and reinsurance arrangements.

The underwriting strategy is intended to set premium pricing at an appropriate level that corresponds with the underlying exposure of the risks underwritten. Screening processes, such as the review of health condition and family medical history, are also included in BOCG Life's underwriting procedures.

The reinsurance arrangement helps transfer the insurance risk associated with the insurance contracts to the third party. It does not, however, discharge BOCG Life's liability as the primary insurer. If a reinsurer fails to pay a claim for any reasons, BOCG Life remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by reviewing the reinsurers' financial strength prior to finalisation of any reinsurance contract. BOCG Life directs its reinsurance placement policy and assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. BOCG Life also monitors the reinsurance counterparty risk exposure on an ongoing basis. It maintains records of the payment history for significant contract holders, with whom it conducts regular business.

For details of the Group's Insurance Risk Management, please refer to Note 4.4 to the Financial Statements.

Interest rate risk management

An increase in interest rates may result in the depreciation of the value of BOCG Life's investment assets. It might induce in customers surrender. A decrease in interest rates may result in an increase in insurance liability and an inability to adequately match guarantees or lower returns leading to customer dissatisfaction. BOCG Life manages the matching of assets and liabilities of its portfolios within an asset liability management framework that has been developed to achieve investment returns that match its obligations under insurance contracts; and to manage the adverse impact due to interest rate movement.

Liquidity risk management

Liquidity risk is the risk of not being able to meet obligations as they fall due without incurring unacceptable loss. BOCG Life's asset and liability management framework includes cash flow management to preserve liquidity to match policy payout from time to time.

Credit risk management

BOCG Life has exposure to credit risk that a customer, debtor or counterparty will be unable to or unwilling to meet a commitment that they have entered into. Key areas to which BOCG Life's insurance business is exposed include:

- Default risk associated with bonds, notes and counterparties
- Credit spread widening as a result of credit migration (downgrade)
- Reinsurers' share of insurance unpaid liabilities
- Amounts due from reinsurers in respect of claims already paid
- Amounts due from insurance contract holders
- Amounts due from insurance intermediaries

BOCG Life manages credit risk by placing limits on its exposure to each investment counterparty and issuer. Such limits are subject to review by the Management at least once a year.

In order to enhance its credit risk management, BOCG Life has strengthened its communication with the Group while closely monitoring and updating internal control to ensure consistency with the Group's credit risk management and investment strategy.

Equity price risk management

Equity price risk refers to the risk of loss due to volatility of market price in listed equity securities and equity funds. BOCG Life's asset and liability framework includes managing the adverse impact due to equity price movement though stress test and exposure limit.

Currency risk management

Currency risk refers to the risk of loss due to volatility of exchange rate. BOCG Life's asset and liability framework includes managing the adverse impact due to exchange rate movement though stress test, exposure limit and risk limit.

Customer - Centric Culture

Markets & Investing
Global investment trend

Corporate Information

Board of Directors

Chairman

TIAN Guoli#

Vice Chairmen

CHEN Siqing#	
YUE Yi	(re-designation as Executive Director and appointment as Vice Chairman effective from 6 March 2015)
HE Guangbei	(resignation effective from 6 March 2015)

Directors

REN Deqi#	(appointment effective from 20 October 2015)
GAO Yingxin#	(re-designation as Non-executive Director effective from 11 March 2015)
XU Luode#	(appointment effective from 20 October 2015)
LI Zaohang#	(retirement effective from 16 June 2015)
ZHU Shumin#	(resignation effective from 2 April 2015)
LI Jiuzhong	(appointment effective from 31 March 2015)
CHENG Eva*	
KOH Beng Seng*	
SHAN Weijian*	
TUNG Savio Wai-Hok*	

Non-executive Directors
* Independent Non-executive Directors

Senior Management

Chief Executive

YUE Yi	(appointment effective from 6 March 2015)
HE Guangbei	(resignation effective from 6 March 2015)

Chief Risk Officer

LI Jiuzhong

Deputy Chief Executives

LIN Jingzhen	(appointment effective from 26 May 2015)
YUAN Shu	(appointment effective from 26 November 2015)
GAO Yingxin	(resignation effective from 11 March 2015)
HUANG Hong	(resignation effective from 1 July 2015)
ZHU Yanlai	(resignation effective from 15 April 2015)

Chief Operating Officer

ZHONG Xiangqun	(appointment effective from 30 September 2015)
LEE Alex Wing Kwai	(expiry of contract effective from 2 July 2015)

Chief Financial Officer

SUI Yang

Deputy Chief Executives

KUNG YEUNG Ann Yun Chi	(appointment effective from 1 March 2015)
YEUNG Jason Chi Wai	(retirement effective from 1 March 2015)

Company Secretary

CHAN Chun Ying

Registered Office

52nd Floor
Bank of China Tower
1 Garden Road
Hong Kong

Auditor

Ernst & Young

Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

ADR Depositary Bank

Citibank, N.A.
388 Greenwich Street
14th Floor
New York, NY 10013
United States of America

Website

www.bochk.com

Board of Directors and Senior Management

DIRECTORS

Mr TIAN Guoli

Chairman

Aged 55, is the Chairman of the Board of Directors and the Chairman of the Nomination Committee of the Company and BOCHK. He is currently the Chairman and Executive Director of BOC and also a Director of BOC (BVI) and BOCHKG. Prior to joining BOC in April 2013, Mr TIAN served as Vice Chairman of the Board of Directors and General Manager of China CITIC Group from December 2010 to April 2013. During this period, he served as Chairman of the Board of Directors and Non-executive Director of China CITIC Bank. From April 1999 to December 2010, Mr TIAN successively served as Vice President and President of China Cinda Asset Management Company, and Chairman of the Board of Directors of China Cinda Asset Management Corporation Limited. From July 1983 to April 1999, Mr TIAN held various positions in China Construction Bank ("CCB"), including General Manager of sub-branch, Deputy Branch General Manager, Department General Manager of CCB Head Office and Assistant Executive President of CCB. Mr TIAN graduated from Hubei Institute of Finance and Economics in 1983 and was awarded a Bachelor's Degree in Economics.

Mr CHEN Siqing

Vice Chairman

Aged 55, is the Vice Chairman of the Board of Directors and member of each of the Remuneration Committee and the Nomination Committee of the Company and BOCHK. He is currently the Vice Chairman, Executive Director and President of BOC. He is also a Director of BOC (BVI) and BOCHKG. Mr CHEN joined BOC in 1990 and worked in the Hunan Branch before he was seconded to the Hong Kong Branch of China and South Sea Bank Ltd. as Assistant General Manager. Mr CHEN held various positions in BOC from June 2000 to May 2008, including Assistant General Manager, Vice General Manager of the Fujian Branch, General Manager of the Risk Management Department of BOC and General Manager of the Guangdong Branch. He served as Executive Vice President of BOC from June 2008 to February 2014 and Chairman of the Board of Directors of China Culture Industrial Investment Fund Co., Ltd. from December 2010 to April 2015. Mr CHEN has been serving as the Chairman of the Board of Directors of BOC Aviation Private Limited since December 2011. Mr CHEN graduated from Hubei Institute of Finance and Economics in 1982 and obtained an MBA from Murdoch University, Australia in 1999. He is a Certified Public Accountant.

Mr YUE Yi

Vice Chairman, Executive Director and Chief Executive

(re-designation as Executive Director, appointment as Vice Chairman and Chief Executive effective from 6 March 2015)

Aged 59, is the Vice Chairman, Executive Director and the Chief Executive with overall responsibility for the business and operations of BOCHK and a member of the Strategy and Budget Committee of the Company and BOCHK. He has been appointed as Chairman of BOCHK Charitable Foundation and BOCG Life with effect from 6 March 2015, NCB and Chiyu on 20 March 2015 as well as NCB (China) effective from 18 May 2015. On 6 March 2015, he has been appointed as the designated representative of BOCHK to Hong Kong Association of Banks, member of each of Banking Advisory Committee and Bank Notes Issue Advisory Committee, director of Hong Kong Interbank Clearing Limited, HKICL Services Limited and Hong Kong Note Printing Limited as well as council member of Treasury Markets Association. On 7 March 2015, he has been appointed as Vice Chairman of Board of Trustee and Chairman of Investment Subcommittee respectively of Ho Leung Ho Lee Foundation. Mr YUE has been appointed as Honorary President of Hong Kong Chinese Enterprises Association since 22 June 2015, a member of Exchange Fund Advisory Committee since 15 July 2015, Vice President of Hong Kong Institute of Bankers since 4 August 2015, special advisor of Maritime Silk Road Society since 16 December 2015, and Honorary member of Hong Kong-Japan Business Co-operation Committee since 11 January 2016. He was the Executive Vice President of BOC from August 2010 to March 2015, Chairman of Bank of China (UK) Limited from September 2010 to October 2015, Chairman of BOCI from November 2011 to August 2015, Chairman of Bohai Industrial Investment Fund Management Co., Ltd. from March 2012 to mid-2015, and Chairman of Bank of China (Luxembourg) S.A. from January 2014 to August 2015. Mr YUE joined BOC in 1980 and has been working in the Beijing Branch, Seoul Branch and the Head Office of BOC. He served as the Vice President of BOC Beijing Branch from January 1993 to January 2000, as General Manager of Seoul Branch from January 2000 to October 2003, as Deputy General Manager/General Manager of the Retail Banking Department from October 2003 to February 2005, as General Manager of the Personal Banking Department from February 2005 to March 2008, as member of the Group Executive Committee, Vice Chairman of Personal Banking Committee, Global Head of Personal Banking Business from March 2008 to March 2009, as member of the Group Executive Committee, Vice Chairman of Financial Markets Committee, Global Head of Financial Markets Business from March 2009 to October 2010. Mr YUE is a master degree holder and he received his Master's Degree in Finance from Wuhan University in 1999.

Mr REN Deqi

Non-executive Director

(appointment effective from 20 October 2015)

Aged 52, is a Non-executive Director, Chairman of the Strategy and Budget Committee and member of the Risk Committee of the Company and BOCHK. He is the Executive Vice President of BOC since July 2014. Prior to joining BOC in May 2014, Mr REN worked in CCB for many years and held various positions. From October 2013 to May 2014, he served as General Manager of Risk Management Department of CCB. From August 2003 to October 2013, he successively served as Deputy General Manager of Credit Approval Department, General Manager of Risk Control Department, General Manager of Credit Management Department, and General Manager of the Hubei Branch of CCB. Mr REN received a Master's Degree in Engineering from Tsinghua University in 1988.

Mr GAO Yingxin

Non-executive Director

(re-designation as Non-executive Director and resignation as Deputy Chief Executive effective from 11 March 2015)

Aged 53, is a Non-executive Director, member of each of the Risk Committee and the Strategy and Budget Committee of the Company and BOCHK. Prior to his re-designation as a Non-executive Director in March 2015, he was Deputy Chief Executive (Corporate Banking) of the Company and BOCHK from February 2005 to March 2015 and Executive Director of the Company and BOCHK from May 2007 to March 2015. Mr GAO has been appointed as Executive Vice President of BOC on 6 May 2015, Chairman of the board of directors of China Cultural Industrial Investment Fund Co., Ltd. in May 2015, Chairman of BOCI and Chairman of Bank of China (Luxembourg) S.A. in August 2015, and Chairman of Bank of China (UK) Limited in October 2015. He was the Chairman of NCB, Vice Chairman of NCB (China) and Director of BOCG Insurance during the year and resigned all the position in March 2015. Before joining BOCHK, he was President and Chief Operating Officer of BOCI. Mr GAO joined the BOC Group in 1986 where he began working on financing projects for various industries at BOC's Head Office in Beijing. In 1999, he became General Manager of Corporate Banking at BOC Head Office where he was responsible for managing and building BOC Group's customer relationships with and global financing for multinational corporations and premium domestic clients in the Mainland of China. He was also in charge of BOC's major financing projects. From 1995 to 1996, he worked for the Finance Department of Northern Telecom (Nortel) Head Office in Canada. Mr GAO graduated from the East China University of Science and Technology with a Master's Degree in Engineering in 1986.

Mr XU Luode

Non-executive Director

(appointment effective from 20 October 2015)

Aged 53, is a Non-executive Director, member of each of the Remuneration Committee and the Strategy and Budget Committee of the Company and BOCHK. He is the Executive Vice President of BOC since June 2015. Prior to joining BOC in April 2015, Mr XU served as Chairman of Shanghai Gold Exchange from August 2013 to April 2015. From August 2007 to August 2013, he served as the Vice Chairman of the Board of Directors and President of China UnionPay Limited. Mr XU worked in The People's Bank of China ("PBOC") for many years. He served as Director General of the Payment and Settlement Department of PBOC from October 2003 to August 2007, and served as the Deputy General Director of the General Executive Office of PBOC from March 1999 to October 2003. He has been serving as Chairman of BOCCC since June 2015, Chairman of BOC Consumer Finance Co., Limited and Director of China UnionPay Company Limited since July 2015. Mr XU received a Bachelor's Degree in Economics from Hunan College of Finance and Economics in 1983.

Mr LI Jiuzhong

Executive Director

(appointment effective from 31 March 2015)

Aged 53, is an Executive Director of the Company and BOCHK. He has been the Chief Risk Officer of the Group since March 2010. He is in charge of the Group's overall risk management function, overseeing the BOCHK's Risk Management Department, Legal & Compliance and Operational Risk Management Department, and Financial Crime Compliance Department. He is also a Director of NCB, NCB (China), BOCCC and BOCG Life. Mr LI has over 30 years' experience in the banking industry. Mr LI joined BOC in 1983 and, since then, he has assumed various positions at BOC Head Office and overseas branch. He served as Assistant General Manager and became Deputy General Manager of BOC London Branch from 1996 to 2002, Deputy General Manager of Corporate Banking Department of BOC Head Office from 2002 to 2004, and also General Manager of Corporate Banking Department, Risk Management Department, and Global Markets Department of BOC Head Office from 2004 to 2009. Mr LI graduated from Northeast Petroleum University in 1983 with a Bachelor's Degree in Science in Oilfield Development and Management and obtained a Master's Degree in Science in International Banking and Financial Studies from Heriot-Watt University (UK) in 1993.

Mdm CHENG Eva

Independent Non-executive Director

Aged 55, is an Independent Non-executive Director and member of each of the Audit Committee and the Strategy and Budget Committee of the Company and BOCHK. She was the former Secretary for Transport and Housing of the Government of the Hong Kong Special Administrative Region ("HKSAR"). She joined the government's Administrative Service in August 1983 and was posted to various bureaux and departments, including serving as the Permanent Secretary for Economic Development and Labour (Economic Development) and Commissioner for Tourism. She retired from the Government of the HKSAR on 30 June 2012. Mdm CHENG holds a Bachelor's Degree in Social Sciences from University of Hong Kong.

Mr KOH Beng Seng

Independent Non-executive Director

Aged 65, is an Independent Non-executive Director, Chairman of the Risk Committee and member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company and BOCHK. Mr KOH is currently the Chief Executive Officer of Octagon Advisors Pte Ltd, a business and management consulting company based in Singapore. He is also the Non-executive Chairman of Great Eastern Holdings Limited, Independent Non-executive Director of Singapore Technologies Engineering Ltd and United Engineers Limited, all listed in Singapore. Mr KOH is also a Director of Hon Sui Sen Endowment CLG Limited. He was formerly a Director of Sing Han International Financial Services Limited and an Independent Non-executive Director of Fraser and Neave Limited (a company listed in Singapore). Mr KOH was Deputy President of United Overseas Bank ("UOB") and a member of UOB's Executive Committee from 2000 to 2004. During this period, he was in charge of UOB's operations, delivery channels, information technology, corporate services, risk management and compliance functions and played a key role in driving the successful integration of Overseas Union Bank and UOB in 2001. Prior to that, Mr KOH has spent over 24 years at the Monetary Authority of Singapore where he made significant contributions to the development and supervision of the Singapore financial sector in his capacity as Deputy Managing Director, Banking & Financial Institutions Group. He has also served as a Director of Chartered Semiconductor Manufacturing and as a part-time adviser to the International Monetary Fund. Mr KOH holds a Bachelor's Degree in Commerce from Nanyang University in Singapore and a Master's Degree in Business Administration from Columbia University in the United States.

Mr SHAN Weijian

Independent Non-executive Director

Aged 62, is an Independent Non-executive Director, Chairman of the Audit Committee and member of each of the Remuneration Committee and the Nomination Committee of the Company and BOCHK. Mr SHAN is the Chairman and Chief Executive Officer of PAG, an investment firm. He is also a director of TCC International Holdings Limited, a company listed on the Stock Exchange. Mr SHAN is also a Governor of China Venture Capital and Private Equity Association Limited. He was Senior Partner of TPG, Co-Managing Partner of Newbridge Capital, Managing Director of JP Morgan, an assistant professor at the Wharton School of the University of Pennsylvania and an Investment Officer at the World Bank in Washington DC. Mr SHAN graduated from the Beijing Institute of Foreign Trade with a major in English in 1979. He obtained a Master's Degree in Business Administration from the University of San Francisco in 1981, and received a Master of Arts Degree in Economics and a PhD Degree in Business Administration from the University of California at Berkeley in 1984 and 1987 respectively.

Mr TUNG Savio Wai-Hok

Independent Non-executive Director

Aged 64, is an Independent Non-executive Director, Chairman of the Remuneration Committee and member of each of the Audit Committee, the Nomination Committee, the Risk Committee and the Strategy and Budget Committee of the Company and BOCHK. Mr TUNG is currently the Chairman of Investcorp Technology Partners and Senior Advisor of Investcorp, he was the Chief Investment Officer and one of the founding partners of Investcorp. Mr TUNG was appointed a Director, a member of the Audit Committee and the Governance and Nominating Committee of Tech Data Corporation, a company listed on NASDAQ, in June 2010. Before joining Investcorp in 1984, he worked for Chase Manhattan Bank for about 11 years, holding various positions in its front, middle and back offices and served in its offices in New York, Bahrain, Abu Dhabi and London. Mr TUNG has served on the boards of many of Investcorp portfolio companies, including Club Car, Circle K, Saks Fifth Avenue, Simmons Mattresses, Star Market, and Stratus Computer. He is also a board member and treasurer of the Aaron Diamond AIDS Research Center, an affiliate of Rockefeller University. Mr TUNG holds a BSc in Chemical Engineering from Columbia University of New York, where he is also a trustee emeritus and a member of the Columbia University Medical Center Board of Visitors.

SENIOR MANAGEMENT

Mr LIN Jingzhen

Deputy Chief Executive

(appointment effective from 26 May 2015)

Aged 50, is the Deputy Chief Executive of the Group, overseeing Global Corporate Banking Department, Commercial Banking Department, Transaction Banking Department, Institutional Business Department, Corporate Credit Management Centre, China Business and Southeast Asia Business. He is also the Vice Chairman of NCB (China). Prior to joining the Group, Mr LIN served as General Manager of Corporate Banking Department of BOC in charge of the corporate banking business, covering product development, relationship management with premium customers, and major project financing. Joining BOC in 1987, Mr LIN has extensive experience in corporate banking business and held various positions in Hong Kong Branch, Xiamen Branch, Fujian Branch and the Head Office of BOC. Mr LIN graduated from Xiamen University with a Bachelor's Degree in Finance and a Master's Degree in Business Administration.

Mr YUAN Shu

Deputy Chief Executive

(appointment effective from 26 November 2015)

Aged 53, is the Deputy Chief Executive of the Group in charge of the financial market business, including Global Markets, Investment Management, Global Transaction Banking, Asset Management and other capital market-related businesses. He is also a Director of BOCG Life. Mr YUAN has over 30 years of experience in the industry with solid professional expertise and management experience. He has held different positions in the financial market businesses at Head Office and in various overseas branches of BOC. Mr YUAN joined the Trading Department of BOC in 1983, then held positions in the Paris and Tokyo branches, as well as the Trading Department and Global Financial Markets Department of BOC Head Office. Mr YUAN was Director (Trading) of the Global Financial Markets Department in 2006 and was promoted to General Manager (Trading) of the Financial Markets Unit in 2010. Prior to joining the Group as Deputy Chief Executive (Financial Markets), he served as the General Manager of the Hong Kong Branch, BOC, from December 2014. Mr YUAN graduated from Renmin University of China majoring in International Finance.

Mr ZHONG Xiangqun

Chief Operating Officer

(appointment effective from 30 September 2015)

Aged 46, is the Chief Operating Officer of the Group, overseeing the Information Technology Department, Bank-wide Operation Department, and Corporate Services Department. He is also a Director of BOCCC. Prior to joining the Group, Mr ZHONG served as General Manager of E-Finance Department of BOC in charge of the development of e-finance business, covering mobile payment, e-business, e-financing and big data application, etc. Joining BOC in 1994, Mr ZHONG has held management positions in Information Technology Department, Personal Banking Unit, Card Centre and Innovation & Development Department, etc. He has solid expertise in information technology and cyber security as well as practical business experience. Mr ZHONG graduated from Peking University with a Bachelor's Degree in Information Science specialised in Software and a Master's Degree in Applied Mathematics.

Mdm SUI Yang

Chief Financial Officer

Aged 42, is the Chief Financial Officer of the Group, overseeing Financial Management Department and General Accounting and Accounting Policy Department. She is also a Director of NCB. Prior to joining the Group in August 2014, Mdm SUI served as Deputy General Manager of Financial Management Department of BOC. She joined BOC in April 1997 and assumed various positions in Finance & Accounting Department of BOC including Deputy General Manager of Management Information System ("MIS") Centre of BOC from September 2008 to March 2011, Assistant General Manager of MIS Centre of BOC from March 2007 to September 2008 and Assistant General Manager of MIS Centre and Finance & Accounting Department of BOC from August 2006 to March 2007. Mdm SUI possesses extensive knowledge and experience in financial management. She obtained a Master's Degree and a Bachelor's Degree in Economics from the Central University of Finance & Economics (formerly the Central Institute of Finance and Banking). Mdm SUI is a member of the Chinese Institute of Certified Public Accountants.

Mrs KUNG YEUNG Ann Yun Chi

Deputy Chief Executive

(appointment effective from 1 March 2015)

Aged 53, is the Deputy Chief Executive of the Group in charge of Personal Banking and Product Management, Channel Management, Private Banking, BOCCC and BOCG Life. She is also the Vice Chairman of BOCCC and a Director of BOCG Life. Mrs KUNG joined BOCHK in August 2007 as Head of Channel Management. She was appointed as the Head of Personal Banking in April 2011, and was promoted to her current role in March 2015. Prior to joining the Group, Mrs KUNG was the General Manager of Branch and Direct Banking of Standard Chartered Bank (Hong Kong) Limited and had held various senior positions covering banking products, customer segments, wealth management and marketing within the organisation. With over 25 years of experience in the industry, Mrs KUNG possesses extensive knowledge in personal banking and a strong background in financial services. Mrs KUNG graduated from the University of Southern California in the U.S. where she obtained her Bachelor of Science Degree in Business Administration with a concentration in Accounting.

Report of the Directors

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

Principal Activities

The principal activities of the Group are the provision of banking and related financial services. An analysis of the Group's performance for the year by business segments is set out in Note 46 to the Financial Statements.

Business Review

For business review of the Group for the year, please refer to "Chairman's Statement", "Chief Executive's Report", "Management's Discussion and Analysis" and "Corporate Social Responsibility" sections.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 118.

The Board has recommended a final dividend of HK$0.679 per share, amounting to approximately HK$7,179 million, subject to the approval of shareholders at the forthcoming annual general meeting to be held on Monday, 6 June 2016. If approved, the final dividend will be paid on Friday, 24 June 2016 to shareholders whose names appear on the Register of Members of the Company on Thursday, 16 June 2016. Together with the interim dividend of HK$0.545 per share declared in August 2015, the total dividend payout for 2015 would be HK$1.224 per share.

Closure of Register of Members for Entitlement to Attend and Vote at Annual General Meeting

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to attend and vote at the Annual General Meeting of the Company, from Wednesday, 1 June 2016 to Monday, 6 June 2016 (both days inclusive), during which period no transfer of shares will be registered. In order to attend and vote at the Annual General Meeting of the Company, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 31 May 2016. The Annual General Meeting of the Company will be held at 2:00 p.m. on Monday, 6 June 2016.

Closure of Register of Members for Entitlement to Final Dividend

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the proposed final dividend, from Monday, 13 June 2016 to Thursday, 16 June 2016 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 10 June 2016. Shares of the Company will be traded ex-dividend as from Wednesday, 8 June 2016.

Donations

Charitable and other donations made by the Group during the year amounted to approximately HK$9 million.

Note: These donations do not include the donations and sponsorships made by BOCHK Charitable Foundation ("the Foundation". For details, please refer to the "Corporate Social Responsibility" section). The Foundation is a separate legal entity established in Hong Kong and is a charitable institution exempt from tax under the Inland Revenue Ordinance.

Shares Issued

Details of the Company's issued shares are set out in Note 40 to the Financial Statements.

As at the latest practicable date prior to the issue of this Annual Report and based on publicly available information, the public float of the Company was approximately 34%. The Directors consider that there is sufficient public float in the shares of the Company.

Debentures Issued

During the year, BOCHK issued the following debentures to raise funds for general working capital purpose.

Class	Amount issued	Consideration received
Senior notes	RMB1,000,000,000	RMB1,000,000,000

Distributable Reserves

Distributable reserves of the Company as at 31 December 2015, calculated under Part 6 of the Hong Kong Companies Ordinance, amounted to approximately HK$7,245 million.

Five-year Financial Summary

A summary of the results, assets and liabilities of the Group for the last five years is set out on page 3.

Directors

The list of Directors of the Company is set out on page 50. The biographical details of the Directors and senior management are set out on pages 52 to 60. The term of office for each Non-executive Director is approximately three years.

Mr YUE Yi has been re-designated from Non-executive Director to Executive Director and appointed as Vice Chairman and Chief Executive effective from 6 March 2015. Mr GAO Yingxin has been re-designated from Executive Director to Non-executive Director effective from 11 March 2015. Mr LI Jiuzhong was appointed as Executive Director effective from 31 March 2015. Mr REN Deqi and Mr XU Luode were appointed as Non-executive Directors effective from 20 October 2015.

Mr HE Guangbei resigned as Vice Chairman, Executive Director and Chief Executive effective from 6 March 2015. Mr ZHU Shumin resigned as Non-executive Director effective from 2 April 2015. Mr LI Zaohang retired as Non-executive Director effective from 16 June 2015. The Board would like to express its sincere gratitude and the highest respect to Mr HE, Mr ZHU and Mr LI for their valuable contributions in all aspects during their tenure of office.

In accordance with Article 98 of the Articles of Association and pursuant to Code A.4.2 of the Corporate Governance Code, the terms of office of Mr YUE Yi, Mr GAO Yingxin and Mr SHAN Weijian will expire at the forthcoming annual general meeting. Mr SHAN Weijian has notified the Company that he has decided not to stand for re-election at the forthcoming annual general meeting. The other two retiring Directors, Mr YUE Yi and Mr GAO Yingxin being eligible, will offer themselves for re-election. Further, pursuant to Article 102 of the Articles of Association, any Director appointed by the Board during the year shall hold office only until the next following annual general meeting, and shall then be eligible for re-election at such meeting. Accordingly, the terms of office of Mr REN Deqi and Mr XU Luode, who had been appointed on 20 October 2015, will expire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Save for the list of Directors of the Company as set out on page 50, other directors of the Company's subsidiaries during the year ended 31 December 2015 are as follows:

XIAO Wei	LIN Jingzhen	YUAN Shu	HUANG Hong
ZHU Yanlai*	ZHONG Xiangqun	SUI Yang	KUNG YEUNG Ann Yun Chi
CHAN Ka Pui	CHAN Kam Lun	CHAN Lap Bong	CHAN Sai Ming
CHAN Siu Ping Chordio	CHAN Yiu Fai	CHANG Hsin Kang	CHEN Zhong Xin
CHENG Po Kee	CHENG Zeyu	CHEUNG Wai Hing	CHEUNG Wing Shing Vincent
CHOW Chak Chee	CHOW Tak Man	CHU Wing Yiu	CHUNG Chun Wa
DU Qiang	FANG Hongguang	FUNG Kam Chung Astrid	FUNG Pui Cheung
FUNG Yin Fan Kamill	GONG Huazhang	GWEE Siew Ping	HO Ka Chuen Clement
HU Haozhong	HUANG Ling	KAI Chi On	KWONG Shu Ming
LAM Man Yi	LAN Hong Tsung, David	LAU Hon Chuen	LAU Tim
LEE Hoi Yin, Stephen	LEUNG Ka Chun	LEUNG Yuen Hong	LIU Hui Jun
LIU Xin Qun	LIU Yalin	LO Kin Wing Terry	LU Ying
Neil Anthony TORPEY	NG Chui Sheung	NG Kwok Yuen	NG Leung Sing
SHING Sze Yee	SHUM Wai Chun	SO Shing Shun	SZE Ying Tat
TAN Wan Chye	TO Chi Wing	TSE Siu Ling	WANG Jian
WANG Jianqiang	WANG Tong	WANG Yunchao	WONG Chek Ming
WONG Chun Keung	WONG Kine Yuen	WONG Man Chiu	WONG Man Yee
WONG Siu Man	WOO Chia Wei	YANG Ruhai	YIP Man Kai
YU Kwok Chun	ZENG Xiaoping	ZHAO Chuntang	AU King Lun*
FONG Siu Wah*	Graham David MASON*	LEE Alex Wing Kwai*	LI Kit Mei*
LO Ping Wa*	NG Sai Keung Derek*	SO Tat Wai*	YEUNG Jason Chi Wai*
YIN Rong*	ZHU Min*		

* Resigned/retired during the year.

Directors' Service Contracts

No Director offering for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than the normal statutory compensation.

Directors' Interests in Transactions, Arrangements or Contracts

No transactions, arrangements or contracts of significance, in relation to the Group's business to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

Mr TIAN Guoli and Mr CHEN Siqing are Executive Directors of BOC. Mr REN Deqi, Mr GAO Yingxin and Mr XU Luode are Executive Vice Presidents of BOC. During the year, Mr LI Zaohang was an Executive Director of BOC, Mr YUE Yi and Mr ZHU Shumin were Executive Vice Presidents of BOC.

BOC is a joint stock commercial bank with limited liability, established under the laws of the PRC, providing a full range of commercial banking and other financial services through its associates throughout the world. Certain of the Group's operations overlap with and/or are complementary to those of BOC and its associates. To the extent that BOC or its associates compete with the Group, the Directors believe that the Group's interests are adequately protected by good corporate governance practices and the involvement of the Independent Non-executive Directors.

Further, the Board's Mandate also expressly provides that unless permissible under applicable laws or regulations, if a substantial shareholder or a Director has a conflict of interest in the matter to be considered by the Board, the matter shall not be dealt with by way of written resolutions, but a Board meeting attended by Independent Non-executive Directors who have no material interest in the matter shall be held to deliberate on the same.

Save as disclosed above, none of the Directors is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

Directors' Rights to Acquire Shares

At no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures

As at 31 December 2015, none of the Directors or the Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

Interest of Substantial Shareholders

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31 December 2015, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

Name of Corporation	No. of shares held in the Company	Approximate % of total issued shares
Central Huijin	6,984,274,213	66.06%
BOC	6,984,274,213	66.06%
BOCHKG	6,984,175,056	66.06%
BOC (BVI)	6,984,175,056	66.06%

Notes:

1. Following the reorganisation of BOC in August 2004, Central Huijin holds the controlling equity capital of BOC on behalf of the State. Accordingly, for the purpose of the SFO, Central Huijin is deemed to have the same interests in the Company as BOC.
2. BOC holds the entire issued shares of BOCHKG, which in turn holds the entire issued shares of BOC (BVI). Accordingly, BOC and BOCHKG are deemed to have the same interests in the Company as BOC (BVI) for the purpose of the SFO. BOC (BVI) beneficially held 6,984,175,056 shares of the Company.
3. BOC holds the entire issued shares of BOCI, which in turn holds the entire issued shares of BOCI Asia Limited and BOCI Financial Products Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCI Asia Limited and BOCI Financial Products Limited for the purpose of the SFO. BOCI Asia Limited had an interest in 24,479 shares of the Company and an interest in 72,000 shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 2,678 shares of the Company.

All the interests stated above represented long positions. Apart from the disclosure above, according to the register maintained by the Company pursuant to section 336 of the SFO, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such amount of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 31 December 2015.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Permitted Indemnity Provision

Pursuant to the Articles of Association, every Director shall be indemnified out of funds of the Company against all liabilities incurred by him/her to the extent permitted by the Hong Kong Companies Ordinance. The Company has maintained insurance for the benefit of Directors against liability which may lawfully be insured by the Company.

Purchase, Sale or Redemption of the Company's Shares

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Major Customers

During the year, the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group.

Connected Transactions

The Independent Non-executive Directors have reviewed the transactions which the Company disclosed in a public announcement on 10 December 2013 and confirmed that these transactions were:

(i) entered into in the ordinary and usual course of business of the Group;

(ii) conducted on normal commercial terms or better;

(iii) entered into according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) in each case where an annual cap had been set, that such cap was not exceeded.

In accordance with paragraphs 14A.56 and 14A.71(6)(b) of the Listing Rules, the Board of Directors engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the above continuing connected transactions. In accordance with paragraph 14A.57 of the Listing Rules, a copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Budgetary Discipline and Reporting

The annual budget of the Group is reviewed and approved by the Board of Directors prior to its implementation by the Management. Financial and business targets are allocated to business units and subsidiaries. There are defined procedures for the appraisal, review and approval of major capitalised and operating expenditures. Proposed significant expenditures outside the approved budget will be referred to the Board or the relevant Board committee for decision. Financial and business performance against targets is reported to the Board regularly. Should there be any significant changes in relation to the operations, revised financial forecast will be submitted to the Board for review and approval in a timely manner.

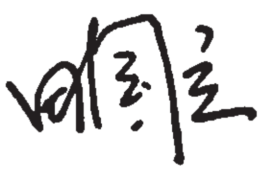
Compliance with the Banking (Disclosure) Rules and the Listing Rules

This Annual Report complies with the applicable requirements set out in the Banking (Disclosure) Rules under the Banking Ordinance and the applicable disclosure provisions of the Listing Rules.

Auditor

The financial statements for the year 2015 have been audited by Ernst & Young ("EY") who has been appointed as new auditor of the Company at the annual general meeting of the Company held on 28 May 2013 upon the retirement of PricewaterhouseCooper. EY will retire and offer themselves for re-appointment at the 2016 annual general meeting.

On behalf of the Board



TIAN Guoli
Chairman
Hong Kong, 30 March 2016

Corporate Governance

The Company is committed to maintaining and upholding high standards of corporate governance in order to safeguard the interests of shareholders, customers and employees. The Company abides strictly by the relevant laws and regulations in Hong Kong, and observes the rules and guidelines issued by regulatory authorities including the HKMA, Hong Kong Securities and Futures Commission and the Stock Exchange of Hong Kong. The Company from time to time reviews the corporate governance practices as adopted and strives to comply with the relevant requirements of international and local corporate governance best practices.

The Company has been in full compliance with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules except for Code provision E.1.2. Due to other business arrangement, Mr TIAN Guoli, Chairman of the Board, was unable to attend the annual general meeting held on 16 June 2015 and delegated Mr YUE Yi, Vice Chairman and Chief Executive of the Company, to chair the meeting of the Company. The Company also complies with nearly all the recommended best practices set out in the Corporate Governance Code. In particular, the Company publishes quarterly financial and business reviews so that shareholders and investors can be better updated of the performance, financial positions and prospects of the Company on a timely basis. BOCHK, the Company's wholly-owned and principal operating subsidiary, is in full compliance with the guidelines as set out in the Supervisory Policy Manual module CG-1 entitled "Corporate Governance of Locally Incorporated Authorised Institutions" ("SPM CG-1") issued by the HKMA. To further enhance corporate governance standard, the Company will revamp its corporate governance system and strengthen relevant measures by referencing to market trend as well as guidelines and requirements issued by regulatory authorities. The Company will continue to maintain sound corporate governance standards and procedures to ensure the completeness, transparency and quality of our information disclosure.

Corporate Governance Policy

Policy Statement

The Company recognises the importance of high standards of corporate governance and maintains an effective corporate governance framework which delivers long-term success of the Group. The Company is also strongly committed to embracing and enhancing sound corporate governance principles and practices. The established and well-structured corporate governance framework directs and regulates the business ethical conduct of the Company, thereby protects and upholds the value of shareholders and stakeholders as a whole in a sustainable manner.

Essential Principles

(1) Eminent Board

Authority	The Board is responsible for supervising the management of the business and affairs of the Group with due regard to maximising shareholder value and enhancing corporate governance standard of the Group. The Board is obliged to act honestly and in good faith and to make decisions objectively in the best interests of the Group and its shareholders as a whole.
Structure	The Company is led by a high caliber Board with strong representation of Independent Non-executive Directors. The Board has a well-balanced composition of Executive Directors, Non-executive Directors and Independent Non-executive Directors. Both the number and percentage of the Independent Non-executive Directors are well above the requirements set by relevant rules and regulations. All Directors are eminent individuals from diverse disciplines with extensive professional experience and are able to make objective judgement.
Roles of Chairman and Chief Executive	In order to promote balance of power, the roles of Chairman and Chief Executive are segregated. The Company may benefit from the segregation as the Chairman can focus on leading the Board and monitoring corporate governance and shareholder issues, while the Chief Executive leading the Management to perform the day-to-day operations and affairs of the Company.
Board Committees	The Board has established five standing Board Committees which are delegated with different responsibilities to assist the Board in performing its duties. They are Audit Committee, Nomination Committee, Remuneration Committee, Risk Committee, and Strategy and Budget Committee. Most of them are composed of a majority of Independent Non-executive Directors. Each of the Board Committees has a well-defined mandate with the roles and responsibilities delineated therein. The performance and effectiveness of these standing Board Committees are evaluated periodically with a view to making further enhancement. Other Board Committees like Independent Board Committee and Search Committee will be formed as and when required under the appropriate circumstances.

(2) Prudent Risk Management

The Board recognises the need for risk control and management being a vital component of the business of the Group. The Board formulates and oversees the risk management strategies, and the related framework and policies with the assistance of the Risk Committee and other relevant Board Committee(s). The Management performs the daily risk management responsibilities of the Group under the guidance of the Risk Committee.

(3) Fair Remuneration System

The Company ensures that Directors' remuneration should be appropriate and reflect their duty and responsibility to fulfil the expectations of the shareholders and meet regulatory requirements. Directors' fees are subject to the approval of the shareholders. The Board, based on the recommendations of the Remuneration Committee which is mainly responsible for ensuring the fairness and reasonableness of the overall human resources and remuneration strategies, approves the remuneration policies of the Group. No Director shall be involved in deciding his or her own remuneration.

(4) Effective Disclosure Mechanism

The Board reviews and monitors from time to time the effectiveness of the Group's disclosure process for reports, announcements, price sensitive and inside information. It encourages and takes necessary steps to disclose information in a timely manner and to ensure the information concerning the Group is expressed and communicated in a clear and objective manner that enables the shareholders and the public to appraise the position of the Group to make informed investment decisions.

(5) Upholding Shareholders' Rights

The Board respects the rights of shareholders as mandated by the articles of association of the Company (the "Articles of Association") and relevant applicable laws and regulatory requirements. The Board places utmost importance on maintaining effective communications with shareholders and also makes its best efforts to keep the shareholders informed of the business and affairs of the Company by maintaining various channels of communications and having direct dialogue with shareholders. In addition, the shareholders also have the rights to obtain all available information of the Company, make proposals at general meetings, nominate a person for election as a director, and make enquiries about the Company.

(6) Safeguarding Stakeholders' Interests

The Board has a fiduciary duty to protect and serve, with due care and consideration of, the interest of all stakeholders of the Company including but not limited to employees, customers, business partners, suppliers, regulators and the community. All the interests of stakeholders of the Company are further safeguarded by strictly complying with applicable laws and regulations as well as governance policies.

(7) Sustainable Corporate Social Responsibility

The Company attaches great importance to corporate social responsibility. The Board is committed to undertaking corporate social responsibility by strengthening relationship with its stakeholders with a view to contributing to the sustainable development of the economy, society and environment. The Company consistently supports and participates in activities that are beneficial to the community.

(8) Pursuit of "Good to Great"

The Board encourages the pursuit of "Good to Great". With the assistance of the Nomination Committee, the Board ensures that each Board Committee shall conduct regular self-assessment of its effectiveness, and based on the evaluation results, the Board gives such feedback, directions and guidance as may be necessary to enhance its efficiency and effectiveness.

Policy Goal

The Board and the senior management of the Company are responsible for adhering to the corporate governance principles and executing this policy. The Company seeks to manage its business in accordance with the well-defined corporate governance principles which therefore provide a solid governance framework for excellent performance and sustainable growth.

Corporate Governance Framework

Responsibilities of the Board and Management

The Board is at the core of the Company's corporate governance framework and there is a clear division of responsibilities between the Board and the Management. The Board is responsible for providing high-level guidance and effective oversight of the Management. Generally, the Board is responsible for:

- formulating the Group's mid and long-term strategy and monitoring the implementation thereof;
- reviewing and approving the annual business plans and financial budgets;
- approving the annual, interim and quarterly results;
- reviewing and monitoring the Group's risk management and internal control;
- ensuring good corporate governance and effective compliance; and
- monitoring the performance of the Management.

The Board authorises the Management to implement the strategies as approved by the Board. The Management is responsible for the day-to-day operations of the Group and reports to the Board. For this purpose, the Board has formulated clear written guidelines which stipulate the circumstances whereas the Management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will conduct regular review on these authorisation and guidelines.

Roles of the Chairman and the Chief Executive

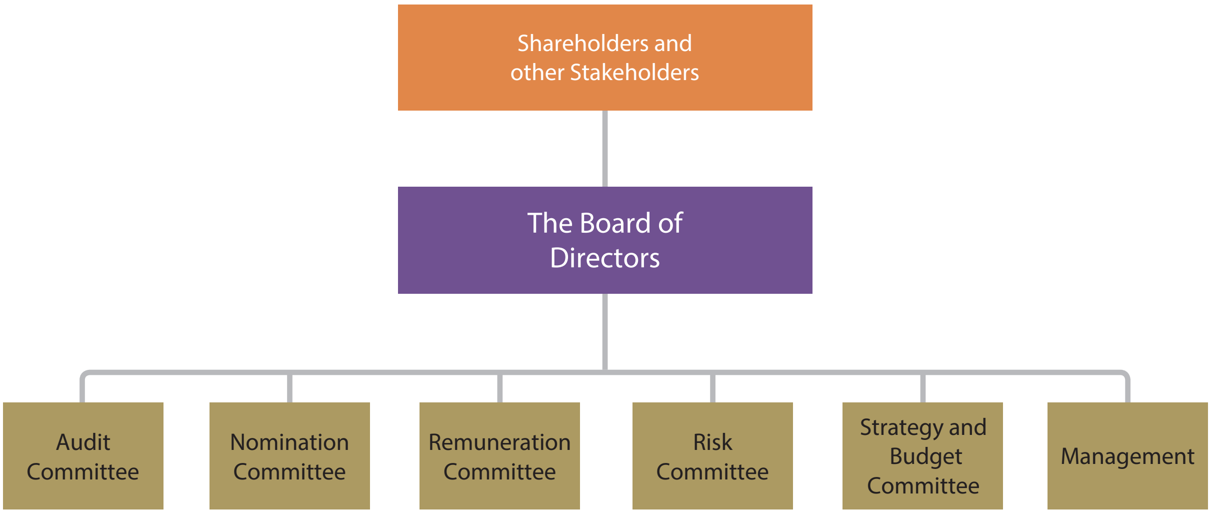
To avoid concentration of power in any single individual, the positions of the Chairman and the Chief Executive of the Company are held by two different individuals. Their roles are distinct, clearly established and stipulated in the Board's Mandate. In short, the Chairman is responsible for ensuring that the Board properly discharges its responsibilities and conforms to good corporate governance practices and procedures. In addition, as the Chairman of the Board, he is also responsible for ensuring that all Directors are properly briefed on all issues currently on hand, and that all Directors receive adequate, accurate and reliable information in a timely manner. The Chief Executive is responsible for providing leadership for the whole Management and implementing important policies and development strategies as adopted by the Board. Led by the Chief Executive, the Management Committee fulfils responsibilities including management of the Group's routine operation, implementation of business development strategies and realisation of the Group's long-term targets and strategies.

Board Committees

Taking into consideration market practices and international best practices in corporate governance, the Board has established five standing Board Committees to assist in performing its responsibilities. They are the Audit Committee, the Nomination Committee, the Remuneration Committee, the Risk Committee, and the Strategy and Budget Committee. In addition, the Board will authorise an Independent Board Committee comprising all Independent Non-executive Directors as and when required to review, approve and monitor connected transactions (including continuing connected transactions) in accordance with relevant rules and regulations that should be approved by the Board.

Each of the Board Committees has a well-defined Mandate and makes recommendations to the Board on relevant matters within its scope of responsibilities or makes decisions under appropriate circumstances in accordance with the power delegated by the Board. All Board Committees are assigned a professional secretarial department which ensures that the Board Committees have adequate resources to perform their duties effectively and properly. The Board and Board Committees will participate in the annual performance appraisal of those professional secretarial departments to ensure and enhance the services provided and ensure that adequate and efficient supports are provided to the Board and Board Committees. In addition, according to their respective Mandates, the Board and each of the Board Committees will evaluate and review their work process and effectiveness annually, with a view to identifying areas for further improvements.

The following chart sets out the Company's corporate governance framework:



Details including the Company's corporate governance principles and framework adopted by the Board, the composition of the Board and each of the Board Committees and their respective Mandates, Corporate Governance Policy, Shareholder Communication Policy and Information Disclosure Policy are available under the sub-section "Corporate Governance" of the section headed "About Us" on the Company's website at www.bochk.com.

Board of Directors

Composition and Terms of Office of the Board

The Board of the Company is composed of majority of Non-executive Directors and Independent Non-executive Directors that ensures the independence and objectivity of the decisions of the Board, as well as comprehensive and impartial control of the Management. The Board acts honestly and in good faith so that decisions are made objectively with a view to delivering long-term and maximum shareholder value and fulfilling its corporate responsibility to other stakeholders of the Group.

The Board currently has eleven members, comprising four Independent Non-executive Directors, five Non-executive Directors and two Executive Directors. Mr YUE Yi, has been re-designated from Non-executive Director to Executive Director and appointed as Vice Chairman and Chief Executive of the Company effective from 6 March 2015, he ceased to be a member of the Risk Committee but remains as a member of the Strategy and Budget Committee of the Company. Mr GAO Yingxin has been re-designated from Executive Director to Non-executive Director effective from 11 March 2015 and appointed as a member of each of the Risk Committee and the Strategy and Budget Committee of the Company. Mr LI Jiuzhong was appointed as Executive Director of the Company effective from 31 March 2015. Mr REN Deqi was appointed as Non-executive Director, Chairman of the Strategy and Budget Committee and member of the Risk Committee of the Company effective from 20 October 2015. Mr XU Luode was appointed as Non-executive Director, member of each of the Remuneration Committee and the Strategy and Budget Committee of the Company effective from 20 October 2015. Mr HE Guangbei resigned as Vice Chairman, Executive Director and Chief Executive and ceased to be a member of the Strategy and Budget Committee of the Company with effect from 6 March 2015. Mr ZHU Shumin resigned as Non-executive Director and ceased to be a member of each of the Risk Committee and the Strategy and Budget Committee of the Company with effect from 2 April 2015. Mr LI Zaohang retired as Non-executive Director and ceased to be the Chairman of the Strategy and Budget Committee and a member of the Remuneration Committee of the Company with effect from 16 June 2015. Save as disclosed above, there were no other changes to the composition of the Board and Board Committees during the year and up to the date of this Annual Report.

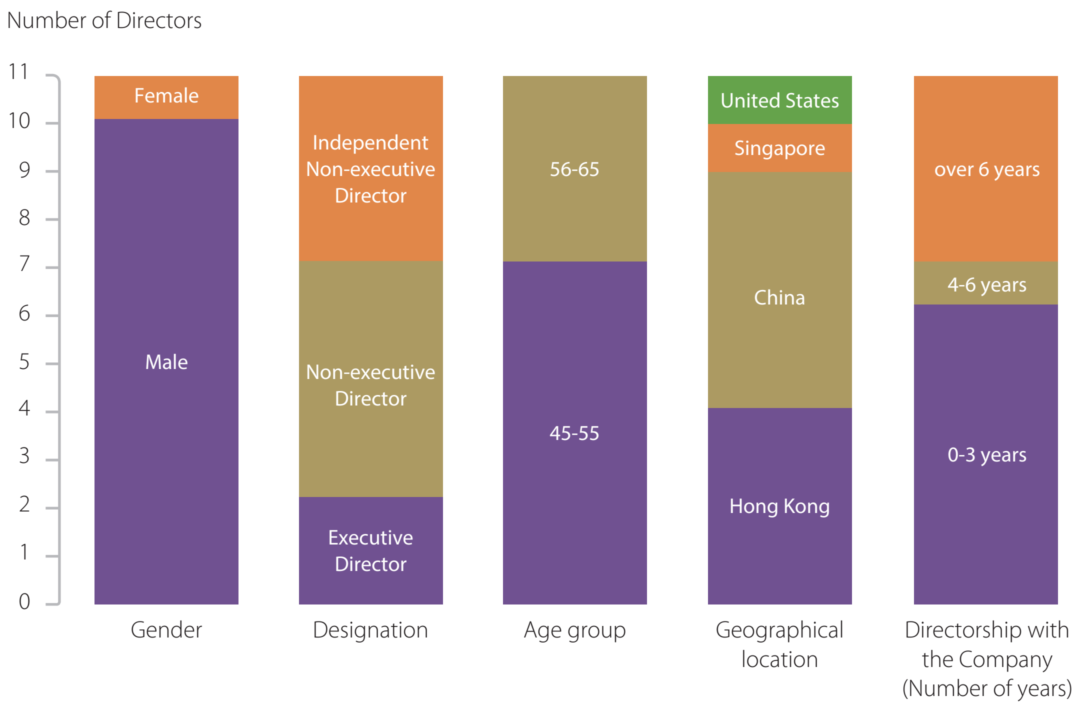
All the existing Non-executive Directors and Independent Non-executive Directors of the Company have been appointed for a fixed term of approximately 3 years, with formal letters of appointment setting out the key terms and conditions of their appointment. In accordance with Article 98 of the Articles of Association and pursuant to Code A.4.2 of the Corporate Governance Code, the terms of office of Mr YUE Yi, Mr GAO Yingxin and Mr SHAN Weijian will expire at the forthcoming annual general meeting. Mr SHAN Weijian has notified the Company that he has decided not to stand for re-election at the forthcoming annual general meeting. The other two retiring Directors, Mr YUE Yi and Mr GAO Yingxin being eligible, offer themselves for re-election. Further, pursuant to the Articles of Association, any Director appointed by the Board during the year shall hold office only until the next following general meeting or the next following annual general meeting of the Company, and shall then be eligible for re-election at such meeting. Accordingly, the terms of office of Mr REN Deqi and Mr XU Luode, who were appointed on 20 October 2015, will expire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Further details regarding the proposed re-election of Directors are set out in the section headed "Report of the Directors". In addition, the Company has also established a written and formal process for the appointment of Independent Non-executive Directors to ensure that the appointment procedures are standardised, thorough and transparent.

Diversity and Independence of the Board Members

The Company recognises the importance and benefits of board diversity. In order to promote Board efficiency and standards of corporate governance, the guidance set out in the "Board Diversity Policy" adopted by the Company will be considered in identifying suitable and qualified candidates to be a Board member, which covers a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills and knowledge, etc., in order to have an appropriate proportion in the Board composition from various aspects as afore-mentioned. At the same time, all Board appointments are made on merit, in the context of the skills and experience the Board as a whole required and the various perspectives of Board diversity elements as mentioned above shall also be adequately considered.

Under the current board membership, all Directors possess extensive experience in banking and management. In addition, over one-third of them are Independent Non-executive Directors, some of whom are experts in strategic development, financial and/or risk management. The Board has formulated the "Policy on Independence of Directors" which stipulates the criteria on independence of Independent Non-executive Directors. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his/her independence by reference to the said independence policy. Based on the information available to the Company, it considers that all of the Independent Non-executive Directors are independent. Biographical details of the professional experience, skills and knowledge of the Directors are set out in the section headed "Board of Directors and Senior Management" and are available under the sub-section "Organisation" of the section headed "About Us" on the Company's website at www.bochk.com.

An analysis of the Board Composition during the year is set out below:



Mr TIAN Guoli and Mr CHEN Siqing are Executive Directors of BOC. Mr REN Deqi, Mr GAO Yingxin and Mr XU Luode are Executive Vice Presidents of BOC. Mr YUE Yi, Mr LI Zaohang and Mr ZHU Shumin were Executive Vice Presidents of BOC (they resigned such positions with effect from 6 March 2015, 11 June 2015 and 2 April 2015 respectively). Save as disclosed above, there are no other relationships between the Board members, including financial, business, family or other material relationships.

In addition, it is expressly provided in the Board's Mandate that, unless the applicable laws or regulations allow otherwise, if a substantial shareholder or Director has a conflict of interest in the matter to be considered by the Board, a Board meeting must be convened and attended by Independent Non-executive Directors who have no material interest, and give professional advice to the subject matter for further consideration and approval.

Directors' Liability Insurance Policy

During the year, the Company has arranged for appropriate cover on Directors' Liability Insurance Policy to indemnify the Directors for liabilities arising from the corporate activities. The coverage and the amount insured under such policy are reviewed annually by the Company.

Directors' Training and Professional Development

To ensure the newly appointed Directors to have adequate understanding of the Company's business operations and to enable all Directors to update their knowledge regularly so as to provide informed recommendation and advice and make contribution to the Company, the Board establishes a set of written policy specifying guidelines on Directors' induction and training upon appointment.

The Company also provides regular updates to Board members on material changes to regulatory requirements applicable to the Directors and the Company on a timely basis; and arranges regular meetings with the Management to facilitate the understanding of the latest business development of the Company. In addition, Board members are encouraged to participate actively in continuous training programmes. The Company also arranges relevant professional training programmes for Board members at the Company's expense.

During the year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills in accordance with Code A.6.5 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules. In 2015, the Company invited experts to deliver seminars to the Directors and senior management with regard to cyber security awareness and the latest supervisory requirements and industrial trends on anti-money laundering. Each of the Directors received a series of training locally or overseas as he thought fit, hosted or attended briefings, meetings, seminars and conferences organised by the Company and other organisations. Relevant training included, among others:

- development of national and global economy;
- cyber security and innovation of technologies;
- corporate governance;
- regulatory updates; and
- banking industry development trend, etc.

The Directors' records of annual training information have been entered in the register of directors' training records maintained and updated by the Company from time to time. The following summarises continuous professional development participated by all Directors of the Company during the year:

Directors Note	Corporate Governance	Regulatory updates	Banking industry development trend and global/national economy
Non-executive Directors			
Mr TIAN Guoli	☑	☑	☑
Mr CHEN Siqing	☑	☑	☑
Mr REN Deqi	☑	☑	☑
Mr GAO Yingxin	☑	☑	☑
Mr XU Luode	☑	☑	☑
Independent Non-executive Directors			
Mdm CHENG Eva	☑	☑	☑
Mr KOH Beng Seng	☑	☑	☑
Mr SHAN Weijian	☑	☑	☑
Mr TUNG Savio Wai-Hok	☑	☑	☑
Executive Directors			
Mr YUE Yi	☑	☑	☑
Mr LI Jiuzhong	☑	☑	☑

Note: The training records for those Directors who resigned or retired during the year have not been included therein. Please refer to the section headed "Composition and Terms of Office of the Board" under "Board of Directors" for details of changes in Directors during the year and up to the date of this Annual Report

Directors' Attendance of the Meetings of the Board of Directors, Board Committees and General Meeting

Eleven Board meetings were held during 2015 with an average attendance rate of 82%. Regular meeting schedule for the year was prepared and approved by the Board in the preceding year. Ad hoc Board meetings will be convened as appropriate. In general, formal notice of regular Board meetings shall be sent to all Directors at least 14 days before the date of the scheduled meetings and Board agenda and meeting materials are despatched to all Board members for review at least seven days prior to the scheduled meetings. Board agenda is approved by the Chairman following consultation with other Board members and the senior management. In addition, in order to facilitate open discussion with all Non-executive Directors and on their requests, the Chairman will meet with all Non-executive Directors (including Independent Non-executive Directors), in the absence of Executive Directors and the senior management, during the discussion session before each Board meeting. Relevant practice has been incorporated in the Working Rules of the Board.

Details of respective Directors' attendance at the Board meetings, Board committee meetings and annual general meeting in 2015 are set out as follows:

	Number of meetings attended/Number of meetings convened during directors' term of office						
		Board Committees					General Meeting
Directors Note	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee	Strategy and Budget Committee	Annual General Meeting
Number of meetings held during the year	11	6	5	5	6	4	1
Non-executive Directors							
TIAN Guoli *(Chairman)*	7/11	–	4/5	–	–	–	0/1
CHEN Siqing *(Vice Chairman)*	9/11	–	5/5	5/5	–	–	1/1
REN Deqi	2/2	–	–	–	2/2	2/2	–
GAO Yingxin	10/11	–	–	–	6/6	3/4	1/1
XU Luode	1/2	–	–	0/1	–	1/2	–
LI Zaohang *(retired)*	1/6	–	–	0/3	–	1/1	0/1
ZHU Shumin *(resigned)*	1/3	–	–	–	0/1	0/1	–
Independent Non-executive Directors							
CHENG Eva	11/11	6/6	–	–	–	3/4	1/1
KOH Beng Seng	11/11	6/6	5/5	5/5	6/6	–	0/1
SHAN Weijian	7/11	6/6	3/5	4/5	–	–	0/1
TUNG Savio Wai-Hok	10/11	5/6	5/5	5/5	6/6	4/4	1/1
Executive Directors							
YUE Yi *(Vice Chairman and Chief Executive)*	11/11	–	–	–	–	4/4	1/1
LI Jiuzhong	8/8	–	–	–	–	–	1/1
HE Guangbei *(resigned)*	1/1	–	–	–	–	–	–
Average Attendance Rate	82%	96%	88%	80%	96%	81%	60%

Note: Please refer to the section headed "Composition and Terms of Office of the Board" under "Board of Directors" for details of changes in Directors during the year and up to the date of this Annual Report

Apart from formal Board meetings and annual general meeting, the Company arranges, on a regular basis, other casual events for the Board members and the senior management to facilitate their communication and interactions. For example, the Company organises working meals from time to time, Board members and senior management have been invited to join and share insights on the Company's business and strategic issues. Further, a board retreat has also been held during the year to enhance communication between the Board and the senior management.

Board Committees

Audit Committee

The Audit Committee comprised four members during end of the year, all of which are Independent Non-executive Directors. Its composition, main duties and major works performed during the year are as follows:

Composition

Mr SHAN Weijian (Chairman)
Mdm CHENG Eva
Mr KOH Beng Seng
Mr TUNG Savio Wai-Hok

Main duties

- integrity of financial statements and financial reporting process
- monitoring of risk management and internal control systems
- effectiveness of internal audit function and performance appraisal of the Head of Group Audit
- appointment of external auditor and assessment of its qualification, independence and performance and, with authorisation of the Board, determination of its remuneration
- periodic review and annual audit of the Company's and the Group's financial statements, and financial and business review
- compliance with applicable accounting standards as well as legal and regulatory requirements on financial disclosures
- corporate governance framework of the Group and implementation thereof

Major works performed during the year (included the review and, where applicable, approval of)

- the Company's financial statements for the year ended 31 December 2014 and the annual results announcement that were recommended to the Board for approval
- the Company's interim financial statements for the six months ended 30 June 2015 and the interim results announcement that were recommended to the Board for approval
- the Company's announcements on quarterly financial and business review for the period ended 31 March 2015 and 30 September 2015 that were recommended to the Board for approval
- the audit reports and report on internal control recommendations submitted by external auditor, and the on-site examination reports issued by regulators
- the appointment of external auditor, the fees payable to external auditor for the annual audit, interim review and other non-audit services
- the Group's audit plan for next year and key areas identified
- the deployment of human resources and pay level of the Internal Audit, its budget for next year and review of the effectiveness of the internal audit function
- the 2014 performance appraisal and key performance indicators for the Head of Group Audit and the Group Audit for next year
- the annual review of the effectiveness of the Group's risk control and internal control systems

The "Policy on Staff Reporting of Irregularities" adopted by the Board is proved to be effective. During the year, reports on a number of cases were received and handled satisfactorily through the channels and procedures set out in the said Policy.

Nomination Committee

The Nomination Committee comprised five members during end of the year, including two Non-executive Directors and three Independent Non-executive Directors. Its composition and main duties during the year are as follows:

Composition	Main duties
Mr TIAN Guoli[1] (Chairman) Mr CHEN Siqing[1] Mr KOH Beng Seng[2] Mr SHAN Weijian[2] Mr TUNG Savio Wai-Hok[2]	• overall human resources strategy of the Group • selection and nomination of Directors, Board Committee members and Senior Management • structure, size and composition (including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills and knowledge, etc.) of the Board and Board Committees • effectiveness of the Board and Board Committees • training and continuous professional development of Directors and Senior Management • code of conduct applicable to employees **Major works performed during the year (included the approval, review and proposal to the Board)** • consideration of the matters relating to the recruitment, adjustment and appointment of Directors and Senior Management • consolidation of self-evaluation results of the Board and Board Committees, put forward recommendations to the Board to further enhance the functions and effectiveness of the Board and Board Committees • annual review on the "Policy on Independence of Directors"

Notes:
1. Non-executive Director
2. Independent Non-executive Director

Remuneration Committee

The Remuneration Committee comprised five members during end of the year, including two Non-executive Directors and three Independent Non-executive Directors. Its composition, main duties and major works performed during the year are as follows:

Composition	Main duties
Mr TUNG Savio Wai-Hok[1] (Chairman) Mr CHEN Siqing[2] Mr XU Luode[2] Mr KOH Beng Seng[1] Mr SHAN Weijian[1]	• remuneration strategy and incentive framework of the Group • remuneration of Directors, Board Committee members, Senior Management and Key Personnel **Major tasks performed during the year (included the approval, review and proposal to the Board)** • performance appraisal result of the Executive Directors and Senior Management for year 2014 • proposal on staff bonus for year 2014 and salary adjustment for year 2015 for the Group, including the Senior Management • remuneration relating to the appointment of Senior Management • key performance indicators of the Group and the Senior Management for year 2016 • proposal on human resources budget of the Group for year 2016

Notes:
1. Independent Non-executive Director
2. Non-executive Director

Risk Committee

The Risk Committee comprised four members during end of the year, including two Non-executive Directors and two Independent Non-executive Directors. Its composition, main duties and major accomplishments during the year are as follows:

Composition

Mr KOH Beng Seng[1] (Chairman)
Mr REN Deqi[2]
Mr GAO Yingxin[2]
Mr TUNG Savio Wai-Hok[1]

Main duties

- formulation of the risk appetite and risk management strategy of the Group and determination of the Group's risk profile
- identification, assessment and management of material risks faced by various business units of the Group
- review and assessment of the adequacy and effectiveness of the Group's risk management policies, systems and internal controls
- review and monitoring of the Group's capital management
- review and approval of the Group's target balance sheet
- review and monitoring of the Group's compliance with risk management policies, systems and internal controls, including the Group's compliance with prudential, legal and regulatory requirements governing the businesses of the Group
- review and approval of high-level risk-related policies of the Group
- review and approval of significant or high risk exposures or transactions
- review of key reports, including risk exposure reports, model development and validation reports, and credit risk model performance reports

Major works performed during the year

- review/approval of key risk management policies, including the "Risk Appetite Statement of BOCHK Group", the "BOCHK Group Operating Principles", the "Risk Management Policy Statement of BOCHK Group", the "Capital Management Policy of BOCHK", the "BOCHK Group Financial Instruments Valuation Policy", the "Staff Code of Conduct", the "Technology Risk Management Policy", the "Policy for Validating Internal Rating Systems", the "Connected Transactions Management Policy", the "Stress Test Policy of BOCHK" and stress test scenarios, and a range of risk management policies covering strategic risk, credit risk, market risk, liquidity risk, interest rate risk, operational risk, legal, compliance and reputation risk, etc.
- review of the risk adjustment method for group bonus funding mechanics and the approval of the results of risk adjustment of BOCHK Group for 2014
- review/approval of the Group's operating plans, including the Group's target balance sheets, the BOCHK's banking book investment plans and portfolio key risk indicators, as well as risk management limits
- review and monitoring of Basel Accord implementation, including review of model validation reports and model performance reports, and receiving the status reports of the allocation of risk-weighted assets
- review of various risk management reports
- review/approval of significant high risk exposures or transactions

Notes:
1. Independent Non-executive Director
2. Non-executive Director

Strategy and Budget Committee

The Strategy and Budget Committee ("SBC") comprised six members during end of the year, including three Non-executive Directors, two Independent Non-executive Directors as well as the Executive Director and Chief Executive of the Company. Its composition, main duties and major works performed during the year are as follows:

Composition	Main duties
Mr REN Deqi[1] (Chairman) Mr YUE Yi[2] Mr GAO Yingxin[1] Mr XU Luode[1] Mdm CHENG Eva[3] Mr TUNG Savio Wai-Hok[3]	• prepare, with input from the Management, Group's medium to long-term strategic plans for Board approval • review, motion and monitor the Group's medium to long-term strategy • review the process for formulating the Group's medium to long-term strategy to ensure that they are sufficiently robust to take into account a range of alternatives • monitor implementation of the Group's medium to long-term strategy through pre-determined metrics and provide guidance to the Management • make recommendations to the Board on major investments, capital expenditure, and strategic commitments of the Group and monitor implementation of the same • review budget for Board approval and monitor performance against budgeted targets • review and monitor the Group's regular/periodic (including annual) business plan and financial budget **Major works performed during the year** • in response to the launch of Free Trade Zone policies, SBC discussed the latest development and business opportunity of Free Trade Zone and put forward strategic directions with collaboration of BOC and concerns on risk areas • reviewed the proposal on potential restructuring of the Group in the ASEAN Region, and discussed the latest work progress and submitted to the Board • discussed on asset disposal of the Group and submitted to the Board • reviewed and monitored the implementation of the Group's financial budgets and business plans for 2015, and also reviewed and endorsed the financial budgets and business plans submitted by the Management for the year 2016 and recommended the same to the Board

Notes:
1. Non-executive Director
2. Executive Director
3. Independent Non-executive Director

Directors' Securities Transactions

The Company has established and implemented the "Code for Securities Transactions by Directors" (the "Company's Code") to govern the Directors' dealings in securities transactions of the Company. Terms of the Company's Code are more stringent than the mandatory standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" as contained in Appendix 10 of the Listing Rules. Apart from the securities of the Company, the Company's Code also applies to the Director's dealings in the securities of BOC which has been listed on the Stock Exchange of Hong Kong since June 2006. Upon specific enquiry by the Company, all Directors confirmed that they had strictly complied with the provisions as set out in both the Company's Code and the said Model Code throughout the year 2015.

Directors' Remuneration

Pursuant to the "Policy on Directors' Remuneration" adopted by the Company, when recommending the remuneration of Directors, the Remuneration Committee should benchmark against companies of comparable business type or scale, and job nature and workload at both the Board and Board Committee levels (including frequency of meetings and nature of agenda items) in order to compensate Directors fairly. No individual Director is allowed to participate in the procedures for deciding his/her individual remuneration package. Information relating to the remuneration of each Director for 2015 is set out in Note 20 to the Financial Statements. The present scale of Director's fees, including additional fees for membership of Board Committees, is given below:

Board of Directors:	
All Directors	HK$200,000 p.a.
Board Committees:	
Chairman	HK$100,000 p.a.
Other Committee members	HK$50,000 p.a.

Note: For the year ended 31 December 2015, all Non-executive Directors (excluding Independent Non-executive Directors) have not received their Directors' fee as mentioned above and Executive Directors did not receive any additional fees for being Chairmen or members of the Board Committees

The Remuneration Committee also has the delegated responsibility from the Board to determine the remuneration packages of the Executive Directors and Senior Management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment, early payout of deferred remuneration), as well as the performance-based remuneration. Moreover, it will recommend to the Board on their remuneration package upon joining, sign-on bonus and contract guaranteed bonus, etc.

Remuneration and Incentive Mechanism

The Remuneration and Incentive Mechanism of the Group is based on the principles of "effective motivation" and "sound remuneration management". It links remuneration with performance and risk factors closely. It serves to encourage staff to enhance their performance, and at the same time, to strengthen their awareness of risk so as to achieve sound remuneration management.

The Remuneration and Incentive Policy of the Group is generally in line with the broad principles set out in the HKMA's "Guideline on a Sound Remuneration System" and applicable to the Company and all of its subsidiaries (including the branches and institutions in and out of Hong Kong).

- **"Senior Management" and "Key Personnel"**

  The following groups of employees have been identified as the "Senior Management" and "Key Personnel" as defined in the HKMA's "Guideline on a Sound Remuneration System":

  - "Senior Management": The senior executives designated by the Board who are responsible for oversight of the firm-wide strategy or material business lines, including Chief Executive, Deputy Chief Executives, Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, Board Secretary and Head of Group Audit.

  - "Key Personnel": The employees whose individual business activities involve the assumption of material risk which may have significant impact on risk exposure, or whose individual responsibilities are directly and materially linked to the risk management, or those who have direct influence to the profit, including heads of material business lines, heads of major subsidiaries, head of trading, as well as heads of risk control functions.

- **Determination of the Remuneration Policy**

  To fulfil the above-mentioned principles and to facilitate effective risk management within the framework of the Remuneration Policy of the Group, the Remuneration Policy of the Group is initiated by Human Resources Department with consultation of the risk control units including risk management, financial management and compliance in order to balance the needs for staff motivations, sound remuneration and prudent risk management. After the proposed Remuneration Policy is cleared by the Management Committee, it will be submitted to the Remuneration Committee for review and thereafter to the Board for approval. The Remuneration Committee and the Board will seek opinions from other Board Committees (e.g. Risk Committee, Audit Committee, etc.) where they consider necessary under the circumstances.

- **Key Features of the Remuneration and Incentive Mechanism**

1. *Performance Management Mechanism*

   To reflect the "performance-driven" corporate culture, the Group has put in place a performance management mechanism to formalise the performance management at the levels of the Group, units and individuals. The annual targets of the Group will be cascaded down under the framework of balanced scorecard whereby the performance of the "Senior Management" and different units (including business units, risk control units and other units) would be assessed from the perspectives of financial, customer, building blocks/key tasks, human capital, risk management and compliance. For individual staff at different levels, annual targets of the Group will be tied to their job requirements through the performance management mechanism. Performance of individuals will be appraised on their achievement against targets, their contribution towards performance of their units and fulfilment of risk management duties and compliance, etc. Not only is target accomplishment taken into account, but the risk exposure involved during the course of work could also be evaluated and managed, ensuring security and normal operation of the Group.

2. *Risk Adjustment of Remuneration*

   To put the principle of aligning performance and remuneration with risk into practice, based on "The Risk Adjustment Method", the key risk modifiers of BOCHK have been incorporated into the performance management mechanism of the Group. Credit risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk, compliance risk and reputation risk form the framework of "The Risk Adjustment Method". The size of the variable remuneration pool of the Group is calculated according to the risk adjusted performance results approved by the Board and is subject to the Board's discretion. This method ensures the Group to fix the Group's variable remuneration pool after considering risk exposures and changes and to maintain effective risk management through the remuneration mechanism.

3. *Performance-based and Risk-adjusted Remuneration Management*

   The remuneration of staff is composed of "fixed remuneration" and "variable remuneration". The proportion of one to the other for individual staff members depends on job grades, roles, responsibilities and functions of the staff with the prerequisite that balance has to be struck between the fixed and variable portion. Generally speaking, the higher the job grades and/or the greater the responsibilities, the higher will be the proportion of variable remuneration so as to encourage the staff to follow the philosophy of prudent risk management and sound long-term financial stability.

   Every year, the Group will conduct periodic review on the fixed remuneration of the staff with reference to various factors like remuneration strategy, market pay trend and staff salary level, and will determine the remuneration based on the affordability of the Group as well as the performance of the Group, units and individuals. As mentioned above, performance assessment criteria include quantitative and qualitative factors, as well as financial and non-financial indicators.

   According to the "Group Bonus Funding Policy", the size of the variable remuneration pool of the Group is determined by the Board on the basis of the financial performance of the Group and the achievement of non-financial strategic business targets under the long-term development of the Group. Thorough consideration is also made to the risk factors in the determination process. The size of the pool is reached based on pre-defined formulaic calculations but the Board can make discretionary adjustment to it if deemed appropriate under prevailing circumstances. When the Group's performance is relatively weak (e.g. failed to meet the threshold performance level), no variable remuneration will be paid out that year in principle. However, the Board reserves the rights to exercise its discretion.

   As far as individual units and individual staff are concerned, allocation of the variable remuneration is closely linked to the performance of the units, and that of each individual staff as well as the unit he/she is attaching to, and the assessment of which should include risk modifiers. The performance and remuneration arrangement of risk control personnel are determined by the achievement of their core job responsibilities, independent from the business they oversee; for front-line risk controllers, a cross-departmental reporting and performance management system is applied to ensure the suitability of performance-based remuneration. Within the acceptable risk level of the Group, the better the performance of the unit and the individual staff, the higher will be the variable remuneration for the individual staff.

4. *Linking the payout of the variable remuneration with the time horizon of the risk to reflect the long-term value creation of the Group*

   To work out the principle of aligning remuneration with the time horizon of risk and to ensure that sufficient time is allowed to ascertain the associated risk and its impact before the actual payout, payout of the variable remuneration of staff is required to be deferred in cash if such amount reaches certain prescribed threshold. The Group adopts a progressive approach towards deferral. The longer the time horizon of risk in the activities conducted by the staff, the higher the job grade or the higher amount of the variable remuneration, the higher will be the proportion of deferral. Deferral period lasts for 3 years.

   The vesting of the deferred variable remuneration is linked with the long term value creation of the Group. The vesting conditions are closely linked to the annual performance of the Group in the next 3 years and the individual behaviour of the staff concerned. When the Group's performance has met the threshold requirement, the deferred variable remuneration would be vested following the corresponding schedule. However, if a staff is found to have committed fraud, or any financial or non-financial factors used in performance measurement or variable pay determination are later proven to have been manifestly worse than originally understood in a particular year, or individual behaviour/management style pose negative impacts to the business unit and even the Group, including but not limited to improper or inadequate risk management, etc., the unvested portion of the deferred variable remuneration of the relevant staff would be forfeited.

- **External Remuneration Consultant**

  To ensure the suitability and competitiveness of the remuneration and incentive mechanism, the Group appointed Towers Watson Hong Kong Limited and McLagan Partners Asia, Inc. for independent consultation in areas of pay management mechanism and market remuneration data of Senior Management and key positions.

- **Disclosure on Remuneration**

  The Group has fully complied with the guideline in Part 3 of the "Guideline on a Sound Remuneration System" issued by the HKMA to disclose information in relation to our remuneration and incentive mechanism.

External Auditor

Pursuant to the "Policy on External Auditor Management" adopted by the Board, the Audit Committee reviewed and monitored and was satisfied with the independence and objectivity of Ernst & Young, the Group's external auditor, and the effectiveness of its audit procedures, based on the principles and standards set out in the said Policy that were in line with international best practices. Upon the recommendation of the Audit Committee, the Board will propose that Ernst & Young be re-appointed as auditor of the Group at the Company's 2016 annual general meeting. Subject to shareholders' authorisation, the Board will authorise the Audit Committee to determine the remuneration of Ernst & Young. For 2015, the fee charged by Ernst & Young was HK$43 million, of which HK$28 million was for audit services and HK$15 million related to other services (mainly including tax-related and advisory services). For 2014, the fee paid by the Group to Ernst & Young was HK$39 million, of which HK$27 million was for audit services and HK$12 million related to other services (mainly including tax-related and advisory services). The Audit Committee was satisfied that the non-audit services in 2015 did not affect the independence of Ernst & Young.

Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees the Management in the design, implementation and monitoring of the risk management and internal control systems. According to the Board's scope of delegation, the Management is responsible for the day-to-day operations and risk management, and the Management needs to provide a confirmation to the Board on the effectiveness of these systems.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss; to manage the risk of system failure; and to assist in the achievement of the Group's objectives. In addition to safeguarding the Group's assets, it also ensures the maintenance of proper accounting records and compliance with relevant laws and regulations.

The Group conducts an annual review of the effectiveness of its risk management and internal control systems covering all material controls, including financial, operational and compliance controls as well as risk management. The review is conducted by reference to the guidelines and definitions given by the regulatory and professional bodies for the purpose of assessing five different internal control elements, namely, the control environment, risk assessment, control activities, information and communication, and monitoring. The assessment covers all the major internal controls and measures, including financial, operational and compliance controls as well as risk management functions. The review also considers the adequacy of resources, staff qualifications and experience and training of the Group's accounting, financial reporting and internal audit functions. The review is coordinated by the Group's internal audit which, after the Management and various business departments have performed their self-assessment and the Management has confirmed the effectiveness of the relevant systems, then carries out an independent examination and other post-assessment work on the review process and results. The results of the 2015 review, which have been reported to the Audit Committee and the Board, revealed that the Group's risk management and internal control systems were effective and adequate.

The key procedures that the Group has essentially established and implemented to provide internal controls are summarised as follows:

- a rational organisational structure with appropriate personnel is developed and whose responsibility, authority, and accountability are clearly delineated. The Group has formulated policies and procedures to ensure reasonable checks and balances for all the operating units, reasonable safeguard for the Group's assets and adherence to relevant laws and regulations and risk management in its operations;

- the Management draws up and continuously monitors the implementation of the Group's strategies, business plans and financial budgets. The accounting and management systems that are in place provide the basis for evaluating financial and operational performance;

- the Group has various risk management and human resources policies. There are specific units and personnel that are responsible for handling reputation, strategic, legal, compliance, credit, market, operational, liquidity and interest rate risks. There are also procedures and internal controls for the handling and dissemination of inside information. The Group has set up mechanisms to identify, evaluate and manage all the major risks, and has established corresponding internal control procedures as well as processes for resolving internal control defects. (The Group's risk management is given on pages 42 to 47);

- the Group has established an information technology governance structure that produces a range of reports on information systems and management, including information on the monitoring of various business units, financial information and operating performance. Such information facilitates the Management, business units and the regulatory bodies in assessing and monitoring the Group's operation and performance. Proper communication channels and reporting mechanisms are in place at various business units and levels to facilitate exchange of information;

- pursuant to a risk-based approach and in accordance with the internal audit plan approved by the Audit Committee, the Group's internal audit conducts independent reviews on such aspects as financial activities, various business areas, various kinds of risks, operations and activities. Reports are submitted directly to the Audit Committee. The Group's internal audit closely follows up on the items that require attention in a systematic way and reports to the Management and the Audit Committee in a timely manner; and

- the Audit Committee reviews the reports submitted by external auditor to the Group's Management in connection with the annual audit as well as the recommendations made by regulatory bodies on risk management and internal control. The Group's internal audit follows up on the same to ensure timely implementation of the recommendations, and also periodically reports the status of the implementation to the Management and the Audit Committee.

The Group is committed to upholding good corporate governance practices and the internal control system of all subsidiaries are reviewed regularly. During the year of 2015, continuous improvements on the organisation structure and segregation of duty, the risk management policy and procedure, and the enhancement of disclosure transparency have been undertaken by the Group. In response to internal and external changes in global economic condition, operating environment, regulatory requirement and business development, the Group has implemented a series of measures and undertaken an on-going review on the effectiveness of the internal control mechanism. In 2015, areas for improvement have been identified and appropriate measures have been implemented.

Communication with Shareholders

The Board attaches a high degree of importance to continuous communication with shareholders, particularly through direct dialogue with them at the Company's annual general meetings. Shareholders are encouraged to actively participate in such meetings.

Mr YUE Yi (the Chairman of annual general meeting), Mr TUNG Savio Wai-Hok, the Chairman of the Remuneration Committee, and Ernst & Young, the auditor were present at the Company's 2015 annual general meeting held on 16 June 2015 at Four Seasons Grand Ballroom, Level 2, Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong to respond to enquiries raised by shareholders. Mr TIAN Guoli, Mr LI Zaohang (the former Chairman of Strategy and Budget Committee), Mr KOH Beng Seng and Mr SHAN Weijian were unable to attend the meeting due to other business engagements. Save as disclosed above, all other Directors including Mr CHEN Siqing, Mr GAO Yingxin, Mr LI Jiuzhong and Mdm CHENG Eva were also present at the meeting. Resolutions passed at the Company's 2015 annual general meeting included: adoption of the Company's 2014 financial statements, declaration of 2014 final dividend, re-election of Directors, re-appointment of auditor, the grant of general mandates to the Board to issue and buy back shares of the Company, relevant voting results are available under the sub-section "Stock Exchange Announcements" of the section headed "Investor Relations" on the Company's website at www.bochk.com.

As disclosed in the 2014 Annual Report of the Company, in view of the investors' concern regarding the potential dilution of the shareholder value arising from the exercise of power pursuant to the grant of a general mandate to issue shares to the Board, the Board has voluntarily reduced the general mandate to issue shares of up to 5% of the total number of shares in issue as compared to the 20% limit permitted under the Listing Rules in the event that the issue of shares is for cash and not related to any acquisition of assets for approval by the shareholders at the 2015 annual general meeting. The Board would also recommend the threshold of up to 5% of the total number of shares in issue (subject to adjustment in case of any subdivision and consolidation of shares after the passing of the relevant resolution) at the 2016 annual general meeting for approval by shareholders. Further, given its commitment to high standards of corporate governance, the Board also adopted certain internal policies for the exercise of the powers granted to the Board under the general mandates to issue shares solely for cash and buy back shares. The relevant policies are summarised as follows:

- the Board will not exercise the mandate at a discount that will result in significant dilution of shareholder value. In the exercise of such power to issue shares for cash, the Board will have regard to factors such as the Group's total capital ratio, and in particular, its Tier 1 capital, cost and benefit of raising Tier 2 capital, need for cash for the Group's business development, the principle that shareholders should be treated equally and the alternative of conducting a rights issue; and
- the Board has set the triggering events for the exercise of the power to buy back shares, which include: market price of the Company's shares is lower than the fair value of the shares; the Group has surplus funds which is in excess of its short to mid term development requirements; and the Board considers it proper and appropriate to exercise relevant mandate for enhancing the return on equity or net assets or earnings per share of the Company. In general, such shares buy-backs will be made on the Stock Exchange. However, if it is expected that the size of the shares buy-backs may lead to a disorderly market for the Company's shares, then the Board will consider making the shares buy-backs through a general offer, i.e. offer to all existing shareholders in proportion to their respective shareholdings. The price at which shares are bought back will not be higher than the fair value of the shares of the Company.

All the resolutions proposed at the Company's 2016 annual general meeting will be voted on by poll. Accordingly, the Company will engage Computershare Hong Kong Investor Services Limited, the Company's Share Registrar, to act as the scrutineer for such purpose. The results of the poll voting will be posted on the Stock Exchange's website and the Company's website as soon as practicable following conclusion of the vote-counting for shareholders' information.

Besides, in order that shareholders can have a better understanding of the agenda items to be discussed at the 2016 annual general meeting and to encourage their active participation so that exchange of views and communication can be further enhanced, the Company has provided detailed information on the 2016 annual general meeting in a circular to shareholders which includes introduction to the proposed resolutions to be approved at the annual general meeting, information on the retiring Directors who are eligible for re-election, information on voting and other issues relating to the 2016 annual general meeting in the form of "Frequently Asked Questions".

Shareholders' Rights

Shareholders are entitled to convene an extraordinary general meeting, make any proposals at shareholders' meetings and propose a person for election as a Director. Please see the detailed procedures as follows:

- **the way in which shareholders can convene an extraordinary general meeting:**

  Any shareholder(s) holding not less than 5% of total voting rights of all the shareholders who have a relevant right to vote may request the Board to convene an extraordinary general meeting. The requisition, duly signed by the shareholder(s) concerned, must clearly state the objects of the meeting and must be deposited at the registered office of the Company, 52nd Floor, Bank of China Tower, 1 Garden Road, Hong Kong. The Company would take appropriate actions and make necessary arrangements in accordance with the requirements under section 566 to 568 of the Hong Kong Companies Ordinance once a valid requisition is received.

- **the procedures for making proposals at shareholders' meetings:**

  The following shareholders are entitled to put forward a proposal (which may properly be put to the meeting) for consideration at a general meeting of the Company:

  (a) shareholders representing at least 2.5% of the total voting rights of all the shareholders who have a relevant right to vote; or

  (b) at least 50 shareholders who have a relevant right to vote.

  The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement of not more than 1,000 words with respect to the matter referred to in the proposal must be deposited at the registered office of the Company (52nd Floor, Bank of China Tower, 1 Garden Road, Hong Kong), not less than six weeks before the general meeting. The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under section 581 to 583 of the Hong Kong Companies Ordinance once valid documents are received.

- **the procedure for Director's nomination and election by shareholders:**

  If a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, the shareholder should lodge at the registered office of the Company (52nd Floor, Bank of China Tower, 1 Garden Road, Hong Kong), (a) a notice in writing signed by such shareholder (other than the proposed person) duly qualified to attend and vote at the meeting of his/her intention to propose such person for election; and (b) a notice signed by the proposed person indicating his/her willingness to be elected.

  The period during which the aforesaid notices may be given will be at least seven days. Such period will commence on the day after the despatch of the notice of the general meeting for which such notices are given and end no later than seven days prior to the date of such general meeting. The Company would take appropriate actions and make necessary arrangements, and the shareholder concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Article 99 of the Articles of Association of the Company once valid notices are received.

Further shareholder information is set out in the section headed "Investor Relations". Shareholders are welcome to send in any written enquiries to the Board for the attention of the Company Secretary either by post to the registered office of the Company at 52nd Floor, Bank of China Tower, 1 Garden Road, Hong Kong or by way of email to investor_relations@bochk.com. The Company Secretary would direct the enquiries received to appropriate Board Member(s) or the Chairman of the Board Committee(s) who is in charge of the areas of concern referred therein for further handling. The Board, assisted by the Company Secretary, would make its best efforts to ensure that all such enquiries are addressed in a timely manner.

Disclosure of Information

The Company recognises the importance of timely and effective disclosure of information and formulates its policies, procedures and controlling measures on information disclosure (including inside information) in accordance with the requirements under applicable laws, regulations and regulatory requirements which includes the Securities and Futures Ordinance, Listing Rules and Hong Kong Monetary Authority Supervisory Policy Manual. The Information Disclosure Policy has been posted on the Company's website at www.bochk.com.

Directors' Responsibility Statement in relation to Financial Statements

The following statement should be read in conjunction with the auditor's statement of their responsibilities as set out in the auditor's report. The statement aims to distinguish the responsibilities of the Directors and the auditor in relation to the financial statements.

The Directors are required by the Hong Kong Companies Ordinance to prepare financial statements, which give a true and fair view of the state of affairs of the Company. The financial statements should be prepared on a going concern basis unless it considers inappropriate. The Directors are responsible for ensuring that the accounting records kept by the Company at any time reasonably and accurately reflect the financial position of the Company, and also ensure that the financial statements comply with the requirements of the Hong Kong Companies Ordinance. The Directors also have duties to take reasonable and practicable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors consider that in preparing the financial statements, the Company has adopted appropriate accounting policies which have been consistently applied and supported by reasonable judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

Investor Relations

Investor Relations Policy and Guidelines

The Company recognises the fundamental importance of maintaining effective communication with its existing and potential investors. We aim to provide clear and timely information that is reasonably required to make a fair investment decision with regard to the Company's equity and debt securities. We also highly value investor feedback and comments for the formulation of the Company's growth strategies to ensure its sustainable development and enhance shareholder value.

Investor Relations Programmes

The objectives of the Company's investor relations programmes are to promote, through various channels, timely and effective communication with the investment community to enhance their knowledge and understanding of the Company's development and strategies. The investment community refers to existing and potential investors of the Company's securities, analysts and securities market professionals. The Company's securities include both equity securities and debt securities.

The Company's investor relations strategies and programmes are formulated and overseen by the Investor Relations Committee, which is chaired by the Company's Chief Executive and comprises members of the senior management. The Investor Relations Division of the Board Secretariat, which reports directly to the Board, is responsible for the implementation of these strategies and acts as an intermediary between the Company and the investment community. Both the Board and the Committee evaluate the effectiveness of the investor relations programmes on a regular basis.

The Company's senior management is highly supportive and actively involved in investor relations activities. We communicate with the investment community in meetings, conferences and road-shows during which we discuss general public information, including disclosed financial information and historical data, markets and product strategies, business strengths and weaknesses, growth opportunities and threats. Any topic will be discussed so long as it is not considered to be material non-public information.

Multi-communication channels

Events
- Annual General Meeting
- Results briefings
- Global road-shows
- Investor conferences

E-channels
- Corporate website
- Investor email inquiries
- Email alert service

Meetings
- Company visits
- Investor/Analyst workshops
- Conference calls

Information Disclosure Policy

Relevant laws in respect of information disclosure of Hong Kong listed companies became effective on 1 January 2013. The Company attaches high importance to the principles of information disclosure with regard to timeliness, fairness and transparency, and proactively discloses information that may have an impact on investment decision-making. In accordance with relevant legislation and statutory requirements, the Company has prepared an Information Disclosure Policy, which is available on the Company's website for public reference. The policy contains clear guidelines to ensure the following:

1. information disclosure is in compliance with the Listing Rules and other regulatory requirements;
2. all communications with the public, including the investment community and the media, follow the principles of timeliness, fairness, truthfulness, accuracy and compliance; and
3. effective monitoring of procedures for information disclosure is in place.

Access to Corporate Information

The Investor Relations section of the Company's website (www.bochk.com) provides shareholders and investors with access to information on the Company's latest developments according to the principles of the Information Disclosure Policy. These include information in relation to the Company's key developments, interim and annual results as well as quarterly financial and business review updates. Members of the public can access important announcements through the Stock Exchange of Hong Kong. The website also includes regulatory disclosure information that complies with the applicable requirements set out in the Banking (Disclosure) Rules as stipulated by the Hong Kong Monetary Authority.

The Investor Relations section also includes information on credit ratings, shares and dividends, as well as a corporate calendar with dates of important events.

Shareholders and investors are encouraged to view the Company's corporate materials online to support environmental conservation. The Investor Relations website also includes an e-mail alert service to provide corporate updates on the Company's financial performance and latest developments. Shareholders and other interested parties may register on the website to receive updates by email.

Overview of Investor Relations Activities in 2015

In 2015, the Company continued its efforts to provide effective channels for communication with the investment community.

Annual General Meeting

At the Annual General Meeting held in June 2015, the Vice Chairmen of the Board, the Chairman of the Remuneration Committee, members of the Nomination Committee, the Audit Committee, the Risk Committee as well as the Strategy and Budget Committee respectively, the Company's senior management and external auditor were present to respond to questions and comments from shareholders. A total of 1,455 registered shareholders, 439 authorised corporate representatives and 760 authorised proxies holding an aggregate of 10,349,636,430 shares, representing 97.89% of the total issued share capital of the Company, were present. Minutes of the 2015 Annual General Meeting were made available to shareholders on the Company's website.

Results Announcements

At the Company's 2014 annual results announcement and 2015 interim results announcement, the senior management led by the Chief Executive conducted briefings with analysts and the press to apprise them of the Company's operating and financial results, business strategies and outlook. The presentation materials, announcements and webcasts were available to the public on the Company's website.

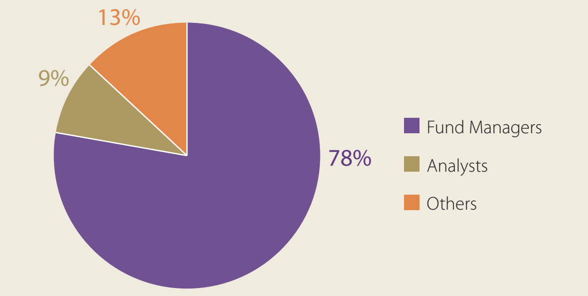
In addition to the interim and annual results announcements, the Company published quarterly financial and business reviews to keep shareholders up to date about the Company's performance and financial position.

Communication with the Investment Community

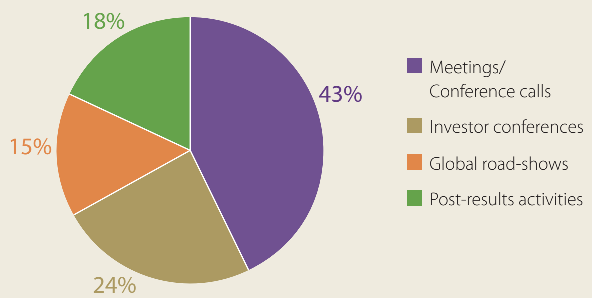
In 2015, the Company held approximately 120 meetings with investors and analysts across the world, with a total attendance of over 400. These meetings, which were conducted to give investors a better understanding of the Company's strategies and new business initiatives, were held during global road-shows, investor conferences, company visits and conference calls. The Company is widely covered by more than 15 securities research institutions.

Through emails, direct dialogue with investors and investor feedback, the Company continued to promote two-way communication. The responses received from investors enabled the Company to better understand its market focus which helped formulate its investor relations plan and continually improved its investor relations practices.

Investor Meetings by Category



Investors Met by Event



Going Forward

Under the principles of timeliness, fairness and transparency, the Company will continue to pursue proactive investor relations practices, including effective investor relations programmes to keep the investment community adequately informed of the Company's present and future development. The Company will also benchmark its programmes against best practices for continuous improvement and more efficient communication with the investment community.

Investor Relations Contact

Enquiries can be directed to:

Investor Relations Division
BOC Hong Kong (Holdings) Limited
52nd Floor, Bank of China Tower
1 Garden Road, Hong Kong

Telephone: (852) 2826 6314
Facsimile: (852) 2810 5830
E-mail: investor_relations@bochk.com

Shareholder Information

Financial Calendar 2016

Major Events	Dates
Announcement of 2015 annual results	30 March (Wednesday)
Latest time for lodging transfers for entitlement to attend and vote at the 2016 Annual General Meeting	31 May (Tuesday) 4:30 p.m.
Book closure period (both days inclusive)	1 June (Wednesday) to 6 June (Monday)
Latest time for lodging proxy forms for the 2016 Annual General Meeting	4 June (Saturday) 2:00 p.m.
2016 Annual General Meeting	6 June (Monday) 2:00 p.m.
Last day in Hong Kong for dealing in the Company's shares with entitlement to final dividend	7 June (Tuesday)
Ex-dividend date	8 June (Wednesday)
Latest time for lodging transfers for entitlement to final dividend	10 June (Friday) 4:30 p.m.
Book closure period (both days inclusive)	13 June (Monday) to 16 June (Thursday)
Record date for final dividend	16 June (Thursday)
Final dividend payment date	24 June (Friday)
Announcement of 2016 interim results	Mid to late August

Annual General Meeting

The 2016 Annual General Meeting will be held at 2:00 p.m. on Monday, 6 June 2016 at Grand Ballroom, The Lobby Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wan Chai, Hong Kong.

Investor Relations

Share Information

Listing and Stock Codes

Ordinary Shares		Level 1 ADR Programme	
The Company's ordinary shares are listed and traded on The Stock Exchange of Hong Kong Limited ("HKEX").		The Company maintains a Level 1 ADR facility for its ADSs. Each ADS represents 20 ordinary shares of the Company.	
Stock codes		Stock codes	
HKEX	2388	CUSIP No.	096813209
Reuters	2388.HK	OTC Symbol	BHKLY
Bloomberg	2388 HK		

Market Capitalisation and Index Recognition

As at 31 December 2015, the Company's market capitalisation was HK$250.6 billion, among the top 20 leading stocks on the Main Board of Hong Kong Stock Exchange in terms of market capitalisation. Given the Company's market capitalisation and liquidity, its shares are a constituent of Hang Seng Index, MSCI Index and FTSE Index series. In addition, the Company is a constituent of Hang Seng Corporate Sustainability Index Series and Hang Seng High Dividend Yield Index, which recognises its performance in related areas.

Debt Securities

Issuer	:	Bank of China (Hong Kong) Limited, a wholly-owned and principal subsidiary of the Company	
Listing	:	The Notes are listed and traded on The Stock Exchange of Hong Kong Limited	

Subordinated Notes

Description	:	Bank of China (Hong Kong) Limited 5.55% Subordinated Notes due 2020	
Issue size	:	US$2,500 million	
Stock codes	:	HKEX	4316
		ISIN	USY1391CAJ00 (Regulation S)
			US061199AA35 (Rule 144A)
		Bloomberg	EI1388897

Senior Notes

Description	:	Bank of China (Hong Kong) Limited 3.75% Senior Notes due 2016 issued under the Medium Term Note Programme of US$15 billion	
Issue size	:	US$750 million	
Stock codes	:	HKEX	4528
		ISIN	USY1391CDU28 (Regulation S)
			US061199AB18 (Rule 144A)
		Bloomberg	EI8623411

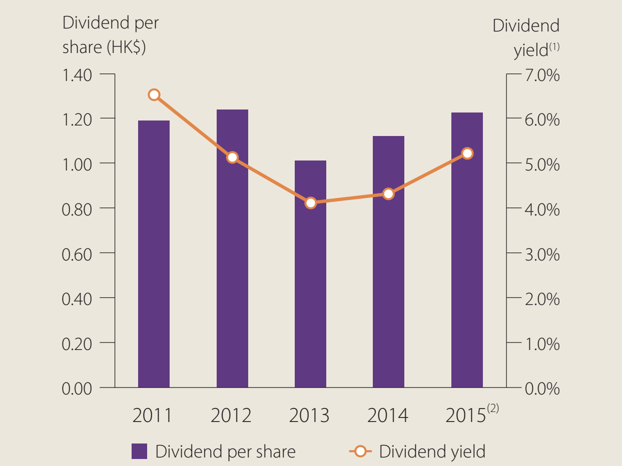
Share Price and Trading Information

Share price (HK$)	2015	2014	2013
Closing price at year end	23.70	25.95	24.85
Highest trading price during the year	33.70	27.95	28.00
Lowest trading price during the year	22.30	21.50	22.85
Average daily trading volume (m shares)	12.75	11.05	11.47
Number of ordinary shares issued (shares)		10,572,780,266	
Public float		Approximately 34%	

Dividends

The Board of Directors has recommended a final dividend of HK$0.679 per share, which is subject to the approval of shareholders at the 2016 Annual General Meeting. With the interim dividend per share of HK$0.545 paid during 2015, the total dividend per share will amount to HK$1.224 for the full year.

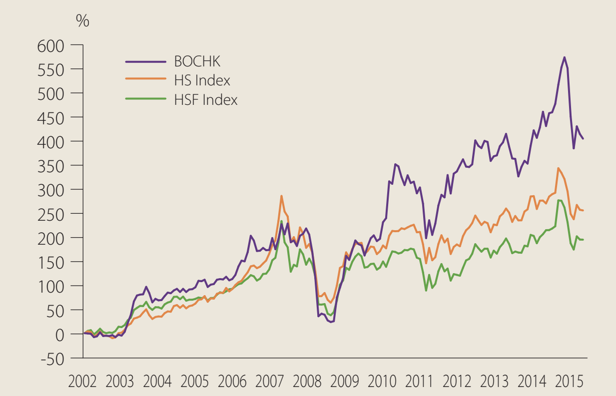
Dividend Per Share and Dividend Yield[1]



(1) Annual dividend yield is calculated based on dividends of the year (i.e. interim dividend and proposed final dividend of the year) and closing share price at that year-end.

(2) 2015 proposed final dividend will be subject to shareholders' approval at the Company's forthcoming Annual General Meeting.

Total Shareholder Return since Initial Public Offering



Source: Bloomberg

Total shareholder return is measured by share price appreciation and reinvested dividends.

Credit Ratings (long-term)

Standard & Poor's:	A+
Moody's Investors Service:	Aa3
Fitch Ratings:	A

Investor Relations

Shareholding Structure and Shareholder Base

As at 31 December 2015, the Company had 10,572,780,266 shares in issue of which approximately 34% was held by the public and 0.43% was held in the form of ADSs. The Company's 79,692 registered shareholders were distributed in various parts of the world, including Asia, Europe, North America and Australia. Apart from BOC, the Company is not aware of any major shareholders with a shareholding of more than 5% which has to be reported under the SFO.

During the year, the shareholder structure of the Company remained stable. The following table shows the distribution of ownership according to the register of members which includes registered shareholders and shareholders recorded in the participant shareholding report generated from the Central Clearing and Settlement System as at 31 December 2015:

Category	Number of registered shareholders	% of registered shareholders	Number of shares held by registered shareholders	Approximate % of total issued shares
Individuals	79,554	99.83	229,166,131	2.17
Institutions, corporates and nominees Note	137	0.17	3,402,536,379	32.18
Bank of China Group Note	1	0.00	6,941,077,756	65.65
Total	79,692	100.00	10,572,780,266	100.00

Note:
As recorded in the register maintained by the Company pursuant to section 336 of the SFO, the total number of shares held by Bank of China Group was 6,984,274,213 shares, representing approximately 66.06% of the total number of shares in issue of the Company as at 31 December 2015. This figure included certain numbers of shares held for Bank of China Group in the securities account opened with BOCI Securities Limited, a participant of Central Clearing and Settlement System. Accordingly, these shares are included under the category of 'Institutions, corporates and nominees'.

Shareholder Enquiries

For any enquiries or requests relating to shareholder's shareholding, e.g. change of personal details, transfer of shares, loss of share certificates and dividend warrants, etc., please send in writing to:

Hong Kong	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East, Wan Chai, Hong Kong	
	Telephone:	(852) 2862 8555
	Facsimile:	(852) 2865 0990
	E-mail:	hkinfo@computershare.com.hk
USA	Citibank Shareholder Services 250 Royall Street Canton, MA 02021, USA	
	Telephone:	1-877-248-4237 (toll free) 1-781-575-4555 (outside USA)
	E-mail:	Citibank@shareholders-online.com

Other Information

This Annual Report is available in both English and Chinese. A copy prepared in the language different from that in which you have received is available by writing to the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or email to bochk.ecom@computershare.com.hk. This Annual Report is also available (in both English and Chinese) on the Company's website at www.bochk.com and the Stock Exchange's website at www.hkexnews.hk. You are encouraged to access the corporate communications of the Company through these websites in lieu of receiving printed copies to help protect the environment. We believe that it is also the most efficient and convenient method of communication with our shareholders.

If you have any queries about how to obtain copies of this Annual Report or how to access the corporate communications on the Company's website, please call the Company's hotline at (852) 2846 2700.


RMB
Exchange
Shanghai-Hong Kong
Stock Connect
Cross-border
Services
HKD$

Innovation

Corporate Social Responsibility

During the year, by adhering to the strategy of "Serving Society, Delivering Excellence", the Group has launched a wide range of Corporate Social Responsibility ("CSR") initiatives to create sustainable values for our customers, staff, shareholders, investors and the general public. Our commitment to CSR is underpinned by our policies for CSR, Environment and Sustainable Procurement.

We communicate with our stakeholders regularly through diverse channels, such as meetings, visits, e-newsletter and surveys. We value their feedback which enables us to identify and address issues that have material impacts on our development from economic, environmental and social perspectives. In 2015, we again commissioned an external consultant to engage our stakeholders and to seek their views on our CSR performance.

Our CSR efforts have been widely recognised. BOC Hong Kong (Holdings) Limited has been included as a constituent stock of the "Hang Seng Corporate Sustainability Index" series since 2010. In 2015, we were selected as the top 20 performer in the "Hong Kong Business Sustainability Index" in appreciation of our performance in CSR values, practice and impacts. The Group has also been named a Caring Company by The Hong Kong Council of Social Service since 2003.

Access to Banking and Finance

As a major financial banking group in Hong Kong, we endeavour to incorporate CSR principles in every aspect of our services and operations so that people from different strata of society are able to access our quality, convenient and secure banking and financial services. With about 260 local branches and efficient e-channels including over 1,000 self-service machines, namely ATMs, cash deposit machines and cheque deposit machines, as well as Internet and Mobile Banking services, the Group offers a comprehensive range of financial products and services to meet the different needs of customers. During the year, we set up new automated banking sites across Hong Kong including public housing estates to better serve the community.

Caring Banking Services

We support the Senior Citizen Card Scheme of the Social Welfare Department by offering preferential interest rates on time deposits and a fee waiver on issuance of gift certificates. Account holders at the age of 65 or above and aged below 18, as well as recipients of Government Disability Allowance / Comprehensive Social Security Assistance, can enjoy service fee waivers on counter transactions as well as a HKD savings account with no minimum balance requirement. Such account holders are also entitled to annual fee waiver of ATM card. In addition, no service fee is charged on dormant accounts in support of the Hong Kong Monetary Authority's Treat Customers Fairly Charter.

To facilitate the visually impaired customers to have banking services through self-service machines, all of our ATMs are equipped with protruding symbols of which about 95% have soft keypads on both sides of the screen for account and service selection. We also have Voice Navigation ATMs. Furthermore, ramps have been installed at the renovated branches for the convenience of wheelchair users and those with other mobility problems.

We organised different activities, such as seminars and film screenings, to promote reverse mortgage

As the major bank in the Reverse Mortgage Programme, we further enhanced this programme to provide more flexible retirement financial solutions for the elderly. We joined the Premium Loan Insurance Scheme launched by the Hong Kong Mortgage Corporation. We also promoted the scheme through a series of seminars so that retirees and the soon-to-be retired could better plan for their financial security.

We offer non-governmental organisations a holistic banking solution with preferential fees to help reduce their banking expenses. Our comprehensive cash management solutions allow them to increase their administrative efficiency while our convenient Electronic Bill Presentment and Payment Services facilitate their donation collection. Furthermore, we have waived the transaction processing fees for donations made through BOC credit cards.

Supporting Economic Development

We are committed to contributing to the long-term economic development of Hong Kong and strengthening its position as an international financial centre, especially for its role as a major offshore RMB hub. During the year, we extended the clearing service hours of RMB Real Time Gross Settlement, making us the world's first clearing system with the longest operating hours covering time zones in Asia, Europe and America. In addition, the Group continued to act as an active Primary Liquidity Provider with additional RMB liquidity for the market, which helps to support the steady development of the Hong Kong offshore RMB hub.

Seminars on Belt and Road Initiative was organised for members of SMEs, trade associations and our staff. The experts shared their views on opportunities arising from the Belt and Road Initiative

We organised and sponsored a variety of educational seminars and activities to support small and medium-sized enterprises (SMEs), large corporations, trade associations and institutions, as well as personal customers to capture the business opportunities arising from the Belt and Road national strategy, the internationalisation of RMB, Mainland enterprises going global and the development of Free Trade Zones.

In support of the business development of SMEs, we provided a wide range of financing solutions and services including the BOC Small Business Loan with the newly added one-hour approval service, the Hong Kong Mortgage Corporation Limited's SME Financing Guarantee Schemes, and the Trade and Industry Department's SME Loan Guarantee Scheme. We continued to sponsor SME One, a consultancy centre set up by the Hong Kong Productivity Council to help SMEs stay abreast of the latest market trends, IT solutions and financing developments. We also organised trade seminars and talks for SMEs and the Mainland enterprises to facilitate their cross-border business investment, technological exchange and trade cooperation. In recognition of our long-term support for SMEs, we have received the Best SME's Partner Award presented by the Hong Kong General Chamber of Small and Medium Business eight years in a row.

We sponsored the "Young Industrialist Awards of Hong Kong" and the "Hong Kong Awards for Industries" to recognise outstanding industrialists

In addition, we sponsored the Young Industrialist Awards of Hong Kong, and the Hong Kong Awards for Industries to recognise the outstanding performance of the industrialists and manufacturers that have made contributions to the growth of the local economy.

Investing in Communities

We actively contribute to the development of the society by supporting a diverse range of community activities, including charities, education, arts and culture, sports and environmental protection.

Since the establishment of the BOCHK Charitable Foundation in 1994, we have contributed over HK$200 million to the community. In 2015, we supported 29 programmes organised by charities and NGOs. In addition to our charity projects, we also sponsored a variety of community programmes.

Nurturing the Next Generation

To nurture the next generation, the Group has awarded HK$18.65 million in scholarships and bursaries to nine universities in Hong Kong, benefiting almost 2,500 students since 1990. We also provided internship opportunities to enable university students to gain experience in workplace environment. In collaboration with the Hong Kong Institute of Vocational Education, we launched the professional training course of "Part-time Customer Service Officer Programme" for the students to work in branches to gain practical banking knowledge and customer service skills, thereby nurturing talents for the financial sector and the community.

In support of children from less advantaged background, we joined the government's Child Development Fund "Dream High" Mentorship Project, organised by Tung Wah Group of Hospitals. The project aimed to help 120 children participants to set their personal development plan and foster positive thinking. We also offered banking account opening service for about 300 children participants of the Child Development Fund projects organised by Tung Wah Group of Hospitals and Caritas Hong Kong, to help them develop the habit of saving and to achieve personal goals.

In 2015, our insurance arm BOCG Life sponsored the "Health Engineer Programme" organised by Hong Kong Sheng Kung Hui Welfare Council and "Kids The Future Programme" organised by

A variety of green activities and workshops were organised to promote environmental protection among teenagers

Hong Kong Family Welfare Society, enabling 8,000 students from local primary schools cultivate a positive life attitude and develop a healthy lifestyle. Another initiative, the "BOCG Life Young Anchor Programme", organised by the South China Morning Post, helped secondary students to realise their potentials and build their self-confidence.

We visit local communities and schools to promote badminton at the grassroots level

Caring for the Community

To provide the underprivileged with the digital access, we launched the BOCHK-NHA Computer Donation Programme and donated 500 units of the recycled computers to the members of New Home Association, including ethnic minorities, new immigrants, grassroot families and the elderly. Our staff members from Information Technology Department also volunteered their time to offer free computer courses to over 2,000 beneficiaries of the programme.

We value our long-term partnerships with charities and NGOs to build mutual trust. As a longstanding supporter of the Community Chest of Hong Kong, aside from making donation, we also encouraged our staff members to take part in different fund-raising programmes. In 2015, we were presented with the President's Award by the Community Chest.

For the sixth consecutive year, we have supported the "Hong Kong Corporate Citizenship Programme" organised by the Hong Kong Productivity Council. More than 700 enterprises and 4,500 participants have participated since the launch of the programme. In addition to raising public awareness of CSR, the programme has succeeded in encouraging a growing number of enterprises to commit to CSR.

We were the title sponsor of the Season Opening Concerts of the Hong Kong Philharmonic Orchestra by Tan Dun

To encourage enterprises to commit to CSR, we have supported the "Hong Kong Corporate Citizenship Programme" organised by the Hong Kong Productivity Council for the sixth consecutive year

We also funded the Hospital Authority Chinese Orchestra under the 2014-2015 "Caring Programme", benefiting more than 3,800 chronically ill patients, medical staff and the elderly through a series of seasonal concerts and Chinese music therapy workshops at public hospitals.

Promoting Sports Excellence

We advocate sports for youth and the general public in order to promote health, team spirit and positive attitude. Since 1999, we have contributed more than HK$15.85 million to support the development of badminton, benefiting over 1.28 million of participants. In 2015, famous international and Hong Kong badminton team players were invited to visit the local communities and schools, and helped promote sports at the grassroots level through demonstrations and exchanges. Since 2002, we have sponsored the Hong Kong Island and Kowloon Regional Inter-school Sports Competition. In 2015, around 80,000 athletes participated in over 8,000 matches in 20 sports events. About 560 student participants of the BOCHK Schools Sports Volunteer Scheme contributed over 9,800 hours of volunteer service during these events.

Appreciating Arts and Culture

We support diverse arts and cultural activities. One of the major highlights of the year was the Season Opening Concerts of the Hong Kong Philharmonic Orchestra by Tan Dun, who conducted his highly acclaimed *Nu Shu*: The Secret Songs of Women, which attracted over 3,000 audience. Another was the Hong Kong Art Gallery Week, organised by The Hong Kong Art Gallery Association and sponsored by our Private Banking, for the third consecutive year. For one week in November 2015, members of the public enjoyed free access to more than 50 local galleries, including talks and tours. To promote tea culture, we have sponsored the Hong Kong Trade Development Council's Tea Sharing for five years in a row.

Students demonstrated their talents in sports at the "Hong Kong Island and Kowloon Regional Inter-school Sports Competition"

We donated recycled computers and offered free computer courses to children in need under the" BOCHK-NHA Computer Donation Programme"

Protecting the Environment

We recognise that a healthy environment is the foundation for economic progress and the well-being of society. We aim to effectively reduce our carbon footprint and promote environmentally responsible practices. We work with our staff, suppliers, customers and other stakeholders to identify ways to promote green values and the sustainable development of our community.

In collaboration with the Federation of Hong Kong Industries, we launched the "BOCHK Corporate Environmental Leadership Awards Programme" to recognise the environmental achievements of manufacturing and service enterprises in Hong Kong and in the Pan-Pearl River Delta region

Mobile Banking Service Customers
▲ 20.4%

Customers opt for Consolidated e-statements
▲ 19.1%

Personal e-banking Customers
▲ 7.5%

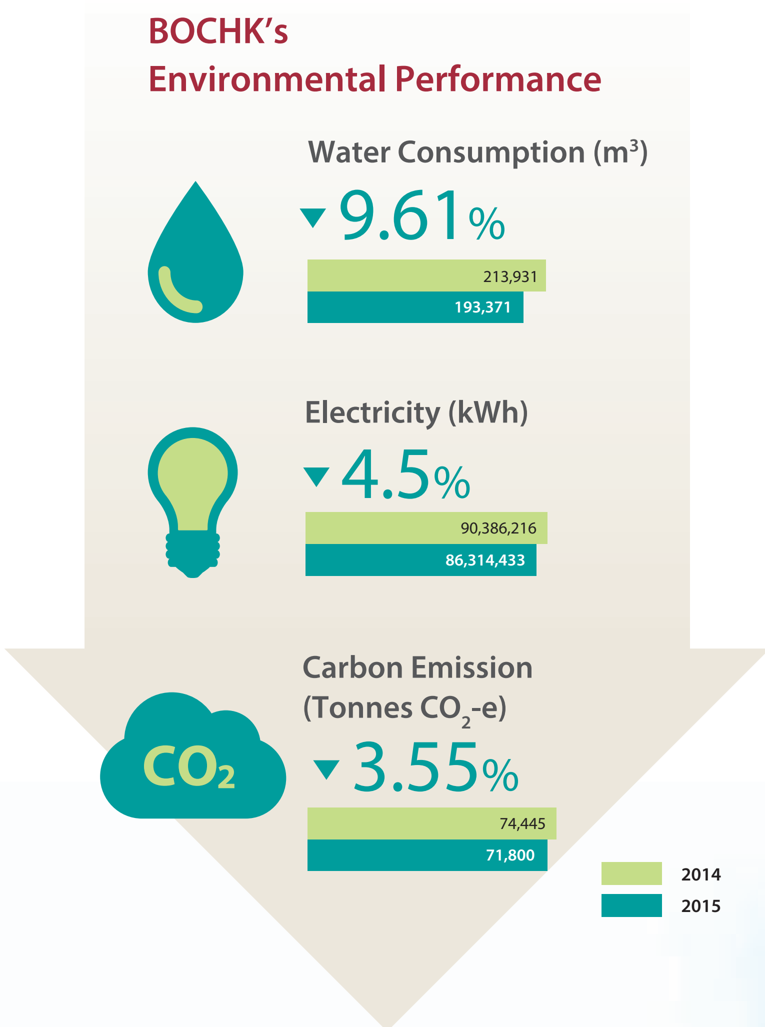
Building a Green Bank

Our Environmental Policy reflects our green concept and commitment, and guides our approach to operational sustainability. We strive to achieve better use of energy and increase energy efficiency. We have implemented energy-efficient and water saving measures in our buildings. Bank of China Tower, Bank of China Building, Bank of China Centre and Bank of China Wanchai Commercial Centre have all been awarded international and local certifications for environmental performance over the years. In 2015, following the revamp of the Data Centre, we achieved a significant 41% reduction in our electricity use as a result of the installation of energy-efficient cooling systems. The Data Centre was also awarded LEED Silver Level Certification by the US Green Building Council.

We constantly enhance our e-banking service and platforms with innovation and encourage customers to use less paper. At the end of 2015, our personal Internet Banking and Mobile Banking service customers increased by 7.5% and 20.4% respectively, as compared with 2014. The number of customers who opted for consolidated e-statements increased by 19.1% over 2014.

During the year, we offered the brand-new e-Cheque service with the longest cut-off time among our peer banks to help customers save costs and promote environmental conservation. To encourage the use of e-Cheque services, for every successful first-time transaction of an e-cheque issued or deposited during promotion period, we committed a HK$5 donation. The total donation of up to HK$500,000 would be contributed to World Wide Fund-Hong Kong to support environmental education. We continued to promote e-banking with new initiatives launched, including mortgage e-Assessment mobile apps, the first to introduce WeChat account enquiry service and Appsdollar platform for customers to redeem rewards and virtual goods. In addition, we pioneered the use of Enhanced Identity Manager (eIDM) verification technology for instant online approval of customer loan application. In our extensive branch network, we implement a paperless branch teller model and encourage customers to access e-posters and LED monitors in our renovated branches.

We encourage greener practices among our corporate customers and suppliers by incorporating ESG standard of the Hong Kong Stock Exchange into our lending and procurement assessment. In partnership with the two local electricity companies, we continued to offer Energy Efficiency Loan Scheme to support commercial and industrial customers who plan to carry out energy-saving initiatives. We also requested our suppliers to complete the "Code of Conduct" questionnaires and paid site visits to ensure compliance.



Raising Awareness of Environmental Issues

During the year, the Group launched a series of programmes to educate and increase the awareness among our customers, employees and the community at large about the importance of environmental protection.

The Hong Kong Coastal Geology and Ecology Tours were well-received by students and the public

Corporate Social Responsibility

Workshops on the use of e-cheque were oganised for non-profit organisations to promote Internet financial services and support the environment

Among these programmes was the "BOCHK Corporate Environmental Leadership Awards Programme" organised in collaboration with the Federation of Hong Kong Industries. The programme aimed to recognise the environmental achievements of manufacturing and service enterprises in Hong Kong and in the Pan-Pearl River Delta region. One of the key features of the programme was the "One Belt One Road Environmental Leadership Recognition Award" which acknowledged the outstanding performance of corporates in environmental protection within the related areas. The programme received an overwhelming response of over 450 corporate participants.

To put staff awareness of environmental issues into practice, we introduced recycling programmes to collect papers, plastic bottles, cans, batteries, lighting fixtures, toner cartridges and food waste. We also arranged for special festive initiatives such as collection of moon-cake boxes. For three consecutive years we have supported Greeners Action's "Lai See Packets Recycling Campaign" with collection points at key office buildings and 60 branches to provide convenience for public involvement.

In 2015, we sponsored and participated in WWF's Earth Hour initiative by turning off all non-essential lighting in major office buildings for an hour on 28 March. We aim at promoting public awareness in reducing energy consumption.

Since 2011, we have sponsored the "1,000 Environment-Friendly Youth Ambassadors Action Programme". Under this programme, more than 5,000 youths from the Mainland have been trained as ambassadors to promote energy saving and carbon reduction. We have also sponsored the "Green Monday School Programme" to encourage students adopt a vegetarian diet and reduce their carbon footprint, attracting over 600,000 student enrolments.

For the "Hong Kong Geopark Charity Green Walk", we supported 22 Hong Kong Coastal Geology and Ecology Tours with 2,100 participants, including 350 students from underprivileged families in 2015. Eco seminars were conducted in schools with around 1,000 student participants to enrich their green knowledge. A dedicated social media page was also set up to inspire public awareness of the importance of geopark conservation. The "Shoreline Clean-up Volunteer Programme" was launched and was recognised by the Environmental Protection Department as one of the activities that encouraged marine conservation. In the past six years, over 130 eco-tours have been arranged for more than 13,600 participants.

>450

corporates participated in the "BOCHK Corporate Environmental Leadership Awards Programme"

We have supported the Greeners Action's "Lai See Packets Recycling Campaign" for three consecutive years. To promote recycling, our staff participated in Lai See Packing recycle workshop

Caring for Our People

We value our human resources. As at the end of 2015, we have more than 15,000 employees of diverse backgrounds and experience in Hong Kong. The Group is dedicated to creating a favourable environment for our employees to support their growth and development, and fostering an innovative, inclusive and performance-driven culture.

Developing our Staff

A capable and motivated workforce is integral to our success. We therefore actively promote continuous learning and provide multi-faceted training programmes for our employees, encouraging them to develop and advance their careers with the Group through multiple channels. These include, but are not limited to, e-learning, job rotations, assessment feedback and mentoring. Career advancement opportunities are encouraged through internal transfer. Training seminars on special subjects with professionals from the relevant fields are held. We also ensure a compliance culture across the Group through mandatory compliance-related training programmes. Moreover, we provide structured learning for employees through our Management Trainee and Graduate Programme. The average number of training hours per full-time staff member in 2015 exceeded 53 hours.

>53 hours

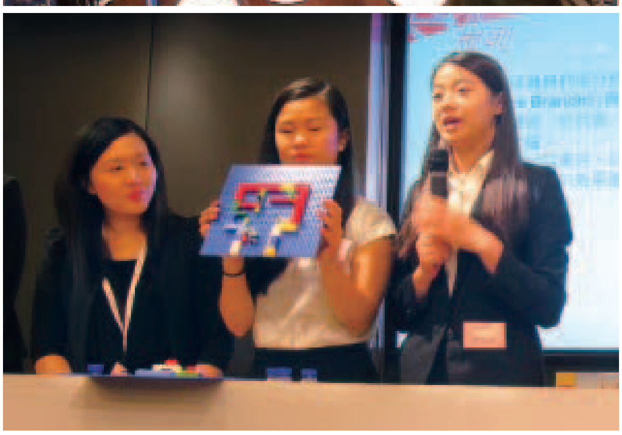
average number of training hours per full-time staff member in 2015

To align our staff development plan with the Group's business strategies, we have developed a Leadership Model and a Fundamental Competency Model specifying respective competencies required for all leadership and non-leadership roles. Both models provide clear objectives for personal development and serve as the foundation for our talent recruitment and staff performance assessments. As a result of our structured career development and training programmes, our people are well-equipped to excel at their work and career development.

A wide variety of sport activities are organised for our staff to promote healthy living

Corporate Social Responsibility

The BOCHK Ocean Park Staff Fun Day welcomed over 28,000 staff members, their families and friends



Training programs are provided to management trainees and university graduates to develop their talents

1st local bank

accredited with the most training programmes by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications

We are dedicated to designing competency based training programmes which include different curriculae for Personal Banking, Corporate Bank and Operation Process Management. The highest level of the program accreditation is QF4. We are the first approved training operator which provide the most accredited programmes among the banks in Hong Kong.

The annual award presentation ceremony honors staff team and individuals who have achieved remarkable performance

Supporting Our People

We strive to provide our staff with a supportive, pleasant and healthy workplace as well as a caring working environment. We maintain constant communication with our people through regular conversations, line management meetings, online platform, staff magazines, hotlines and appraisals. In 2015, we set up the Chief Executive's mail box to enhance communication and exchange between senior management and staff, to better understand the ideas of employees, and to receive comments and suggestions from them. Good suggestions were received to further improve the operations of the Group.

To attract, develop, motivate and retain outstanding employees, we offer competitive compensation and incentives as well as comprehensive benefits. We also organise a variety of recreational activities and sports competitions to promote work-life balance. In 2015, more than 28,000 staff and their family members participated in the Staff Fun Day at Ocean Park Hong Kong. Furthermore, we organise annual award presentation ceremony to recognise outstanding staff and teams.

Recreational activities were organised for staff members to promote work-life balance

The BOCHK choir team won a silver award at the 2015 Asia International Choir Festival. Renowned for its inspiring vocal performances, the team were invited to perform at various public events

Serving the Community

We encourage volunteer activities that promote community development. About 1,400 employees are members of our Dynamic Volunteer Team. Trainings are arranged every year to strengthen the skills of our volunteers.

In 2015, our volunteers joined hands with family members and friends to participate in 136 activities benefiting children and the youth, the elderly and people with special needs, as well as protecting the environment. The volunteers also participated in the Hong Kong Association of Banks' financial education

>44,400 hours

contributed to community services by our volunteers

▲**89%**

Together we build the BOCHK Family

Our singing contest received overwhelming response from over 100 BOCHK singers workshops for low-income families and ATM education programme for the elderly with our staff acting as volunteer tutors. Our volunteer team contributed more than 44,400 hours of community service which represented a significant increase of 89% as compared with 2014. The dedication of our volunteers has been recognised by the Social Welfare Department through its Gold Award for Volunteer Service for six consecutive years.

To promote the employment of people with disabilities, in 2015 we joined the Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme launched by the Labour and Welfare Bureau, the Rehabilitation Advisory Committee, the Hong Kong Council of Social Service and The Hong Kong Joint Council for People with Disabilities. We also provided indirect employment opportunities for people with disabilities by using their products and services through their respective charities.

About 1,400 employees in our Dynamic Volunteer Team supported worthy causes and events that benefitted children and youth, the elderly and people with special needs, as well as activities for protecting the environment

Awards and Recognition

During the year, given the solid financial strength and outstanding performance of our major businesses, we were granted various industry awards which have further reinforced our leading market positions. We were named the Bank of the Year in Hong Kong by *The Banker* and the Strongest Bank in Asia Pacific and Hong Kong by *The Asian Banker* in recognition of our consistent excellent performance. In addition, we won an array of accolades acknowledging the achievements we have made in enhancing customer experience through continuous product and service innovation. These awards covered a wide range of areas including RMB business, cash management, SME, internet and mobile banking, and credit card services. The Group is also highly commended for its commitment to corporate social responsibility.

Financial Strength and Corporate Governance

- Bank of the Year in Hong Kong ***(The Banker)***
- Strongest Bank in Asia Pacific and Hong Kong ***(The Asian Banker)***
- Asian Excellence Recognition Awards –
  Best Investor Relations Company ***(Corporate Governance Asia)***

RMB Business

- Stars of China Awards – Best Onshore Interest Rate Hedging
  (Global Finance Magazine)
- Best RMB Bonds, Offshore (Three Years) and the Most Innovative Product – BOCHK All Weather CNY Equity Fund
  (Asia Asset Management)
- Fund of the Year Awards 2015 ***(Benchmark)***:
  Best in Class Award – High Yield Fixed Income
  Outstanding Achiever Award – RMB Fixed Income
- Hong Kong Offshore RMB Centre – RMB Business Outstanding Awards **(Metro Finance, Metro Finance Digital** and ***Wen Wei Po*)**:
  Outstanding Corporate/Commercial Banking – Cross-border All-round Services
  Outstanding Retail Banking – Comprehensive Investment Services
  Outstanding Retail Banking – Credit Cards
  Outstanding Retail Banking – Cross-border Mobile Payment Services
  Outstanding Retail Banking – Traditional Business
  Outstanding Insurance – Endowment
  Outstanding Insurance – Annuity
  Outstanding Insurance – Universal Life
  Outstanding Insurance – Customer Service
- Excellent Brand of RMB Banking Services
  (Metro Finance and **Metro Finance Digital)**
- Outstanding RMB Business Award – Innovative and Comprehensive Cross-border Financial Services
  (Wen Wei Po)
- Offshore RMB Business – Excellence Award
  (Bloomberg Businessweek)

- Top bank in the Hong Kong-Macau syndicated loan market for 11 consecutive years ***(Basis Point)***
- Best Overall Domestic Cash Management Services for Large Sized Corporates and Best Overall Cross-border Cash Management Services for Large Sized Corporates in Hong Kong
  (The Asian Money)
- Best Chinese Bank in Hong Kong and Best Chinese FX Bank in Hong Kong ***(FinanceAsia)***
- USD STP Excellence Award **(Deutsche Bank)**
- The Best SME's Partner Award **(The Hong Kong General Chamber of Small and Medium Business)**
- Outstanding Import & Export Industry Partner Award
  (The Hong Kong Chinese Importers' and Exporters' Association)
- Thirteen honours in the Outstanding Financial Management Planner Awards **(The Hong Kong Institute of Bankers)**

Service Excellence

- The Best Retail Bank in Hong Kong, Achievement Award for the Best Cash Management Bank in Hong Kong and Technology Implementation Award for Multi-Channel Project
  (The Asian Banker)
- Hong Kong Domestic Cash Management Bank of the Year, Mobile Banking Initiative of the Year – Hong Kong and Hong Kong Domestic Foreign Exchange Bank of the Year
  (Asian Banking & Finance)
- Asia Quality Best Practice Award
  (International SixSigma Council):
  Best Champion in Implementing Continual Improvement in Organization - Platinum Award
  Best Practice in Process Improvement with Lean - Gold Award

Awards and Recognition

- Financial Institutions Awards ***(Bloomberg Businessweek)***:
  Bank of the Year – Excellence Award
  Commercial Banking – Excellence Award
  Cross-border Financial Services – Excellence Award
  Corporate Finance – Excellence Award
  Retirement Planning – Excellence Award
  Life Insurance – Outstanding Performance Award
  Savings Plan – Outstanding Performance Award
  Retail Banking – Outstanding Performance Award
  Technology Usability: Online and Apps – Outstanding Performance Award
  Investor Education – Outstanding Performance Award
- The Hong Kong Leaders' Choice Brand Awards **(Metro Finance** and **Metro Finance Digital)**:
  Excellent Brand of Mortgage Services
  Excellent Brand of Securities Services
  Excellent Brand of Cross-border Services
  Excellent Brand of Personal Credit Cards
  Excellent Brand of Mobile Payments
  Excellent Brand of Import and Export Trade Services – Banking
  Excellent Brand of Foreign Exchange Services
- Sing Tao Service Awards ***(Sing Tao Daily)***:
  Banking – Dual Currency Credit Card Services
  Mortgage Services
- Wealth Management Awards ***(Benchmark)***:
  Customer Onboarding – Best-In-Class
  Service Innovation – Best-In-Class
  Online Usability – Outstanding Achiever
- The Best Life Insurance Award
  (Metro Daily and ***Metro Prosperity)***
- Asia Insurance Technology Awards:
  Digital transformation Award
  (*Asia Insurance Review* and **Celent,** a research and consulting company in the U.S.)
- The Best of Mobile Banking Service Provider ***(e-zone)***
- The Best Business Solution (Application) – Silver Award
  (Hong Kong Computer Society)
- My Favourite Personal Online Banking Service Award
  (PC Market)
- My Most Favourite Credit Card for Travelling Award
  (U Magazine)
- My Favourite MTR Shops – Ideal for Convenience Shopping
  (Mass Transit Railway Corporation Limited)

UnionPay International:

- Outstanding Card Award (Commercial Credit Card) in Hong Kong
  Largest Card Number (Credit Card) in Hong Kong – Gold Award
  Highest Card Volume (Credit Card) in Hong Kong – Gold Award
  Highest Acquiring Volume in Hong Kong – Gold Award
  Highest Acquiring Volume Growth in Hong Kong – Gold Award
  Highest UPOP Issuing Volume Award in Hong Kong & Macau
  Highest UPOP Acquiring Volume in Hong Kong & Macau – Gold Award
  Bank of the Year Award in Hong Kong & Macau

MasterCard WorldWide:

- The Best Contribution to Acquiring Fraud Management in Hong Kong
  The Highest Number of Contactless Transaction Taps in Hong Kong
  New World Card Launched in Hong Kong – Enrich Banking World MasterCard
  The Highest Market Share of Cross-border Cardholder Spending Volume in Macau
  The Highest Market Share of Cross-border Merchant Purchase Volume in Macau
  The Highest Market Share Merchant Purchase Volume in Macau
  The Highest Market Share Number of Open Cards in Macau
  The Highest Market Share Cardholder Spending in Macau

Social Responsibility

Caring for Society

- Included as a constituent stock of the **Hang Seng Corporate Sustainability Index** and **Hang Seng (Mainland and HK) Corporate Sustainability Index** respectively, and a constituent of the **Hang Seng Corporate Sustainability Benchmark Index**
- A top 20 constituent stock of the **Hong Kong Business Sustainability Index**
- A Caring Company **(The Hong Kong Council of Social Service)**
- President's Award **(The Community Chest of Hong Kong)**
- Gold Award for Volunteer Service and Award of 10,000 hours for Volunteer Service **(Social Welfare Department)**

BOCG Life:

- Employer of Choice Award 2015 ***(JobMarket)***
- Outstanding Social Caring Organization Award **(Social Enterprise Research Institute)**
- 2014/15 Good MPF Employer **(Mandatory Provident Fund Schemes Authority)**
- Corporate Caring Award **(Hong Kong Sheng Kung Hui Welfare Council)**

Environmental Protection

- Leadership in Energy and Environmental Design – Data Centre: Silver Certification **(U.S. Green Building Council)**

BOC Tower, BOC Building, BOC Centre and BOC Wanchai Commercial Centre:

- ISO14001:2004 Environmental Management System Certification **(UKAS)**
- Indoor Air Quality Certificate – Excellent Class/Good Class **(Environmental Protection Department)**
- Certificate of Quality Water Recognition Scheme for Building **(Water Supplies Department)**

BOC Tower, BOC Centre and BOC Wanchai Commercial Centre:

- ISO 50001:2011 Energy Management System **(SGS)**

BOC Tower:

- BEAM Plus **(The Hong Kong Green Building Council)**

BOC Building:

- Carbon Reduction Labelling **(Hong Kong Quality Assurance Agency)**

BOC Centre:

- Hygiene Control Management System Standard **(SGS)**

BOCG Life:

- Indoor Air Quality Certificate – Excellent Class **(Environmental Protection Department)**

Talent Development Management

- Distinguished Trainer Awardees of Award for Excellence **(Hong Kong Management Association)**
- The Certificate in Customer Service Officer, Advanced Certificate in Banking for Personal Banking Manager, Advanced Certificate in Banking for Corporate Banking and Product Management Assistant Relationship Manager, Certificate in Quality and Process Management for Operations, and Advanced Certificate in Quality and Process Management for Operations training programmes accredited for meeting the Qualifications Framework standard at Level 3 or 4 **(Hong Kong Council for Accreditation of Academic and Vocational Qualifications)**

BOCG Life:

- Outstanding Young Professional of the Year – Corporate **(The Hong Kong Federation of Insurers** and **Metro Finance)**

Contact Us

Bank of China (Hong Kong)

Enquiry Hotline

Contents	Telephone
Personal Customer Service Hotline	(852) 3988 2388
Wealth Management Service Hotline	(852) 3988 2888
Enrich Banking Service Hotline	(852) 3988 2988
Corporate Customer Service Hotline	(852) 3988 2288
BOC Credit Card Hotline	(852) 2853 8828
BOC Credit Card Loss Card Hotline	(852) 2544 2222
ATM Card Hotline	(852) 2691 2323
BOC Express Cash Customer Service Hotline	(852) 2108 3611

Branch Locator

www.bochk.com/en/branch.html

Internet Banking and Mobile Banking

Internet Banking: www.bochk.com

Social Media

BOCHK_CC

中銀香港BOCHK

www.youtube.com/user/bankofchinahk

Chiyu Banking Corporation

Enquiry Hotline

Contents	Telephone
CBS Online Hotline	(852) 2840 1600
Internet, Phone and Mobile Banking	(852) 2232 3625

Branch Locator

www.chiyubank.com/chiyu/en_bankinfo5_4.htm

Internet Banking and Mobile Banking

Internet Banking: www.chiyubank.com

Social Media

Chiyu_Bank

Nanyang Commercial Bank

Enquiry Hotline

Contents	Telephone
Customer Hotline - General Enquiries	(852) 2622 2633
NCB Wealth Management VIP	(852) 2684 1869
NCB Wealth Management Prime	(852) 2684 1869

Branch Locator

www.ncb.com.hk/nanyang_bank/eng/html/1121.html

Internet Banking and Mobile Banking

Internet Banking: www.ncb.com.hk

Social Media

NCB_HK

Nanyang Commercial Bank (China)

Enquiry Hotline

Contents	Telephone
Mainland	(800) 830 2066 (400) 830 2066
Hong Kong	(852) 2929 2988

Branch Locator

www.ncbchina.cn/en/about_5.html

Independent Auditors' Report

EY 安永

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the members of BOC Hong Kong (Holdings) Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries set out on pages 118 to 270, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Ernst & Young

Ernst & Young
Certified Public Accountants
Hong Kong, 30 March 2016

Consolidated Income Statement

For the year ended 31 December	Notes	**2015 HK$'m**	(Restated) 2014 HK$'m
CONTINUING OPERATIONS			
Interest income		**38,074**	38,693
Interest expense		**(12,335)**	(11,965)
Net interest income	6	**25,739**	26,728
Fee and commission income		**15,741**	12,947
Fee and commission expense		**(4,276)**	(3,856)
Net fee and commission income	7	**11,465**	9,091
Gross earned premiums		**22,645**	16,741
Gross earned premiums ceded to reinsurers		**(10,200)**	(9,086)
Net insurance premium income		**12,445**	7,655
Net trading gain	8	**2,599**	2,157
Net (loss)/gain on financial instruments designated at fair value through profit or loss		**(767)**	33
Net gain on other financial assets	9	**1,301**	724
Other operating income	10	**815**	683
Total operating income		**53,597**	47,071
Gross insurance benefits and claims and movement in liabilities		**(23,975)**	(19,146)
Reinsurers' share of benefits and claims and movement in liabilities		**11,320**	9,978
Net insurance benefits and claims and movement in liabilities	11	**(12,655)**	(9,168)
Net operating income before impairment allowances		**40,942**	37,903
Net charge of impairment allowances	12	**(931)**	(146)
Net operating income		**40,011**	37,757
Operating expenses	13	**(11,836)**	(10,728)
Operating profit		**28,175**	27,029
Net gain from disposal of/fair value adjustments on investment properties	14	**791**	359
Net loss from disposal/revaluation of properties, plant and equipment	15	**(68)**	(24)
Share of profits less losses after tax of associates and a joint venture	27	**54**	34
Profit before taxation		**28,952**	27,398
Taxation	16	**(4,284)**	(4,943)
Profit from continuing operations		**24,668**	22,455
DISCONTINUED OPERATIONS			
Profit from discontinued operations	39	**2,827**	2,650
Profit for the year		**27,495**	25,105

For the year ended 31 December	Notes	2015 HK$'m	(Restated) 2014 HK$'m
Profit attributable to:			
Equity holders of the Company			
– from continuing operations		**23,969**	21,927
– from discontinued operations		**2,827**	2,650
		26,796	24,577
Non-controlling interests		**699**	528
		27,495	25,105
Dividends	17	**12,941**	11,842
		HK$	HK$
Earnings per share for profit attributable to the equity holders of the Company			
Basic and diluted	18		
– profit for the year		**2.5344**	2.3246
– profit from continuing operations		**2.2670**	2.0739

The notes on pages 125 to 270 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Notes	2015 HK$'m	2014 HK$'m
Profit for the year		**27,495**	25,105
Items that will not be reclassified subsequently to income statement:			
Premises:			
Revaluation of premises		**3,652**	3,309
Deferred tax	36	**(483)**	(451)
		3,169	2,858
Items that may be reclassified subsequently to income statement:			
Available-for-sale securities:			
Change in fair value of available-for-sale securities		**(866)**	2,918
Release upon disposal of available-for-sale securities reclassified to income statement		**(1,474)**	(813)
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities reclassified to income statement		**246**	304
Deferred tax	36	**416**	(706)
		(1,678)	1,703
Change in fair value of hedging instruments under net investment hedges		**51**	49
Currency translation difference		**(666)**	(288)
		(2,293)	1,464
Other comprehensive income for the year, net of tax		**876**	4,322
Total comprehensive income for the year		**28,371**	29,427
Total comprehensive income attributable to:			
Equity holders of the Company		**27,706**	28,580
Non-controlling interests		**665**	847
		28,371	29,427

The notes on pages 125 to 270 are an integral part of these financial statements.

Consolidated Balance Sheet

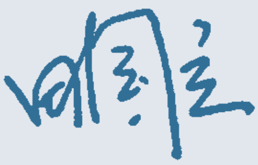
As at 31 December	Notes	**2015 HK$'m**	2014 HK$'m
ASSETS			
Cash and balances with banks and other financial institutions	21	**230,730**	398,673
Placements with banks and other financial institutions maturing between one and twelve months		**64,208**	37,436
Financial assets at fair value through profit or loss	22	**57,777**	53,994
Derivative financial instruments	23	**43,207**	33,353
Hong Kong SAR Government certificates of indebtedness		**101,950**	90,770
Advances and other accounts	24	**920,214**	1,014,129
Investment in securities	26	**517,221**	438,826
Interests in associates and a joint venture	27	**376**	324
Investment properties	28	**15,262**	14,559
Properties, plant and equipment	29	**50,433**	55,207
Deferred tax assets	36	**58**	167
Other assets	30	**65,955**	51,929
Assets held for sale	39	**300,473**	–
Total assets		**2,367,864**	2,189,367
LIABILITIES			
Hong Kong SAR currency notes in circulation	31	**101,950**	90,770
Deposits and balances from banks and other financial institutions		**207,606**	235,780
Financial liabilities at fair value through profit or loss	32	**10,942**	12,260
Derivative financial instruments	23	**40,072**	20,787
Deposits from customers	33	**1,404,989**	1,480,109
Debt securities and certificates of deposit in issue	34	**6,976**	11,901
Other accounts and provisions	35	**34,225**	51,957
Current tax liabilities		**2,782**	2,778
Deferred tax liabilities	36	**6,457**	8,081
Insurance contract liabilities	37	**82,645**	73,796
Subordinated liabilities	38	**19,422**	19,676
Liabilities associated with assets held for sale	39	**251,805**	–
Total liabilities		**2,169,871**	2,007,895

Consolidated Balance Sheet

As at 31 December	Notes	**2015 HK$'m**	2014 HK$'m
EQUITY			
Share capital	40	**52,864**	52,864
Reserves		**139,714**	123,850
Capital and reserves attributable to the equity holders of the Company		**192,578**	176,714
Non-controlling interests		**5,415**	4,758
Total equity		**197,993**	181,472
Total liabilities and equity		**2,367,864**	2,189,367

The notes on pages 125 to 270 are an integral part of these financial statements.

Approved by the Board of Directors on 30 March 2016 and signed on behalf of the Board by:



TIAN Guoli
Director

YUE Yi
Director

Consolidated Statement of Changes in Equity

	Attributable to the equity holders of the Company								
		Reserves							
	Share capital HK$'m	Premises revaluation reserve HK$'m	Reserve for fair value changes of available-for-sale securities HK$'m	Regulatory reserve* HK$'m	Translation reserve HK$'m	Retained earnings HK$'m	Total HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1 January 2014	52,864	34,682	488	8,994	1,051	60,734	158,813	4,195	163,008
Profit for the year	–	–	–	–	–	24,577	24,577	528	25,105
Other comprehensive income:									
Premises	–	2,837	–	–	–	–	2,837	21	2,858
Available-for-sale securities	–	–	1,399	–	–	–	1,399	304	1,703
Change in fair value of hedging instruments under net investment hedges	–	–	–	–	46	–	46	3	49
Currency translation difference	–	(3)	43	–	(319)	–	(279)	(9)	(288)
Total comprehensive income	–	2,834	1,442	–	(273)	24,577	28,580	847	29,427
Release upon disposal of premises	–	(6)	–	–	–	6	–	–	–
Transfer from retained earnings	–	–	–	1,017	–	(1,017)	–	–	–
Dividends	–	–	–	–	–	(10,679)	(10,679)	(284)	(10,963)
At 31 December 2014	52,864	37,510	1,930	10,011	778	73,621	176,714	4,758	181,472
At 1 January 2015	**52,864**	**37,510**	**1,930**	**10,011**	**778**	**73,621**	**176,714**	**4,758**	**181,472**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**26,796**	**26,796**	**699**	**27,495**
Other comprehensive income:									
Premises	**–**	**3,142**	**–**	**–**	**–**	**–**	**3,142**	**27**	**3,169**
Available-for-sale securities	**–**	**–**	**(1,632)**	**–**	**–**	**–**	**(1,632)**	**(46)**	**(1,678)**
Change in fair value of hedging instruments under net investment hedges	**–**	**–**	**–**	**–**	**49**	**–**	**49**	**2**	**51**
Currency translation difference	**–**	**(9)**	**(4)**	**–**	**(636)**	**–**	**(649)**	**(17)**	**(666)**
Total comprehensive income	**–**	**3,133**	**(1,636)**	**–**	**(587)**	**26,796**	**27,706**	**665**	**28,371**
Release upon disposal of premises	**–**	**(365)**	**–**	**–**	**–**	**365**	**–**	**–**	**–**
Transfer from retained earnings	**–**	**–**	**–**	**868**	**–**	**(868)**	**–**	**–**	**–**
Dividends	**–**	**–**	**–**	**–**	**–**	**(11,842)**	**(11,842)**	**(253)**	**(12,095)**
Increase in non-controlling interests arising from capital issuance of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**245**	**245**
At 31 December 2015	**52,864**	**40,278**	**294**	**10,879**	**191**	**88,072**	**192,578**	**5,415**	**197,993**

* In accordance with the requirements of the HKMA, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under HKAS 39.

The notes on pages 125 to 270 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December	Notes	2015 HK$'m	2014 HK$'m
Cash flows from operating activities			
Operating cash (outflow)/inflow before taxation	41(a)	**(65,789)**	66,932
Hong Kong profits tax paid		**(4,653)**	(4,480)
Overseas profits tax paid		**(771)**	(750)
Net cash (outflow)/inflow from operating activities		**(71,213)**	61,702
Cash flows from investing activities			
Purchase of properties, plant and equipment	29	**(1,194)**	(1,025)
Purchase of investment properties	28	**(47)**	–
Proceeds from disposal of properties, plant and equipment		**468**	44
Dividend received from associates and a joint venture	27	**2**	2
Net cash outflow from investing activities		**(771)**	(979)
Cash flows from financing activities			
Dividend paid to the equity holders of the Company		**(11,842)**	(10,679)
Dividend paid to non-controlling interests		**(253)**	(284)
Proceeds from non-controlling interests for capital issuance of a subsidiary		**245**	–
Interest paid for subordinated liabilities		**(409)**	(410)
Net cash outflow from financing activities		**(12,259)**	(11,373)
(Decrease)/increase in cash and cash equivalents		**(84,243)**	49,350
Cash and cash equivalents at 1 January		**403,828**	363,201
Effect of exchange rate changes on cash and cash equivalents		**(11,129)**	(8,723)
Cash and cash equivalents at 31 December	41(b)	**308,456**	403,828

The notes on pages 125 to 270 are an integral part of these financial statements.

Notes to the Financial Statements

1. Principal activities

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of banking and related financial services in Hong Kong.

The Company is a limited liability company incorporated and listed in Hong Kong. The address of its registered office is 52/F, Bank of China Tower, 1 Garden Road, Hong Kong.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, precious metals at fair value, investment properties which are carried at fair value and premises which are carried at fair value or revalued amount less accumulated depreciation and accumulated impairment losses. Disposal group and repossessed assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in Notes 2.2 and 2.24 respectively.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the Management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Except for the annual improvements to HKFRSs that are already mandatorily effective for accounting period beginning on 1 January 2015, there is no other standard or amendment adopted by the Group in 2015. The impact of the adoption of these annual improvements is not material to the Group's financial statements.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2015

The following standards and amendments have been issued and are mandatory for accounting periods beginning on or after 1 January 2016:

Standards/ Amendments	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 1 (Amendment)	Disclosure Initiative	1 January 2016	Yes
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants	1 January 2016	No
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	No
HKAS 27 (2011) (Amendment)	Equity Method in Separate Financial Statements	1 January 2016	Yes
HKAS 28 (2011) and HKFRS 10 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined	Yes
HKAS 28 (2011), HKFRS 10 and HKFRS 12 (Amendments)	Investment Entities: Applying the Consolidation Exception	1 January 2016	No
HKFRS 9	Financial Instruments	1 January 2018	Yes
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	No
HKFRS 14	Regulatory Deferral Accounts	1 January 2016	No
HKFRS 15	Revenue from Contracts with Customers	1 January 2018	Yes

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

- HKAS 1 (Amendment), "Disclosure Initiative". The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. This amendment will not have material impact on the Group's financial statements.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2015 (continued)

- HKAS 27 (2011) (Amendment), "Equity Method in Separate Financial Statements". The amendment restores the option to allow an entity to apply the equity method to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Early application is permitted. Entities electing to change to the equity method in its separate financial statements shall have to apply the same accounting for each category of investments so elected and are required to apply this change retrospectively. This amendment will not have any material impact on the Group's financial statements.

- HKAS 28 (2011) and HKFRS 10 (Amendments), "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The amendments address an acknowledged inconsistency between the requirements in HKFRS 10 and those in HKAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are to be applied prospectively, early application is permitted. The application of these amendments will not have a material impact on the Group's financial statements.

- HKFRS 9, "Financial Instruments". The issuance of IFRS 9 "Financial Instruments" completes the International Accounting Standards Board's comprehensive response to the financial crisis. HKFRS 9, the equivalent standard of IFRS 9 under HKFRS, includes a logical model for classification and measurement, a single, forward-looking "expected loss" impairment model and a tighter linkage of risk management to hedge accounting. The changes introduced in HKFRS 9 are highlighted as follows:

(i) Classification and Measurement

Financial assets

Financial assets are required to be classified into one of the following measurement categories: (1) measured subsequently at amortised cost, (2) measured subsequently at fair value through other comprehensive income (all fair value changes other than interest accrual, amortisation and impairment will be recognised in other comprehensive income) or (3) measured subsequently at fair value through profit or loss. Classification is to be made on transition, and subsequently on initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2015 (continued)

(i) Classification and Measurement (continued)

Financial assets (continued)

A financial instrument is subsequently measured at amortised cost only if it is a debt instrument, and the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows characteristics represent only unleveraged payments of principal and interest. A debt instrument is subsequently measured at fair value through other comprehensive income if it is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the instrument fulfils the contractual cash flows characteristics. All other debt instruments are to be measured at fair value through profit or loss.

Equity instruments are generally measured subsequently at fair value with limited circumstances that cost may be an appropriate estimate of fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition to recognise unrealised and realised fair value gains and losses in other comprehensive income without subsequent reclassification of fair value gains and losses to the income statement even upon disposal. Dividend income is recognised in the income statement when the right to receive payment is established.

Financial liabilities

Except for the two substantial changes described below, the classification and measurement requirements of financial liabilities have been basically carried forward with minimal amendments from HKAS 39.

The accounting for fair value option of financial liabilities were changed to address own credit risk. The amount of change in fair value attributable to changes in the credit risk of the financial liabilities will be presented in other comprehensive income. The remaining amount of the total gain or loss is included in the income statement. If this creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in the income statement. The determination of whether there will be a mismatch will need to be made at initial recognition of individual liabilities and will not be re-assessed. Amounts presented in other comprehensive income are not subsequently reclassified to the income statement but may be transferred within equity. This removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. It also means that gains caused by the deterioration of an entity's own credit risk on such liabilities will no longer be recognised in profit or loss.

The standard also eliminates the exception from fair value measurement contained in HKAS 39 for derivative financial instruments that are linked to and must be settled by delivery of an unquoted equity instrument.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2015 (continued)

(ii) Impairment

The standard introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, it requires entities to account for 12 months expected credit losses from inception when financial instruments are first recognised and to recognise full lifetime expected credit losses on a more timely basis when there have been significant increases in credit risk since initial recognition. The impairment for financial instruments that are subsequently measured at amortised cost, fair value through other comprehensive income (debt instruments), loan commitments and financial guarantees will be governed by this standard.

(iii) Hedge accounting

The requirements related to hedge accounting would better align the accounting treatments with risk management activities and enable entities to better reflect these activities in their financial statements. It relaxes the requirements for assessing hedge effectiveness which more risk management strategies may be eligible for hedge accounting. It also relaxes the rules on using non-derivative financial instruments as hedging instruments and allows greater flexibility on hedged items. Users of the financial statements will be provided with more relevant information about risk management and the effect of hedge accounting on the financial statements.

Early application of HKFRS 9 in its entirety at the same time is permitted. Only the part related to own credit risk can be elected to be early applied in isolation. The Group has already formed a groupwide project team to assess the impact of HKFRS 9, formulate the work plan and implement the standard. Significant works has been done on analysing our financial instruments, building models and designing new workflows. Due to the complication of the project, no quantitative information of the potential effect is concluded yet.

- HKFRS 15, "Revenue from Contracts with Customers". HKFRS 15 applies a single model and specifies the accounting treatment for all revenue arising from contracts with customers. The new standard is based on the core principle that revenue is recognised to reflect the consideration expected to be entitled when control of promised good or service transfers to customer. It is also applicable to the recognition and measurement of gains or losses on the sale of some non-financial assets such as properties or equipment that are not an output of ordinary activities. HKFRS 15 also includes a set of disclosure requirements about revenue from customer contracts. The new standard will replace the separate models for goods, services and construction contracts stipulated in different standards under the current HKFRS. Early application is permitted. The Group is considering the financial impact of the standard and the timing of its application.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Improvements to HKFRSs

"Improvements to HKFRSs" contains numerous amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. The amendments will be effective for annual periods beginning on or after 1 January 2016. The adoption of these improvements does not have a material impact on the Group's financial statements.

(c) Hong Kong Companies Ordinance

The requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance came into effect for the first time during the current financial year. The main impact to the Group's financial statements is on the presentation and disclosure of certain information in the Group's financial statements.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December.

(1) Subsidiaries

Subsidiaries are entities (including structured entities), directly or indirectly, controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee). When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including: (a) the contractual arrangement with the other vote holders of the investee; (b) rights arising from other contractual arrangements; and (c) the Group's voting rights and potential voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment in that former subsidiary retained; reclassifies the amounts previously recognised in other comprehensive income to the income statement or retained earnings, as appropriate, on the same basis as directly disposed of the related assets or liabilities; recognises any resulting differences as gain or loss in income statement.

2. Significant accounting policies (continued)

2.2 Consolidation (continued)

(1) Subsidiaries (continued)

If the Group is committed by the Board to a sale plan involving loss of control of a subsidiary (a disposal group) that is unlikely to be withdrawn or changed significantly, the Group shall classify all the assets and liabilities of that subsidiary as held for sale only when the following criteria are met on or before the end of the reporting period: (i) the carrying amount will be recovered principally through a sale transaction rather than through continuing use; (ii) the subsidiary is available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of its kind and its sale must be highly probable, including a high probability of shareholders' approval, if needed; (iii) an active programme to locate a buyer at a reasonable price has been initiated and to complete the sale within one year, regardless of whether the Group will or will not retain a non-controlling interest after the sale. Disposal group (other than investment properties and financial instruments) is initially recognised and subsequently remeasured at the lower of its carrying amount and fair value less costs to sell. Property, plant and equipment classified as held for sale are not depreciated.

(i) Business combinations not under common control

Acquisitions of businesses not under common control are accounted for using the acquisition method. The consideration transferred in a business combination is the fair values at the acquisition date of the assets transferred, the liabilities incurred (including contingent consideration arrangement) and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are expensed in the income statement as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If after assessment, the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held interest in the acquiree (if any), the excess is recognised immediately in the income statement as a bargain purchase gain. Subsequently, goodwill is subject to impairment testing at least annually.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at fair value at the acquisition date and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

2. Significant accounting policies (continued)

2.2 Consolidation (continued)

(1) Subsidiaries (continued)

(ii) Business combinations under common control

For a combination with a company under common control, the merger accounting method will be applied. The principle of merger accounting is a way to combine companies under common control as though the business of the acquiree had always been carried out by the acquirer. The Group's consolidated financial statements represent the consolidated results, consolidated cash flows and consolidated financial position of the Group as if any such combination had occurred from the date when the Company and the acquiree first came under common control (i.e. no fair value adjustment on the date of combination is required). The difference between the consideration and carrying amount at the time of combination is recognised in equity. The effects of all transactions between the Group and the acquiree, whether occurring before or after the combination, are eliminated in preparing the consolidated financial statements of the Group. Comparative amounts are presented as if the acquiree had been combined at the end of the previous reporting period. The transaction costs for the combination will be expensed in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable. Dividend income from subsidiaries is recognised in the income statement when the right to receive payment is established.

(2) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests without change of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recognised in equity. Gains or losses on disposals to non-controlling interests are also recognised in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. Amounts previously recognised in other comprehensive income are reclassified to the income statement or retained earnings, as appropriate.

2. Significant accounting policies (continued)

2.2 Consolidation (continued)

(3) Associates and joint venture

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in associates and joint venture are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates and joint venture includes goodwill, net of accumulated impairment loss and any related accumulated foreign currency translation difference.

The Group's share of the post-acquisition profits or losses of associates or joint venture is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The accumulated post-acquisition movements are adjusted against the cost of the investment. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associates or joint venture.

Unrealised gains on transactions between the Group and its associates or joint venture are eliminated to the extent of the Group's interest in the associates or joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

If the ownership interest in an associate or a joint venture is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the income statement where appropriate.

2.3 Segmental reporting

The operating result of segments are reported in a manner consistent with the internal reporting provided to the Management Committee, which is the chief operating decision maker of the Group, that allocates resources and assesses the performance of operating segments. Income and expenses directly associated with each segment are included in determining operating segment performance.

2.4 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

2. Significant accounting policies (continued)

2.4 Foreign currency translation (continued)

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or exchange rates at the end of the reporting period for items that are re-measured. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions using the exchange rates prevailing at the dates of the transactions and monetary assets and liabilities denominated in foreign currencies translated at the exchange rate at the end of the reporting period are recognised directly in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on monetary securities held at fair value through profit or loss are reported as part of the fair value gain or loss. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

The results and financial position of all the Group entities that have a functional currency different from Hong Kong dollars are translated into Hong Kong dollars as follows:

- assets and liabilities are translated at the closing rate at the end of the reporting period;
- income and expenses are translated at average exchange rates; and
- all resulting exchange differences are recognised in the currency translation reserve in equity through other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, borrowings and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is sold, such exchange differences are recognised in the income statement, as part of the gain or loss on sale.

2.5 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and through the use of valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

2. Significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting (continued)

Derivatives are categorised as held for trading and changes in their fair value are recognised immediately in the income statement unless they are designated as hedges and are effective hedging instruments, then they are subject to measurement under the hedge accounting requirements.

For derivative instruments designated as hedging instrument and are effectively hedged, the method of recognising the resulting fair value gain or loss depends on the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or

(b) hedges of a particular risk associated with a highly probable future cash flow attributable to a recognised asset or liability, or a highly probable forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way.

The Group documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as effective fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

When fair value hedge accounting is applied to fixed rate financial liabilities, the carrying values of the financial liabilities are adjusted for changes in fair value that are attributable to the interest rate risk being hedged with the derivative instruments rather than carried at amortised cost, such carrying value adjustment is recognised in the income statement together with the changes in fair value of the hedging derivatives.

If the hedge relationship no longer meets the criteria for hedge accounting or is terminated for reasons other than derecognition, e.g. due to repayment of the hedged item, the unamortised carrying value adjustment (the difference between the carrying value of the hedged item at the time of termination and the value at which it would have been carried had the hedge never existed) to the hedged item is amortised to the income statement over the remaining life of the hedged item by the effective interest method. If the hedged item is derecognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

2. Significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting (continued)

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any accumulated gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the accumulated gain or loss that was reported in equity is immediately reclassified to the income statement.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income and accumulated in equity; a gain or loss on the ineffective portion is recognised immediately in the income statement. Accumulated gains and losses previously recognised in other comprehensive income are reclassified to the income statement upon disposal of the foreign operation as part of the gain or loss on disposal.

2.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.7 Interest income and expense and fee and commission income and expense

Interest income and expense are recognised in the income statement for all financial assets and financial liabilities using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (e.g. prepayment options or incentives relating to residential mortgage loans) but does not consider future credit losses. The calculation includes fees, premiums or discounts and basis points paid or received between parties to the contract, and directly attributable origination fees and costs which represent an integral part of the effective yield.

2. Significant accounting policies (continued)

2.7 Interest income and expense and fee and commission income and expense (continued)

For all hedge transactions where interest rate is the hedged risk, interest income or interest expense from hedged instruments such as fixed rate debt securities or fixed rate subordinated notes are disclosed on a net basis together with net interest income/expense arising from the hedging instrument such as interest rate swap.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the written down value using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Subsequent unwinding of the discount allowance is recognised as interest income.

Fee and commission income and expenses that are not an integral part of the effective yield are recognised on an accrual basis ratably over the period when the related service is provided, such as administrative fee, asset management fee and custody services fee. Loan syndication fees are recognised as revenue when the related syndication arrangement has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as applicable to the other participants.

2.8 Financial assets

The Group classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity securities and available-for-sale financial assets. The Management determines the classification of investments at initial recognition. The classification depends on the purpose for which the financial assets are held. All financial assets are recognised initially at fair value. Except for financial assets carried at fair value through profit or loss, all transaction costs of financial assets are included in their initial carrying amounts.

(1) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset which has been acquired or incurred principally for the purpose of selling in the short term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking is classified as held for trading. Derivatives are also classified as held for trading unless they are designated as effective hedges.

2. Significant accounting policies (continued)

2.8 Financial assets (continued)

(1) Financial assets at fair value through profit or loss (continued)

A financial asset, other than one held for trading, will be designated as a financial asset at fair value through profit or loss, if it meets one of the criteria set out below, and is so designated by the Management:

- eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial assets or recognising the gains and losses on them on different bases; or

- applies to a group of financial assets, financial liabilities or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management; or

- relates to financial assets containing one or more embedded derivative that significantly modifies the cash flow resulting from those financial assets.

These assets are recognised initially at fair value, with transaction costs taken directly to the income statement, and are subsequently re-measured at fair value.

Gains and losses from changes in the fair value of such assets (excluding the interest component) are reported in net trading gain/loss or net gain/loss on financial instruments designated at fair value through profit or loss. The interest component is reported as part of interest income. Dividends on equity instruments of this category are also recognised in net trading gain/loss or net gain/loss on financial instruments designated at fair value through profit or loss when the Group's right to receive payment is established.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including placements with and advances to banks and other financial institutions, investment debt securities without an active market and loans and advances to customers. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method less allowances for impairment losses.

2. Significant accounting policies (continued)

2.8 Financial assets (continued)

(3) Held-to-maturity

Financial assets classified as held-to-maturity are those traded in active markets, with fixed or determinable payments and fixed maturities that the Group's Management has both the positive intention and the ability to hold to maturity. Where the Group sold held-to-maturity assets (i) other than due to an isolated event beyond the Group's control, non-recurring and could not have been reasonably anticipated by the Group, such as a significant deterioration in the issuer's creditworthiness, significant change in statutory or regulatory requirement; or (ii) other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. They are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method less allowances for impairment losses.

(4) Available-for-sale

Financial assets classified as available-for-sale are those that are either designated as such or are not classified in any of the other categories. They are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at fair value. Unrealised gains and losses arising from changes in the fair value of investments are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired at which time the accumulated gain or loss previously recognised in equity should be transferred to the income statement. However, interest income which includes the amortisation of premium and discount is calculated using the effective interest method and is recognised in the income statement. Dividends on equity instruments classified as available-for-sale are recognised in other operating income when the Group's right to receive payment is established.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in other comprehensive income is amortised to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the financial asset using the effective interest method. If the financial asset is subsequently determined to be impaired, the amount recorded in other comprehensive income is reclassified to profit or loss immediately.

The treatment of translation differences on available-for-sale securities is dealt with in Note 2.4.

2. Significant accounting policies (continued)

2.9 Financial liabilities

The Group classifies its financial liabilities under the following categories: trading liabilities, financial liabilities designated at fair value through profit or loss, deposits, debt securities and certificates of deposit in issue, subordinated liabilities, and other liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

(1) Trading liabilities

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. Derivatives are also classified as held for trading unless they are designated as effective hedges. It is measured at fair value and any gains and losses from changes in fair value are recognised in the income statement.

(2) Financial liabilities designated at fair value through profit or loss

A financial liability can be designated at fair value through profit or loss if it is so designated at inception. Financial liabilities so designated include certain certificates of deposit in issue and certain deposits received from customers that are embedded with derivatives. A financial liability is so designated if it meets one of the following criteria:

- eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial liabilities or recognising the gains and losses on them on different bases; or
- applies to a group of financial assets, financial liabilities or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management; or
- relates to financial liabilities containing one or more embedded derivative that significantly modifies the cash flow resulting from those financial liabilities.

Financial liabilities designated at fair value through profit or loss are measured at fair value and any gains and losses from changes in fair value are recognised in the income statement.

(3) Deposits, debt securities and certificates of deposit in issue, subordinated liabilities and other liabilities

Deposits and debt securities and certificates of deposit in issue, together with subordinated liabilities and other liabilities, other than those classified as trading liabilities or designated at fair value through profit or loss are carried at amortised cost. Any difference (if available) between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period using the effective interest method.

2. Significant accounting policies (continued)

2.10 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a contract between the holder and the debtor.

Financial guarantee contracts are initially recognised as financial liabilities and reported under "Other accounts and provisions" in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and (ii) the amount initially recognised less, where appropriate, accumulated amortisation recognised over the life of the guarantee on a straight-line basis. Any changes in the liability relating to financial guarantee contracts are taken to the income statement.

2.11 Recognition and derecognition of financial instruments

Purchases and sales of financial assets at fair value through profit or loss, available-for-sale and held-to-maturity securities are recognised on the trade date, the date on which the Group purchases or sells the assets. Loans and receivables (except investment securities without an active market) are recognised when cash is advanced to the borrowers. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group either continues to recognise the transferred financial asset to the extent of its continuing involvement if control remains or derecognise it if there is no retained control.

Trading liabilities, financial liabilities designated at fair value through profit or loss and debt securities and certificates of deposit in issue are recognised on the trade date. Deposits that are not trading liabilities are recognised when money is received from customers, other liabilities are recognised when such obligations arise. Financial liabilities are derecognised from the balance sheet when and only when the obligation specified in the contract is discharged, cancelled or expires. If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of a liability and the consideration paid is included in net trading gain/loss.

Securities and bills sold to a counterparty with an obligation to repurchase at a pre-determined price on a specified future date under a repurchase agreement are referred to as repos. Securities and bills purchased from a counterparty with an obligation to re-sell to the counterparty at a pre-determined price on a specified future date under a resale agreement are referred to as reverse repos.

Repos or securities lending are initially recorded as due to banks, placements from banks and other financial institutions, as appropriate, at the actual amount of cash received from the counterparty. Financial assets given as collateral for repurchase agreements are not derecognised and are recorded as investment in securities or financial assets at fair value through profit or loss. Reverse repos or securities borrowing are initially recorded in the balance sheet as cash and due from banks or placements with banks and other financial institutions, as appropriate, at the actual amount of cash paid to the counterparty. Financial assets received as collateral under reverse repurchase agreements are not recognised on the balance sheet. The difference between sale and repurchase price is recognised as interest income or interest expense over the life of the agreements using the effective interest method.

2. Significant accounting policies (continued)

2.12 Fair value measurement

The Group measures its premises and investment properties, precious metals and certain financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in its principal market or the most advantageous market accessible by the Group at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

If the market for assets or liabilities is not active, the Group uses valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants, that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.13 Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals are initially recognised and subsequently re-measured at fair value. Mark-to-market gains or losses on precious metals are included in net trading gain/loss.

2.14 Impairment of financial assets

The Group assesses as at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the reliably estimated future cash flows of the financial asset or group of financial assets. Objective evidence that a financial asset or group of financial assets may be impaired includes observable data that comes to the attention of the Group about the following probable loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payment;

(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

(v) the disappearance of an active market or downgrading below investment grade level for that financial asset because of financial difficulties; or

2. Significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

(1) Assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment together with all other financial assets that are not individually significant or for which impairment has not yet been identified. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity securities has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity security has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

2. Significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

(1) Assets carried at amortised cost (continued)

When a loan is uncollectible, it is written off against the related allowance for impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the income statement.

If, in a subsequent period, the amount of allowance for impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss to the extent of its decrease is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Loans whose terms have been renegotiated with substantial difference in the terms are no longer considered to be past due but are treated as new loans.

(2) Assets classified as available-for-sale

If evidence of impairment exists for available-for-sale financial assets, the accumulated losses, measured as the difference between the acquisition cost or amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss to the extent of its decrease is reversed through the income statement. With respect to equity instruments, further fair value changes are recognised in the reserve for fair value change of available-for-sale securities through other comprehensive income, impairment losses are not reversed through the income statement.

2.15 Impairment of investment in subsidiaries, associates, joint venture and non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Potential indications of impairment may include significant adverse changes in the technological, market, economic or legal environment in which the assets operate or whether there has been a significant or prolonged decline in value below their cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Significant accounting policies (continued)

2.15 Impairment of investment in subsidiaries, associates, joint venture and non-financial assets (continued)

In the Company's balance sheet, impairment testing of the investment in a subsidiary, associate or joint venture is also required upon receiving dividend from that entity if the dividend exceeds the total comprehensive income of that entity concerned in the period the dividend is declared or if the carrying amount of that entity in the Company's balance sheet exceeds the carrying amount of that entity's net assets including goodwill in its consolidated balance sheet.

2.16 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the companies in the Group, are classified as investment properties. Properties leased out within Group companies are classified as investment properties in individual companies' financial statements and as premises in consolidated financial statements. Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it is a finance lease.

Investment properties are recognised initially at cost, including related transaction costs. After initial recognition, investment properties are measured at fair value.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The item is stated at cost less impairment and is included in the carrying amount of investment properties. Once the item begins to generate economic benefits, it is then measured at fair value. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Any changes in fair value are recognised directly in the income statement.

If an investment property becomes owner-occupied, it is reclassified as premises, and its fair value at the date of reclassification becomes its cost for accounting purposes. If an item of premises becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income as a revaluation of premises under HKAS 16 "Property, Plant and Equipment". However, if a fair value gain reverses a previous revaluation loss or impairment loss, the gain is recognised in the income statement up to the amount previously debited.

2.17 Properties, plant and equipment

Properties are mainly branches and office premises. Premises are shown at fair value based on periodic, at least annual, valuations by external independent valuers less subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. In the intervening periods, the directors review the carrying amount of premises, by reference to the open market value of similar properties, and adjustments are made when there has been a material change.

2. Significant accounting policies (continued)

2.17 Properties, plant and equipment (continued)

All plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition and installation of the items.

Subsequent costs are included in an asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The item is stated at cost less impairment until it begins to generate economic benefits, then the item is subsequently measured according to the measurement basis of its respective assets class. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of premises are credited to the premises revaluation reserve through other comprehensive income. Decreases that offset previous increases of the same individual asset are charged against premises revaluation reserve through other comprehensive income; all other decreases are expensed in the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited, and then to the premises revaluation reserve. Upon disposal of premises, the relevant portion of the premises revaluation reserve realised in respect of previous valuations is released and transferred from the premises revaluation reserve to retained earnings.

Depreciation is calculated on the straight-line method to write down the cost or revalued amount of such assets over their estimated useful lives as follows:

- Properties — Over the life of government land leases
- Plant and equipment — 3 to 15 years

The useful lives of assets are reviewed, and adjusted if appropriate, as at the end of each reporting period.

At the end of each reporting period, both internal and external sources of information are considered to determine whether there is any indication that properties, plant and equipment, are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such an impairment loss is recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Impairment loss is reversed through the premises revaluation reserve or the income statement as appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount, relevant taxes and expenses. These are recognised in the income statement.

2. Significant accounting policies (continued)

2.18 Leases

(1) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The total payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Contingent rental payable is recognised as expense in the accounting period in which they are incurred.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place. Rental income from operating leases is recognised on a straight-line basis over the lease term.

(2) Finance leases

Leases of assets where lessee have obtained substantially all the risks and rewards of ownership are classified as finance leases. Government land leases in Hong Kong are classified as finance leases as the present value of the minimum lease payments (i.e. transaction price) of the land amounted to substantially all of the fair value of the land as if it were freehold.

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other liabilities. Investment properties acquired under finance leases are carried at their fair value.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. Lease income is recognised over the term of the lease using net investment method, which reflects a constant periodic rate of return.

2.19 Insurance and investment contracts

(1) Insurance and investment contract classification, recognition and measurement

The Group follows the local regulatory requirements to measure the liabilities of its insurance contracts and investment contracts with discretionary participation feature ("DPF").

The Group issues insurance contracts, which are contracts that transfer significant insurance risk and may also transfer financial risk. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefit payable if the insured event did not occur. The Group issues long term business insurance contracts, which insure events covered by life policies (for example death, survival, or total permanent disability) over a long duration. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. In addition, the Group issues investment contracts. Investment contracts transfer financial risk with no significant insurance risk. They contain a DPF which entitles the holders to receive additional benefits (supplement to guaranteed benefits) that are likely to be significant based on the performance and return of a specified pool or type of contracts.

2. Significant accounting policies (continued)

2.19 Insurance and investment contracts (continued)

(1) Insurance and investment contract classification, recognition and measurement (continued)

Linked long term insurance contracts with embedded derivatives (which are closely related to the host insurance contracts) linking payments on the contract to units of the investment funds which the Group has invested with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

Retirement scheme management category I contracts are classified as investment contracts. They also include an investment guarantee element in the determination of the credit rate to policyholders' accounts. The liability for these contracts is determined using a retrospective calculation method which represents an account balance based on the premiums received to date plus interest or bonus credited to the policyholders less policy charges.

Retirement scheme management category III insurance contracts, as defined in the Insurance Companies Ordinance, insure events associated with the cessation of employment due to death. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. The portion of the premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability, which is included in insurance liabilities.

Premiums are recognised as revenue when they become payable by the contract holders before the deduction of commissions and are gross of any taxes or duties levied on the premium. Benefits and claims are recorded as an expense when they are incurred.

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirement for insurance contracts as noted above are classified as reinsurance contracts held.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These reinsurance assets consist of short-term amounts due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising from the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

2. Significant accounting policies (continued)

2.19 Insurance and investment contracts (continued)

(2) Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated income statement, with a provision established for losses arising from the liability adequacy tests.

2.20 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash, balances with banks and other financial institutions, short-term bills and notes classified as investment securities and certificates of deposit.

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.22 Employee benefits

(1) Retirement benefit costs

The Group contributes to defined contribution retirement schemes under either recognised ORSO schemes or MPF schemes that are available to the Group's employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries for the ORSO schemes and in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the income statement as incurred and represent contributions payable by the Group to the schemes. Contributions made by the Group that are forfeited by those employees who leave the ORSO scheme prior to the full vesting of their entitlement to the contributions are used by the Group to reduce the existing level of contributions or to meet its expenses under the trust deed of the ORSO schemes.

The assets of the schemes are held in independently-administered funds separate from those of the Group.

(2) Leave entitlements

Employee entitlements to annual leave and sick leave are recognised when they accrue to employees. A provision is made for the estimated liability for unused annual leave and the amount of sick leave expected to be paid as a result of services rendered by employees up to the end of the reporting period.

Compensated absences other than sick leave and special approved annual leaves are non-accumulating; they lapse if the current period's entitlement is not used in full. Except for unexpired annual leaves, they do not entitle employees to a cash payment for unused entitlement on leaving the Group.

2. Significant accounting policies (continued)

2.22 Employee benefits (continued)

(3) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans that are expected to be settled longer than twelve months will be discounted if the amounts are significant.

2.23 Current and deferred income taxes

Tax expenses for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is also recognised in other comprehensive income.

Income tax payable on profits, based on the applicable tax law enacted or substantially enacted at the end of the reporting period in each jurisdiction where the Company and the subsidiaries, associates and joint venture operate and generate taxable income, is recognised as a current income tax expense in the period in which profits arise.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment provisions, depreciation of premises and equipment, and revaluation of certain assets including available-for-sale securities and premises. However, the deferred income tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax liabilities are provided in full on all taxable temporary differences. Deferred income tax assets are recognised on all deductible temporary differences, the carry forward of any unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred income tax is charged or credited in the income statement except for deferred income tax relating to fair value re-measurement of available-for-sale securities and revaluation of premises which are charged or credited to other comprehensive income, in which case the deferred income tax is also credited or charged to other comprehensive income and is subsequently recognised in the income statement together with the realisation of the deferred gain and loss.

Deferred tax liability or deferred tax asset arising from investment property is determined based on the presumption that the revaluation amount of such investment property will be recovered through sale with the relevant tax rate applied.

2. Significant accounting policies (continued)

2.24 Repossessed assets

Repossessed assets are initially recognised at the lower of their fair value less costs to sell and the amortised cost of the related outstanding loans on the date of repossession, and the related loans and advances together with the related impairment allowances are derecognised from the balance sheet. Subsequently, repossessed assets are measured at the lower of their cost and fair values less costs to sell and are reported as "non-current assets held for sale" included in "Other assets".

2.25 Fiduciary activities

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.26 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When the inflow is virtually certain, it will be recognised as an asset.

2.27 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if that party (i) controls, jointly controls or has significant influence over the Group; (ii) is a member of the same financial reporting group, such as parents, subsidiaries and fellow subsidiaries; (iii) is an associate or a joint venture of the Group or parent reporting group; (iv) is a key management personnel of the Group or parents; (v) is subject to common control with the Group; (vi) is an entity in which a person identified in (iv) controls; and (vii) provides key management personnel services to the Group or its parent. Related parties may be individuals or entities.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgements, which affect the carrying amount of assets and liabilities, are set out below. The effect of changes to either the key assumptions or other estimation uncertainties will be presented below if it is practicable to determine. It is possible that actual results may require material adjustments to the estimates referred to below.

3.1 Impairment allowances on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or economic conditions that correlate with defaults on assets in the group. The Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly.

Carrying amounts of loans and advances as at 31 December 2015 are shown in Note 24.

3.2 Impairment of held-to-maturity and available-for-sale securities

The Group reviews its held-to-maturity and available-for-sale investment portfolios to assess impairment at least on a quarterly basis. In determining whether any of these investments is impaired, risk characteristics and performance such as external credit rating and market price, will be assessed. The Group makes estimates on the default rate and loss severity of each investment with reference to market performance of the portfolios, current payment status of the issuers or performance of the underlying assets, or economic conditions that correlate with defaults on the collateralised assets. The methodology and assumptions used for impairment assessments are reviewed regularly.

Carrying amounts of investment in securities as at 31 December 2015 are shown in Note 26.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

3.3 Fair values of derivative financial instruments

The fair values of derivative financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include discounted cash flows analysis and models with built-in functions available in externally acquired financial analysis or risk management systems widely used by the industry such as option pricing models. To the extent practical, the models use observable data. In addition, valuation adjustments may be adopted if factors such as credit risk are not considered in the valuation models. Management judgement and estimates are required for the selection of appropriate valuation parameters, assumptions and modeling techniques. Further details will be discussed in Note 5.

Carrying amounts of derivative financial instruments as at 31 December 2015 are shown in Note 23.

3.4 Held-to-maturity securities

The Group follows the guidance of HKAS 39 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity securities. This classification requires significant management judgement to evaluate the Group's intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances defined in HKAS 39, such as selling an insignificant amount, selling close to maturity or due to significant credit deterioration of such investments, it will be required to reclassify the entire portfolio of financial assets as available-for-sale securities. The investments would then be measured at fair value and not amortised cost.

Carrying amounts of held-to-maturity securities as at 31 December 2015 are shown in Note 26.

3.5 Estimate of future benefit payments and premiums arising from long term insurance contracts

In determining the Group's long term business fund liabilities (a component of insurance contract liabilities), the Group follows the Insurance Companies (Determination of Long Term Liabilities) Regulation under the Insurance Companies Ordinance and makes prudent assumptions which include appropriate margins for adverse deviation of the relevant factors. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on Hong Kong Assured Lives Mortality Table HKA01 that reflects recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience. For contracts that insure the risk of longevity, appropriate prudent allowances are made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, SARS, avian flu and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

3.5 Estimate of future benefit payments and premiums arising from long term insurance contracts (continued)

Were the number of deaths in future years to differ by 10% (2014: 10%) from the Management's estimate, the long term business fund liability would increase by approximately HK$87 million (2014: approximately HK$106 million), which accounts for 0.14% (2014: 0.17%) of the liability. In this case, it is assumed there is no relief arising from reinsurance contracts held.

For linked long term insurance contracts with a life cover component, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Estimates are also made as to future investment income arising from the assets backing long term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Were the average future investment returns to decrease by 50 basis points (2014: 50 basis points) from the Management's estimates, the long term business fund liability would increase by approximately HK$1,088 million (2014: approximately HK$1,132 million). In this case, it is assumed there is no relief arising from reinsurance contracts held.

The Group has also assessed whether a provision for expense is necessary in accordance with the Insurance Companies Ordinance. A provision for expense is the amount required to meet the total net cost that would likely be incurred in fulfilling contracts if the Group were to cease to transact new business 12 months after the valuation date. As of 31 December 2015, nil of provision for maintenance expenses was provided (2014: Nil).

A resilience reserve was set up and included in long term business fund liabilities in accordance with the Insurance Companies (Determination of Long Term Liabilities) Regulation to provide a prudent provision against the effects of possible future changes to the value of the assets to meet the liabilities. The resilience reserve was set up based on the appointed actuary's advice of a 30 basis points (2014: 33 basis points) change in market yield of the underlying assets and valuation interest rates. The amount of resilience reserve set up depends on the degree of change in interest rate assumed.

3.6 Deferred tax assets

Deferred tax assets on unused tax losses are recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Deferred tax assets on unused tax credits are recognised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the estimation of available tax credits and the possibility to recover such deferred tax assets recognised.

4. Financial risk management

The Group is exposed to financial risks as a result of engaging in a variety of business activities. The principal financial risks are credit risk, market risk (including currency risk and interest rate risk) and liquidity risk. This note summarises the Group's exposures to these risks, as well as its objectives, risk management governance structure, policies and processes for managing and the methods used to measure these risks.

Financial risk management framework

The Group's risk management governance structure is designed to cover all business processes and ensures various risks are properly managed and controlled in the course of conducting business. The Group has a robust risk management organisational structure with a comprehensive set of policies and procedures to identify, measure, monitor and control various risks that may arise. These risk management policies and procedures are regularly reviewed and updated to reflect changes in markets and business strategies. Various groups of risk takers assume their respective responsibilities for risk management.

The Board of Directors, representing the interests of shareholders, is the highest decision-making authority of the Group and has the ultimate responsibility for risk management. The Board, with the assistance of its committees, has the primary responsibility for the formulation of risk management strategies and ensuring that the Group has an effective risk management system to implement these strategies.

The RC, a standing committee established by the Board of Directors, is responsible for overseeing the Group's various types of risks, approving Level I risk management policies and monitoring their implementation, reviewing significant or high risk exposures or transactions and exercising its power of veto if it considers that any transaction should not proceed. The Audit Committee assists the Board in fulfilling its role in overseeing the internal control system.

The Chief Executive ("CE") is responsible for managing the Group's various types of risks, approving Level II risk management procedures, and material risk exposures or transactions within his authority delegated by the Board of Directors. The Chief Risk Officer ("CRO") assists the CE in fulfilling his responsibilities for the day-to-day management of risks. The CRO is responsible for initiating new risk management strategies, projects and measures that will enable the Group to better monitor and manage new risk issues or areas that may arise from time to time from new businesses, products and changes in the operating environment. The CRO will also take appropriate initiatives in response to regulatory changes. The CRO is also responsible for reviewing material risk exposures or transactions within his delegated authority and exercising his power of veto if he believes that any transaction should not proceed.

Various units of the Group have their respective risk management responsibilities. Business units act as the first line of defence while risk management units, which are independent from the business units, are responsible for the day-to-day management of different kinds of risks. Risk management units have the primary responsibilities for drafting, reviewing and updating various risk management policies and procedures.

4. Financial risk management (continued)

Financial risk management framework (continued)

The Group's principal banking subsidiaries, NCB, NCB (China) and Chiyu, are subject to risk management policies that are consistent with those of the Group. Moreover, the Group's non-banking subsidiaries, such as BOCG Life, are subject to the Group's risk management requirements. These subsidiaries are required to formulate their respective risk management policies based on the characteristics of their own industries, perform daily risk management responsibilities and report to BOCHK on a regular basis. Risk management units of BOCHK monitor the risk management status of these subsidiaries.

The Group has put in place appropriate internal control systems, including establishment of an organisation structure that sets clear lines of authority and responsibility for monitoring compliance with policies, procedures and limits. Proper reporting lines also provide sufficient independence of the control functions from the business areas, as well as adequate segregation of duties throughout the organisation which helps to promote an appropriate internal control environment.

Product development and risk monitoring

To ensure the effectiveness of risk assessment and monitoring, the Group has a comprehensive product development and risk monitoring system where roles and responsibilities of all related units are clearly defined and proper due diligence processes on product development are in place.

In accordance with the strategic objectives set by the Board and the Management, respective product management units are responsible for formulating business and product development plans, and proceeding to specific product development activities. The department of strategic development shall ensure the plans are aligned with the Group's overall strategies. Departments that are responsible for risk management, legal, compliance and finance, etc. are accountable for risk assessment and review.

Apart from product development, respective product management units shall work closely with relevant risk evaluating departments to identify and assess the risks of new products. Risk evaluating departments shall conduct independent review on the risk assessment results and the corresponding risk management measures. Products can only be launched upon completion of the product due diligence process to the satisfaction of all risk evaluating departments.

A prudent approach is adopted in offering treasury products to our clients. All new treasury products require approval from a special committee before launching.

4. Financial risk management (continued)

4.1 Credit risk

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, as well as from on- and off-balance sheet transactions of the Group. It arises principally from lending, trade finance and treasury businesses. The Group's exposures set out in Note 4.1 below exclude assets held for sale.

Credit risk management framework

The Group has formulated a comprehensive set of credit risk management policies and procedures, and appropriate credit risk limits to manage and control credit risk that may arise. These policies, procedures and credit risk limits are regularly reviewed and updated to cope with changes in market conditions and business strategies.

The Group's organisation structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits.

The Chief Credit Officer, who reports directly to the CRO, takes charge of credit risk management and is also responsible for the control of credit risk exposures of subsidiaries in line with the credit risk management principles and requirements set by the Group. Various units of the Group have their respective credit risk management responsibilities. Business units act as the first line of defence. The Risk Management Department ("RMD"), which is independent from the business units, is responsible for the day-to-day management of credit risks and has the primary responsibility for providing an independent due diligence through identifying, measuring, monitoring and controlling credit risk to ensure an effective checks and balances, as well as drafting, reviewing and updating credit risk management policies and procedures. It is also responsible for the design, development and maintenance of the Group's internal rating system and ensures the system complies with the relevant regulatory requirements.

In accordance with Group's operating principle, the Group's principal banking subsidiaries, NCB, NCB (China) and Chiyu, have also formulated their own credit risk policies that are consistent with those of the Group. These subsidiaries execute their risk management strategies independently and report to the Group's Management on a regular basis.

The Board of Directors delegates credit approval authority to the CE. The CE can further delegate to the subordinates within his limit authorised by the Board of Directors. The Group sets the limits of credit approval authority according to the credit business nature, rating, the level of transaction risk, and the extent of the credit exposure.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Credit risk measurement and control

In view of the rapidly changing market conditions, the Group has been continuously revisiting its credit strategies and conducting rigorous reviews on the concerned portfolios.

Advances

Different credit approval and control procedures are adopted according to the level of risk associated with the customer, counterparty or transaction. The Credit Risk Assessment Committee, comprising experts from credit and other functions, is responsible for making an independent assessment of material credit applications which require the approval of Deputy Chief Executives ("DCE") or above. Credit applications for non-retail exposures are independently reviewed and objectively assessed by risk management units. Obligor ratings (in terms of probability of default) and facility ratings (in terms of loss given default) are assigned to these portfolios to support credit approval. Retail internal rating systems are deployed in the risk assessment of retail credit transactions, including small business retail exposures, residential mortgage loans, personal loans and credit cards. Loan grades, obligor and facility ratings as well as loss estimates (if applicable) are used to support credit approval.

The Group also uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, reporting and analysis of credit risk information. For non-retail exposures, more frequent rating review and closer monitoring are required for higher-risk customers. For retail exposures, monthly updated internal ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools.

The Group employs an internal master rating scale that can be mapped to Standard & Poor's external credit ratings. The structure of internal master rating scale is in compliance with the requirement of the Banking (Capital) Rules under the Hong Kong Banking Ordinance.

RMD provides regular credit management information reports and ad hoc reports to the MC, RC and Board of Directors to facilitate their continuous monitoring of credit risk.

In addition, the Group identifies credit concentration risk by industry, geography, customer and counterparty. The Group monitors changes to counterparty credit risk, quality of the credit portfolio and credit risk concentrations, and reports regularly to the Group's Management.

The Group adopts loan grading criteria which divides credit assets into five categories with reference to the HKMA's guidelines, as below:

"Pass" represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the Group's position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Credit risk measurement and control (continued)

Advances (continued)

"Substandard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.

"Doubtful" represents loans where collection in full is improbable and the Group expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

"Loss" represents loans which are considered uncollectible after all collection options (such as the realisation of collateral or the institution of legal proceedings) have been exhausted.

Debt securities and derivatives

For investments in debt securities and securitisation assets, the obligor ratings or external credit ratings, assessment of the underlying assets and credit limits setting on customer/security issuer basis are used for managing credit risk associated with the investment. For derivatives, the Group sets customer limits to manage the credit risk involved and follows the same approval and control processes as applied for advances. On-going monitoring and stop-loss procedures are established.

The methodology and assumptions used for impairment assessments are reviewed regularly. In evaluating impairment of asset backed securities ("ABS") and mortgage backed securities ("MBS"), the Group continued to use a significant decline in market price and credit deterioration of the underlying assets to be the key indicators of impairment. The Group also considered other objective evidence of impairment, taking into account the impact of liquidity on market prices and the movement in loss coverage ratios of individual ABS and MBS held by the Group.

Settlement risk arises mainly from foreign exchange transactions with counterparties and also from derivatives transactions in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty or customer to cover all settlement risk arising from the Group's market transactions on any single day.

4. Financial risk management (continued)

4.1 Credit risk (continued)

Collateral held as security and other credit enhancements

The valuation and management of collateral have been documented in the credit risk management policies and procedures which cover acceptance criteria, validity of collateral, loan-to-value ratio, haircut ratio, valuation and insurance, etc. The collateral is revalued on a regular basis, though the frequency and the method used varies with the type of collateral involved and the nature and the risk of the underlying credit. The Group has established a mechanism to update the value of its main type of collateral, real estate properties, with the use of public indices on a portfolio basis. Collateral is insured with the Group as the beneficiary. In the personal sector, the main types of collateral are real estate properties, cash deposits and securities. In the commercial and industrial sector, the main types of collateral are real estate properties, securities, receivables, cash deposits and machinery.

For loans guaranteed by a third party, the Group will assess the guarantor's financial condition, credit history and ability to meet obligations.

As at 31 December 2015, the fair value of collateral held by the Group that was permitted to sell or re-pledge in the absence of default by the borrower amounted to HK$1,018 million (2014: Nil). The Group had not sold or re-pledged such collateral (2014: Nil). These transactions are conducted under terms that are usual and customary to reverse repurchase agreements.

(A) Credit exposures

The maximum credit exposure is the worst case scenario of exposure to the Group without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the maximum exposure to credit risk equals their carrying amount. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the Group could be required to pay if the guarantees are called upon. For loan commitment and other credit related liabilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The nature of the collateral held and other credit enhancements and their financial effect to the different classes of the Group's financial assets are as follows.

Balances and placements with banks and other financial institutions

These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these assets.

Financial assets at fair value through profit or loss and investment in securities

Collateral is generally not sought on debt securities.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(A) Credit exposures (continued)

Derivative financial instruments

The Master Agreement published by the International Swaps and Derivatives Association, Inc. ("ISDA Master Agreement") is the preferred agreement for documenting derivatives activities of the Group. It provides the contractual framework under which dealing activities of over-the-counter ("OTC") transactions are conducted, and sets out close-out netting provisions upon termination following the occurrence of an event of default or a termination event. In addition, if deemed necessary, Credit Support Annex ("CSA") will be included to form part of the Schedule to the ISDA Master Agreement. Under a CSA, collateral is passed from one counterparty to another, as appropriate, to mitigate the exposures.

Advances and other accounts, contingent liabilities and commitments

The general types of collateral are disclosed on page 160. Advances and other accounts, contingent liabilities and commitments are collateralised to the extent considered appropriate by the Group taking account of the risk assessment of individual exposures. The collateral coverage of advances to customers is analysed on pages 168 to 169. The components and nature of contingent liabilities and commitments are disclosed in Note 42. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would assess the necessity to withdraw the credit line in case where the credit quality of a borrower deteriorates. For contingent liabilities and commitments, 10.28% (2014: 9.4%) was covered by collateral as at 31 December 2015.

(B) Gross advances and other accounts

Gross advances and other accounts before impairment allowances are summarised by product type as follows:

	2015 HK$'m	2014 HK$'m
Advances to customers		
Personal		
– Mortgages	**218,350**	223,527
– Credit cards	**13,833**	14,059
– Others	**41,281**	46,421
Corporate		
– Commercial loans	**537,671**	590,666
– Trade finance	**79,108**	86,316
	890,243	960,989
Trade bills	**32,011**	57,756
Advances to banks and other financial institutions	**969**	–
	923,223	1,018,745

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Gross advances and other accounts (continued)

Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously exceeded the approved limit that was advised to the borrower.

Advances are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred and that loss event(s) has an impact on the estimated future cash flows of the advances that can be reliably estimated.

If there is objective evidence that an impairment loss on advances has been incurred, the amount of loss is measured as the difference between the carrying amount and the present value of estimated future cash flows generated by the advances. Objective evidence that advances are impaired includes observable data that comes to the attention of the Group about the loss events.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

– Significant financial difficulty incurred by the borrower;

– A breach of contract, such as a default or delinquency in principal or interest payment;

– For economic or legal reasons related to the borrower's financial difficulty, the Group has granted to the borrower a concession that it would not otherwise consider;

– Probable that the borrower will become bankrupt or undergo other financial reorganisation; or

– Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such advances.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Gross advances and other accounts (continued)

(a) Advances neither overdue nor impaired

Advances that were neither overdue nor impaired are analysed by internal credit grade as follows:

	2015			
	Pass HK$'m	Special mention HK$'m	Substandard or below HK$'m	Total HK$'m
Advances to customers				
Personal				
– Mortgages	**216,248**	**162**	**31**	**216,441**
– Credit cards	**13,346**	**–**	**–**	**13,346**
– Others	**40,728**	**54**	**7**	**40,789**
Corporate				
– Commercial loans	**534,954**	**597**	**657**	**536,208**
– Trade finance	**78,716**	**131**	**–**	**78,847**
	883,992	**944**	**695**	**885,631**
Trade bills	**32,011**	**–**	**–**	**32,011**
Advances to banks and other financial institutions	**969**	**–**	**–**	**969**
	916,972	**944**	**695**	**918,611**

	2014			
	Pass HK$'m	Special mention HK$'m	Substandard or below HK$'m	Total HK$'m
Advances to customers				
Personal				
– Mortgages	220,848	172	41	221,061
– Credit cards	13,456	–	–	13,456
– Others	45,861	60	21	45,942
Corporate				
– Commercial loans	584,069	2,987	747	587,803
– Trade finance	85,659	212	2	85,873
	949,893	3,431	811	954,135
Trade bills	57,756	–	–	57,756
	1,007,649	3,431	811	1,011,891

The occurrence of loss event(s) may not necessarily result in impairment loss where the advances are fully collateralised. While such advances are of "substandard" or lower grades, they are regarded as not being impaired and have been included in the above tables.

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Gross advances and other accounts (continued)

(b) Advances overdue but not impaired

The gross amount of advances overdue but not impaired is analysed as follows:

	2015				
	Overdue for three months or less HK$'m	**Overdue for six months or less but over three months HK$'m**	**Overdue for one year or less but over six months HK$'m**	**Overdue for over one year HK$'m**	**Total HK$'m**
Advances to customers					
Personal					
– Mortgages	**1,874**	**15**	**19**	**–**	**1,908**
– Credit cards	**448**	**–**	**–**	**–**	**448**
– Others	**459**	**–**	**1**	**1**	**461**
Corporate					
– Commercial loans	**387**	**2**	**–**	**28**	**417**
– Trade finance	**41**	**32**	**2**	**4**	**79**
	3,209	**49**	**22**	**33**	**3,313**

	2014				
	Overdue for three months or less HK$'m	Overdue for six months or less but over three months HK$'m	Overdue for one year or less but over six months HK$'m	Overdue for over one year HK$'m	Total HK$'m
Advances to customers					
Personal					
– Mortgages	2,389	23	21	12	2,445
– Credit cards	529	–	–	–	529
– Others	423	6	–	7	436
Corporate					
– Commercial loans	1,276	19	9	20	1,324
– Trade finance	96	–	–	–	96
	4,713	48	30	39	4,830

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Gross advances and other accounts (continued)

(c) Impaired advances

Advances individually identified to be impaired are analysed by product type as follows:

	2015		2014	
	Gross advances HK$'m	Market value of collateral HK$'m	Gross advances HK$'m	Market value of collateral HK$'m
Advances to customers				
Personal				
– Mortgages	1	4	21	15
– Credit cards	39	–	74	–
– Others	31	20	43	10
Corporate				
– Commercial loans	1,046	906	1,539	1,356
– Trade finance	182	57	347	173
	1,299	987	2,024	1,554
Impairment allowances made in respect of such advances	610		1,145	

	2015 HK$'m	2014 HK$'m
Current market value of collateral held against the covered portion of such advances to customers	987	1,554
Covered portion of such advances to customers	848	1,204
Uncovered portion of such advances to customers	451	820

The impairment allowances were made after taking into account the value of collateral in respect of such advances.

As at 31 December 2015, there were no impaired trade bills and advances to banks and other financial institutions (2014: Nil).

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Gross advances and other accounts (continued)

(c) Impaired advances (continued)

Classified or impaired advances to customers are analysed as follows:

	2015 HK$'m	2014 HK$'m
Gross classified or impaired advances to customers	**2,096**	3,008
Gross classified or impaired advances to customers as a percentage of gross advances to customers	**0.24%**	0.31%
Individually assessed impairment allowances made in respect of such advances	**564**	1,096

Classified or impaired advances to customers represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

(d) Advances overdue for more than three months

The gross amount of advances overdue for more than three months is analysed as follows:

	2015		2014	
	Amount HK$'m	**% of gross advances to customers**	Amount HK$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	**128**	**0.02%**	512	0.05%
– one year or less but over six months	**169**	**0.02%**	555	0.06%
– over one year	**211**	**0.02%**	240	0.03%
Advances overdue for over three months	**508**	**0.06%**	1,307	0.14%
Individually assessed impairment allowances made in respect of such advances	**161**		768	

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Gross advances and other accounts (continued)

(d) Advances overdue for more than three months (continued)

	2015 HK$'m	2014 HK$'m
Current market value of collateral held against the covered portion of such advances to customers	676	1,230
Covered portion of such advances to customers	339	749
Uncovered portion of such advances to customers	169	558

Collateral held against overdue or impaired loans is principally represented by charges over business assets such as commercial and residential premises for corporate loans and mortgages over residential properties for personal loans.

As at 31 December 2015, there were no trade bills and advances to banks and other financial institutions overdue for more than three months (2014: Nil).

(e) Rescheduled advances

	2015		2014	
	Amount HK$'m	% of gross advances to customers	Amount HK$'m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in "Advances overdue for more than three months"	–	–	25	–

Rescheduled advances are those advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in "Advances overdue for more than three months".

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Gross advances and other accounts (continued)

(f) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

The following analysis of the gross advances to customers by industry sector is based on the categories with reference to the completion instructions for the HKMA return of loans and advances.

	2015					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Individually assessed impairment allowances HK$'m	Collectively assessed impairment allowances HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	65,148	26.15%	1	1	–	224
– Property investment	57,101	88.21%	4	93	–	205
– Financial concerns	11,453	3.57%	–	1	–	64
– Stockbrokers	1,743	81.56%	–	–	–	6
– Wholesale and retail trade	28,633	53.04%	62	268	24	109
– Manufacturing	21,798	26.70%	24	32	7	83
– Transport and transport equipment	45,616	33.07%	1,478	4	360	159
– Recreational activities	393	18.84%	–	–	–	1
– Information technology	13,064	0.72%	–	1	–	42
– Others	55,817	42.91%	16	123	7	186
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	8,523	99.94%	16	180	–	5
– Loans for purchase of other residential properties	209,777	99.92%	67	1,728	1	99
– Credit card advances	13,834	–	39	487	–	101
– Others	38,587	72.76%	36	440	7	67
Total loans for use in Hong Kong	571,487	65.73%	1,743	3,358	406	1,351
Trade finance	79,108	12.93%	195	255	103	280
Loans for use outside Hong Kong	239,648	15.71%	158	161	55	814
Gross advances to customers	890,243	47.58%	2,096	3,774	564	2,445

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Gross advances and other accounts (continued)

(f) Concentration of advances to customers (continued)

(i) Sectoral analysis of gross advances to customers (continued)

	2014					
	Gross advances to customers HK$'m	% covered by collateral or other security	Classified or impaired HK$'m	Overdue HK$'m	Individually assessed impairment allowances HK$'m	Collectively assessed impairment allowances HK$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	48,044	31.88%	1	3	–	158
– Property investment	74,110	87.92%	26	413	2	372
– Financial concerns	4,758	22.51%	–	11	–	31
– Stockbrokers	2,051	64.01%	–	–	–	9
– Wholesale and retail trade	38,014	47.71%	149	592	54	187
– Manufacturing	24,097	26.69%	57	145	31	100
– Transport and transport equipment	40,999	33.37%	735	15	13	192
– Recreational activities	454	11.49%	–	–	–	1
– Information technology	13,334	1.02%	2	5	1	41
– Others	62,280	40.54%	26	98	16	252
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,363	99.92%	25	229	–	6
– Loans for purchase of other residential properties	203,744	99.92%	71	2,036	1	104
– Credit card advances	13,021	–	37	534	–	93
– Others	41,132	66.70%	43	405	7	66
Total loans for use in Hong Kong	575,401	67.24%	1,172	4,486	125	1,612
Trade finance	86,316	13.88%	353	376	181	334
Loans for use outside Hong Kong	299,272	24.96%	1,483	1,623	790	1,574
Gross advances to customers	960,989	49.28%	3,008	6,485	1,096	3,520

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Gross advances and other accounts (continued)

(f) Concentration of advances to customers (continued)

(i) Sectoral analysis of gross advances to customers (continued)

The amounts of new impairment allowances charged to the income statement, and classified or impaired loans written off during the year are shown below:

	2015		2014	
	New impairment allowances HK$'m	Classified or impaired loans written off HK$'m	New impairment allowances HK$'m	Classified or impaired loans written off HK$'m
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	45	–	–	–
– Property investment	–	1	5	6
– Financial concerns	21	–	–	–
– Stockbrokers	1	–	–	–
– Wholesale and retail trade	24	3	55	21
– Manufacturing	13	1	17	10
– Transport and transport equipment	361	–	2	–
– Recreational activities	–	–	–	–
– Information technology	3	–	6	–
– Others	15	3	77	5
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	–	–	–	–
– Loans for purchase of other residential properties	–	–	1	–
– Credit card advances	222	214	207	199
– Others	173	166	160	145
Total loans for use in Hong Kong	878	388	530	386
Trade finance	169	159	111	57
Loans for use outside Hong Kong	185	203	1,003	371
Gross advances to customers	1,232	750	1,644	814

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Gross advances and other accounts (continued)

(f) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers

The following geographical analysis of advances to customers is based on the locations of the counterparties, after taking into account the transfer of risk. For an advance to customer guaranteed by a party situated in a country different from the customer, the risk will be transferred to the country of the guarantor.

Gross advances to customers

	2015 HK$'m	2014 HK$'m
Hong Kong	**727,413**	711,795
Mainland of China	**118,546**	200,208
Others	**44,284**	48,986
	890,243	960,989
Collectively assessed impairment allowances in respect of the gross advances to customers		
Hong Kong	**1,911**	2,151
Mainland of China	**373**	1,142
Others	**161**	227
	2,445	3,520

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Gross advances and other accounts (continued)

(f) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers (continued)

Overdue advances

	2015 HK$'m	2014 HK$'m
Hong Kong	**3,289**	4,459
Mainland of China	**400**	1,945
Others	**85**	81
	3,774	6,485
Individually assessed impairment allowances in respect of the overdue advances		
Hong Kong	**126**	227
Mainland of China	**78**	642
Others	**–**	1
	204	870
Collectively assessed impairment allowances in respect of the overdue advances		
Hong Kong	**84**	108
Mainland of China	**5**	12
Others	**1**	1
	90	121

4. Financial risk management (continued)

4.1 Credit risk (continued)

(B) Gross advances and other accounts (continued)

(f) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers (continued)

Classified or impaired advances

	2015 HK$'m	2014 HK$'m
Hong Kong	1,699	1,523
Mainland of China	393	1,328
Others	4	157
	2,096	3,008
Individually assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	407	260
Mainland of China	157	771
Others	–	65
	564	1,096
Collectively assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	45	48
Mainland of China	3	5
	48	53

(C) Repossessed assets

During the year, the Group obtained assets by taking possession of collateral held as security. The nature and carrying value of these assets held as at 31 December are summarised as follows:

	2015 HK$'m	2014 HK$'m
Industrial properties	–	3
Residential properties	44	11
	44	14

4. Financial risk management (continued)

4.1 Credit risk (continued)

(C) Repossessed assets (continued)

The estimated market value of repossessed assets held by the Group as at 31 December 2015 amounted to HK$55 million (2014: HK$28 million). The repossessed assets comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

When the repossessed assets are not readily convertible into cash, the Group may consider the following alternatives:

– adjusting the selling prices

– selling the loans together with the assets

– arranging loan restructuring

(D) Balances and placements with banks and other financial institutions

The following tables present an analysis of balances and placements with banks and other financial institutions that are neither overdue nor impaired as at 31 December by rating agency designation.

	2015			
	Aaa to A3 HK$'m	**Lower than A3 HK$'m**	**Unrated HK$'m**	**Total HK$'m**
Central banks	**110,225**	**–**	**–**	**110,225**
Banks and other financial institutions	**155,935**	**17,490**	**3,365**	**176,790**
	266,160	**17,490**	**3,365**	**287,015**

	2014			
	Aaa to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m
Central banks	104,317	–	–	104,317
Banks and other financial institutions	214,253	73,982	33,808	322,043
	318,570	73,982	33,808	426,360

As at 31 December 2015, there were no overdue or impaired balances and placements with banks and other financial institutions (2014: Nil).

4. Financial risk management (continued)

4.1 Credit risk (continued)

(E) Debt securities and certificates of deposit

The following tables present an analysis of the carrying value of debt securities and certificates of deposit by issue rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	2015					
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m
Available-for-sale securities	84,691	88,062	207,071	28,073	22,286	430,183
Held-to-maturity securities	29,958	30,602	12,181	4,717	3,668	81,126
Loans and receivables	–	–	3,166	–	–	3,166
Financial assets at fair value through profit or loss	8,943	21,953	12,344	5,250	4,612	53,102
	123,592	140,617	234,762	38,040	30,566	567,577

	2014					
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m
Available-for-sale securities	64,216	116,869	123,885	21,770	26,720	353,460
Held-to-maturity securities	27,263	30,444	12,763	3,151	3,227	76,848
Loans and receivables	–	–	2,856	–	2,012	4,868
Financial assets at fair value through profit or loss	14,075	19,158	11,844	2,871	3,446	51,394
	105,554	166,471	151,348	27,792	35,405	486,570

4. Financial risk management (continued)

4.1 Credit risk (continued)

(E) Debt securities and certificates of deposit (continued)

The following tables present an analysis of debt securities and certificates of deposit neither overdue nor impaired as at 31 December by issue rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	2015					
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m
Available-for-sale securities	84,691	88,062	207,071	28,073	22,286	430,183
Held-to-maturity securities	29,955	30,602	12,181	4,717	3,668	81,123
Loans and receivables	–	–	3,166	–	–	3,166
Financial assets at fair value through profit or loss	8,943	21,953	12,344	5,250	4,612	53,102
	123,589	140,617	234,762	38,040	30,566	567,574

	2014					
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m
Available-for-sale securities	64,216	116,869	123,885	21,770	26,720	353,460
Held-to-maturity securities	27,237	30,444	12,762	3,151	3,227	76,821
Loans and receivables	–	–	2,856	–	2,012	4,868
Financial assets at fair value through profit or loss	14,075	19,158	11,844	2,871	3,446	51,394
	105,528	166,471	151,347	27,792	35,405	486,543

4. Financial risk management (continued)

4.1 Credit risk (continued)

(E) Debt securities and certificates of deposit (continued)

The following tables present an analysis of impaired debt securities by issue rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	2015						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m	HK$'m
Held-to-maturity securities	3	–	–	–	–	3	–
Of which accumulated impairment allowances	–	–	–	–	–	–	

	2014						
	Carrying values						Of which accumulated impairment allowances
	Aaa HK$'m	Aa1 to Aa3 HK$'m	A1 to A3 HK$'m	Lower than A3 HK$'m	Unrated HK$'m	Total HK$'m	HK$'m
Held-to-maturity securities	26	–	1	–	–	27	1
Of which accumulated impairment allowances	1	–	–	–	–	1	

As at 31 December 2015, there were no impaired certificates of deposit and no overdue debt securities and certificates of deposit (2014: Nil).

4. Financial risk management (continued)

4.2 Market risk

Market risk refers to the risk of loss arising from movements in the value of foreign exchange, interest rate, equity and commodity positions held by the Group due to the volatility of financial market price (foreign exchange rate, interest rate, equity price, commodity price). The Group adopts a moderate market risk appetite to achieve a balance between risk and return. The Group's objective in managing market risk is to secure healthy growth of the treasury business, by effective management of potential market risk in the Group's business, according to the Group's overall risk appetite and strategy of treasury business on the basis of a well-established risk management regime and related management measures.

In accordance with the Group's corporate governance principles in respect of risk management, the Board and RC, senior management and functional departments/units perform their duties and responsibilities to manage the Group's market risk. The RMD is mainly responsible for managing market risk, assisting senior management to perform their day-to-day duties, independently monitoring the market risk profile and compliance of management policies and limits of the Group and BOCHK, and ensuring that the aggregate and individual market risks are within acceptable levels.

The Group's market risk management covers BOCHK and its subsidiaries. The Group establishes consistent market risk management policies to regulate BOCHK's and subsidiaries' market risk management; meanwhile, the Group sets up the Group VAR and stress test limits, which are allocated and monitored across the Group, according to the subsidiaries' business requirements and risk tolerance levels. In line with the requirements set in the Group policy, the management of subsidiaries may, subject to prior consent by BOCHK, formulate the detailed policies and procedures and are responsible for managing their daily market risk. The subsidiaries set up independent risk monitoring teams to monitor daily market risk and limit compliance, and submit management information and reports to BOCHK on a regular basis.

The Group sets up market risk indicators and limits to identify, measure, monitor and control market risk. Major risk indicators and limits include but are not limited to VAR, Stop Loss, Open Position, Stress Testing and Sensitivity Analysis (Basis Point Value, Greeks), etc. To meet management requirements, major risk indicators and limits are classified into four levels, and are approved by the RC, MC, CRO and the DCE in charge of the treasury business or the head of the respective business unit respectively. Treasury business units of BOCHK and subsidiaries (as for Group Limit) are required to conduct their business within approved market risk indicators and limits.

4. Financial risk management (continued)

4.2 Market risk (continued)

(A) VAR

The Group uses the VAR to measure and report general market risks to the RC and senior management on a periodic basis. The Group adopts a uniformed VAR calculation model, using a historical simulation approach and two years of historical market data, to calculate the VAR of the Group and subsidiaries over a one-day holding period with a 99% confidence level, and sets up the VAR limit of the Group and subsidiaries.

The following table sets out the VAR for all general market risk exposure[1] of the Group.

	Year	At 31 December HK$'m	Minimum for the year HK$'m	Maximum for the year HK$'m	Average for the year HK$'m
VAR for all market risk	2015	17.8	17.8	38.4	25.4
	2014	18.0	16.2	35.1	23.9
VAR for foreign exchange risk	2015	12.9	8.8	20.3	13.2
	2014	11.2	9.6	19.5	13.5
VAR for interest rate risk	2015	14.7	12.8	37.6	20.7
	2014	18.1	16.4	39.5	24.2
VAR for equity risk	2015	0.0	0.0	0.4	0.2
	2014	0.1	0.1	0.7	0.3
VAR for commodity risk	2015	0.0	0.0	0.2	0.0
	2014	0.1	0.0	1.3	0.2

Note:
1. Structural FX positions have been excluded.

4. Financial risk management (continued)

4.2 Market risk (continued)

(A) VAR (continued)

Although a valuable guide to market risk, VAR should always be viewed in the context of its limitations. For example:

– the use of historical market data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;

– the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

– the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and

– VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Group recognises these limitations by formulating stress test indicators and limits to assess and manage the market risk uncovered by VAR. The stress testing programme of the market risk includes sensitivity testing on changes in risk factors with various degrees of severity, as well as scenario analysis on historical events including the 1987 Equity Market Crash, 1994 Bond Market Crash, 1997 Asian Financial Crisis, 2001 9-11 event and 2008 Financial Tsunami, etc.

(B) Currency risk

The Group's assets and liabilities are denominated in major currencies, particularly the HK dollar, the US dollar and Renminbi. To ensure the currency risk exposure of the Group is kept to an acceptable level, risk limits (e.g. Position and VAR limit) are used to serve as a monitoring tool. Moreover, the Group seeks to minimise the gap between assets and liabilities in the same currency. Foreign exchange contracts (e.g. FX swaps) are usually used to manage FX risk associated with foreign currency-denominated assets and liabilities.

4. Financial risk management (continued)

4.2 Market risk (continued)

(B) Currency risk (continued)

The following is a summary of the Group's major foreign currency exposures arising from trading, non-trading and structural positions and is prepared with reference to the completion instructions for the HKMA return of foreign currency position. The net options position is calculated based on the basis of delta-weighted positions of all foreign exchange options contracts.

	2015							
	Equivalent in million of HK$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	666,562	94,198	25,741	22,886	7,829	484,356	10,131	1,311,703
Spot liabilities	(512,219)	(13,853)	(23,822)	(21,357)	(14,534)	(467,809)	(16,722)	(1,070,316)
Forward purchases	1,239,554	53,057	90,200	30,789	43,772	805,959	41,144	2,304,475
Forward sales	(1,380,890)	(133,356)	(92,281)	(32,412)	(36,962)	(822,094)	(34,042)	(2,532,037)
Net options position	1,518	(1)	2	26	(13)	(1,425)	1	108
Net long/(short) position	14,525	45	(160)	(68)	92	(1,013)	512	13,933
Net structural position	293	–	–	–	–	9,355	–	9,648

	2014							
	Equivalent in million of HK$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	538,300	1,466	18,063	22,392	9,688	645,120	16,360	1,251,389
Spot liabilities	(429,963)	(5,518)	(15,050)	(22,256)	(11,715)	(547,552)	(16,883)	(1,048,937)
Forward purchases	729,002	67,974	57,895	41,806	32,445	329,654	38,306	1,297,082
Forward sales	(828,777)	(63,934)	(60,757)	(41,870)	(30,334)	(422,850)	(37,897)	(1,486,419)
Net options position	2,613	(1)	(4,463)	12	(4)	(2,625)	(31)	(4,499)
Net long/(short) position	11,175	(13)	(4,312)	84	80	1,747	(145)	8,616
Net structural position	277	–	–	–	–	9,308	–	9,585

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk

Interest rate risk means the risks to a bank's earnings and economic value arising from movements in interest rate and term structures of the bank's asset and liability positions. The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are:

- Repricing risk: mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income;

- Basis risk: different pricing basis for different transactions resulting that the yield on assets and cost of liabilities may change by different amounts within the same repricing period;

- Yield curve risk: non-parallel shifts in the yield curve that may have an adverse impact on net interest income or economic value; and

- Option risk: exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cash flows of assets and liabilities.

The Group's risk management framework applies also to interest rate risk management. The ALCO exercises its oversight of interest rate risk in accordance with the "BOCHK Group Banking Book Interest Rate Risk Management Policy" approved by RC. RMD (Interest Rate and Liquidity Risk Management) is responsible for interest rate risk management. With the cooperation of the Asset and Liability Management Division of Financial Management Department and Investment Management, RMD assists the ALCO to perform day-to-day interest rate risk management. Its roles include, but are not limited to, the formulation of management policies, selection of methodologies, setting of risk indicators and limits, assessment of target balance sheet, monitoring of the compliance with policies and limits, and submission of interest rate risk management reports to the senior management and RC, etc.

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

The Group sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk. The indicators and limits include, but are not limited to, repricing gap limits, basis risk, duration, price value of a basis point ("PVBP"), Greeks, net interest income sensitivity ratio ("NII"), economic value sensitivity ratio ("EV"), etc. The indicators and limits are classified into different levels, which are approved by the CFO and CRO, ALCO, RC accordingly. Risk-taking business units are required to conduct their business within the boundary of the interest rate risk limits. Before launching a new product or business in the banking book, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be submitted to RC for approval.

NII and EV assess the impact of interest rate movement on the Group's net interest income and capital base. They are the Group's key interest rate risk indicators. The former assesses the impact of interest rate movement on net interest income as a percentage to the projected net interest income for the year. The latter assesses the impact of interest rate movement on economic value (i.e. the net present value of cash flows of assets, liabilities and off-balance sheet items discounted using market interest rate) as a percentage to the latest capital base. Limits are set by the RC on these two indicators to monitor and control the Group's banking book interest rate risk.

The Group uses scenario analyses and stress tests to assess the banking book interest rate risk that the Group would face under adverse circumstances. Scenario analyses and stress tests are also used to assess the impact on net interest income and economic value arising from the optionality of savings deposits, the prepayment of mortgage loans and the prepayment of debt securities with embedded options.

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

The Group is principally exposed to HK Dollar, US Dollar and Renminbi in terms of interest rate risk. As at 31 December 2015, if HK Dollar, US Dollar and Renminbi market interest rates had a 100 basis point parallel upward shift of the yield curve in relevant currency with other variables held constant, the sensitivities on net interest income over a twelve-month period and on reserves for the Group would have been as follows:

	Impact on net interest income over the next twelve months at 31 December		Impact on reserves at 31 December	
	2015 HK$'m	2014 HK$'m	**2015 HK$'m**	2014 HK$'m
HK Dollar	**985**	891	**(488)**	(494)
US Dollar	**(345)**	(203)	**(5,332)**	(4,583)
Renminbi	**(738)**	(810)	**(1,020)**	(1,418)

The overall negative impact on net interest income of the above currencies has decreased when compared with 2014 and is mainly because of the narrowed short term negative gaps in relevant currencies. Reserves would have been reduced because of the expected reduction in valuation of available-for-sale securities due to a parallel shift up of 100 basis points in the yield curve. The reduction of reserves is increased compared with 2014 because the size of available-for-sale securities in capital market is increased.

The sensitivities above are for illustration only and are based on several assumptions, including, but not limited to, the change in the correlation between interest rates of relevant currencies, parallel movement of interest rates, the absence of actions that would be taken to mitigate the impact of interest rate risk, the effectiveness of hedge accounting, all positions being assumed to run to maturity, behavioural assumptions of products in which actual repricing date differs from contractual repricing date or products without contractual maturity. The above exposures form only a part of the Group's overall interest rate risk exposures.

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

The tables below summarise the Group's on-balance sheet exposure to interest rate risk as at 31 December. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing date and maturity date.

	2015						
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances with banks and other financial institutions	195,806	–	–	–	–	34,924	230,730
Placements with banks and other financial institutions maturing between one and twelve months	–	37,920	26,288	–	–	–	64,208
Financial assets at fair value through profit or loss	1,742	6,980	9,223	18,895	16,442	4,495	57,777
Derivative financial instruments	–	–	–	–	–	43,207	43,207
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	101,950	101,950
Advances and other accounts	711,095	107,459	61,028	32,770	943	6,919	920,214
Investment in securities							
– Available-for-sale securities	39,481	124,945	86,792	119,560	59,405	2,746	432,929
– Held-to-maturity securities	440	3,481	13,109	43,088	21,008	–	81,126
– Loans and receivables	–	1,005	2,161	–	–	–	3,166
Interests in associates and a joint venture	–	–	–	–	–	376	376
Investment properties	–	–	–	–	–	15,262	15,262
Properties, plant and equipment	–	–	–	–	–	50,433	50,433
Other assets (including deferred tax assets)	3,024	–	–	–	–	62,989	66,013
Assets held for sale	168,400	44,587	49,217	25,704	528	12,037	300,473
Total assets	1,119,988	326,377	247,818	240,017	98,326	335,338	2,367,864
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	101,950	101,950
Deposits and balances from banks and other financial institutions	160,049	27,936	2,343	–	–	17,278	207,606
Financial liabilities at fair value through profit or loss	2,583	4,446	1,968	1,479	466	–	10,942
Derivative financial instruments	–	–	–	–	–	40,072	40,072
Deposits from customers	1,054,648	182,898	79,013	611	–	87,819	1,404,989
Debt securities and certificates of deposit in issue	59	–	5,728	1,189	–	–	6,976
Other accounts and provisions (including current and deferred tax liabilities)	8,782	–	–	–	–	34,682	43,464
Insurance contract liabilities	–	–	–	–	–	82,645	82,645
Subordinated liabilities	–	–	–	19,422	–	–	19,422
Liabilities associated with assets held for sale	149,045	40,917	40,634	5,967	19	15,223	251,805
Total liabilities	1,375,166	256,197	129,686	28,668	485	379,669	2,169,871
Interest sensitivity gap	(255,178)	70,180	118,132	211,349	97,841	(44,331)	197,993

4. Financial risk management (continued)

4.2 Market risk (continued)

(C) Interest rate risk (continued)

	2014						
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and balances with banks and other financial institutions	376,437	–	–	–	–	22,236	398,673
Placements with banks and other financial institutions maturing between one and twelve months	–	17,730	19,706	–	–	–	37,436
Financial assets at fair value through profit or loss	2,721	7,691	12,173	20,180	8,629	2,600	53,994
Derivative financial instruments	–	–	–	–	–	33,353	33,353
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	90,770	90,770
Advances and other accounts	768,749	154,044	66,747	16,279	1,438	6,872	1,014,129
Investment in securities							
– Available-for-sale securities	40,227	52,220	80,734	122,738	57,541	3,650	357,110
– Held-to-maturity securities	943	2,498	4,241	44,823	24,343	–	76,848
– Loans and receivables	2,499	915	1,454	–	–	–	4,868
Interests in associates and a joint venture	–	–	–	–	–	324	324
Investment properties	–	–	–	–	–	14,559	14,559
Properties, plant and equipment	–	–	–	–	–	55,207	55,207
Other assets (including deferred tax assets)	1,604	–	–	–	–	50,492	52,096
Total assets	1,193,180	235,098	185,055	204,020	91,951	280,063	2,189,367
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	90,770	90,770
Deposits and balances from banks and other financial institutions	201,704	6,277	2,705	–	–	25,094	235,780
Financial liabilities at fair value through profit or loss	3,428	4,643	3,190	483	516	–	12,260
Derivative financial instruments	–	–	–	–	–	20,787	20,787
Deposits from customers	1,061,875	210,280	120,810	14,698	–	72,446	1,480,109
Debt securities and certificates of deposit in issue	2,316	2,811	1,074	5,700	–	–	11,901
Other accounts and provisions (including current and deferred tax liabilities)	16,572	2,685	4,055	194	–	39,310	62,816
Insurance contract liabilities	–	–	–	–	–	73,796	73,796
Subordinated liabilities	–	–	–	–	19,676	–	19,676
Total liabilities	1,285,895	226,696	131,834	21,075	20,192	322,203	2,007,895
Interest sensitivity gap	(92,715)	8,402	53,221	182,945	71,759	(42,140)	181,472

4. Financial risk management (continued)

4.3 Liquidity risk

Liquidity risk is the risk that banks fail to provide sufficient funds to grow assets or pay due obligations, and need to bear an unacceptable loss. The Group maintains sound liquidity risk appetite to provide stable, reliable and adequate sources of cash to meet liquidity needs under normal circumstances or stressed scenarios; and to survive with net positive cumulative cash flow in extreme scenarios, without requesting the HKMA to act as the lender of last resort.

The Group's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Deposits from customers are the Group's primary source of funds. To ensure stable and sufficient source of funds are in place, the Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market or by issuing bills in the capital market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Group adjusts its asset structure (including loans, bonds investment, interbank placement, etc.) to maintain sufficient liquid assets which provides adequate funds in support of normal business needs and ensure its ability to raise funds at a reasonable cost to serve external claims in case of emergency. The Group is committed to diversify the source of funds and the use of funds to avoid excessive concentration of assets and liabilities and prevent triggering liquidity risk due to the break of funding strand when problem occurred in one concentrated funding source. The Group has established intra-group liquidity risk management guideline to manage the liquidity funding among different entities within the Group, and to restrict their reliance of funding on each other. The Group also pays attention to manage liquidity risk created by off-balance sheet activities, such as loan commitments, derivatives, options and other complex structured products. The Group has an overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, collateral, intra-day liquidity, intra-group liquidity, the liquidity risk arising from other risks, etc., and has formulated corresponding contingency plan.

The RC is the decision-making authority of liquidity risk management, and assumes the ultimate responsibility of liquidity risk management. As authorised by RC, ALCO exercises its oversight of liquidity risk and ensures the daily operations of the Group are in accordance with risk appetite and policies as set by RC. RMD (Interest Rate and Liquidity Risk Management) is responsible for overseeing the Group's liquidity risk. It cooperates with the Asset and Liability Management Division of Financial Management Department, Investment Management, etc. to assist the ALCO to perform liquidity management functions according to their specific responsibilities.

The Group established liquidity risk management indicators and limits to identify, measure, monitor and control liquidity risk on daily basis. These indicators and limits include, but are not limited to liquidity coverage ratio ("LCR"), loan-to-deposit ratio, Maximum Cumulative Cash Outflow ("MCO") and liquidity buffer asset portfolio. The Group applies cash flow analysis to assess the Group's liquidity condition under normal conditions and also performs a liquidity stress test (including institution specific, general market crisis and combined crisis) and other methods at least on monthly basis to assess the Group's capability to withstand various severe liquidity crises. Also, the Assets and Liabilities Management System is developed to provide data and the preparation for regular management reports to facilitate liquidity risk management duties.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

In accordance with the requirements of Supervisory Policy Manual LM-2 "Sound Systems and controls for Liquidity Risk Management" issued by the HKMA in 2011, the Group has implemented behaviour model and assumptions of cash flow analysis and stress test to enhance the Group's cash flow analysis under both normal and stressed conditions. In cash flow analysis under normal circumstances, assumptions have been made relating to on-balance sheet items (such as deposits from customers) and off-balance sheet items (such as loan commitments). According to various characteristics of the assets, liabilities and off-balance sheet items, the Group forecasts the future cash flow based on contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The Group establishes MCO indicator which predicts the future 30 days maximum cumulative net cash outflow in normal situations based on the above assumptions, to assess if the Group has sufficient financing capacity to meet the cash flow gap in order to achieve the objective of continuing operation. As at 31 December 2015, before taking the cash inflow through the sale of outstanding marketable securities into consideration, BOCHK's 30 day cumulative cash flow was a net cash inflow, amounting to HK$74,742 million (2014: HK$50,775 million) and was in compliance with the internal limit requirements.

In the liquidity stress test, institution specific, general market crisis and combined crisis scenario has been set up, combined crisis scenario is a combination of institution specific and general market crisis to assess the Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; drawdown rate of loan commitments and trade-related contingent liabilities; delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. As at 31 December 2015, the Group was able to maintain a positive cash flow under the three stressed scenarios, indicating the Group has the ability to meet financing needs under stressed conditions. In addition, the Group has a policy in place to maintain a liquidity cushion which includes high quality or comparable quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks with 0% or 20% risk weight or marketable securities issued by non-financial corporate with a corresponding external credit rating of A- or above to ensure funding needs even under stressed scenarios. As at 31 December 2015, the liquidity cushion (before haircut) of BOCHK was HK$309,969 million (2014: HK$197,488 million). A contingency plan is being established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of various departments.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

The LCR is calculated in accordance with the Banking (Liquidity) Rules effective from 1 January 2015, the Group, being classified as category 1 authorised institution by the HKMA, is required to calculate LCR on consolidated basis. During the year of 2015, the Group is required to maintain a LCR not less than 60%.

In certain derivative contracts, the counterparties have right to request from the Group additional collateral if they have concerns about the Group's creditworthiness.

The Group's liquidity risk management also covers new products or business developments. Before launching a new product or business, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying liquidity risk and consideration of the adequacy of the current risk management mechanism. Any material impact on liquidity risk noted during the risk assessment process will be reported to RC for approval.

The Group has established a set of uniform liquidity risk management policies which serve as standards and guidance to all the Group's members for liquidity risk management. On the basis of the Group's uniform policy, each of the subsidiaries develops its own liquidity management policies according to its own characteristics, and assumes its own liquidity risk management responsibility. Subsidiaries are required to report their respective liquidity positions on a regular basis to RMD (Interest Rate and Liquidity Risk Management) of BOCHK, which consolidates this information and evaluates group-wide liquidity risk.

(A) Liquidity coverage ratio/liquidity ratio

	2015 quarter ended			
	31 December	30 September	30 June	31 March
Average value of liquidity coverage ratio	**106.52%**	**104.00%**	**109.89%**	**101.90%**

The average value of liquidity coverage ratio is calculated based on the arithmetic mean of the liquidity coverage ratio as at the end of each working day in the quarter and the calculation methodology and instructions set out in the HKMA return of liquidity position.

The liquidity coverage ratio is computed on the consolidated basis which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.

The additional information of liquidity coverage ratio disclosures is available under section "Regulatory Disclosures" on the Bank's website at www.bochk.com.

	2014
Average liquidity ratio	42.17%

The average liquidity ratio is calculated as the arithmetical mean of each calendar month's average liquidity ratio of BOCHK for the year.

The liquidity ratio is computed on the solo basis (the Hong Kong offices only) and is in accordance with the predecessor Fourth Schedule to the Banking Ordinance.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(B) Maturity analysis

The tables below analyse the Group's assets and liabilities as at 31 December into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	2015							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances with banks and other financial institutions	182,319	48,108	–	–	–	–	303	230,730
Placements with banks and other financial institutions maturing between one and twelve months	–	–	37,920	26,288	–	–	–	64,208
Financial assets at fair value through profit or loss								
– Held for trading								
– Debt securities	–	1,020	5,782	6,800	12,708	3,494	–	29,804
– Certificates of deposit	–	190	80	1,810	137	6	–	2,223
– Designated at fair value through profit or loss								
– Debt securities	–	89	307	770	6,498	12,770	–	20,434
– Certificates of deposit	–	372	–	1	268	–	–	641
– Equity securities and fund	–	–	–	–	–	–	4,495	4,495
– Others	–	180	–	–	–	–	–	180
Derivative financial instruments	12,489	2,723	2,711	18,994	5,504	786	–	43,207
Hong Kong SAR Government certificates of indebtedness	101,950	–	–	–	–	–	–	101,950
Advances and other accounts								
– Advances to customers	104,814	25,975	44,039	135,015	360,990	214,384	2,017	887,234
– Trade bills	1	7,970	8,330	15,710	–	–	–	32,011
– Advances to banks and other financial institutions	–	–	1	–	968	–	–	969
Investment in securities								
– Available-for-sale								
– Debt securities	–	19,917	83,105	59,304	137,708	60,283	–	360,317
– Certificates of deposit	–	2,305	23,450	35,571	8,328	212	–	69,866
– Held-to-maturity								
– Debt securities	–	520	3,558	13,436	42,769	20,822	3	81,108
– Certificates of deposit	–	–	–	–	–	18	–	18
– Loans and receivables								
– Debt securities	–	–	1,005	2,161	–	–	–	3,166
– Equity securities	–	–	–	–	–	–	2,746	2,746
Interests in associates and a joint venture	–	–	–	–	–	–	376	376
Investment properties	–	–	–	–	–	–	15,262	15,262
Properties, plant and equipment	–	–	–	–	–	–	50,433	50,433
Other assets (including deferred tax assets)	28,508	11,394	705	4,051	5,333	15,969	53	66,013
Assets held for sale	18,598	52,792	31,823	65,034	85,341	29,495	17,390	300,473
Total assets	448,679	173,555	242,816	384,945	666,552	358,239	93,078	2,367,864
Liabilities								
Hong Kong SAR currency notes in circulation	101,950	–	–	–	–	–	–	101,950
Deposits and balances from banks and other financial institutions	166,711	10,616	27,936	2,343	–	–	–	207,606
Financial liabilities at fair value through profit or loss	–	2,583	4,447	1,970	1,477	465	–	10,942
Derivative financial instruments	8,813	3,358	2,743	18,851	4,525	1,782	–	40,072
Deposits from customers	852,823	289,644	182,898	79,013	611	–	–	1,404,989
Debt securities and certificates of deposit in issue								
– Debt securities	–	59	–	5,739	1,178	–	–	6,976
Other accounts and provisions (including current and deferred tax liabilities)	20,246	11,751	1,479	2,663	7,322	3	–	43,464
Insurance contract liabilities	21,746	788	786	4,154	12,407	42,764	–	82,645
Subordinated liabilities	–	–	418	–	19,004	–	–	19,422
Liabilities associated with assets held for sale	93,390	68,292	40,563	42,451	7,083	26	–	251,805
Total liabilities	1,265,679	387,091	261,270	157,184	53,607	45,040	–	2,169,871
Net liquidity gap	(817,000)	(213,536)	(18,454)	227,761	612,945	313,199	93,078	197,993

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

	2014							
	On demand HK$'m	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Indefinite HK$'m	Total HK$'m
Assets								
Cash and balances with banks and other financial institutions	326,887	60,109	–	–	–	–	11,677	398,673
Placements with banks and other financial institutions maturing between one and twelve months	–	–	17,730	19,706	–	–	–	37,436
Financial assets at fair value through profit or loss								
– Held for trading								
– Debt securities	–	2,627	6,572	10,606	12,530	3,287	–	35,622
– Certificates of deposit	–	142	642	393	251	–	–	1,428
– Designated at fair value through profit or loss								
– Debt securities	–	45	129	1,109	7,534	5,263	–	14,080
– Certificates of deposit	–	–	–	–	264	–	–	264
– Equity securities and fund	–	–	–	–	–	–	2,600	2,600
Derivative financial instruments	10,880	3,502	2,813	11,619	1,852	2,687	–	33,353
Hong Kong SAR Government certificates of indebtedness	90,770	–	–	–	–	–	–	90,770
Advances and other accounts								
– Advances to customers	113,635	28,987	60,630	171,511	347,232	231,875	2,503	956,373
– Trade bills	32	12,779	20,973	23,972	–	–	–	57,756
Investment in securities								
– Available-for-sale								
– Debt securities	–	8,624	27,253	65,814	135,098	58,323	–	295,112
– Certificates of deposit	–	13,284	6,072	24,598	14,187	207	–	58,348
– Held-to-maturity								
– Debt securities	–	434	2,503	5,111	44,481	24,197	27	76,753
– Certificates of deposit	–	–	77	–	–	18	–	95
– Loans and receivables								
– Debt securities	–	2,499	915	1,454	–	–	–	4,868
– Equity securities	–	–	–	–	–	–	3,650	3,650
Interests in associates and a joint venture	–	–	–	–	–	–	324	324
Investment properties	–	–	–	–	–	–	14,559	14,559
Properties, plant and equipment	–	–	–	–	–	–	55,207	55,207
Other assets (including deferred tax assets)	15,705	11,999	149	4,157	7,757	12,301	28	52,096
Total assets	557,909	145,031	146,458	340,050	571,186	338,158	90,575	2,189,367
Liabilities								
Hong Kong SAR currency notes in circulation	90,770	–	–	–	–	–	–	90,770
Deposits and balances from banks and other financial institutions	203,379	23,419	6,277	2,705	–	–	–	235,780
Financial liabilities at fair value through profit or loss	–	3,428	4,643	3,190	483	516	–	12,260
Derivative financial instruments	6,976	3,029	2,455	4,500	2,532	1,295	–	20,787
Deposits from customers	793,425	338,722	209,587	122,979	15,396	–	–	1,480,109
Debt securities and certificates of deposit in issue								
– Debt securities	–	2,316	2,811	1,106	5,668	–	–	11,901
Other accounts and provisions (including current and deferred tax liabilities)	29,145	14,175	4,294	7,054	8,148	–	–	62,816
Insurance contract liabilities	12,417	1,099	1,733	6,199	14,807	37,541	–	73,796
Subordinated liabilities	–	–	418	–	–	19,258	–	19,676
Total liabilities	1,136,112	386,188	232,218	147,733	47,034	58,610	–	2,007,895
Net liquidity gap	(578,203)	(241,157)	(85,760)	192,317	524,152	279,548	90,575	181,472

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(B) Maturity analysis (continued)

The above maturity classifications have been prepared in accordance with relevant provisions under the Banking (Disclosure) Rules. The Group has reported assets such as advances and debt securities which have been overdue for not more than one month as "On demand". In the case of an asset that is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as "Indefinite". The above assets are stated after deduction of provisions, if any.

The analysis of debt securities by remaining period to maturity is disclosed in order to comply with relevant provisions under the Banking (Disclosure) Rules. The disclosure does not imply that the securities will be held to maturity.

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet as at 31 December.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities

(a) Non-derivative cash flows

The tables below summarise the cash flows of the Group as at 31 December for non-derivative financial liabilities by remaining contractual maturity.

	2015					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Financial liabilities						
Hong Kong SAR currency notes in circulation	101,950	–	–	–	–	101,950
Deposits and balances from banks and other financial institutions	177,341	27,990	2,366	–	–	207,697
Financial liabilities at fair value through profit or loss	2,586	4,458	1,991	1,519	483	11,037
Deposits from customers	1,142,604	183,377	79,830	642	–	1,406,453
Debt securities and certificates of deposit in issue	59	–	6,072	1,262	–	7,393
Subordinated liabilities	–	538	538	23,138	–	24,214
Other financial liabilities	27,056	218	715	4	–	27,993
Financial liabilities associated with assets held for sale	161,377	40,421	42,794	6,564	26	251,182
Total financial liabilities	1,612,973	257,002	134,306	33,129	509	2,037,919

	2014					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Financial liabilities						
Hong Kong SAR currency notes in circulation	90,770	–	–	–	–	90,770
Deposits and balances from banks and other financial institutions	226,826	6,304	2,774	–	–	235,904
Financial liabilities at fair value through profit or loss	3,432	4,655	3,201	524	541	12,353
Deposits from customers	1,132,368	210,324	124,467	16,528	–	1,483,687
Debt securities and certificates of deposit in issue	2,317	2,816	1,297	6,098	–	12,528
Subordinated liabilities	–	538	538	4,305	19,926	25,307
Other financial liabilities	37,471	2,958	4,284	196	–	44,909
Total financial liabilities	1,493,184	227,595	136,561	27,651	20,467	1,905,458

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities (continued)

(b) Derivative cash flows

The tables below summarise the cash flows (including assets held for sale and liabilities associated with assets held for sale) of the Group by remaining contractual maturity as at 31 December for derivative financial liabilities that will be settled on a net basis, together with all derivative financial instruments that will be settled on a gross basis regardless of whether the contract is in an asset or liability position. The amounts disclosed in the tables are the contractual undiscounted cash flows, except for certain derivatives which are disclosed at fair value.

The Group's derivative financial instruments that will be settled on a net basis mainly include interest rate swaps whereas derivative financial instruments that will be settled on a gross basis mainly include currency forwards and currency swaps.

	2015					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Derivative financial liabilities settled on a net basis	(9,198)	(543)	(860)	(2,072)	(117)	(12,790)
Derivative financial instruments settled on a gross basis						
Total inflow	546,961	344,519	1,321,480	217,775	2,582	2,433,317
Total outflow	(547,583)	(344,570)	(1,321,541)	(217,569)	(2,565)	(2,433,828)

	2014					
	Up to 1 month HK$'m	1 to 3 months HK$'m	3 to 12 months HK$'m	1 to 5 years HK$'m	Over 5 years HK$'m	Total HK$'m
Derivative financial liabilities settled on a net basis	(7,132)	(407)	(1,145)	(1,445)	(45)	(10,174)
Derivative financial instruments settled on a gross basis						
Total inflow	501,184	277,927	503,082	92,900	2,811	1,377,904
Total outflow	(500,884)	(277,604)	(501,017)	(92,925)	(2,802)	(1,375,232)

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities (continued)

(c) Off-balance sheet items

Loan commitments

The contractual amounts of the Group's off-balance sheet financial instruments as at 31 December 2015 that the Group commits to extend credit to customers and other facilities amounted to HK$595,987 million (2014: HK$488,524 million). Those loan commitments can be drawn within one year.

Financial guarantees and other financial facilities

Financial guarantees and other financial facilities of the Group as at 31 December 2015 amounting to HK$69,092 million (2014: HK$72,603 million) are maturing no later than one year.

4.4 Insurance risk

The Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. The Group manages these risks through the application of its underwriting policies and reinsurance arrangements.

The underwriting strategy is intended to set premium pricing at an appropriate level that corresponds with the underlying exposure of the risks underwritten. Screening processes, such as the review of health condition and family medical history, are also included in the Group's underwriting procedures.

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily on the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

For the in-force insurance contracts, most of the underlying insurance liabilities are related to endowment, universal life, whole life and unit-linked insurance products. For most of the insurance policies issued, the Group has a retention limit on any single life insured. The Group cedes the excess of the insured benefit over the limit to reinsurer under an excess of loss reinsurance arrangement. For some of the insurance liabilities, the Group has entered into reinsurance arrangements that reinsure most of insurance risk.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality, morbidity and persistency. The Group conducted relevant experience studies. The results of the studies are considered in determining the assumptions of insurance liability which include appropriate level of prudential margins.

4. Financial risk management (continued)

4.5 Capital management

The major objective of the Group's capital management is to maximise total shareholders' return while maintaining a capital adequacy position in relation to the Group's overall risk profile. The ALCO periodically reviews the Group's capital structure and adjusts the capital mix where appropriate to maintain an optimal balance among risk, return and capital adequacy.

The Group has developed and maintained a sound framework of policies and controls on capital management to support the development of the Group's business and to meet the statutory capital adequacy ratio. The ALCO monitors the Group's capital adequacy. The Group has complied with all the statutory capital requirements of the HKMA for the reported periods in respect of banking operation as further elaborated below.

The Group has adopted the foundation internal ratings-based ("FIRB") approach to calculate the credit risk capital charge for the majority of its non-securitisation exposures and the internal ratings-based (securitisation) approach to calculate the credit risk capital charge for its securitisation exposures. A small residual credit exposures are remained under the standardised (credit risk) ("STC") approach. The Group has adopted the standardised credit valuation adjustment ("CVA") method to calculate the capital charge for the CVA risk of the counterparty.

The Group continues to adopt the internal models ("IMM") approach to calculate the general market risk capital charge for foreign exchange and interest rate exposures and, with the approval from the HKMA, exclude its structural FX positions arising from NCB and Chiyu in the calculation of the market risk capital charge. The Group continues to adopt the standardised (market risk) ("STM") approach to calculate the market risk capital charge for the remaining exposures.

The Group continues to adopt standardised (operational risk) ("STO") approach to calculate the operational risk capital charge.

The Group has continued to adopt an internal capital adequacy assessment process ("ICAAP") to comply with the HKMA's requirements in the Supervisory Policy Manual "Supervisory Review Process" in 2015. Based on the HKMA's guidelines on Pillar II, ICAAP has been initiated to assess the extra capital needed to cover the material risks not captured or not adequately captured under Pillar I, and therefore minimum Common Equity Tier 1 capital ratio, minimum Tier 1 capital ratio and minimum Total capital ratio are determined. Meanwhile, operating ranges for the aforementioned capital ratios have also been established which enable the flexibility for future business growth and efficiency of capital utilisation. The Group considers this ICAAP as an on-going process for capital management and periodically reviews and adjusts its capital structure where appropriate in relation to the overall risk profile.

In addition, the capital plan of the Group is drawn up annually and then submitted to the Board for approval after endorsement of the ALCO. The plan is built up by assessing the implications of various factors upon capital adequacy such as the business strategies, return on equity, risk appetite, credit rating, as well as regulatory requirements. Hence, the future capital requirement is determined and capital sources are identified also. The plan is to ensure the Group maintains adequate capital and appropriate capital structure which align with its business development needs, thereby achieving an optimal balance among risk, return and capital adequacy.

4. Financial risk management (continued)

4.5 Capital management (continued)

(A) Basis of regulatory consolidation

The consolidation basis for regulatory purposes comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with HKFRSs and the list of subsidiaries is set out in "Appendix – Subsidiaries of the Company".

The Company, its subsidiaries of BOC Group Life Assurance Company Limited and BOCHK Asset Management (Cayman) Limited (including their subsidiaries), and certain subsidiaries of BOCHK are included within the accounting scope of consolidation but not included within the regulatory scope of consolidation.

The particulars of the above-mentioned subsidiaries of BOCHK are as follows:

Name	2015 Total assets HK$'m	2015 Total equity HK$'m	2014 Total assets HK$'m	2014 Total equity HK$'m
Bank of China (Hong Kong) Nominees Limited	–	–	–	–
Bank of China (Hong Kong) Trustees Limited	9	9	9	9
BOC Group Trustee Company Limited	200	200	200	200
BOCHK Information Technology (Shenzhen) Co., Ltd.	220	199	214	186
BOCHK Information Technology Services (Shenzhen) Ltd.	314	270	303	260
BOCI-Prudential Trustee Limited	462	432	458	430
Che Hsing (Nominees) Limited	1	1	1	1
Chiyu Banking Corporation (Nominees) Limited	134	134	115	115
Grace Charter Limited	–	(11)	–	(11)
Kwong Li Nam Investment Agency Limited	4	4	4	4
Nanyang Commercial Bank (Nominees) Limited	1	1	1	1
Nanyang Commercial Bank Trustee Limited	16	16	16	16
Po Sang Financial Investment Services Company Limited	363	345	121	105
Po Sang Futures Limited	496	454	597	188
Seng Sun Development Company, Limited	41	41	40	40
Sin Chiao Enterprises Corporation, Limited	7	7	7	7
Sin Hua Trustee Limited	5	5	5	5
Sino Information Services Company Limited	8	8	20	20

The principal activities of the above subsidiaries are set out in "Appendix – Subsidiaries of the Company".

4. Financial risk management (continued)

4.5 Capital management (continued)

(A) Basis of regulatory consolidation (continued)

There were no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 31 December 2015 (2014: Nil).

There were also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation where the methods of consolidation differ as at 31 December 2015 (2014: Nil).

(B) Capital ratio

	2015	2014
CET1 capital ratio	**12.83%**	12.30%
Tier 1 capital ratio	**12.89%**	12.38%
Total capital ratio	**17.86%**	17.51%

4. Financial risk management (continued)

4.5 Capital management (continued)

(B) Capital ratio (continued)

The consolidated capital base after deductions used in the calculation of the above capital ratios is analysed as follows:

	2015 HK$'m	2014 HK$'m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	**43,043**	43,043
Retained earnings	**89,915**	76,649
Disclosed reserves	**49,438**	47,803
Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	**733**	614
CET1 capital before regulatory deductions	**183,129**	168,109
CET1 capital: regulatory deductions		
Valuation adjustments	**(20)**	(19)
Deferred tax assets net of deferred tax liabilities	**(69)**	(167)
Gains and losses due to changes in own credit risk on fair valued liabilities	**(198)**	(160)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	**(50,874)**	(47,312)
Regulatory reserve for general banking risks	**(10,879)**	(10,011)
Total regulatory deductions to CET1 capital	**(62,040)**	(57,669)
CET1 capital	**121,089**	110,440
AT1 capital: instruments		
AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	**561**	733
AT1 capital	**561**	733
Tier 1 capital	**121,650**	111,173

4. Financial risk management (continued)

4.5 Capital management (continued)

(B) Capital ratio (continued)

	2015 HK$'m	2014 HK$'m
Tier 2 capital: instruments and provisions		
Capital instruments subject to phase out arrangements from Tier 2 capital	**18,230**	19,294
Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	**226**	256
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**5,537**	5,195
Tier 2 capital before regulatory deductions	**23,993**	24,745
Tier 2 capital: regulatory deductions		
Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	**22,893**	21,290
Total regulatory deductions to Tier 2 capital	**22,893**	21,290
Tier 2 capital	**46,886**	46,035
Total capital	**168,536**	157,208

The capital conservation buffer ratio, higher loss absorbency ratio, countercyclical capital buffer ratio ("CCyB ratio") and the applicable JCCyB ratios for Hong Kong and non-Hong Kong jurisdictions for 2015 are 0% in accordance with the Banking (Capital) Rules.

The additional information of capital disclosures is available under section "Regulatory Disclosures" on the Bank's website at www.bochk.com.

(C) Leverage ratio

	2015 HK$'m
Tier 1 capital	**121,650**
Leverage ratio exposure	**2,268,203**
Leverage ratio	**5.36%**

The additional information of leverage ratio disclosures is available under section "Regulatory Disclosures" on the Bank's website at www.bochk.com.

5. Fair values of assets and liabilities

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as defined in HKFRS 13, "Fair value measurement". The categorisation are determined with reference to the observability and significance of the inputs used in the valuation methods and based on the lowest level input that is significant to the fair value measurement as a whole:

– Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes equity securities listed on exchange, debt instruments issued by certain governments, certain exchange-traded derivative contracts and precious metals.

– Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly. This category includes majority of the OTC derivative contracts, debt securities and certificates of deposit with quote from pricing services vendors and issued structured deposits. It also includes precious metals and properties with insignificant adjustments made to observable market inputs.

– Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investment and debt instruments with significant unobservable components. It also includes properties with significant adjustments made to observable market inputs.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

5.1 Financial instruments measured at fair value

The Group has an established governance structure and controls framework to ensure that fair values are either determined or validated by control units independent of the front offices. Control units have overall responsibility for independent verification of valuation results from front line businesses and all other significant fair value measurements. Specific controls include verification of observable pricing inputs; review and approval for new models and changes to models; calibration and back-testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; review of significant unobservable inputs and valuation adjustments. Significant valuation issues are reported to senior management, Risk Committee and Audit Committee.

The Group uses valuation techniques or broker/dealer quotations to determine the fair value of financial instruments when unable to obtain the open market quotation in active markets.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, counterparty credit spreads and others, which are mostly observable and obtainable from open market.

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

The technique used to calculate the fair value of the following financial instruments is as below:

Debt securities and certificates of deposit

The fair value of these instruments is determined by obtaining quoted market prices from exchange, dealer or independent pricing service vendors or using discounted cash flow technique. Discounted cash flow model is a valuation technique that measures present value using estimated expected future cash flows from the instruments and then discounts these flows using a discount rate or discount margin that reflects the credit spreads required by the market for instruments with similar risk. These inputs are observable or can be corroborated by observable or unobservable market data.

Asset backed securities

For this class of instruments, external prices are obtained from independent third parties. The valuation of these securities, depending on the nature of transaction, is estimated from market standard cash flow models with input parameter which include spreads to discount rates, default and recovery rates and prepayment rates that may be observable or compiled through matrix pricing for similar issues.

Derivatives

OTC derivative contracts include forward, swap and option contracts on foreign exchange, interest rate, equity, commodity or credit. The fair values of these contracts are mainly measured using valuation techniques such as discounted cash flow models and option pricing models. The inputs can be observable or unobservable market data. Observable inputs include interest rate, foreign exchange rates, equity and stock prices, commodity prices, credit default swap spreads and volatilities. Unobservable inputs such as volatility surface may be used for less commonly traded option products which are embedded in structured deposits. For certain complex derivative contracts, the fair values are determined based on broker/dealer price quotations.

Credit valuation adjustments ("CVA") and debit valuation adjustments ("DVA") are applied to the Group's OTC derivatives. These adjustments reflect market factors movement, expectations of counterparty creditworthiness and the Group's own credit spread respectively. They are mainly determined for each counterparty and are dependent on expected future values of exposures, default probabilities and recovery rates.

Financial liabilities designated at fair value through profit or loss

This class of instruments includes certain deposits received from customers that are embedded with derivatives. The plain vanilla contracts are valued in the similar way described in previous debt securities section. The fair value of structured deposits is derived from the fair value of the underlying deposit by using discounted cash flow analysis taking the Group's own credit risk into account, and the fair value of the embedded derivatives determined as described in the paragraph above on derivatives.

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	2015			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Financial assets at fair value through profit or loss (Note 22)				
– Trading assets				
– Debt securities and certificates of deposit	1	32,026	–	32,027
– Others	–	180	–	180
– Financial assets designated at fair value through profit or loss				
– Debt securities and certificates of deposit	75	19,171	1,829	21,075
– Equity securities	1,995	–	–	1,995
– Fund	2,500	–	–	2,500
Derivative financial instruments (Note 23)	12,493	30,714	–	43,207
Available-for-sale securities (Note 26)				
– Debt securities and certificates of deposit	95,982	333,106	1,095	430,183
– Equity securities	2,459	–	287	2,746
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 32)				
– Trading liabilities	–	8,371	–	8,371
– Financial liabilities designated at fair value through profit or loss	–	2,571	–	2,571
Derivative financial instruments (Note 23)	8,936	31,136	–	40,072

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy (continued)

	2014			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Financial assets at fair value through profit or loss (Note 22)				
– Trading assets				
– Debt securities and certificates of deposit	189	36,861	–	37,050
– Equity securities	3	–	–	3
– Financial assets designated at fair value through profit or loss				
– Debt securities and certificates of deposit	78	13,186	1,080	14,344
– Equity securities	1,641	–	–	1,641
– Fund	956	–	–	956
Derivative financial instruments (Note 23)	10,885	22,468	–	33,353
Available-for-sale securities (Note 26)				
– Debt securities and certificates of deposit	8,374	344,179	907	353,460
– Equity securities	2,664	719	267	3,650
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 32)				
– Trading liabilities	–	9,145	–	9,145
– Financial liabilities designated at fair value through profit or loss	–	3,115	–	3,115
Derivative financial instruments (Note 23)	6,979	13,808	–	20,787

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the year (2014: Nil).

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	2015		
	Financial assets		
	Financial assets designated at fair value through profit or loss	Available-for-sale securities	
	Debt securities and certificates of deposit HK$'m	Debt securities and certificates of deposit HK$'m	Equity securities HK$'m
At 1 January 2015	1,080	907	267
(Losses)/gains			
– Income statement			
– Net loss on financial instruments designated at fair value through profit or loss	(1)	–	–
– Other comprehensive income			
– Change in fair value of available-for-sale securities	–	2	17
Purchases	901	808	8
Sales	(151)	(78)	–
Transfer out of level 3	–	(544)	–
Classified as assets held for sale	–	–	(5)
At 31 December 2015	1,829	1,095	287
Total unrealised losses for the year included in income statement for financial assets held as at 31 December 2015			
– Net loss on financial instruments designated at fair value through profit or loss	(1)	–	–

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	2014		
	Financial assets		
	Financial assets designated at fair value through profit or loss	Available-for-sale securities	
	Debt securities and certificates of deposit HK$'m	Debt securities and certificates of deposit HK$'m	Equity securities HK$'m
At 1 January 2014	385	6,247	250
(Losses)/gains			
– Income statement			
– Net loss on financial instruments designated at fair value through profit or loss	(9)	–	–
– Other comprehensive income			
– Change in fair value of available-for-sale securities	–	22	17
Purchases	725	78	–
Sales	(21)	(3,410)	–
Transfer out of level 3	–	(2,030)	–
At 31 December 2014	1,080	907	267
Total unrealised losses for the year included in income statement for financial assets held as at 31 December 2014			
– Net loss on financial instruments designated at fair value through profit or loss	(9)	–	–

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

As at 31 December 2015 and 2014, financial instruments categorised as level 3 are mainly comprised of debt securities, certificates of deposit and unlisted equity shares.

Debt securities and certificates of deposit were transferred out of level 3 in the years of 2015 and 2014 due to improvement of valuation observability. For certain illiquid debt securities and certificates of deposit, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. Therefore, these instruments have been classified by the Group as level 3. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The fair values of unlisted available-for-sale equity shares are determined with reference to multiples of comparable listed companies, such as average of the price/earning ratios of comparables, or net asset value, if appropriate comparables are not available. The fair value is positively correlated to the price/earning ratios of appropriate comparables or net asset values. Had the net asset value of the underlying equity investments increased/decreased by 5%, the Group's other comprehensive income would have increased/decreased by HK$14 million (2014: HK$13 million).

5.2 Financial instruments not measured at fair value

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instrument as far as practicable.

Balances with/from banks and other financial institutions and trade bills

Substantially all the financial assets and liabilities mature within one year from the balance sheet date and their carrying value approximates fair value.

Advances to customers and banks and other financial institutions

Substantially all the advances to customers and banks and other financial institutions are on floating rate terms, bear interest at prevailing market interest rates and their carrying value approximates fair value.

Held-to-maturity securities

The fair value of held-to-maturity securities is determined by using the same approach as those debt securities and certificates of deposit and asset backed securities measured at fair value as described in Note 5.1.

5. Fair values of assets and liabilities (continued)

5.2 Financial instruments not measured at fair value (continued)

Loans and receivables

A discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Deposits from customers

Substantially all the deposits from customers mature within one year from the balance sheet date and their carrying value approximates fair value.

Debt securities and certificates of deposit in issue

The fair value of these instruments is determined by using the same approach as those debt securities and certificates of deposit and asset backed securities measured at fair value as described in Note 5.1.

Subordinated liabilities

Fair value for subordinated notes is based on market prices or broker/dealer price quotations.

The following tables set out the carrying values and fair values of the financial instruments not measured at fair value, except for the above with their carrying values being approximation of fair values.

	2015		2014	
	Carrying value HK$'m	**Fair value HK$'m**	Carrying value HK$'m	Fair value HK$'m
Financial assets				
Held-to-maturity securities (Note 26)	**81,126**	**83,037**	76,848	78,515
Loans and receivables (Note 26)	**3,166**	**3,171**	4,868	4,867
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 34)	**6,976**	**7,222**	11,901	12,315
Subordinated liabilities (Note 38)	**19,422**	**21,507**	19,676	21,624

5. Fair values of assets and liabilities (continued)

5.2 Financial instruments not measured at fair value (continued)

The following tables show the fair value hierarchy for financial instruments with fair values disclosed.

	2015			
	Level 1 HK$'m	**Level 2 HK$'m**	**Level 3 HK$'m**	**Total HK$'m**
Financial assets				
Held-to-maturity securities	**411**	**82,626**	**–**	**83,037**
Loans and receivables	**–**	**3,171**	**–**	**3,171**
Financial liabilities				
Debt securities and certificates of deposit in issue	**–**	**7,222**	**–**	**7,222**
Subordinated liabilities	**–**	**21,507**	**–**	**21,507**

	2014			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Financial assets				
Held-to-maturity securities	412	78,103	–	78,515
Loans and receivables	–	4,867	–	4,867
Financial liabilities				
Debt securities and certificates of deposit in issue	–	12,315	–	12,315
Subordinated liabilities	–	21,624	–	21,624

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value

The Group uses valuation techniques or quoted market prices in active market to determine the fair value of non-financial instruments.

Investment properties and premises

The Group's properties can be divided into investment properties and premises. All of the Group's investment properties and premises were revalued as at year end. The valuations were carried out by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited, who have among their staff Fellow and Members of The Hong Kong Institute of Surveyors with recent experience in the locations and categories of properties being valued. The Group's Management had discussions with the surveyors on the valuation methods, valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date. There has been no change in valuation methods during the year.

(i) Valuation methods and inputs used in Level 2 fair value measurements

The fair value of properties classified as Level 2 is determined using either the market comparison approach by reference to recent sales price of comparable properties or the income capitalisation approach by reference to market rent and capitalisation rate, with appropriate adjustments to reflect the differences between the comparable properties and the subject properties. These adjustments are considered as insignificant to the entire measurement.

The Group's properties are located in Hong Kong and major cities in the PRC where the property markets are considered active and transparent. Sales price, market rent and capitalisation rate of comparable properties are generally observable either directly or indirectly in these markets.

(ii) Information about Level 3 fair value measurements

The fair value of all of the Group's properties classified as Level 3, except for the bank vault, is determined using either the market comparison approach or the income capitalisation approach, adjusted for a premium or a discount specific to the features of the Group's properties compared to the comparable properties.

The fair value of the bank vault is determined using the depreciated replacement cost approach as no direct comparable is available given the specialised nature of the property. The major inputs are the market value of the existing land, the current cost of replacing the property and the depreciation rate. Appropriate adjustments are made to reflect the specialised nature of the property.

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

Investment properties and premises (continued)

(ii) Information about Level 3 fair value measurements (continued)

The valuation methods and significant unobservable inputs used in the fair value measurement of the Group's properties classified as Level 3 are as follows:

	Valuation method	Significant unobservable inputs	Weighted average	Relationship of unobservable inputs to fair value
Bank vault	Depreciated replacement cost approach	Depreciation rate	2% (2014: 2%) per year	The higher the depreciation rate, the lower the fair value.
		Premium on specialised nature of the property	+20% (2014: +20%) to building cost	The higher the premium, the higher the fair value.
Other properties	Market comparison approach or income capitalisation approach	Premium/(discount) on features of the property compared to comparable properties	-9% (2014: -13%)	The higher the premium, the higher the fair value. The higher the discount, the lower the fair value.

Premium/(discount) on features of a property is determined after taken into account various factors, such as time for market movement, location, accessibility, building age/condition, floor level, size, layout, etc., with reference to the differences in features with comparable properties.

Precious metals

The fair values of precious metals are determined by obtaining quoted market prices in active market or market quote with certain adjustments.

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	2015			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Non-financial assets				
Investment properties (Note 28)	–	627	14,635	15,262
Properties, plant and equipment (Note 29)				
– Premises	–	2,338	45,849	48,187
Other assets (Note 30)				
– Precious metals	2,105	1,568	–	3,673

	2014			
	Level 1 HK$'m	Level 2 HK$'m	Level 3 HK$'m	Total HK$'m
Non-financial assets				
Investment properties (Note 28)	–	358	14,201	14,559
Properties, plant and equipment (Note 29)				
– Premises	–	2,855	49,784	52,639
Other assets (Note 30)				
– Precious metals	3,670	12	–	3,682

There were no non-financial asset transfers between level 1 and level 2 for the Group during the year (2014: Nil).

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	2015	
	Non-financial assets	
		Properties, plant and equipment
	Investment properties HK$'m	Premises HK$'m
At 1 January 2015	14,201	49,784
Gains/(losses)		
– Income statement		
– Net gain from fair value adjustments on investment properties	789	–
– Net loss from revaluation of premises	–	(136)
– Other comprehensive income		
– Revaluation of premises	–	3,438
Depreciation	–	(1,017)
Additions	43	409
Disposals	–	(363)
Transfer into level 3	199	1,698
Transfer out of level 3	(384)	(1,128)
Reclassification	202	(202)
Exchange difference	(1)	(27)
Classified as assets held for sale	(414)	(6,607)
At 31 December 2015	14,635	45,849
Total unrealised gains/(losses) for the year included in income statement for non-financial assets held as at 31 December 2015		
– Net gain from fair value adjustments on investment properties	753	–
– Net loss from revaluation of premises	–	(137)
	753	(137)

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	2014	
	Non-financial assets	
		Properties, plant and equipment
	Investment properties HK$'m	Premises HK$'m
At 1 January 2014	13,011	41,819
Gains		
– Income statement		
– Net gain from fair value adjustments on investment properties	330	–
– Net gain from revaluation of premises	–	2
– Other comprehensive income		
– Revaluation of premises	–	2,678
Depreciation	–	(879)
Additions	–	187
Transfer into level 3	1,244	7,149
Transfer out of level 3	–	(1,544)
Reclassification	(384)	384
Exchange difference	–	(12)
At 31 December 2014	14,201	49,784
Total unrealised gains for the year included in income statement for non-financial assets held as at 31 December 2014		
– Net gain from fair value adjustments on investment properties	330	–
– Net gain from revaluation of premises	–	2
	330	2

The transfer of properties into and out of level 3 is due to change in the premium/(discount) on features applied between the subject and comparable properties during the year. Premium/(discount) on features is determined with reference to differences in features between the subject properties and the comparable properties recently transacted in the market. As comparable properties that come from recent market transactions may be different in each year, the premium/(discount) on features applied between the subject and comparable properties would change from year to year accordingly. As a result, the significance of adjustments made to observable market inputs may vary and lead to the transfer of properties into and out of level 3.

6. Net interest income

	2015 HK$'m	(Restated) 2014 HK$'m
CONTINUING OPERATIONS		
Interest income		
Due from banks and other financial institutions	**8,176**	11,596
Advances to customers	**18,877**	16,777
Investment in securities and financial assets at fair value through profit or loss	**10,807**	10,137
Others	**214**	183
	38,074	38,693
Interest expense		
Due to banks and other financial institutions	**(1,799)**	(1,395)
Deposits from customers	**(9,407)**	(9,976)
Debt securities and certificates of deposit in issue	**(308)**	(223)
Subordinated liabilities	**(441)**	(271)
Others	**(380)**	(100)
	(12,335)	(11,965)
Net interest income	**25,739**	26,728

Included within interest income is HK$14 million (2014: HK$8 million) of interest with respect to income accrued on advances classified as impaired for the year ended 31 December 2015. Interest income accrued on impaired investment in securities amounted to HK$3 million (2014: HK$3 million).

Included within interest income and interest expense are HK$37,857 million (2014: HK$38,993 million) and HK$12,890 million (2014: HK$12,621 million), before hedging effect, for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

7. Net fee and commission income

	2015 HK$'m	(Restated) 2014 HK$'m
CONTINUING OPERATIONS		
Fee and commission income		
Credit card business	**3,727**	3,610
Securities brokerage	**3,397**	2,471
Loan commissions	**3,286**	1,890
Insurance	**1,551**	1,447
Funds distribution	**913**	877
Payment services	**563**	534
Bills commissions	**543**	574
Trust and custody services	**473**	442
Currency exchange	**302**	231
Safe deposit box	**264**	241
Others	**722**	630
	15,741	12,947
Fee and commission expense		
Credit card business	**(2,802)**	(2,689)
Securities brokerage	**(392)**	(279)
Insurance	**(256)**	(232)
Others	**(826)**	(656)
	(4,276)	(3,856)
Net fee and commission income	**11,465**	9,091
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	**3,452**	2,013
– Fee and commission expense	**(22)**	(14)
	3,430	1,999
– trust and other fiduciary activities		
– Fee and commission income	**661**	624
– Fee and commission expense	**(28)**	(25)
	633	599

8. Net trading gain

	2015 HK$'m	(Restated) 2014 HK$'m
CONTINUING OPERATIONS		
Net gain/(loss) from		
– foreign exchange and foreign exchange products	**2,055**	1,461
– interest rate instruments and items under fair value hedge	**293**	663
– commodities	**57**	62
– equity and credit derivative instruments	**194**	(29)
	2,599	2,157

9. Net gain on other financial assets

	2015 HK$'m	(Restated) 2014 HK$'m
CONTINUING OPERATIONS		
Net gain on available-for-sale securities	**1,290**	720
Net gain on held-to-maturity securities	**7**	3
Others	**4**	1
	1,301	724

10. Other operating income

	2015 HK$'m	(Restated) 2014 HK$'m
CONTINUING OPERATIONS		
Dividend income from investment in securities		
– Listed investments	**90**	95
– Unlisted investments	**34**	37
Gross rental income from investment properties	**453**	438
Less: Outgoings in respect of investment properties	**(61)**	(69)
Others	**299**	182
	815	683

Included in the "Outgoings in respect of investment properties" is HK$4 million (2014: HK$8 million) of direct operating expenses related to investment properties that were not let during the year.

11. Net insurance benefits and claims and movement in liabilities

	2015 HK$'m	2014 HK$'m
CONTINUING OPERATIONS		
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	**(13,010)**	(11,043)
Movement in liabilities	**(10,965)**	(8,103)
	(23,975)	(19,146)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	**5,843**	805
Reinsurers' share of movement in liabilities	**5,477**	9,173
	11,320	9,978
Net insurance benefits and claims and movement in liabilities	**(12,655)**	(9,168)

12. Net charge of impairment allowances

	2015 HK$'m	(Restated) 2014 HK$'m
CONTINUING OPERATIONS		
Advances to customers		
Individually assessed		
– New allowances	**(683)**	(229)
– Releases	**93**	306
– Recoveries	**111**	155
Net (charge)/reversal of individually assessed loan impairment allowances	**(479)**	232
Collectively assessed		
– New allowances	**(549)**	(402)
– Releases	**1**	3
– Recoveries	**45**	40
Net charge of collectively assessed loan impairment allowances	**(503)**	(359)
Net charge of loan impairment allowances	**(982)**	(127)
Others	**51**	(19)
Net charge of impairment allowances	**(931)**	(146)

13. Operating expenses

	2015 HK$'m	(Restated) 2014 HK$'m
CONTINUING OPERATIONS		
Staff costs (including directors' emoluments)		
– Salaries and other costs	**6,159**	5,640
– Pension cost	**409**	393
	6,568	6,033
Premises and equipment expenses (excluding depreciation)		
– Rental of premises	**625**	599
– Information technology	**412**	397
– Others	**399**	375
	1,436	1,371
Depreciation	**1,732**	1,604
Auditor's remuneration		
– Audit services	**22**	21
– Non-audit services	**11**	11
Other operating expenses	**2,067**	1,688
	11,836	10,728

Contingent rent included in the "Rental of premises" amounted to HK$16 million during the year (2014: HK$15 million).

14. Net gain from disposal of/fair value adjustments on investment properties

	2015 HK$'m	(Restated) 2014 HK$'m
CONTINUING OPERATIONS		
Net gain from fair value adjustments on investment properties	**791**	359

15. Net loss from disposal/revaluation of properties, plant and equipment

	2015 HK$'m	(Restated) 2014 HK$'m
CONTINUING OPERATIONS		
Net gain from disposal of premises	**95**	1
Net loss from disposal of equipment, fixtures and fittings	**(26)**	(25)
Net loss from revaluation of premises	**(137)**	–
	(68)	(24)

16. Taxation

Taxation in the income statement represents:

	2015 HK$'m	(Restated) 2014 HK$'m
CONTINUING OPERATIONS		
Current tax		
Hong Kong profits tax		
– Current year taxation	**4,452**	3,859
– Over-provision in prior years	**(61)**	(57)
	4,391	3,802
Overseas taxation		
– Current year taxation	**714**	984
– Over-provision in prior years	**(32)**	(4)
	5,073	4,782
Deferred tax		
Origination and reversal of temporary differences and unused tax credits	**(789)**	161
	4,284	4,943

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The taxation on the Group's profit before taxation that differs from the theoretical amount that would arise using the taxation rate of Hong Kong is as follows:

	2015 HK$'m	(Restated) 2014 HK$'m
CONTINUING OPERATIONS		
Profit before taxation	**28,952**	27,398
Calculated at a taxation rate of 16.5% (2014: 16.5%)	**4,777**	4,521
Effect of different taxation rates in other countries	**(21)**	12
Income not subject to taxation	**(336)**	(29)
Expenses not deductible for taxation purposes	**121**	77
Over-provision in prior years	**(93)**	(61)
Foreign withholding tax	**(164)**	423
Taxation charge	**4,284**	4,943
Effective tax rate	**14.8%**	18.0%

17. Dividends

	2015		2014	
	Per share HK$	**Total HK$'m**	Per share HK$	Total HK$'m
Interim dividend paid	**0.545**	**5,762**	0.545	5,762
Proposed final dividend	**0.679**	**7,179**	0.575	6,080
	1.224	**12,941**	1.120	11,842

At a meeting held on 28 August 2015, the Board declared an interim dividend of HK$0.545 per ordinary share for the first half of 2015 amounting to approximately HK$5,762 million.

At a meeting held on 30 March 2016, the Board proposed to recommend to the Annual General Meeting on 6 June 2016 a final dividend of HK$0.679 per ordinary share for the year ended 31 December 2015 amounting to approximately HK$7,179 million. This proposed final dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2016.

18. Earnings per share for profit attributable to the equity holders of the Company

The calculation of basic earnings per share for the year ended 31 December 2015 is based on the consolidated profit for the year and profit from continuing operations attributable to the equity holders of the Company of approximately HK$26,796 million and HK$23,969 million (2014: HK$24,577 million and HK$21,927 million) respectively and on the ordinary shares in issue of 10,572,780,266 shares (2014: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the year ended 31 December 2015 (2014: Nil).

19. Retirement benefit costs

Defined contribution schemes for the Group's employees are ORSO schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon retirement, early retirement or termination of employment after completing 10 years of service. Employees with 3 to 9 years of service are entitled to receive the employer's contributions at a scale ranging from 30% to 90% upon termination of employment for other reasons other than summary dismissal. All employer's contributions received by employee are subject to MPF Schemes Ordinance.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also participates in the BOC-Prudential Easy Choice MPF Scheme, of which the trustee is BOCI-Prudential Trustee and the investment manager is BOCI-Prudential Manager, which are related parties of the Company.

The Group's total contributions made to the ORSO schemes for the year ended 31 December 2015 amounted to approximately HK$367 million (2014: approximately HK$359 million), after a deduction of forfeited contributions of approximately HK$9 million (2014: approximately HK$7 million). For the MPF Scheme, the Group contributed approximately HK$83 million (2014: approximately HK$71 million) for the year ended 31 December 2015.

20. Directors', senior management's and key personnel's emoluments

(a) Directors' and senior management's emoluments

(i) Directors' emoluments

Details of the emoluments paid to or receivable by the directors of the Company in respect of their services rendered for the Company and managing the subsidiaries within the Group during the year are as follows:

	2015			
	Directors' fee HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Bonus HK$'000	Total HK$'000
Executive Directors				
YUE Yi (Chief Executive) Note 3	–	5,246	3,107	8,353
HE Guangbei (Chief Executive) Note 2	91	1,893	1,123	3,107
GAO Yingxin Note 4	67	1,163	656	1,886
LI Jiuzhong Note 1	–	3,284	2,222	5,506
	158	11,586	7,108	18,852
Non-executive Directors				
TIAN Guoli	–	–	–	–
CHEN Siqing	–	–	–	–
YUE Yi Note 3	–	–	–	–
REN Deqi Note 1	–	–	–	–
GAO Yingxin Note 4	–	–	–	–
XU Luode Note 1	–	–	–	–
LI Zaohang Note 2	–	–	–	–
ZHU Shumin Note 2	–	–	–	–
CHENG Eva*	300	–	–	300
KOH Beng Seng*	450	–	–	450
SHAN Weijian*	400	–	–	400
TUNG Savio Wai-Hok*	500	–	–	500
	1,650	–	–	1,650
	1,808	11,586	7,108	20,502

Note 1: Appointed during the year.
Note 2: Resigned/retired during the year.
Note 3: Re-designated as Executive Director effective from 6 March 2015.
Note 4: Re-designated as Non-executive Director effective from 11 March 2015.

20. Directors', senior management's and key personnel's emoluments (continued)

(a) Directors' and senior management's emoluments (continued)

(i) Directors' emoluments (continued)

	2014			
	Directors' fee HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Bonus HK$'000	Total HK$'000
Executive Directors				
HE Guangbei (Chief Executive)	100	8,754	4,492	13,346
GAO Yingxin	100	5,906	2,622	8,628
	200	14,660	7,114	21,974
Non-executive Directors				
TIAN Guoli	–	–	–	–
CHEN Siqing	–	–	–	–
YUE Yi	–	–	–	–
LI Lihui	–	–	–	–
LI Zaohang	–	–	–	–
ZHU Shumin	–	–	–	–
CHENG Eva*	52	–	–	52
KOH Beng Seng*	409	–	–	409
SHAN Weijian*	359	–	–	359
TUNG Savio Wai-Hok*	459	–	–	459
ZHOU Zaiqun	1,047	–	–	1,047
FUNG Victor Kwok King*	133	–	–	133
NING Gaoning*	125	–	–	125
	2,584	–	–	2,584
	2,784	14,660	7,114	24,558

* Independent Non-executive Directors

There were no directors waived emoluments for the year ended 31 December 2015 (2014: HK$2 million).

20. Directors', senior management's and key personnel's emoluments (continued)

(a) Directors' and senior management's emoluments (continued)

(ii) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2014: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2014: three) individuals during the year are as follows:

	2015 HK$'m	2014 HK$'m
Basic salaries and allowances	**11**	12
Bonus	**7**	6
Contributions to pension schemes	**1**	1
	19	19

Emoluments paid to or receivable by individuals during the year with reference to their tenure are within the following bands:

	Number of individuals	
	2015	2014
HK$5,500,001 to HK$6,000,000	**–**	1
HK$6,000,001 to HK$6,500,000	**3**	2

(iii) Senior management's emoluments

Emoluments paid to or receivable by individuals during the year with reference to their tenure as senior management are within the following bands:

	Number of individuals	
	2015	2014
HK$500,001 to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**3**	1
HK$2,000,001 to HK$2,500,000	**1**	–
HK$3,000,001 to HK$3,500,000	**2**	–
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,500,001 to HK$5,000,000	**–**	1
HK$5,000,001 to HK$5,500,000	**2**	1
HK$5,500,001 to HK$6,000,000	**–**	1
HK$6,000,001 to HK$6,500,000	**1**	2
HK$8,000,001 to HK$8,500,000	**1**	–
HK$8,500,001 to HK$9,000,000	**–**	1
HK$13,000,001 to HK$13,500,000	**–**	1

20. Directors', senior management's and key personnel's emoluments (continued)

(b) Remuneration for Senior Management and Key Personnel under CG-5

Pursuant to CG-5 Guideline on a Sound Remuneration System issued by the HKMA, details of the remuneration for Senior Management and Key Personnel of the Group during the year are as follows:

(i) Remuneration awarded during the year

	2015					
	Senior Management			Key Personnel		
	Non-deferred HK$'m	Deferred HK$'m	Total HK$'m	Non-deferred HK$'m	Deferred HK$'m	Total HK$'m
Fixed remuneration						
Cash	34	–	34	55	–	55
Variable remuneration						
Cash	14	3	17	28	10	38
	48	3	51	83	10	93

	2014					
	Senior Management			Key Personnel		
	Non-deferred HK$'m	Deferred HK$'m	Total HK$'m	Non-deferred HK$'m	Deferred HK$'m	Total HK$'m
Fixed remuneration						
Cash	46	–	46	55	–	55
Variable remuneration						
Cash	14	5	19	25	8	33
	60	5	65	80	8	88

The remuneration above includes 15 (2014: 12) members of Senior Management and 23 (2014: 19) members of Key Personnel.

20. Directors', senior management's and key personnel's emoluments (continued)

(b) Remuneration for Senior Management and Key Personnel under CG-5 (continued)

(ii) Deferred remuneration

	2015		2014	
	Senior Management HK$'m	**Key Personnel HK$'m**	Senior Management HK$'m	Key Personnel HK$'m
Deferred remuneration				
Vested	**5**	**7**	6	7
Unvested	**8**	**18**	10	15
	13	**25**	16	22
At 1 January	**10**	**15**	11	14
Awarded	**3**	**10**	5	8
Paid out	**(5)**	**(7)**	(6)	(7)
Reduced through performance adjustments	**–**	**–**	–	–
At 31 December	**8**	**18**	10	15

For the purpose of disclosure, Senior Management and Key Personnel mentioned in this section are defined according to the HKMA's Guideline on a Sound Remuneration System.

– Senior Management: The senior executives designated by the Board who are responsible for oversight of the firm-wide strategy or material business lines, including Chief Executive, Deputy Chief Executives, Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, Board Secretary and Head of Group Audit.

– Key Personnel: The employees whose individual business activities involve the assumption of material risk which may have significant impact on risk exposure, or whose individual responsibilities are directly and materially linked to the risk management, or those who have direct influence to the profit, including heads of material business lines, heads of major subsidiaries, head of trading, as well as heads of risk control functions.

21. Cash and balances with banks and other financial institutions

	2015 HK$'m	2014 HK$'m
Cash	**7,923**	9,749
Balances with central banks	**110,225**	104,317
Balances with banks and other financial institutions	**64,474**	224,498
Placements with banks and other financial institutions maturing within one month	**48,108**	60,109
	230,730	398,673

22. Financial assets at fair value through profit or loss

	Trading assets		Financial assets designated at fair value through profit or loss		Total	
	2015 HK$'m	2014 HK$'m	**2015 HK$'m**	2014 HK$'m	**2015 HK$'m**	2014 HK$'m
At fair value						
Treasury bills	**9,504**	11,990	**–**	–	**9,504**	11,990
Other debt securities	**20,300**	23,632	**20,434**	14,080	**40,734**	37,712
	29,804	35,622	**20,434**	14,080	**50,238**	49,702
Certificates of deposit	**2,223**	1,428	**641**	264	**2,864**	1,692
Total debt securities and certificates of deposit	**32,027**	37,050	**21,075**	14,344	**53,102**	51,394
Equity securities	**–**	3	**1,995**	1,641	**1,995**	1,644
Fund	**–**	–	**2,500**	956	**2,500**	956
Total securities	**32,027**	37,053	**25,570**	16,941	**57,597**	53,994
Others	**180**	–	**–**	–	**180**	–
	32,207	37,053	**25,570**	16,941	**57,777**	53,994

22. Financial assets at fair value through profit or loss (continued)

Total securities are analysed by place of listing as follows:

	Trading assets		Financial assets designated at fair value through profit or loss	
	2015 HK$'m	2014 HK$'m	**2015 HK$'m**	2014 HK$'m
Debt securities and certificates of deposit				
– Listed in Hong Kong	**11,650**	10,756	**5,841**	2,852
– Listed outside Hong Kong	**3,993**	5,567	**8,570**	5,419
	15,643	16,323	**14,411**	8,271
– Unlisted	**16,384**	20,727	**6,664**	6,073
	32,027	37,050	**21,075**	14,344
Equity securities				
– Listed in Hong Kong	**–**	3	**1,436**	1,516
– Listed outside Hong Kong	**–**	–	**559**	125
	–	3	**1,995**	1,641
Fund				
– Unlisted	**–**	–	**2,500**	956
Total securities	**32,027**	37,053	**25,570**	16,941

Total securities are analysed by type of issuer as follows:

	Trading assets		Financial assets designated at fair value through profit or loss	
	2015 HK$'m	2014 HK$'m	**2015 HK$'m**	2014 HK$'m
Sovereigns	**18,802**	19,102	**1,529**	273
Public sector entities*	**607**	465	**–**	–
Banks and other financial institutions	**6,914**	11,581	**15,447**	10,332
Corporate entities	**5,704**	5,905	**8,594**	6,336
Total securities	**32,027**	37,053	**25,570**	16,941

* Included trading assets of HK$607 million (2014: HK$465 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

23. Derivative financial instruments and hedge accounting

The Group enters into the following exchange rate, interest rate, commodity and equity related derivative financial instrument contracts for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currency on a future date. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates or buy or sell interest rate financial instruments on a future date at an agreed price in the financial market under the administration of the stock exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contract rate of interest and the current market rate, based on a notional principal amount.

Currency, interest rate and precious metal swaps are commitments to exchange one set of cash flows or commodity for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or precious metals (for example, silver swaps) or a combination of all these (for example, cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate, precious metal and equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated over-the-counter between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock option).

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the balance sheet. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates, market interest rates, metal prices or equity prices relative to their terms. The aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

23. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments

The Group trades derivative products (both exchange-traded or OTC) mainly for customer business. The Group strictly follows risk management policies and requirement in providing derivative products to our customers and in trading of derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions, and the maximum tenor of the deal is set. Every derivative transaction must be input into the relevant system for settlement, mark-to-market revaluation, reporting and control.

The following tables summarise the contract/notional amounts of each class of derivative financial instrument (excluding assets held for sale and liabilities associated with assets held for sale) as at 31 December:

	2015			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m
Exchange rate contracts				
Spot, forwards and futures	321,212	–	4,675	325,887
Swaps	2,063,424	–	15,863	2,079,287
Foreign currency options				
– Options purchased	31,947	–	–	31,947
– Options written	32,821	–	–	32,821
	2,449,404	–	20,538	2,469,942
Interest rate contracts				
Futures	2,700	–	–	2,700
Swaps	397,099	77,144	2,416	476,659
	399,799	77,144	2,416	479,359
Commodity contracts	6,905	–	–	6,905
Equity contracts	3,348	–	–	3,348
	2,859,456	77,144	22,954	2,959,554

23. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

	2014			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m
Exchange rate contracts				
Spot, forwards and futures	345,227	–	2,047	347,274
Swaps	1,118,201	644	14,098	1,132,943
Foreign currency options				
– Options purchased	35,101	–	–	35,101
– Options written	33,654	–	–	33,654
	1,532,183	644	16,145	1,548,972
Interest rate contracts				
Futures	4,156	–	–	4,156
Swaps	334,572	74,405	3,848	412,825
	338,728	74,405	3,848	416,981
Commodity contracts	6,547	–	–	6,547
Equity contracts	4,253	–	–	4,253
Credit derivative contracts	78	–	–	78
	1,881,789	75,049	19,993	1,976,831

Not qualified for hedge accounting: derivative contracts which do not qualify as hedges for accounting purposes but are managed in conjunction with the financial instruments designated at fair value through profit or loss are separately disclosed in compliance with the requirements set out in the Banking (Disclosure) Rules.

23. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument (excluding assets held for sale and liabilities associated with assets held for sale) as at 31 December:

	2015							
	Fair value assets				Fair value liabilities			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m
Exchange rate contracts								
Spot, forwards and futures	15,777	–	20	15,797	(9,687)	–	–	(9,687)
Swaps	22,817	–	87	22,904	(25,870)	–	–	(25,870)
Foreign currency options								
– Options purchased	513	–	–	513	–	–	–	–
– Options written	–	–	–	–	(487)	–	–	(487)
	39,107	–	107	39,214	(36,044)	–	–	(36,044)
Interest rate contracts								
Futures	3	–	–	3	(1)	–	–	(1)
Swaps	1,640	1,877	–	3,517	(2,108)	(1,516)	(27)	(3,651)
	1,643	1,877	–	3,520	(2,109)	(1,516)	(27)	(3,652)
Commodity contracts	392	–	–	392	(294)	–	–	(294)
Equity contracts	81	–	–	81	(82)	–	–	(82)
	41,223	1,877	107	43,207	(38,529)	(1,516)	(27)	(40,072)

23. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

	2014							
	Fair value assets				Fair value liabilities			
	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m	Trading HK$'m	Hedging HK$'m	Not qualified for hedge accounting HK$'m	Total HK$'m
Exchange rate contracts								
Spot, forwards and futures	12,208	–	–	12,208	(7,386)	–	(4)	(7,390)
Swaps	12,462	–	12	12,474	(9,823)	(1)	(21)	(9,845)
Foreign currency options								
– Options purchased	4,676	–	–	4,676	–	–	–	–
– Options written	–	–	–	–	(207)	–	–	(207)
	29,346	–	12	29,358	(17,416)	(1)	(25)	(17,442)
Interest rate contracts								
Futures	2	–	–	2	(3)	–	–	(3)
Swaps	1,311	2,270	2	3,583	(1,881)	(1,128)	(50)	(3,059)
	1,313	2,270	2	3,585	(1,884)	(1,128)	(50)	(3,062)
Commodity contracts	328	–	–	328	(202)	–	–	(202)
Equity contracts	82	–	–	82	(81)	–	–	(81)
	31,069	2,270	14	33,353	(19,583)	(1,129)	(75)	(20,787)

23. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

The table below gives the credit risk-weighted amounts of the derivative financial instruments (including assets held for sale) and is prepared with reference to the completion instructions for the HKMA return of capital adequacy ratio.

	2015 HK$'m	2014 HK$'m
Exchange rate contracts		
Forwards and futures	**2,237**	1,642
Swaps	**10,614**	4,956
Foreign currency options		
– Options purchased	**361**	1,569
	13,212	8,167
Interest rate contracts		
Futures	**1**	1
Swaps	**656**	728
	657	729
Commodity contracts	**2**	–
Equity contracts	**181**	208
	14,052	9,104

The credit risk-weighted amounts are calculated in accordance with the Banking (Capital) Rules. The amounts are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

The total fair values of derivatives subject to valid bilateral netting agreements for the Group amounted to HK$11,332 million (2014: HK$10,928 million) and the effect of valid bilateral netting agreements amounted to HK$9,682 million (2014: HK$7,154 million).

23. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting

The fair values of derivative financial instruments designated as hedging instruments as at 31 December are as follows:

	2015		2014	
	Assets HK$'m	**Liabilities HK$'m**	Assets HK$'m	Liabilities HK$'m
Fair value hedges	**1,877**	**(1,516)**	2,270	(1,128)
Cash flow hedges	**–**	**–**	–	(1)
	1,877	**(1,516)**	2,270	(1,129)

(i) Fair value hedges

The Group uses interest rate swaps to hedge against change in fair value of financial assets and liabilities arising from movements in market interest rates.

Gains or losses on fair value hedges reflected in net trading gain for the year are as follows:

	2015		2014	
	Hedged assets HK$'m	**Hedged liabilities HK$'m**	Hedged assets HK$'m	Hedged liabilities HK$'m
Net (loss)/gain				
– Hedging instruments	**(356)**	**(278)**	(1,708)	86
– Hedged items	**622**	**284**	1,841	141
	266	**6**	133	227

(ii) Cash flow hedges

The Group hedges a portion of foreign exchange risks that it expects to assume as a result of cash flows from certain fixed income securities using cross-currency interest rate swaps.

There were no gains or losses on ineffective portion recognised in the income statement during the year (2014: Nil).

(iii) Hedges of net investments in foreign operations

As at 31 December 2015, there were no RMB-denominated deposits from customers designated as a hedging instrument to hedge against the net investments in foreign operations (2014: HK$1,766 million).

There were no gains or losses on ineffective portion recognised in the income statement during the year (2014: Nil).

24. Advances and other accounts

	2015 HK$'m	2014 HK$'m
Personal loans and advances	**273,464**	284,007
Corporate loans and advances	**616,779**	676,982
Advances to customers	**890,243**	960,989
Loan impairment allowances (Note 25)		
– Individually assessed	**(564)**	(1,096)
– Collectively assessed	**(2,445)**	(3,520)
	887,234	956,373
Trade bills	**32,011**	57,756
Advances to banks and other financial institutions	**969**	–
	920,214	1,014,129

As at 31 December 2015, advances to customers included accrued interest of HK$1,409 million (2014: HK$1,570 million).

As at 31 December 2015, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions (2014: Nil).

25. Loan impairment allowances

	2015		
	Individually assessed		
	Personal HK$'m	Corporate HK$'m	Total HK$'m
At 1 January 2015	**26**	**1,070**	**1,096**
Charged to income statement	**11**	**1,243**	**1,254**
Loans written off during the year as uncollectible	**(16)**	**(1,384)**	**(1,400)**
Recoveries	**7**	**123**	**130**
Unwind of discount on impairment allowances	**–**	**(15)**	**(15)**
Exchange difference	**(2)**	**(66)**	**(68)**
Classified as assets held for sale	**(18)**	**(415)**	**(433)**
At 31 December 2015	**8**	**556**	**564**

25. Loan impairment allowances (continued)

	2015		
	Collectively assessed		
	Personal HK$'m	Corporate HK$'m	Total HK$'m
At 1 January 2015	**360**	**3,160**	**3,520**
Charged/(credited) to income statement	**436**	**(75)**	**361**
Loans written off during the year as uncollectible	**(495)**	**(3)**	**(498)**
Recoveries	**45**	**–**	**45**
Exchange difference	**(8)**	**(23)**	**(31)**
Classified as assets held for sale	**(64)**	**(888)**	**(952)**
At 31 December 2015	**274**	**2,171**	**2,445**

	2014		
	Individually assessed		
	Personal HK$'m	Corporate HK$'m	Total HK$'m
At 1 January 2014	30	810	840
(Credited)/charged to income statement	(6)	593	587
Loans written off during the year as uncollectible	(8)	(464)	(472)
Recoveries	12	149	161
Unwind of discount on impairment allowances	(1)	(7)	(8)
Exchange difference	(1)	(11)	(12)
At 31 December 2014	26	1,070	1,096

	2014		
	Collectively assessed		
	Personal HK$'m	Corporate HK$'m	Total HK$'m
At 1 January 2014	315	3,080	3,395
Charged to income statement	343	101	444
Loans written off during the year as uncollectible	(339)	(3)	(342)
Recoveries	41	–	41
Exchange difference	–	(18)	(18)
At 31 December 2014	360	3,160	3,520

26. Investment in securities

	2015			
	At fair value	At amortised cost		
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m	Total HK$'m
Treasury bills	**124,306**	**–**	**–**	**124,306**
Other debt securities	**236,011**	**81,108**	**3,166**	**320,285**
	360,317	**81,108**	**3,166**	**444,591**
Certificates of deposit	**69,866**	**18**	**–**	**69,884**
Total debt securities and certificates of deposit	**430,183**	**81,126**	**3,166**	**514,475**
Equity securities	**2,746**	**–**	**–**	**2,746**
	432,929	**81,126**	**3,166**	**517,221**

	2014			
	At fair value	At amortised cost		
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m	Total HK$'m
Treasury bills	48,079	2,375	–	50,454
Other debt securities	247,033	74,378	4,868	326,279
	295,112	76,753	4,868	376,733
Certificates of deposit	58,348	95	–	58,443
Total debt securities and certificates of deposit	353,460	76,848	4,868	435,176
Equity securities	3,650	–	–	3,650
	357,110	76,848	4,868	438,826

26. Investment in securities (continued)

Investment in securities is analysed by place of listing as follows:

	2015		
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m
Debt securities and certificates of deposit			
– Listed in Hong Kong	39,490	6,974	–
– Listed outside Hong Kong	112,363	32,087	–
	151,853	39,061	–
– Unlisted	278,330	42,065	3,166
	430,183	81,126	3,166
Equity securities			
– Listed in Hong Kong	2,459	–	–
– Unlisted	287	–	–
	2,746	–	–
	432,929	81,126	3,166
Market value of listed held-to-maturity securities		39,299	

	2014		
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m
Debt securities and certificates of deposit			
– Listed in Hong Kong	30,720	5,050	–
– Listed outside Hong Kong	98,874	22,238	–
	129,594	27,288	–
– Unlisted	223,866	49,560	4,868
	353,460	76,848	4,868
Equity securities			
– Listed in Hong Kong	2,664	–	–
– Unlisted	986	–	–
	3,650	–	–
	357,110	76,848	4,868
Market value of listed held-to-maturity securities		27,697	

26. Investment in securities (continued)

Investment in securities is analysed by type of issuer as follows:

	2015		
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m
Sovereigns	**155,327**	**840**	**–**
Public sector entities*	**18,498**	**19,011**	**–**
Banks and other financial institutions	**177,429**	**33,871**	**3,166**
Corporate entities	**81,675**	**27,404**	**–**
	432,929	**81,126**	**3,166**

	2014		
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m
Sovereigns	67,251	2,917	–
Public sector entities*	20,227	22,710	–
Banks and other financial institutions	191,867	31,775	2,793
Corporate entities	77,765	19,446	2,075
	357,110	76,848	4,868

* Included available-for-sale securities of HK$17,491 million (2014: HK$18,567 million) and held-to-maturity securities of HK$4,614 million (2014: HK$2,762 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

26. Investment in securities (continued)

The movements in investment in securities are summarised as follows:

	2015		
	Available-for-sale securities HK$'m	**Held-to-maturity securities HK$'m**	**Loans and receivables HK$'m**
At 1 January 2015	**357,110**	**76,848**	**4,868**
Additions	**702,242**	**14,009**	**9,557**
Disposals, redemptions and maturity	**(558,836)**	**(14,640)**	**(9,839)**
Amortisation	**(608)**	**222**	**(15)**
Change in fair value	**(244)**	**–**	**–**
Net reversal of impairment allowances	**–**	**1**	**–**
Reclassification	**(8,967)**	**8,967**	**–**
Exchange difference	**(5,713)**	**(1,815)**	**(819)**
Classified as assets held for sale	**(52,055)**	**(2,466)**	**(586)**
At 31 December 2015	**432,929**	**81,126**	**3,166**

	2014		
	Available-for-sale securities HK$'m	Held-to-maturity securities HK$'m	Loans and receivables HK$'m
At 1 January 2014	415,320	17,455	7,945
Additions	339,767	15,358	8,482
Disposals, redemptions and maturity	(345,557)	(5,868)	(11,631)
Amortisation	(593)	936	82
Change in fair value	4,759	–	–
Net reversal of impairment allowances	–	2	–
Reclassification	(49,854)	49,854	–
Exchange difference	(6,732)	(889)	(10)
At 31 December 2014	357,110	76,848	4,868

The Group reclassified certain debt securities with fair value of HK$8,967 million (2014: HK$49,854 million) out of available-for-sale category into held-to-maturity category during the year. The Group had the intention and ability to hold these reclassified debt securities until maturity at the date of reclassification.

26. Investment in securities (continued)

The movements in impairment allowances on held-to-maturity securities are summarised as follows:

	2015 HK$'m	2014 HK$'m
At 1 January	**1**	3
Credited to income statement	**(1)**	(2)
At 31 December	**–**	1

27. Interests in associates and a joint venture

	2015 HK$'m	2014 HK$'m
At 1 January	**324**	292
Share of results	**72**	49
Share of tax	**(18)**	(15)
Dividend received	**(2)**	(2)
At 31 December	**376**	324

The particulars of the Group's associates and joint venture, all of which are unlisted, are as follows:

Name	**Place of incorporation and operation**	**Issued share capital/ registered capital**	**Interest held**	**Principal activities**
Associates:				
BOC Services Company Limited	PRC	Registered capital RMB50,000,000	45%	Credit card back-end service support
BOC Expresspay Company Limited	PRC	Registered capital RMB450,000,000	25.33%	Prepay debit card services
Joint Venture:				
Joint Electronic Teller Services Limited	Hong Kong	Ordinary shares HK$10,024,600	19.96%	Operation of a private inter-bank message switching network in respect of ATM services

27. Interests in associates and a joint venture (continued)

	Associates		Joint venture	
	2015 HK$'m	2014 HK$'m	**2015 HK$'m**	2014 HK$'m
Interests in associates/joint venture	**315**	265	**61**	59
Share of profit/total comprehensive income for the year of associates/joint venture	**51**	33	**3**	1

28. Investment properties

	2015 HK$'m	2014 HK$'m
At 1 January	**14,559**	14,597
Additions	**47**	–
Fair value gains	**826**	393
Reclassification from/(to) properties, plant and equipment (Note 29)	**245**	(431)
Exchange difference	**(1)**	–
Classified as assets held for sale	**(414)**	–
At 31 December	**15,262**	14,559

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	2015 HK$'m	2014 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**3,724**	3,622
On medium-term lease (10 to 50 years)	**11,312**	10,686
Held outside Hong Kong		
On medium-term lease (10 to 50 years)	**207**	231
On short-term lease (less than 10 years)	**19**	20
	15,262	14,559

As at 31 December 2015, investment properties were included in the balance sheet at valuation carried out at 31 December 2015 on the basis of their fair value by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited. The fair value represents the price that would be received to sell each investment property in an orderly transaction with market participants at the measurement date.

29. Properties, plant and equipment

	Premises HK$'m	Equipment, fixtures and fittings HK$'m	Total HK$'m
Net book value at 1 January 2015	**52,639**	**2,568**	**55,207**
Additions	**423**	**771**	**1,194**
Disposals	**(371)**	**(27)**	**(398)**
Revaluation	**3,516**	**–**	**3,516**
Depreciation for the year	**(1,070)**	**(773)**	**(1,843)**
Reclassification to investment properties (Note 28)	**(245)**	**–**	**(245)**
Exchange difference	**(27)**	**(11)**	**(38)**
Classified as assets held for sale	**(6,678)**	**(282)**	**(6,960)**
Net book value at 31 December 2015	**48,187**	**2,246**	**50,433**
At 31 December 2015			
Cost or valuation	**48,187**	**7,598**	**55,785**
Accumulated depreciation and impairment	**–**	**(5,352)**	**(5,352)**
Net book value at 31 December 2015	**48,187**	**2,246**	**50,433**
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2015			
At cost	**–**	**7,598**	**7,598**
At valuation	**48,187**	**–**	**48,187**
	48,187	**7,598**	**55,785**
Net book value at 1 January 2014	49,791	2,567	52,358
Additions	211	814	1,025
Disposals	(43)	(27)	(70)
Revaluation	3,311	–	3,311
Depreciation for the year	(1,050)	(779)	(1,829)
Reclassification from investment properties (Note 28)	431	–	431
Exchange difference	(12)	(7)	(19)
Net book value at 31 December 2014	52,639	2,568	55,207
At 31 December 2014			
Cost or valuation	52,639	8,308	60,947
Accumulated depreciation and impairment	–	(5,740)	(5,740)
Net book value at 31 December 2014	52,639	2,568	55,207
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2014			
At cost	–	8,308	8,308
At valuation	52,639	–	52,639
	52,639	8,308	60,947

29. Properties, plant and equipment (continued)

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

	2015 HK$'m	2014 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**15,934**	19,425
On medium-term lease (10 to 50 years)	**31,963**	32,430
Held outside Hong Kong		
On long-term lease (over 50 years)	**94**	81
On medium-term lease (10 to 50 years)	**196**	685
On short-term lease (less than 10 years)	**–**	18
	48,187	52,639

As at 31 December 2015, premises were included in the balance sheet at valuation carried out at 31 December 2015 on the basis of their fair value by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited. The fair value represents the price that would be received to sell each premises in an orderly transaction with market participants at the measurement date.

As a result of the above-mentioned revaluations, changes in value of the premises were recognised in the premises revaluation reserve, the income statement and non-controlling interests as follows:

	2015 HK$'m	2014 HK$'m
Increase in valuation credited to premises revaluation reserve	**3,621**	3,284
(Decreased)/increase in valuation (charged)/credited to income statement	**(136)**	2
Increase in valuation credited to non-controlling interests	**31**	25
	3,516	3,311

As at 31 December 2015, the net book value of premises that would have been included in the Group's balance sheet had the premises been carried at cost less accumulated depreciation and impairment losses was HK$7,970 million (2014: HK$8,331 million).

30. Other assets

	2015 HK$'m	2014 HK$'m
Repossessed assets	44	18
Precious metals	3,673	3,682
Reinsurance assets	38,514	32,525
Accounts receivable and prepayments	23,724	15,704
	65,955	51,929

31. Hong Kong SAR currency notes in circulation

The Hong Kong SAR currency notes in circulation are secured by deposit of funds in respect of which the Hong Kong SAR Government certificates of indebtedness are held.

32. Financial liabilities at fair value through profit or loss

	2015 HK$'m	2014 HK$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	8,371	9,145
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 33)	2,571	3,115
	10,942	12,260

The carrying amount of financial liabilities designated at fair value through profit or loss as at 31 December 2015 was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK$5 million (2014: HK$4 million). The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the year and cumulatively, attributable to changes in own credit risk was insignificant.

33. Deposits from customers

	2015 HK$'m	2014 HK$'m
Current, savings and other deposit accounts (per balance sheet)	**1,404,989**	1,480,109
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 32)	**2,571**	3,115
	1,407,560	1,483,224
Analysed by:		
Demand deposits and current accounts		
– Corporate	**99,951**	87,585
– Personal	**34,118**	28,776
	134,069	116,361
Savings deposits		
– Corporate	**304,593**	252,515
– Personal	**413,154**	420,311
	717,747	672,826
Time, call and notice deposits		
– Corporate	**344,205**	422,536
– Personal	**211,539**	271,501
	555,744	694,037
	1,407,560	1,483,224

34. Debt securities and certificates of deposit in issue

	2015 HK$'m	2014 HK$'m
Debt securities, at amortised cost		
– Senior notes under the Medium Term Note Programme	**5,728**	5,636
– Other debt securities	**1,248**	6,265
	6,976	11,901

35. Other accounts and provisions

	2015 HK$'m	2014 HK$'m
Other accounts payable	**33,957**	51,603
Provisions	**268**	354
	34,225	51,957

36. Deferred taxation

Deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and unused tax credits in accordance with HKAS 12 "Income Taxes".

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the year are as follows:

	2015					
	Accelerated tax depreciation HK\$'m	**Property revaluation HK\$'m**	**Losses HK\$'m**	**Impairment allowances HK\$'m**	**Others HK\$'m**	**Total HK\$'m**
At 1 January 2015	**607**	**7,858**	**–**	**(645)**	**94**	**7,914**
Charged/(credited) to income statement	**7**	**(112)**	**(35)**	**40**	**(702)**	**(802)**
Charged/(credited) to other comprehensive income	**–**	**483**	**–**	**–**	**(416)**	**67**
Exchange difference	**–**	**(3)**	**2**	**9**	**–**	**8**
Classified as assets held for sale	**(18)**	**(1,034)**	**33**	**137**	**94**	**(788)**
At 31 December 2015	**596**	**7,192**	**–**	**(459)**	**(930)**	**6,399**

	2014					
	Accelerated tax depreciation HK\$'m	Property revaluation HK\$'m	Losses HK\$'m	Impairment allowances HK\$'m	Others HK\$'m	Total HK\$'m
At 1 January 2014	581	7,348	(92)	(594)	(603)	6,640
Charged/(credited) to income statement	26	60	92	(55)	(11)	112
Charged to other comprehensive income	–	451	–	–	706	1,157
Exchange difference	–	(1)	–	4	2	5
At 31 December 2014	607	7,858	–	(645)	94	7,914

36. Deferred taxation (continued)

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2015 HK$'m	2014 HK$'m
Deferred tax assets	**(58)**	(167)
Deferred tax liabilities	**6,457**	8,081
	6,399	7,914

	2015 HK$'m	2014 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(58)**	(129)
Deferred tax liabilities to be settled after more than twelve months	**7,284**	7,928
	7,226	7,799

As at 31 December 2015, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK$8 million (2014: HK$10 million). These tax losses do not expire under the current tax legislation.

37. Insurance contract liabilities

	2015 HK$'m	2014 HK$'m
At 1 January	**73,796**	66,637
Benefits paid	**(12,807)**	(10,795)
Claims incurred and movement in liabilities	**21,656**	17,954
At 31 December	**82,645**	73,796

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK$36,071 million (2014: HK$32,320 million) and the associated reinsurance assets of HK$38,514 million (2014: HK$32,525 million) are included in "Other assets" (Note 30).

38. Subordinated liabilities

	2015 HK$'m	2014 HK$'m
Subordinated notes, at amortised cost with fair value hedge adjustment		
USD2,500m*	**19,422**	19,676

In 2010, BOCHK issued listed subordinated notes with an aggregate amount of USD2,500 million.

Amounts qualified as Tier 2 capital instruments for regulatory purposes are shown in Note 4.5(B).

* Interest rate at 5.55% per annum payable semi-annually, due February 2020.

39. Discontinued operations and assets held for sale

According to the announcement made on 14 July 2015, BOC has obtained the in-principle approval from the Ministry of Finance of the People's Republic of China (the "Ministry of Finance") for the undertaking of the disposal of 100% interest in NCB held by BOCHK in accordance with the relevant regulations of the Administrative Measures for the Transfer of State-owned Assets of Financial Enterprises (No. 54 Decree of the Ministry of Finance), by way of public bidding via the Beijing Financial Assets Exchange on 15 July 2015.

On 18 December 2015, BOCHK (as seller) entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Cinda Financial Holdings Co., Limited ("Cinda Financial") (as buyer) and China Cinda (HK) Holdings Company Limited (as buyer's guarantor) in relation to the proposed sale and purchase of all the issued shares of NCB ("the Proposed Disposal"). The completion of the Proposed Disposal is conditional upon the satisfaction of the conditions precedent set out in the Sale and Purchase Agreement. Upon Completion, Cinda Financial will own all the issued shares of NCB and NCB will cease to be a subsidiary of BOCHK.

The comparative amounts of consolidated income statement have been restated as if the discontinued operations had been discontinued at the beginning of year 2014.

39. Discontinued operations and assets held for sale (continued)

The results of discontinued operations for the year are as follows:

	2015 HK$'m	2014 HK$'m
Interest income	**8,371**	9,259
Interest expense	**(3,651)**	(4,068)
Net interest income	**4,720**	5,191
Fee and commission income	**1,150**	1,058
Fee and commission expense	**(34)**	(27)
Net fee and commission income	**1,116**	1,031
Net trading gain	**49**	5
Net loss on financial instruments designated at fair value through profit or loss	**(7)**	(8)
Net gain on other financial assets	**264**	122
Other operating income	**15**	38
Net operating income before impairment allowances	**6,157**	6,379
Net charge of impairment allowances	**(633)**	(904)
Net operating income	**5,524**	5,475
Operating expenses	**(2,251)**	(2,244)
Operating profit	**3,273**	3,231
Net gain from disposal of/fair value adjustments on investment properties	**35**	34
Net gain from disposal/revaluation of properties, plant and equipment	**2**	–
Profit before taxation	**3,310**	3,265
Taxation	**(483)**	(615)
Profit from discontinued operations	**2,827**	2,650
	HK$	HK$
Earnings per share for profit attributable to the equity holders of the Company		
Basic and diluted		
– profit from discontinued operations	**0.2674**	0.2507

39. Discontinued operations and assets held for sale (continued)

The major classes of assets held for sale and liabilities associated with assets held for sale are as follows:

	2015 HK$'m	2014 HK$'m
ASSETS HELD FOR SALE		
Cash and balances with banks and other financial institutions	53,124	–
Placements with banks and other financial institutions maturing between one and twelve months	7,057	–
Financial assets at fair value through profit or loss	7,263	–
Derivative financial instruments	653	–
Advances and other accounts	168,924	–
Investment in securities	55,107	–
Investment properties	414	–
Properties, plant and equipment	6,960	–
Current tax assets	47	–
Deferred tax assets	11	–
Other assets	913	–
Total assets held for sale	300,473	–
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE		
Deposits and balances from banks and other financial institutions	18,040	–
Financial liabilities at fair value through profit or loss	4,576	–
Derivative financial instruments	284	–
Deposits from customers	215,311	–
Other accounts and provisions	12,607	–
Current tax liabilities	188	–
Deferred tax liabilities	799	–
Total liabilities associated with assets held for sale	251,805	–
	48,668	–

The cumulative income recognised in other comprehensive income relating to assets held for sale is as follows:

	2015 HK$'m	2014 HK$'m
Cumulative income recognised in other comprehensive income	5,963	–

The net cash flows incurred by discontinued operations are as follows:

	2015 HK$'m	2014 HK$'m
Operating activities	2,419	15,027
Investing activities	(71)	(85)
Financing activities	(543)	(700)
Net cash inflow	1,805	14,242

40. Share capital

	2015 HK$'m	2014 HK$'m
Issued and fully paid:		
10,572,780,266 ordinary shares	**52,864**	52,864

41. Notes to consolidated cash flow statement

(a) Reconciliation of operating profit to operating cash (outflow)/inflow before taxation

	2015 HK$'m	2014 HK$'m
Operating profit		
– from continuing operations	**28,175**	27,029
– from discontinued operations	**3,273**	3,231
	31,448	30,260
Depreciation	**1,843**	1,829
Net charge of impairment allowances	**1,564**	1,050
Unwind of discount on impairment allowances	**(15)**	(8)
Advances written off net of recoveries	**(1,723)**	(612)
Change in subordinated liabilities	**155**	237
Change in balances with banks and other financial institutions with original maturity over three months	**1,618**	9,991
Change in placements with banks and other financial institutions with original maturity over three months	**(21,248)**	(2,290)
Change in financial assets at fair value through profit or loss	**(10,128)**	(10,306)
Change in derivative financial instruments	**9,062**	(6,130)
Change in advances and other accounts	**(74,787)**	(89,567)
Change in investment in securities	**(131,199)**	1,362
Change in other assets	**(14,955)**	(6,694)
Change in deposits and balances from banks and other financial institutions	**(10,134)**	(42,493)
Change in financial liabilities at fair value through profit or loss	**3,258**	(1,320)
Change in deposits from customers	**140,191**	155,961
Change in debt securities and certificates of deposit in issue	**(4,925)**	6,217
Change in other accounts and provisions	**(5,125)**	3,808
Change in insurance contract liabilities	**8,849**	7,159
Effect of changes in exchange rates	**10,462**	8,478
Operating cash (outflow)/inflow before taxation	**(65,789)**	66,932
Cash flows from operating activities included:		
– interest received	**49,388**	45,618
– interest paid	**16,500**	14,579
– dividend received	**126**	135

41. Notes to consolidated cash flow statement (continued)

(b) Analysis of the balances of cash and cash equivalents

	2015 HK$'m	2014 HK$'m
Cash and balances with banks and other financial institutions with original maturity within three months	**272,130**	385,331
Placements with banks and other financial institutions with original maturity within three months	**23,077**	10,496
Treasury bills with original maturity within three months	**12,359**	6,940
Certificates of deposit with original maturity within three months	**890**	1,061
	308,456	403,828

42. Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the aggregate credit risk-weighted amount and is prepared with reference to the completion instructions for the HKMA return of capital adequacy ratio.

	2015 HK$'m	2014 HK$'m
Direct credit substitutes	**24,360**	22,621
Transaction-related contingencies	**7,600**	9,225
Trade-related contingencies	**31,713**	36,016
Asset sales with recourse	**5,419**	4,741
Commitments that are unconditionally cancellable without prior notice	**471,092**	407,681
Other commitments with an original maturity of		
– up to one year	**10,519**	9,974
– over one year	**114,376**	70,869
	665,079	561,127
Credit risk-weighted amount	**74,880**	49,572

The credit risk-weighted amount is calculated in accordance with the Banking (Capital) Rules. The amount is dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

43. Capital commitments

The Group has the following outstanding capital commitments not provided for in the financial statements:

	2015 HK$'m	2014 HK$'m
Authorised and contracted for but not provided for	**223**	448
Authorised but not contracted for	**16**	4
	239	452

The above capital commitments mainly relate to commitments to purchase computer equipment and software, and to renovate the Group's premises.

44. Operating lease commitments

(a) As lessee

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	2015 HK$'m	2014 HK$'m
Land and buildings		
– Not later than one year	**787**	756
– Later than one year but not later than five years	**1,394**	1,300
– Later than five years	**112**	265
	2,293	2,321

Certain non-cancellable operating leases included in the table above were subject to renegotiation and rent adjustment with reference to market rates prevailing at specified agreed dates or according to the special conditions as stipulated in the leases.

(b) As lessor

The Group has contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

	2015 HK$'m	2014 HK$'m
Land and buildings		
– Not later than one year	**421**	404
– Later than one year but not later than five years	**330**	421
	751	825

The Group leases its investment properties under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for rent adjustments according to the prevailing market conditions at the expiration of the lease.

45. Litigation

The Group has been served a number of claims and counterclaims by various independent parties. These claims and counterclaims are in relation to the normal commercial activities of the Group.

No material provision was made against these claims and counterclaims because the directors believe that the Group has meritorious defences against the claimants or the amounts involved in these claims are not expected to be material.

46. Segmental reporting

The Group manages the business mainly from a business segment perspective and over 90% of the Group's revenues, profits before tax and assets are derived from Hong Kong. Currently, four operating segments are identified: Personal Banking, Corporate Banking, Treasury and Insurance. The classification of the Group's operating segments is based on customer segment and product type, which is aligned with the RPC (relationship, product and channel) management model of the Group.

Both Personal Banking and Corporate Banking provide general banking services including various deposit products, overdrafts, loans, credit cards, trade related products and other credit facilities, investment and insurance products, and foreign currency and derivative products. Personal Banking mainly serves retail customers and small enterprises, while Corporate Banking mainly deals with corporate customers. Treasury manages the funding and liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. The Insurance segment represents business mainly relating to life insurance products, including individual life insurance and group life insurance products. "Others" mainly represents the Group's holdings of premises, investment properties, equity investments and interests in associates and a joint venture.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment funding is charged according to the internal funds transfer pricing mechanism of the Group, which is primarily based on market rates with the consideration of specific features of the product.

As the Group derives a majority of revenue from interest and the senior management relies primarily on net interest income in managing the business, interest income and expense for all reportable segments are presented on a net basis. Under the same consideration, insurance premium income and insurance benefits and claims are also presented on a net basis.

46. Segmental reporting (continued)

	Personal Banking HK$'m	Corporate Banking HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Year ended 31 December 2015								
CONTINUING OPERATIONS								
Net interest income/(expense)								
– External	2,645	8,064	12,796	2,228	6	25,739	–	25,739
– Inter-segment	5,519	1,345	(6,283)	8	(589)	–	–	–
	8,164	9,409	6,513	2,236	(583)	25,739	–	25,739
Net fee and commission income/(expense)	6,764	4,551	77	(169)	528	11,751	(286)	11,465
Net insurance premium income	–	–	–	12,462	–	12,462	(17)	12,445
Net trading gain/(loss)	660	222	1,712	(20)	10	2,584	15	2,599
Net loss on financial instruments designated at fair value through profit or loss	–	–	(22)	(745)	–	(767)	–	(767)
Net gain on other financial assets	642	4	504	151	–	1,301	–	1,301
Other operating income	46	7	13	33	1,758	1,857	(1,042)	815
Total operating income	16,276	14,193	8,797	13,948	1,713	54,927	(1,330)	53,597
Net insurance benefits and claims and movement in liabilities	–	–	–	(12,655)	–	(12,655)	–	(12,655)
Net operating income before impairment allowances	16,276	14,193	8,797	1,293	1,713	42,272	(1,330)	40,942
Net (charge)/reversal of impairment allowances	(297)	(696)	61	–	1	(931)	–	(931)
Net operating income	15,979	13,497	8,858	1,293	1,714	41,341	(1,330)	40,011
Operating expenses	(6,679)	(2,520)	(1,056)	(356)	(2,555)	(13,166)	1,330	(11,836)
Operating profit/(loss)	9,300	10,977	7,802	937	(841)	28,175	–	28,175
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	791	791	–	791
Net loss from disposal/revaluation of properties, plant and equipment	(15)	(2)	(1)	(5)	(45)	(68)	–	(68)
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	54	54	–	54
Profit/(loss) before taxation	9,285	10,975	7,801	932	(41)	28,952	–	28,952
At 31 December 2015								
ASSETS								
Segment assets	301,551	638,386	985,051	98,282	68,425	2,091,695	(24,680)	2,067,015
Interests in associates and a joint venture	–	–	–	–	376	376	–	376
Assets held for sale	39,480	134,506	123,419	–	7,541	304,946	(4,473)	300,473
	341,031	772,892	1,108,470	98,282	76,342	2,397,017	(29,153)	2,367,864
LIABILITIES								
Segment liabilities	752,284	675,095	400,515	91,593	11,631	1,931,118	(13,052)	1,918,066
Liabilities associated with assets held for sale	91,705	138,603	35,993	–	1,605	267,906	(16,101)	251,805
	843,989	813,698	436,508	91,593	13,236	2,199,024	(29,153)	2,169,871
Year ended 31 December 2015								
CONTINUING OPERATIONS								
Other information								
Capital expenditure	34	5	–	28	1,098	1,165	–	1,165
Depreciation	368	149	68	11	1,136	1,732	–	1,732
Amortisation of securities	–	–	(195)	(86)	–	(281)	–	(281)

46. Segmental reporting (continued)

	Personal Banking HK$'m	Corporate Banking HK$'m	Treasury HK$'m	Insurance HK$'m	Others HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Year ended 31 December 2014 (Restated)								
CONTINUING OPERATIONS								
Net interest income/(expense)								
– External	1,900	6,230	16,447	2,146	5	26,728	–	26,728
– Inter-segment	5,327	3,234	(7,850)	16	(727)	–	–	–
	7,227	9,464	8,597	2,162	(722)	26,728	–	26,728
Net fee and commission income/(expense)	5,507	3,209	146	(14)	517	9,365	(274)	9,091
Net insurance premium income	–	–	–	7,671	–	7,671	(16)	7,655
Net trading gain/(loss)	452	198	1,565	(60)	(12)	2,143	14	2,157
Net (loss)/gain on financial instruments designated at fair value through profit or loss	–	–	(14)	47	–	33	–	33
Net gain on other financial assets	505	1	49	169	–	724	–	724
Other operating income	41	17	9	95	1,534	1,696	(1,013)	683
Total operating income	13,732	12,889	10,352	10,070	1,317	48,360	(1,289)	47,071
Net insurance benefits and claims and movement in liabilities	–	–	–	(9,168)	–	(9,168)	–	(9,168)
Net operating income before impairment allowances	13,732	12,889	10,352	902	1,317	39,192	(1,289)	37,903
Net (charge)/reversal of impairment allowances	(335)	198	(9)	–	–	(146)	–	(146)
Net operating income	13,397	13,087	10,343	902	1,317	39,046	(1,289)	37,757
Operating expenses	(6,028)	(2,429)	(932)	(289)	(2,339)	(12,017)	1,289	(10,728)
Operating profit/(loss)	7,369	10,658	9,411	613	(1,022)	27,029	–	27,029
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	359	359	–	359
Net loss from disposal/revaluation of properties, plant and equipment	(17)	(3)	–	–	(4)	(24)	–	(24)
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	34	34	–	34
Profit/(loss) before taxation	7,352	10,655	9,411	613	(633)	27,398	–	27,398
At 31 December 2014								
ASSETS								
Segment assets	319,722	718,063	1,002,485	87,942	72,827	2,201,039	(11,996)	2,189,043
Interests in associates and a joint venture	–	–	–	–	324	324	–	324
	319,722	718,063	1,002,485	87,942	73,151	2,201,363	(11,996)	2,189,367
LIABILITIES								
Segment liabilities	808,673	716,585	398,264	82,496	13,873	2,019,891	(11,996)	2,007,895
Year ended 31 December 2014 (Restated)								
CONTINUING OPERATIONS								
Other information								
Capital expenditure	29	4	–	9	897	939	–	939
Depreciation	337	140	65	10	1,052	1,604	–	1,604
Amortisation of securities	–	–	285	49	–	334	–	334

47. Assets pledged as security

As at 31 December 2015, the liabilities of the Group amounting to HK$11,650 million (2014: HK$16,309 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$9,111 million (2014: HK$5,860 million) were secured by debt securities and bills related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK$22,594 million (2014: HK$22,423 million) mainly included in "Trading assets", "Investment in securities" and "Trade bills".

48. Offsetting financial instruments

The following tables present details of the Group's financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

	2015					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets HK$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m	Net amounts of financial assets presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral received HK$'m	Net amount HK$'m
Assets						
Derivative financial instruments	30,223	–	30,223	(14,915)	(945)	14,363
Reverse repurchase agreements	1,016	–	1,016	(1,016)	–	–
Other assets	11,110	(8,277)	2,833	–	–	2,833
	42,349	(8,277)	34,072	(15,931)	(945)	17,196

	2015					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities HK$'m	Gross amounts of recognised financial assets set off in the balance sheet HK$'m	Net amounts of financial liabilities presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral pledged HK$'m	Net amount HK$'m
Liabilities						
Derivative financial instruments	31,173	–	31,173	(14,915)	(8,972)	7,286
Repurchase agreements	5,557	–	5,557	(5,557)	–	–
Other liabilities	9,179	(8,277)	902	–	–	902
	45,909	(8,277)	37,632	(20,472)	(8,972)	8,188

48. Offsetting financial instruments (continued)

	2014					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial assets HK$'m	Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m	Net amounts of financial assets presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral received HK$'m	Net amount HK$'m
Assets						
Derivative financial instruments	21,769	–	21,769	(8,768)	(2,057)	10,944
Other assets	14,794	(11,586)	3,208	–	–	3,208
	36,563	(11,586)	24,977	(8,768)	(2,057)	14,152

	2014					
				Related amounts not set off in the balance sheet		
	Gross amounts of recognised financial liabilities HK$'m	Gross amounts of recognised financial assets set off in the balance sheet HK$'m	Net amounts of financial liabilities presented in the balance sheet HK$'m	Financial instruments HK$'m	Cash collateral pledged HK$'m	Net amount HK$'m
Liabilities						
Derivative financial instruments	13,668	–	13,668	(8,768)	(1,128)	3,772
Repurchase agreements	3,751	–	3,751	(3,751)	–	–
Other liabilities	11,867	(11,586)	281	–	–	281
	29,286	(11,586)	17,700	(12,519)	(1,128)	4,053

For master netting agreements of OTC derivative and sale and repurchase transactions entered into by the Group, related amounts with the same counterparty can be offset if an event of default or other predetermined events occur.

49. Transfers of financial assets

The transferred financial assets of the Group below that do not qualify for derecognition are debt securities held by counterparties as collateral under sale and repurchase agreements.

	2015		2014	
	Carrying amount of transferred assets HK$'m	**Carrying amount of associated liabilities HK$'m**	Carrying amount of transferred assets HK$'m	Carrying amount of associated liabilities HK$'m
Repurchase agreements	**5,841**	**5,557**	3,840	3,751

50. Loans to directors

Particulars of loans made to directors of the Company pursuant to section 383 of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2015 HK$'m	2014 HK$'m
Aggregate amount of relevant transactions outstanding at year end	**2,206**	2,783
Maximum aggregate amount of relevant transactions outstanding during the year	**2,857**	7,030

51. Significant related party transactions

The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation ("CIC"), its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests.

51. Significant related party transactions (continued)

(a) Transactions with the parent companies and the other companies controlled by the parent companies

General information of the parent companies:

The Group is controlled by BOC. Central Huijin is the controlling entity of BOC, and it is a wholly-owned subsidiary of CIC which is a wholly state-owned company engaging in foreign currency investment management.

Central Huijin has controlling equity interests in certain other entities in the PRC.

The Group enters into banking and other transactions with these entities in the normal course of business which include loans, investment securities, money market and reinsurance transactions.

The majority of transactions with BOC arise from money market activities. As at 31 December 2015, the related aggregate amounts due from and to BOC of the Group were HK$102,324 million (2014: HK$157,501 million) and HK$55,448 million (2014: HK$61,844 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the year ended 31 December 2015 were HK$3,303 million (2014: HK$5,564 million) and HK$474 million (2014: HK$400 million) respectively. The related party transactions above constitute connected transactions as defined in Chapter 14A of the Listing Rules but under exemption from its disclosure requirement. Transactions with other companies controlled by BOC are not considered material.

(b) Transactions with government authorities, agencies, affiliates and other state controlled entities

The Group is subject to the control of the State Council of the PRC Government through CIC and Central Huijin, which also directly or indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities. The Group enters into banking transactions with government authorities, agencies, affiliates and other state controlled entities in the normal course of business at commercial terms.

These transactions include, but are not limited to, the following:

- lending, provision of credits and guarantees, and deposit taking;
- inter-bank balance taking and placing;
- sales, purchases, underwriting and redemption of bonds issued by other state controlled entities;
- rendering of foreign exchange, remittance and investment related services;
- provision of fiduciary activities; and
- purchase of utilities, transport, telecommunication and postage services.

51. Significant related party transactions (continued)

(c) Summary of transactions entered into during the ordinary course of business with associates, a joint venture and other related parties

The aggregate income/expenses and balances arising from related party transactions with associates, a joint venture and other related parties of the Group are summarised as follows:

	2015 HK$'m	2014 HK$'m
Associates		
Income statement item		
– Other operating expenses	65	57
Joint venture		
Income statement item		
– Other operating expenses	1	2
Balance sheet item		
– Deposits from customers	–	1
Other related parties		
Income statement item		
– Administrative services fees received/receivable	9	9

The related party transactions in respect of the other operating expenses arising from associates above constitute connected transactions as defined in Chapter 14A of the Listing Rules and the required disclosures are provided in "Connected transactions" on pages 296 to 297.

(d) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, senior management and company secretary. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior years, no material transaction was conducted with key management personnel of the Company and its holding companies, as well as parties related to them.

The compensation of key management personnel for the year ended 31 December is detailed as follows:

	2015 HK$'m	2014 HK$'m
Salaries and other short-term employee benefits	47	61
Post-employment benefits	1	1
	48	62

52. International claims

The below analysis is prepared with reference to the completion instructions for the HKMA return of international banking statistics. International claims are exposures to counterparties on which the ultimate risk lies based on the locations of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. For a claim guaranteed by a party situated in a country different from the counterparty, the risk will be transferred to the country of the guarantor. For a claim on an overseas branch of a bank whose head office is located in another country, the risk will be transferred to the country where its head office is located.

Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate international claims of the Group are shown as follows:

	2015				
			Non-bank private sector		
	Banks HK$'m	Official sector HK$'m	Non-bank financial institutions HK$'m	Non-financial private sector HK$'m	Total HK$'m
Mainland of China	**329,425**	**110,765**	**8,795**	**157,064**	**606,049**
Hong Kong	**7,916**	**25**	**10,379**	**286,594**	**304,914**

	(Restated) 2014				
			Non-bank private sector		
	Banks HK$'m	Official sector HK$'m	Non-bank financial institutions HK$'m	Non-financial private sector HK$'m	Total HK$'m
Mainland of China	431,908	97,111	7,121	175,610	711,750
Hong Kong	4,243	2,318	6,605	222,116	235,282

The comparative amounts have been restated to conform with the current year's presentation.

53. Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the types of direct exposures with reference to the completion instructions for the HKMA return of Mainland activities, which includes the Mainland exposures extended by BOCHK and its banking subsidiaries.

		2015		
	Items in the HKMA return	**On-balance sheet exposure HK$'m**	**Off-balance sheet exposure HK$'m**	**Total exposure HK$'m**
Central government, central government-owned entities and their subsidiaries and joint ventures	1	**269,836**	**26,994**	**296,830**
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	**84,329**	**15,508**	**99,837**
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	**85,364**	**37,350**	**122,714**
Other entities of central government not reported in item 1 above	4	**16,899**	**157**	**17,056**
Other entities of local governments not reported in item 2 above	5	**83**	**–**	**83**
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	**59,033**	**15,253**	**74,286**
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	**7,272**	**–**	**7,272**
Total	8	**522,816**	**95,262**	**618,078**
Total assets after provision	9	**2,282,058**		
On-balance sheet exposures as percentage of total assets	10	**22.91%**		

53. Non-bank Mainland exposures (continued)

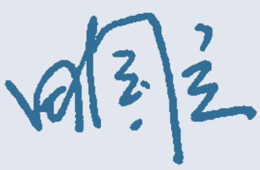
		2014		
	Items in the HKMA return	On-balance sheet exposure HK$'m	Off-balance sheet exposure HK$'m	Total exposure HK$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	271,241	32,428	303,669
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	68,812	11,438	80,250
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	86,029	36,298	122,327
Other entities of central government not reported in item 1 above	4	3,306	1,894	5,200
Other entities of local governments not reported in item 2 above	5	39	–	39
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	55,345	10,193	65,538
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	6,857	6	6,863
Total	8	491,629	92,257	583,886
Total assets after provision	9	2,121,908		
On-balance sheet exposures as percentage of total assets	10	23.17%		

54. Balance sheet and statement of changes in equity

(a) Balance sheet

As at 31 December	2015 HK$'m	2014 HK$'m
ASSETS		
Bank balances with a subsidiary	**149**	97
Investment in securities	**2,459**	2,664
Investment in subsidiaries	**55,089**	54,834
Amounts due from a subsidiary	**3,616**	3,185
Other assets	**1**	1
Total assets	**61,314**	60,781
LIABILITIES		
Amounts due to a subsidiary	**2**	2
Total liabilities	**2**	2
EQUITY		
Share capital	**52,864**	52,864
Reserves	**8,448**	7,915
Total equity	**61,312**	60,779
Total liabilities and equity	**61,314**	60,781

Approved by the Board of Directors on 30 March 2016 and signed on behalf of the Board by:



TIAN Guoli
Director

YUE Yi
Director

54. Balance sheet and statement of changes in equity (continued)

(b) Statement of changes in equity

		Reserves		
	Share capital HK$'m	Reserve for fair value changes of available-for-sale securities HK$'m	Retained earnings HK$'m	Total equity HK$'m
At 1 January 2014	52,864	1,545	11,058	65,467
Profit for the year	–	–	6,128	6,128
Other comprehensive income:				
Available-for-sale securities	–	(137)	–	(137)
Total comprehensive income	–	(137)	6,128	5,991
Dividends	–	–	(10,679)	(10,679)
At 31 December 2014	52,864	1,408	6,507	60,779
At 1 January 2015	**52,864**	**1,408**	**6,507**	**60,779**
Profit for the year	**–**	**–**	**12,580**	**12,580**
Other comprehensive income:				
Available-for-sale securities	**–**	**(205)**	**–**	**(205)**
Total comprehensive income	**–**	**(205)**	**12,580**	**12,375**
Dividends	**–**	**–**	**(11,842)**	**(11,842)**
At 31 December 2015	**52,864**	**1,203**	**7,245**	**61,312**

55. Principal subsidiaries

The particulars of all direct and indirect subsidiaries of the Company are set out in "Appendix – Subsidiaries of the Company". The following is a list of principal subsidiaries as at 31 December 2015:

Name	Place of incorporation and operation	Issued share capital/ registered capital	Interest held	Principal activities
Bank of China (Hong Kong) Limited	Hong Kong	Ordinary shares HK$43,042,840,858	*100%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong	Ordinary shares HK$3,538,000,000	*51%	Life insurance business
Nanyang Commercial Bank, Limited	Hong Kong	Ordinary shares HK$3,144,517,396	100%	Banking business
Chiyu Banking Corporation Limited	Hong Kong	Ordinary shares HK$300,000,000	70.49%	Banking business
BOC Credit Card (International) Limited	Hong Kong	Ordinary shares HK$480,000,000	100%	Credit card services
Po Sang Futures Limited	Hong Kong	Ordinary shares HK$335,000,000	100%	Securities and futures brokerage
Nanyang Commercial Bank (China), Limited#	PRC	Registered capital RMB6,500,000,000	100%	Banking business

* Shares held directly by the Company

Nanyang Commercial Bank (China), Limited is registered as a wholly-foreign-owned enterprise under PRC law

The particulars of a subsidiary with significant non-controlling interests are as follows:

BOC Group Life Assurance Company Limited

	2015	2014
Proportion of ownership interests and voting rights held by non-controlling interests	49%	49%

	2015 HK$'m	2014 HK$'m
Profit attributable to non-controlling interests	406	220
Accumulated non-controlling interests	3,278	2,668
Summarised financial information:		
– total assets	98,282	87,942
– total liabilities	91,593	82,496
– profit for the year	829	450
– total comprehensive income for the year	743	1,041

56. Ultimate holding company

The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation, its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests.

57. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2016.

Unaudited Supplementary Financial Information

1. Regulatory capital for credit, market and operational risks

The bases of regulatory capital calculation for credit risk, market risk and operational risk are described in Note 4.5 to the Financial Statements.

Sections 1 to 9 of the supplementary financial information have been prepared on a consolidated basis for regulatory purposes. The basis of regulatory consolidation is set out in Note 4.5(A) to the Financial Statements.

The table below summarises the regulatory capital computed on the same consolidation basis for credit, market, and operational risks.

	2015 HK$'m	2014 HK$'m
Credit risk	**69,906**	66,708
Market risk	**1,683**	1,546
Operational risk	**6,170**	5,664
	77,759	73,918

For details of capital management and capital ratios of the Group, please refer to Note 4.5 to the Financial Statements.

2. Capital requirements for credit risk

The tables below show the capital requirements for each class and subclass of credit risk exposures as specified in the Banking (Capital) Rules.

	2015 HK$'m	2014 HK$'m
Capital required for exposures under the IRB approach		
Corporate		
Specialised lending under supervisory slotting criteria approach		
– Project finance	**62**	120
Small-and-medium sized corporates	**4,355**	4,080
Other corporates	**35,414**	31,703
Bank		
Banks	**14,150**	17,873
Securities firms	**49**	37
Retail		
Residential mortgages		
– Individuals	**2,586**	1,617
– Property-holding shell companies	**90**	59
Qualifying revolving retail	**1,041**	974
Other retail to individuals	**668**	645
Small business retail	**73**	86
Others		
Cash items	**–**	–
Other items	**6,640**	6,354
Securitisation	**3**	5
Credit valuation adjustment	**597**	407
Total capital requirements for exposures under the IRB approach	**65,728**	63,960
Capital required for exposures under the standardised (credit risk) approach		
On-balance sheet exposures		
Sovereigns	**1,302**	34
Public sector entities	**97**	63
Banks	**9**	117
Corporates	**934**	903
Regulatory retail	**674**	607
Residential mortgage loans	**487**	448
Other exposures which are not past due	**322**	308
Past due exposures	**11**	10
Off-balance sheet exposures		
Off-balance sheet exposures other than securities financing transactions and derivative contracts	**310**	232
Securities financing transactions and derivative contracts	**32**	26
Securitisation	**–**	–
Total capital requirements for exposures under the standardised (credit risk) approach	**4,178**	2,748
Total capital requirements for credit risk exposures	**69,906**	66,708

3. Credit risk under the internal ratings-based approach

3.1 The internal rating systems and risk components

The Group adopts the FIRB approach to calculate the regulatory capital requirements for most of the corporate and bank exposures, and adopts the supervisory slotting criteria approach to project finance exposures under specialised lending. The Group adopts retail IRB approach for retail exposures to individuals and small business. The following is the table showing the Group's different capital calculation approaches to each asset class and sub-classes of exposures (other than securitisation exposures).

Asset class	Exposure sub-class	Capital calculation approach
Corporate exposures	Specialised lending under supervisory slotting criteria approach (project finance)	Supervisory Slotting Criteria Approach
	Small-and-medium sized corporates	FIRB Approach
	Other corporates	
Sovereign exposures	Sovereigns	Standardised (credit risk) Approach
	Sovereign foreign public sector entities	
	Multilateral development banks	
Bank exposures	Banks	FIRB Approach
	Securities firms	
	Public sector entities (excluding sovereign foreign public sector entities)	Standardised (credit risk) Approach
Retail exposures	Residential mortgages to individuals	Retail IRB Approach
	Residential mortgages to property-holding shell companies	
	Qualifying revolving retail	
	Other retail to individuals	
	Small business retail	
Equity exposures	–	Standardised (credit risk) Approach
Other exposures	Cash items	Specific Risk-weight Approach
	Other items	

3. Credit risk under the internal ratings-based approach (continued)

3.1 The internal rating systems and risk components (continued)

(A) The structure of internal rating systems and the relationship between internal ratings and external ratings

The Group's internal rating system is a two dimensional rating system that provides separate assessment of borrower and transaction characteristics. For corporate and bank portfolios, the obligor rating dimension reflects exclusively the risk of borrower default and the facility rating dimension reflects transaction specific factors that affect the loss severity in the case of borrower default.

The Group developed statistical models to provide own estimated probability of default ("PD") for its corporate, bank and retail borrowers, and loss given default ("LGD") and exposure at default ("EAD") for retail exposures under retail IRB approach.

The Group uses internal rating system to assess the borrower's likelihood of default for all IRB portfolios. PD estimates the risk of borrower default over a one-year period. A borrower credit grade means a grouping of similar credit-worthiness to which borrowers are assigned on the basis of specified and distinct set of rating criteria, from which the average PD are derived for risk-weighted assets calculation.

In the process of obligor rating assignment, variables of latest financial performance, management quality, industry risks, group connection and negative warning signals of each obligor are assessed as critical factors to predict borrower's ability and willingness to meet with the contractual obligations under different economic conditions.

The obligors for corporate and bank, and retail PD pools are assigned into eight broad obligor ratings including seven grades for non-defaulted obligors with sub-divisions into 26 minor credit grades and one for defaulted obligors. In the supervisory slotting criteria approach for the project finance exposures, there are four grades for non-defaulted borrowers and one for defaulted borrowers in accordance with the HKMA guidance. The estimates for retail IRB portfolios are pooled by nature of obligors, facility types, collateral types and delinquency status into different PD, EAD and LGD pools. This pooling process provides the basis of accurate and consistent estimation for PD, LGD and EAD at the pool level for exposures arising from residential mortgages to both individuals and property-holding shell companies, qualifying revolving retail exposures and other retail exposures to individuals and small business retail exposures. All credit transactions for corporates and banks are assigned facility ratings (in terms of LGD) in accordance with the HKMA guidance. LGD estimates multiplied by the PD estimates produce the expected loss ("EL") estimates, which are used to assess credit risk quantitatively.

3. Credit risk under the internal ratings-based approach (continued)

3.1 The internal rating systems and risk components (continued)

(A) The structure of internal rating systems and the relationship between internal ratings and external ratings (continued)

For each internal rating, the equivalent external rating in terms of default risk is as below:

Internal Credit Grades	Definition of Internal Ratings	Standard & Poor's Equivalent
1	The obligors in grades "1" and "2" have extremely low default risk.	AAA
2	The obligor's capacity to meet its financial commitment on the obligation is extremely strong.	AA+ AA AA-
3	The obligors in grade "3" have low default risk but are somewhat susceptible to the adverse effects of changes in circumstances and economic conditions. However, the obligor's capacity to meet its financial commitment on the obligation is very strong.	A+ A A-
4	The obligors in grade "4" have relatively low default risk and are currently under adequate protection. However, adverse economic conditions or changing circumstances are likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.	BBB+ BBB BBB-
5	The obligors in grade "5" have medium default risk which are less vulnerable to nonpayment than other speculative obligors. However, they face major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.	BB+ BB BB-
6	The obligors in grade "6" have significant to very high default risk and are vulnerable to nonpayment. The obligors currently and in the near term have the capacity to meet its financial commitment on the obligation but adverse business, financial, or economic conditions will very likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.	B+ B B-
7	The obligors in grade "7" have very high default risk and are currently quite vulnerable to nonpayment. The obligors' ability to meet their financial commitment and obligation are dependent upon favorable business, financial, and economic conditions. In the event of adverse business, financial, or economic conditions, these obligors are not likely to have the capacity to meet its financial commitment on the obligation.	CCC CC C
8	Obligors rated "8" are in payment default.	D

3. Credit risk under the internal ratings-based approach (continued)

3.1 The internal rating systems and risk components (continued)

(B) Use of internal estimates

Besides using PD estimates for regulatory capital calculation in corporate and bank exposures, the Group uses the PD together with the LGD and EAD estimates in the credit approval, credit monitoring, reporting and analysis of credit risk information, etc., for the purpose of strengthening the daily management on all credit related matters.

(C) Process of managing and recognising credit risk mitigation

For collateral recognised under capital management, the Group has well-defined policies and procedures for collateral valuation and management which are compliant with the operational requirements for recognised collateral of credit risk mitigation as stated in the Banking (Capital) Rules.

For the credit exposures adopting FIRB approach for capital calculation purpose, the recognised eligible guarantees include the guarantees provided by banks, corporates and securities firms with a lower risk weights than the counterparty. The Group takes into account the credit risk mitigation effect of recognised collateral through its determination of the net credit exposures and the effective LGD.

For retail IRB approach, the effect of the credit risk mitigation is incorporated into the internal risk parameters of PD or LGD depending on the nature of the guarantees and collateral for calculating the risk exposures.

The credit and market risk concentrations within the credit risk mitigation (recognised collateral and guarantees for capital calculation) used by the Group are under a low level.

Up to the date of report, for capital calculation, except OTC derivative transactions cleared by central counterparties and derivatives subject to valid bilateral netting agreements, the Group has not used any other on-balance sheet or off-balance sheet recognised netting for credit risk mitigation. The Group also has not used any recognised credit derivative contracts for credit risk mitigation.

(D) The control mechanisms used for internal rating systems

The Group has established a comprehensive control mechanism to ensure the integrity, accuracy and consistency of the rating systems including the processes for using the risk components in the day-to-day business to assess credit risk.

All of IRB risk models are approved by the RC of the Board on the recommendation of the Asset and Liability Management Committee (“ALCO”). The Management Committee supervises the use of these internal rating models for risk identification and assessments in the Group’s credit decisions.

3. Credit risk under the internal ratings-based approach (continued)

3.1 The internal rating systems and risk components (continued)

(D) The control mechanisms used for internal rating systems (continued)

In order to achieve reasonably accurate risk ratings assignment, the Group has established a rating approval process which is independent from the sales and marketing units. Since internal rating is one of the key inputs to credit decision making, a control mechanism is put in place to ensure the integrity, accuracy and consistency of the rating assignment. For the wholesale (corporate and bank) credit portfolio, internal ratings are normally approved by credit officers who are functionally separated from the sales and marketing units. In some cases where the transactions are in small amount and of low credit risk, the credit ratings can be assigned and approved by the sales and marketing units, subject to the periodic post-approval review of ratings by RMD and other credit monitoring units.

The rating assignment and risk quantification process of retail portfolio are highly automated. As an integral part of the daily credit assessment process, the accuracy and completeness of data input for automatic rating assignment are verified by units independent from business development function.

The obligor rating is reviewed at least annually as required by the Group's credit risk policy. When credit events occur to the obligor, rating review is triggered promptly in accordance with the Group's credit risk policy.

Rating override is designed to allow credit analyst to include any other relevant credit information that has not yet been captured by rating models. For reasons of conservatism and prudential considerations, overrides are unlimited in terms of downgrades but more restricted for upgrades. All upgrades will be limited to a maximum of two sub-grades supported by a very narrowly pre-defined list of appropriate reasons. All overrides need to be signed off by a higher level of credit approval authority. The internal rating policy sets a trigger point of 10% overrides on rating cases. The use of overrides and override reasons are analysed as part of performance review on IRB rating models.

The performance of internal rating system is put under ongoing periodic monitoring. The senior management periodically reviews the performance and predictive ability of the internal rating system. The effectiveness of the internal rating system and processes are reviewed by independent control functions. The model maintenance unit conducts assessment on the discriminatory power, accuracy and stability of the rating systems while the validation unit performs comprehensive review of the internal rating system. Internal audit reviews the internal rating system and the operations of the related credit risk control units. The results of the review are reported to the Board and senior management regularly.

A model validation team which is independent from the model development unit and rating assignment units, conducts periodic model validations using both qualitative and quantitative analysis. Model acceptance standards are established to ensure the discriminatory power, accuracy and stability of the rating systems meet regulatory and management requirements. Review of a rating model will be triggered if the performance of the model deteriorates materially against pre-determined tolerance limit.

(E) Approach for determining provisions

The approach in determining provisions is in line with the Group's accounting policies. For details, please refer to Note 2.14 "Impairment of financial assets" to the Financial Statements.

3. Credit risk under the internal ratings-based approach (continued)

3.2 Exposures by IRB calculation approach

The tables below show the Group's exposures other than securitisation exposures (including the EAD of on-balance sheet exposures and off-balance sheet exposures) by each IRB calculation approach.

	2015				
	FIRB Approach HK$'m	Supervisory Slotting Criteria Approach HK$'m	Retail IRB Approach HK$'m	Specific Risk-weight Approach HK$'m	Total exposures HK$'m
Corporate	**891,708**	**971**	**–**	**–**	**892,679**
Bank	**566,726**	**–**	**–**	**–**	**566,726**
Retail					
Residential mortgages to individuals and property-holding shell companies	**–**	**–**	**239,873**	**–**	**239,873**
Qualifying revolving retail	**–**	**–**	**71,276**	**–**	**71,276**
Other retail to individuals	**–**	**–**	**39,747**	**–**	**39,747**
Small business retail	**–**	**–**	**8,483**	**–**	**8,483**
Others	**–**	**–**	**–**	**203,613**	**203,613**
	1,458,434	**971**	**359,379**	**203,613**	**2,022,397**

	2014				
	FIRB Approach HK$'m	Supervisory Slotting Criteria Approach HK$'m	Retail IRB Approach HK$'m	Specific Risk-weight Approach HK$'m	Total exposures HK$'m
Corporate	800,429	1,544	–	–	801,973
Bank	627,768	–	–	–	627,768
Retail					
Residential mortgages to individuals and property-holding shell companies	–	–	223,642	–	223,642
Qualifying revolving retail	–	–	63,730	–	63,730
Other retail to individuals	–	–	34,470	–	34,470
Small business retail	–	–	8,943	–	8,943
Others	–	–	–	188,596	188,596
	1,428,197	1,544	330,785	188,596	1,949,122

3. Credit risk under the internal ratings-based approach (continued)

3.3 Exposures subject to supervisory estimates under the IRB approach

The table below shows the total EAD of the Group's exposures subject to supervisory estimates under the use of IRB approach (including the specialised lending subject to the supervisory slotting criteria approach).

	2015 HK$'m	2014 HK$'m
Corporate	**892,679**	801,973
Bank	**566,726**	627,768
Others	**203,613**	188,596
	1,663,018	1,618,337

3.4 Exposures covered by credit risk mitigation used

(A) Exposures covered by recognised collateral

The table below shows the Group's exposures under the use of FIRB approach (after the effect of any on-balance sheet or off-balance sheet recognised netting) which are covered by recognised collateral after the application of haircuts required under the Banking (Capital) Rules. These exposures exclude securities financing transactions and derivative contracts.

	2015 HK$'m	2014 HK$'m
Corporate	**118,423**	121,573
Bank	**1,465**	767
	119,888	122,340

(B) Exposures covered by recognised guarantees

The table below shows the Group's exposures (after the effect of any on-balance sheet or off-balance sheet recognised netting) which are covered by recognised guarantees after the application of haircuts required under the Banking (Capital) Rules. These exposures exclude securities financing transactions and derivative contracts.

	2015 HK$'m	2014 HK$'m
Corporate	**235,563**	208,630
Bank	**32,615**	31,102
	268,178	239,732

3. Credit risk under the internal ratings-based approach (continued)

3.5 Risk assessment for corporate and bank exposures under IRB approach

The tables below detail the Group's total EAD of corporate and bank exposures by exposure-weighted average risk-weight and exposure-weighted average PD for each obligor grade as at 31 December.

The EAD and PD disclosed below in respect of corporate and bank exposures have taken into account the effect of recognised collateral, recognised netting and recognised guarantees. The Group did not have any recognised credit derivative contracts.

For definition of each obligor grade, please refer to page 275.

(A) Corporate exposures (other than specialised lending under supervisory slotting criteria approach)

	2015		
Internal Credit Grades	**Exposure at default HK$'m**	**Exposure-weighted average risk-weight %**	**Exposure-weighted average PD %**
Grade 1	**–**	**–**	**–**
Grade 2	**28,624**	**18.25**	**0.03**
Grade 3	**220,625**	**25.68**	**0.07**
Grade 4	**337,047**	**43.91**	**0.23**
Grade 5	**249,264**	**79.84**	**1.04**
Grade 6	**53,576**	**107.35**	**5.12**
Grade 7	**331**	**200.23**	**29.65**
Grade 8/Default	**2,241**	**81.96**	**100.00**
	891,708		

	2014		
Internal Credit Grades	Exposure at default HK$'m	Exposure-weighted average risk-weight %	Exposure-weighted average PD %
Grade 1	–	–	–
Grade 2	26,578	20.37	0.04
Grade 3	219,636	25.95	0.07
Grade 4	280,591	44.02	0.23
Grade 5	207,055	78.06	1.07
Grade 6	60,994	113.16	4.40
Grade 7	3,443	73.00	22.47
Grade 8/Default	2,132	132.96	100.00
	800,429		

3. Credit risk under the internal ratings-based approach (continued)

3.5 Risk assessment for corporate and bank exposures under IRB approach (continued)

(B) Corporate exposures (specialised lending under supervisory slotting criteria approach)

Supervisory Rating Grades	2015 Exposure at default HK$'m	2015 Exposure-weighted average risk-weight %	2014 Exposure at default HK$'m	2014 Exposure-weighted average risk-weight %
Strong	**444**	**60.96**	506	60.17
Good	**527**	**88.30**	312	86.96
Satisfactory	**–**	**–**	726	115.00
Weak	**–**	**–**	–	–
Default	**–**	**–**	–	–
	971		1,544	

The supervisory rating grades and risk-weights of specialised lending are determined in accordance with section 158 of the Banking (Capital) Rules.

(C) Bank exposures

Internal Credit Grades	2015 Exposure at default HK$'m	2015 Exposure-weighted average risk-weight %	2015 Exposure-weighted average PD %
Grade 1	**–**	**–**	**–**
Grade 2	**106,191**	**20.77**	**0.04**
Grade 3	**390,155**	**27.74**	**0.05**
Grade 4	**65,903**	**51.66**	**0.20**
Grade 5	**4,392**	**68.50**	**0.78**
Grade 6	**85**	**140.91**	**5.66**
Grade 7	**–**	**–**	**–**
Grade 8/Default	**–**	**–**	**–**
	566,726		

3. Credit risk under the internal ratings-based approach (continued)

3.5 Risk assessment for corporate and bank exposures under IRB approach (continued)

(C) Bank exposures (continued)

Internal Credit Grades	2014 Exposure at default HK$'m	2014 Exposure-weighted average risk-weight %	2014 Exposure-weighted average PD %
Grade 1	–	–	–
Grade 2	76,217	21.62	0.04
Grade 3	439,499	29.52	0.06
Grade 4	105,085	57.12	0.22
Grade 5	6,908	70.52	0.74
Grade 6	59	133.77	5.84
Grade 7	–	–	–
Grade 8/Default	–	–	–
	627,768		

3.6 Risk assessment for retail exposures under IRB approach

The tables below show breakdown of retail exposures on a pool basis by expected loss percentage (EL%) range as at 31 December.

Residential mortgages

	2015 HK$'m	2014 HK$'m
Up to 1%	**238,766**	222,319
>1%	**1,025**	1,218
Default	**82**	105
	239,873	223,642

Qualifying revolving retail

	2015 HK$'m	2014 HK$'m
Up to 10%	**70,627**	63,055
>10%	**607**	644
Default	**42**	31
	71,276	63,730

3. Credit risk under the internal ratings-based approach (continued)

3.6 Risk assessment for retail exposures under IRB approach (continued)

Other retail to individuals

	2015 HK$'m	2014 HK$'m
Up to 2%	**39,188**	34,055
>2%	**466**	323
Default	**93**	92
	39,747	34,470

Small business retail

	2015 HK$'m	2014 HK$'m
Up to 1%	**8,225**	8,591
>1%	**191**	290
Default	**67**	62
	8,483	8,943

3.7 Analysis of actual loss and estimates

The table below shows the actual losses broken down by class of risk exposure, which represent the net charges (including write-offs and individually assessed impairment allowances) made by each class of exposures under the internal ratings-based approach for the year.

	2015 HK$'m	2014 HK$'m
Corporate	**1,340**	723
Bank	**–**	–
Residential mortgages to individuals and property-holding shell companies	**–**	1
Qualifying revolving retail	**186**	177
Other retail to individuals	**16**	7
Small business retail	**26**	19
	1,568	927

Increase in the loan impairment charge of corporate exposures was mainly due to the downgrade of few corporate loans in 2015.

3. Credit risk under the internal ratings-based approach (continued)

3.7 Analysis of actual loss and estimates (continued)

The table below shows the expected loss broken down by class of risk exposure, which is the estimated loss likely to be incurred arising from the potential default of the obligors in respect of the exposure over a one-year period.

	Expected loss at 31 December 2014 HK$'m	Expected loss at 31 December 2013 HK$'m
Corporate	**3,322**	4,121
Bank	**256**	226
Residential mortgages to individuals and property-holding shell companies	**132**	110
Qualifying revolving retail	**376**	334
Other retail to individuals	**100**	96
Small business retail	**50**	46
	4,236	4,933

The tables below set out the actual default rate compared against the estimated PD of the respective portfolio.

	Actual default rate during 2015 %	**Estimated PD at 31 December 2014 %**
Corporate	**0.73**	**1.75**
Bank	**–**	**0.44**
Residential mortgages to individuals and property-holding shell companies	**0.05**	**0.65**
Qualifying revolving retail	**0.17**	**0.55**
Other retail to individuals	**0.56**	**1.50**
Small business retail	**0.64**	**1.24**

	Actual default rate during 2014 %	Estimated PD at 31 December 2013 %
Corporate	0.56	1.82
Bank	–	0.45
Residential mortgages to individuals and property-holding shell companies	0.05	0.60
Qualifying revolving retail	0.17	0.54
Other retail to individuals	0.51	1.53
Small business retail	0.53	1.23

3. Credit risk under the internal ratings-based approach (continued)

3.7 Analysis of actual loss and estimates (continued)

It should be noted that expected loss and actual loss are measured and calculated using different methodologies compliant with relevant regulatory and accounting standards, which therefore may not be directly comparable. The limitation arises mainly from the fundamental differences in the definition of "loss". The expected loss under Basel Accord which estimates the economic loss arising from the potential default of the obligor by taking into account the time value of money and including the direct and indirect costs associated with the recoveries on the credit exposures during the workout process, while actual loss is the net charge of individually assessed impairment allowances and write-offs made during the year in accordance with the accounting standards.

The actual default rate is measured by using the number of obligors (for wholesale exposures) or number of accounts (for retail exposures) defaulted whereas the estimated PD is an estimate of the long run average default rate over an economic cycle and is the estimated one-year forward-looking PD from the date of rating assignment.

Hence, actual default rate in a particular year ("point-in-time") will typically differ from the estimated PD which is the "through-the-cycle" estimates as economies move above or below the cyclical norms.

The estimated PD is more conservative than the actual default rate for all asset classes.

4. Credit risk under the standardised (credit risk) approach

4.1 Use of ratings from External Credit Assessment Institutions ("ECAI")

The Group adopts STC approach based on external credit rating to determine the risk weight of the small residual credit exposures that was approved by the HKMA to be exempted from FIRB approach and the following asset classes of exposures:

– Sovereign

– Public sector entity

– Multilateral development bank

The Group performs the ECAI issuer ratings mapping to its exposures in banking book in accordance with Part 4 of the Banking (Capital) Rules. The ECAIs recognised by the Group include Standard & Poor's, Moody's and Fitch.

4.2 Credit risk mitigation

For credit exposures adopting STC approach, the main types of recognised collateral include cash deposits, debt securities and equities for non-past due exposures. In addition, real estate collateral is also recognised for past due exposures. The treatment of recognised collateral is compliant with the comprehensive approach for credit risk mitigation as mentioned in the Banking (Capital) Rules. For credit exposures under STC approach, the recognised guarantees for capital calculation include the guarantees given by sovereigns, public sector entities, multilateral development banks, or banks and corporates with ECAI issuer ratings both exempted from FIRB approach for credit exposures, that have lower risk weights than the counterparty. Besides, the recognised netting for credit risk mitigation includes derivatives subject to valid bilateral netting agreements.

4. Credit risk under the standardised (credit risk) approach (continued)

4.3 Credit risk exposures other than securitisation exposures under the standardised (credit risk) approach

	2015						
		Exposures after CRM*		Risk-weighted amount			
	Total exposures HK$'m	Rated HK$'m	Unrated HK$'m	Rated HK$'m	Unrated HK$'m	Total exposures covered by recognised collateral HK$'m	Total exposures covered by recognised guarantees HK$'m
On-balance sheet exposures							
Sovereigns	301,750	301,991	–	16,274	–	–	–
Public sector entities	25,571	25,662	–	1,212	–	–	240
Multilateral development banks	35,333	35,333	–	–	–	–	–
Banks	553	551	2	111	–	–	–
Corporates	14,167	2,471	9,502	2,176	9,502	2,193	–
Regulatory retail	11,722	–	11,240	–	8,430	482	–
Residential mortgage loans	12,500	–	12,169	–	6,085	–	331
Other exposures which are not past due	5,195	–	2,543	–	4,019	2,652	–
Past due exposures	102	–	102	–	135	34	–
Total on-balance sheet exposures	406,893	366,008	35,558	19,773	28,171	5,361	571
Off-balance sheet exposures							
Off-balance sheet exposures other than securities financing transactions and derivative contracts	6,455	3,008	3,447	517	3,361	–	702
Securities financing transactions and derivative contracts	532	104	428	18	388	1	–
Total off-balance sheet exposures	6,987	3,112	3,875	535	3,749	1	702
Total non-securitisation exposures	413,880	369,120	39,433	20,308	31,920	5,362	1,273
Exposures that are risk-weighted at 1,250%	–						

4. Credit risk under the standardised (credit risk) approach (continued)

4.3 Credit risk exposures other than securitisation exposures under the standardised (credit risk) approach (continued)

	2014						
		Exposures after CRM*		Risk-weighted amount			
	Total exposures HK$'m	Rated HK$'m	Unrated HK$'m	Rated HK$'m	Unrated HK$'m	Total exposures covered by recognised collateral HK$'m	Total exposures covered by recognised guarantees HK$'m
On-balance sheet exposures							
Sovereigns	175,401	175,594	–	427	–	–	–
Public sector entities	23,255	23,262	–	790	–	–	193
Multilateral development banks	19,026	19,026	–	–	–	–	–
Banks	6,732	532	6,200	107	1,352	–	–
Securities firms	1	–	1	–	–	–	–
Corporates	16,508	317	11,131	159	11,131	5,059	1
Regulatory retail	10,388	–	10,113	–	7,586	275	–
Residential mortgage loans	11,404	–	11,205	–	5,602	–	199
Other exposures which are not past due	8,037	–	3,009	–	3,849	5,028	–
Past due exposures	87	–	87	–	123	13	–
Total on-balance sheet exposures	270,839	218,731	41,746	1,483	29,643	10,375	393
Off-balance sheet exposures							
Off-balance sheet exposures other than securities financing transactions and derivative contracts	4,250	1,515	2,735	219	2,679	–	460
Securities financing transactions and derivative contracts	399	26	373	2	324	11	–
Total off-balance sheet exposures	4,649	1,541	3,108	221	3,003	11	460
Total non-securitisation exposures	275,488	220,272	44,854	1,704	32,646	10,386	853
Exposures that are risk-weighted at 1,250%	–						

* Recognised credit risk mitigation satisfying the requirements and conditions set out in the Banking (Capital) Rules.

5. Counterparty credit risk-related exposures

The Group's counterparty credit risk arising from derivative contracts and securities financing transactions both in trading and banking book is subject to the same risk management framework as mentioned in Note 4 to the Financial Statements. The Group establishes credit limit through formal credit approval procedures to control the pre-settlement credit risk arising from derivative transactions and settlement limit to control the settlement risk arising from foreign exchange-related transactions for counterparties in both the trading book and banking book. The Group monitors the risk exposure due to fluctuations in the market by using the current exposure and the potential exposure value of the transactions. Exceptions or excesses are timely and closely identified and monitored by RMD.

Credit equivalent amount and capital charge for the relevant counterparty credit exposures are determined following the regulatory capital requirements. Currently, the Group has adopted the Current Exposure Method to measure the relevant credit equivalent amount, which comprises current exposures and potential future exposures. The relevant counterparty default risk capital charge is calculated under the FIRB/STC approach. In addition, the Group has adopted standardised credit valuation adjustment ("CVA") method to calculate the relevant counterparty CVA capital charge.

The Group establishes prudent eligibility criteria and haircut policy of debt securities being pledged as collateral for securities financing transactions.

The Group formulates policy for classification of credit assets according to the PD of counterparties and the period of overdue. If there is objective evidence that an impairment loss has been incurred, impairment allowance will be provided according to HKFRS and regulatory requirements.

In controlling and monitoring of wrong-way risk (risk of existence of positive correlation between the PD of a counterparty and credit exposures driven by mark-to-market value of the underlying transactions), specific wrong-way risk transactions are generally not allowed and monitoring measures have been formulated for those counterparties identified by stress testing that would be exposed to potential general wrong-way risk.

5. Counterparty credit risk-related exposures (continued)

5.1 Counterparty credit risk exposures under the internal ratings-based approach

The following table summarises the Group's exposures to counterparty credit risk arising from securities financing transactions and derivative contracts calculated using the Current Exposure Method. There is no effect of valid cross-product netting agreements on these exposures.

	2015		2014	
	Securities financing transactions HK$'m	**Derivative contracts HK$'m**	Securities financing transactions HK$'m	Derivative contracts HK$'m
Gross total positive fair value		**29,657**		19,433
Default risk exposures after the effect of valid bilateral netting agreements	**12,808**	**46,036**	6,604	29,482
Less: Value of recognised collateral				
– Debt securities	**(489)**	**–**	–	–
– Others	**(9,104)**	**(1,308)**	(5,813)	(2,167)
Default risk exposures after the effect of valid bilateral netting agreements net of recognised collateral	**3,215**	**44,728**	791	27,315
Default risk exposures by counterparty type				
Corporate	**518**	**2,266**	–	1,306
Bank	**12,290**	**43,770**	6,604	28,176
	12,808	**46,036**	6,604	29,482
Risk-weighted amounts by counterparty type				
Corporate	**50**	**1,272**	–	1,106
Bank	**893**	**11,782**	300	7,313
	943	**13,054**	300	8,419
Notional amounts of recognised credit derivative contracts that provide credit protection	**–**	**–**	–	–

5. Counterparty credit risk-related exposures (continued)

5.2 Counterparty credit risk exposures under the standardised (credit risk) approach

The following table summarises the Group's exposures to counterparty credit risk arising from derivative contracts calculated using the Current Exposure Method. There is no effect of valid cross-product netting agreements on these exposures.

	2015		2014	
	Securities financing transactions HK$'m	**Derivative contracts HK$'m**	Securities financing transactions HK$'m	Derivative contracts HK$'m
Gross total positive fair value		**14,098**		13,926
Default risk exposures after the effect of valid bilateral netting agreements	**–**	**532**	–	399
Less: Value of recognised collateral				
– Debt securities	**–**	**–**	–	–
– Others	**–**	**–**	–	–
Default risk exposures after the effect of valid bilateral netting agreements net of recognised collateral	**–**	**532**	–	399
Default risk exposures by counterparty type				
Sovereigns	**–**	**105**	–	29
Public sector entities	**–**	**6**	–	–
Corporates	**–**	**215**	–	85
Regulatory retail	**–**	**132**	–	190
Other exposures which are not past due	**–**	**74**	–	95
Past due exposures	**–**	**–**	–	–
	–	**532**	–	399
Risk-weighted amounts by counterparty type				
Sovereigns	**–**	**17**	–	2
Public sector entities	**–**	**1**	–	–
Corporates	**–**	**215**	–	86
Regulatory retail	**–**	**99**	–	142
Other exposures which are not past due	**–**	**74**	–	95
Past due exposures	**–**	**–**	–	1
	–	**406**	–	326
Notional amounts of recognised credit derivative contracts that provide credit protection	**–**	**–**	–	–

5. Counterparty credit risk-related exposures (continued)

5.3 Credit derivative contracts which create exposures to counterparty credit risk

The notional amounts of credit derivative contracts which create exposures to counterparty credit risk are shown as follows:

	2015 HK$'m	2014 HK$'m
Used for credit portfolio		
Credit default swaps		
Protection bought	–	–
Protection sold	–	78

6. Assets securitisation

The Group adopts the ratings-based method under IRB approach to calculate the credit risk for securitisation exposures as an investing institution. Since this approach employs mapping of external credit ratings for risk weights calculations, the Group adopts the three ECAIs (Standard & Poor's, Moody's and Fitch) recognised by the HKMA for this purpose.

The Group monitors the risks inherent in its securitisation assets and re-securitisation assets on an ongoing basis. The external credit ratings, assessment of the underlying assets and market prices are used for managing credit risk associated with the investment. For interest rate risk in its banking book, control measures for asset backed securities and mortgage backed securities include, but not limited to AFS EV and PVBP.

The Group had no outstanding exposures that are held with the intention of transferring exposures booked in the banking book and trading book into securitisation transactions as at 31 December 2015 (2014: Nil).

Securitisation exposures arising from the Group's investing activities are analysed as follows:

6.1 Securitisation exposures

	2015		2014	
	Banking book HK$'m	**Trading book HK$'m**	Banking book HK$'m	Trading book HK$'m
On-balance sheet exposures				
Residential mortgage loans	**171**	**–**	394	–
Student loans	**–**	**–**	19	–
	171	**–**	413	–
Off-balance sheet exposures	**–**	**–**	–	–

Reduction in securitisation exposures was due to repayments of principal.

There were no securitisation transactions in trading book subject to the IMM approach as at 31 December 2015 (2014: Nil).

There were no securitisation exposures that the Group has allocated a risk-weight of 1,250% as at 31 December 2015 (2014: Nil).

The Group did not have credit risk mitigations which are treated as part of securitisation transactions as at 31 December 2015 (2014: Nil).

There were no re-securitisation exposures as at 31 December 2015 (2014: Nil).

6. Assets securitisation (continued)

6.2 Breakdown by risk-weights of the securitisation exposures (excluding re-securitisation exposures) under internal ratings-based (securitisation) approach

	2015		2014	
	Securitisation exposures HK$'m	**Capital requirements HK$'m**	Securitisation exposures HK$'m	Capital requirements HK$'m
7%	**66**	**–**	244	1
8%	**15**	**–**	32	–
10%	**2**	**–**	11	–
12%	**43**	**1**	67	1
15%	**–**	**–**	–	–
18%	**–**	**–**	–	–
20%	**12**	**–**	–	–
25%	**–**	**–**	–	–
35%	**–**	**–**	18	1
50%	**–**	**–**	–	–
60%	**24**	**1**	29	1
75%	**–**	**–**	–	–
100%	**9**	**1**	12	1
250%	**–**	**–**	–	–
425%	**–**	**–**	–	–
650%	**–**	**–**	–	–
Deducted from capital	**–**	**–**	–	–
	171	**3**	413	5

Reduction in securitisation exposures and capital requirements were due to repayments of principal.

6.3 Summary of accounting policies for securitisation exposures

The Group held certain securitised debt securities at the end of the reporting period. They are classified and measured for accounting purpose in accordance with the Group's accounting policies as outlined in Note 2.8 "Financial assets", 2.11 "Recognition and derecognition of financial instruments", 2.12 "Fair value measurement" and 2.14 "Impairment of financial assets" to the Financial Statements. For those investments measured at fair value, further details on their valuation are outlined in Note 5.1 "Financial instruments measured at fair value" to the Financial Statements.

7. Capital charge for market risk

	2015 HK$'m	2014 HK$'m
Under the standardised (market risk) approach		
Foreign exchange exposures (net)	**–**	–
Interest rate exposures		
– Non-securitisation exposure	**230**	191
Commodity exposures	**19**	7
Equity exposures	**1**	1
Under the internal models approach		
General foreign exchange and interest rate exposures	**1,433**	1,347
Capital charge for market risk	**1,683**	1,546

Market risk regulatory capital charge is calculated under the Banking (Capital) (Amendment) Rules 2011 to incorporate capital charge for stressed VAR. The following table sets out the IMM VAR and stressed VAR[1] for the general market risk exposure calculated under the IMM approach of the Group.

	Year	At 31 December HK$'m	Minimum for the year HK$'m	Maximum for the year HK$'m	Average for the year HK$'m
IMM VAR for foreign exchange and interest rate risk	2015	37.4	34.7	155.3	71.6
	2014	95.8	48.8	122.4	81.3
IMM VAR for foreign exchange risk	2015	27.9	25.8	77.7	36.2
	2014	30.0	23.2	69.2	39.4
IMM VAR for interest rate risk	2015	42.5	28.3	134.7	69.1
	2014	94.5	50.6	117.1	82.7
Stressed VAR for foreign exchange and interest rate risk	2015	380.5	246.7	593.0	381.3
	2014	298.8	154.6	491.2	327.0
Stressed VAR for foreign exchange risk	2015	97.1	46.5	139.6	75.6
	2014	70.6	50.5	222.8	99.1
Stressed VAR for interest rate risk	2015	414.1	259.8	618.0	377.0
	2014	274.5	176.4	441.7	336.5

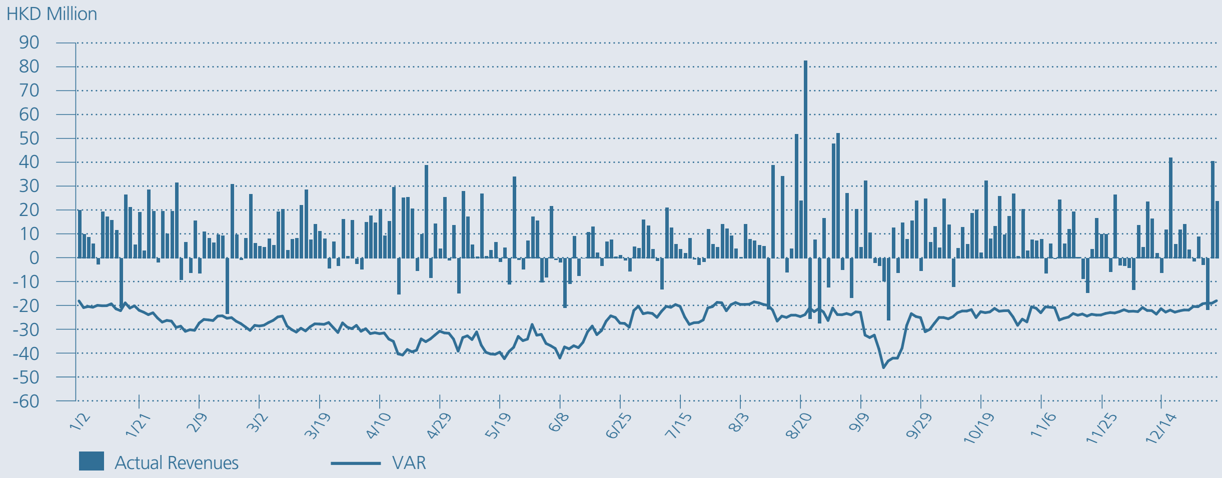
Note:

1. IMM VAR and stressed VAR measures used for market risk regulatory capital purposes are calculated to a 99% confidence level and use a 10-day holding period. The stressed VAR uses the same methodology as the VAR model and is generated with inputs calibrated to the historical market data from a continuous 12-month period of significant financial stress relevant to the Group's portfolio.

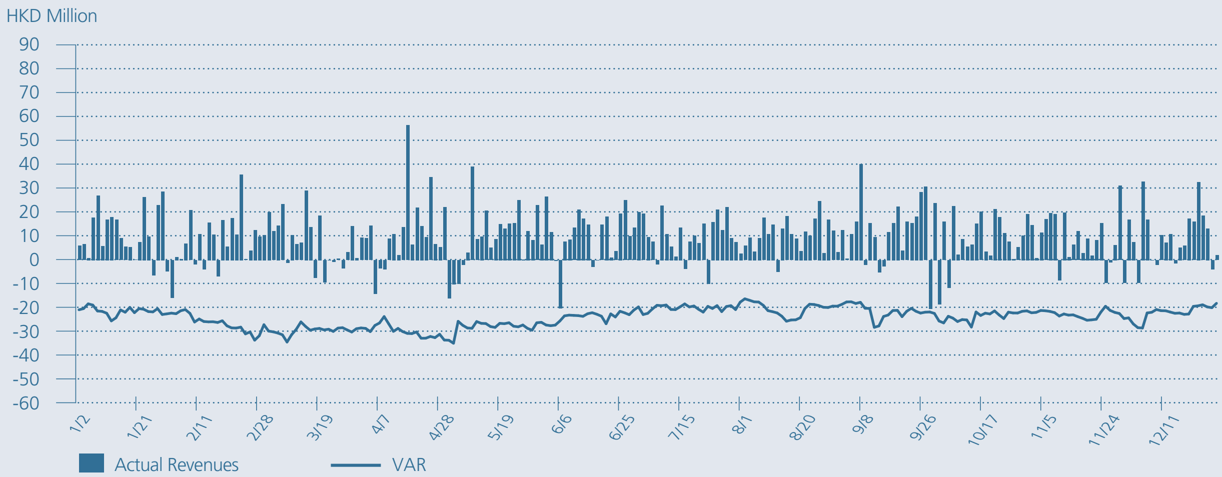
7. Capital charge for market risk (continued)

The graphs below show the regulatory back-testing result of the Group's market risk under IMM approach.

Daily Back-testing in 2015



Daily Back-testing in 2014



There were four actual losses exceeding the VAR for the Group in 2015 as shown in the back-testing results (2014: Nil).

8. Capital charge for operational risk

	2015 HK$'m	2014 HK$'m
Capital charge for operational risk	6,170	5,664

The Group uses the standardised (operational risk) approach to calculate its operational risk capital charge.

9. Equity exposures in banking book

Equity holdings in other entities are accounted for in accordance with the underlying intentions of holdings at the inception of acquisition. The classifications for equity holdings taken for relationship and strategic purposes will be separated from those taken for other purposes (including capital appreciation). Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in associates, joint venture or subsidiaries, are classified as available-for-sale securities and are reported in the balance sheet as "Investment in securities".

For equity exposures in banking book other than associates, joint venture or subsidiaries, the Group applies the same accounting treatment and valuation methodologies as detailed in the Notes 2.8(4), 2.11, 2.12 and 2.14 to the Financial Statements, further details on their valuation are outlined in Note 5.1 "Financial instruments measured at fair value" to the Financial Statements. If additional investment is made subsequently such that an investee becomes an associate, joint venture or subsidiary, then the investment is reclassified in accordance with the Group's accounting policies.

Gains or losses related to equity exposures are summarised below:

	2015 HK$'m	2014 HK$'m
Realised gains from sales	642	531
Unrealised gains on revaluation recognised in reserves but not through income statement	160	778

10. Connected transactions

In 2015, BOCHK, a wholly-owned subsidiary of the Company, and its subsidiaries engaged on a regular basis in the usual course of their business in numerous transactions with BOC and its Associates. As BOC is the Company's controlling shareholder and therefore a connected person of the Company, all such transactions constituted connected transactions for the purposes of the Listing Rules. The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation ("CIC"), its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests. Central Huijin is the ultimate controlling shareholder of the Company. Central Huijin has accepted PRC Government's authorisation in carrying out equity investment in core financial enterprises. For the purposes of this report, therefore, Central Huijin and its Associates have not been treated as connected persons to the Company.

10. Connected transactions (continued)

The transactions fell into the following two categories:

1. exempted transactions entered into in the ordinary and usual course of business and under normal commercial terms or better. Such transactions were (1) fully exempted from shareholders' approval, annual review and all disclosure requirements and/or (2) exempted from shareholders' approval requirement by virtue of Rules 14A.76 and 14A.87 to 14A.101 of the Listing Rules;

2. certain continuing connected transactions conducted pursuant to the Services and Relationship Agreement entered into among, inter alia, the Company and BOC dated 6 July 2002 (as amended and supplemented from time to time, which has been amended for a period of three years commencing 1 January 2014), whereas BOC has agreed to, and agreed to procure its Associates to, enter into all future arrangements with the Group on an arm's length basis, on normal commercial terms and at rates no less favourable than those offered to independent third parties, in relation to certain areas including, among others, information technology services, training services, physical bullion agency services, correspondent banking arrangements, treasury transactions, provision of insurance and syndicated loans, and the Company has agreed to, and agreed to procure its subsidiaries to, enter into all future arrangements on the same basis, provided that the rates offered by the Group to BOC and its Associates will be no more favourable than those offered to independent third parties. The Services and Relationship Agreement is also amended to allow (i) for the provision of call center services, cash management services and card services and other related business between BOC or its Associates and the Group; and (ii) the Group to provide and receive various information technology services to and from BOC's worldwide branches and subsidiaries. On 10 December 2013 the Company made an announcement (the "Announcement") in accordance with Rule 14A.47 (1 July 2014 revised to 14A.35 and 14A.64) of the Listing Rules, and has got the approval from the independent shareholders on 11 June 2014. The Announcement listed those continuing connected transactions that exceeded the de minimus threshold and set out caps in respect of such transactions for the three years 2014-2016. These transactions were conducted in the ordinary and usual course of its business and on normal commercial terms or better. Details of these continuing connected transactions are set out below and are described in the announcements which may be viewed at the Company's website. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

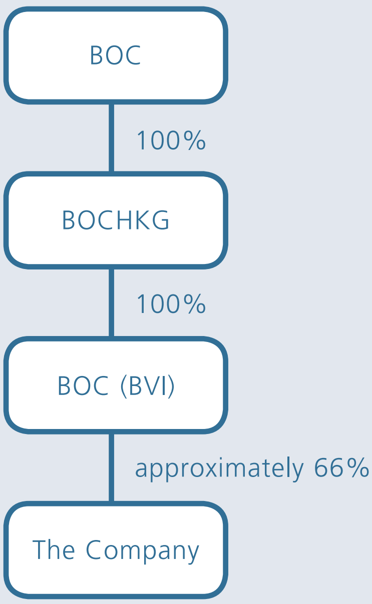
Type of Transaction	2015 Cap (HK$'m)	2015 Actual Amount (HK$'m)
Information Technology Services	1,000	62
Property Transactions	1,000	164
Bank-note Delivery	1,000	206
Provision of Insurance Cover	1,000	171
Card Services	1,000	195
Custody Business	1,000	57
Call Center Services	1,000	67
Securities Transactions	7,000	351
Fund Distribution Transactions	7,000	61
Insurance Agency	7,000	974
Foreign Exchange Transactions	7,000	354
Derivatives Transactions	7,000	(116)
Trading of Financial Assets	230,000	23,798
Inter-bank Capital Markets	230,000	6,433

11. Reconciliation between HKFRSs vs IFRS/CAS

The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRS and CAS for which the Company and its subsidiaries will form part of the consolidated financial statements. The requirements of CAS have substantially converged with HKFRSs and IFRS.

The consolidated financial information of "BOC Hong Kong Group" for the periods disclosed by BOC in its consolidated financial statements is not the same as the consolidated financial information of the Group for the periods published by the Company pursuant to applicable laws and regulations in Hong Kong. There are two reasons for this.

First, the definitions of "BOC Hong Kong Group" (as adopted by BOC for the purpose of its own financial disclosure) and "Group" (as adopted by the Company in preparing and presenting its consolidated financial information) are different: "BOC Hong Kong Group" refers to BOCHKG and its subsidiaries, whereas "Group" refers to the Company and its subsidiaries (see the below organisation chart). Though there is difference in definitions between "BOC Hong Kong Group" and "Group", their financial results for the periods presented are substantially the same. This is because BOCHKG and BOC (BVI) are holding companies only and have no substantive operations of their own.



Second, the Group has prepared its consolidated financial statements in accordance with HKFRSs; whereas the consolidated financial information reported to BOC is prepared in accordance with IFRS and CAS respectively. There is a difference in the election of subsequent measurement basis of bank premises by the Group and by BOC respectively.

The Board considers that the best way to ensure that shareholders and the investing public understand the material differences between the consolidated financial information of the Group published by the Company on the one hand, and the consolidated financial information of BOC Hong Kong Group disclosed by BOC in its consolidated financial statements on the other hand, is to present reconciliations of the profit after tax/net assets of the Group prepared under HKFRSs to the profit after tax/net assets of the Group prepared under IFRS and CAS respectively for the periods presented.

11. Reconciliation between HKFRSs vs IFRS/CAS (continued)

The major differences which arise from the difference in measurement basis relate to the following:

– restatement of carrying value of bank premises; and

– deferred taxation impact arising from the above different measurement basis.

(a) Restatement of carrying value of bank premises

The Company has elected for a revaluation model rather than cost model to account for bank premises and investment properties under HKFRSs. On the contrary, BOC has elected for the cost model for bank premises and revaluation model for investment properties under IFRS and CAS. Therefore, adjustments have been made to the carrying value of bank premises as well as to re-calculate the depreciation charge and disposal gain/loss under IFRS and CAS.

(b) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

Profit after tax/net assets reconciliation

HKFRSs vs IFRS/CAS

	Profit after tax		Net assets	
	2015 HK$'m	2014 HK$'m	**2015 HK$'m**	2014 HK$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	**27,495**	25,105	**197,993**	181,472
Add: IFRS/CAS adjustments				
Restatement of carrying value of bank premises	**1,274**	844	**(42,389)**	(40,388)
Deferred tax adjustments	**(105)**	(91)	**7,104**	6,732
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRS/CAS	**28,664**	25,858	**162,708**	147,816

Appendix

Subsidiaries of the Company

The particulars of subsidiaries are as follows:

Name	Place and date of incorporation/ operation	Issued share capital/ registered capital	Interest held	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	Ordinary shares HK$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong 12 March 1997	Ordinary shares HK$3,538,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited	Cayman Islands 7 October 2010	Ordinary shares HK$50,000,000	100.00%	Investment holding
Indirectly held:				
Nanyang Commercial Bank, Limited	Hong Kong 2 February 1948	Ordinary shares HK$3,144,517,396	100.00%	Banking business
Chiyu Banking Corporation Limited	Hong Kong 24 April 1947	Ordinary shares HK$300,000,000	70.49%	Banking business
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	Ordinary shares HK$480,000,000	100.00%	Credit card services
Bank of China (Hong Kong) Nominees Limited	Hong Kong 1 October 1985	Ordinary shares HK$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited	Hong Kong 6 November 1987	Ordinary shares HK$3,000,000	100.00%	Trustee and agency services
BOC Group Trustee Company Limited	Hong Kong 1 December 1997	Ordinary shares HK$200,000,000	64.20%	Trustee services
BOCHK Asset Management Limited	Hong Kong 28 October 2010	Ordinary shares HK$39,500,000	100.00%	Asset management
BOCHK Financial Products (Cayman) Limited	Cayman Islands 10 November 2006	Ordinary shares US$50,000	100.00%	Issuing structured notes
BOCHK Information Technology (Shenzhen) Co., Ltd.	PRC 16 April 1990	Registered capital HK$70,000,000	100.00%	Property holding and investment
BOCHK Information Technology Services (Shenzhen) Ltd.	PRC 26 May 1993	Registered capital HK$40,000,000	100.00%	Information technology services
BOCI-Prudential Trustee Limited	Hong Kong 11 October 1999	Ordinary shares HK$300,000,000	41.10%*	Trustee services

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/ operation	Issued share capital/ registered capital	Interest held	Principal activities
Che Hsing (Nominees) Limited	Hong Kong 23 April 1980	Ordinary shares HK$10,000	100.00%	Nominee services
Chiyu Banking Corporation (Nominees) Limited	Hong Kong 3 November 1981	Ordinary shares HK$100,000	70.49%	Investment holding
Grace Charter Limited	Hong Kong 4 May 2001	Ordinary shares HK$2	70.49%	Investment holding
Kwong Li Nam Investment Agency Limited	Hong Kong 25 May 1984	Ordinary shares HK$3,050,000	100.00%	Investment agency
Nanyang Commercial Bank (China), Limited	PRC 14 December 2007	Registered capital RMB6,500,000,000	100.00%	Banking business
Nanyang Commercial Bank (Nominees) Limited	Hong Kong 22 August 1980	Ordinary shares HK$50,000	100.00%	Nominee services
Nanyang Commercial Bank Trustee Limited	Hong Kong 22 October 1976	Ordinary shares HK$3,000,000	100.00%	Trustee services
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	Ordinary shares HK$335,000,000	100.00%	Gold trading and investment holding
Po Sang Futures Limited	Hong Kong 19 October 1993	Ordinary shares HK$335,000,000	100.00%	Securities and futures brokerage
Seng Sun Development Company, Limited	Hong Kong 11 December 1961	Ordinary shares HK$2,800,000	70.49%	Investment holding
Sin Chiao Enterprises Corporation, Limited	Hong Kong 13 September 1961	Ordinary shares HK$3,000,000	100.00%	Property holding and investment
Sin Hua Trustee Limited	Hong Kong 27 October 1978	Ordinary shares HK$3,000,000	100.00%	Trustee services
Sino Information Services Company Limited	Hong Kong 11 February 1993	Ordinary shares HK$7,000,000	100.00%	Information services

* BOCI-Prudential Trustee Limited is a subsidiary of a non-wholly-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

Sino Information Services Company Limited commenced members' voluntary winding up on 26 October 2015.

Definitions

In this Annual Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Terms	Meanings
"ABS"	Asset-backed Securities
"ADR"	American Depositary Receipt
"ADS(s)"	American Depositary Share(s)
"ALCO"	the Asset and Liability Management Committee
"AT1"	Additional Tier 1
"ATM"	Automated Teller Machine
"Associates"	has the meaning ascribed to "associates" in the Listing Rules
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of BOCHKG
"BOCCC"	BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK
"BOCG Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK Charitable Foundation"	Bank of China (Hong Kong) Limited Charitable Foundation (formerly known as the "Bank of China Group Charitable Foundation"), a charitable foundation being established in July 1994
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCI-Prudential Manager"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCG Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	China Accounting Standards for Business Enterprises
"CE"	Chief Executive
"CET1"	Common Equity Tier 1
"CFO"	Chief Financial Officer
"CIC"	China Investment Corporation
"CRM"	Credit Risk Mitigation

Terms	Meanings
"CRO"	Chief Risk Officer
"CVA"	Credit Valuation Adjustment
"Central Huijin"	Central Huijin Investment Ltd.
"Chiyu"	Chiyu Banking Corporation Limited, a company incorporated under the laws of Hong Kong, in which BOCHK holds an equity interest of 70.49%
"DCE"	Deputy Chief Executive
"DVA"	Debit Valuation Adjustment
"EAD"	Exposure at Default
"ECAI(s)"	External Credit Assessment Institution(s)
"EL"	Expected Loss
"EV"	Economic Value Sensitivity Ratio
"FIRB"	Foundation Internal Ratings-based
"Fitch"	Fitch Ratings
"GDP"	Gross Domestic Product
"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS(s)"	Hong Kong Accounting Standard(s)
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR" or "HKSAR"	Hong Kong Special Administrative Region
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standards
"IMM"	Internal Models
"IRB"	Internal Ratings-based
"IT"	Information Technology
"LCO"	the Legal & Compliance and Operational Risk Management Department
"LCR"	Liquidity Coverage Ratio
"LGD"	Loss Given Default
"LIBOR"	London Interbank Offered Rate
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MBS"	Mortgage-backed Securities
"MC"	the Management Committee
"MPF"	Mandatory Provident Fund
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended
"Mainland" or "Mainland of China"	the mainland of the PRC
"Medium Term Note Programme"	the medium term note programme was established by BOCHK on 2 September 2011
"Moody's"	Moody's Investors Service

Definitions

Terms	Meanings
"NCB"	Nanyang Commercial Bank, Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK
"NCB (China)"	Nanyang Commercial Bank (China), Limited, a company incorporated under the laws of the PRC and a wholly-owned subsidiary of NCB
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"OTC"	Over-the-counter
"PD"	Probability of Default
"PRC"	the People's Republic of China
"PVBP"	Price Value of a Basis Point
"QDII"	Qualified Domestic Institutional Investors
"RC"	the Risk Committee
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMD"	the Risk Management Department
"RQFII"	Renminbi Qualified Foreign Institutional Investors
"RWA"	Risk-weighted Assets
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SME(s)"	Small and Medium-sized Enterprise(s)
"STC"	Standardised (Credit Risk)
"STM"	Standardised (Market Risk)
"STO"	Standardised (Operational Risk)
"Standard & Poor's"	Standard & Poor's Ratings Services
"Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"the Group"	the Company and its subsidiaries collectively referred as the Group
"US"	the United States of America
"VAR"	Value at Risk

REVIEW OF ANNUAL RESULTS

The 2015 annual results have been reviewed by the Audit Committee of the Company.

By Order of the Board
CHAN Chun Ying
Company Secretary

Hong Kong, 30 March 2016

As at the date of this announcement, the Board comprises Mr TIAN Guoli (Chairman), Mr CHEN Siqing* (Vice Chairman), Mr YUE Yi (Vice Chairman and Chief Executive), Mr REN Deqi*, Mr GAO Yingxin*, Mr XU Luode*, Mr LI Jiuzhong, Madam CHENG Eva**, Mr KOH Beng Seng**, Mr SHAN Weijian** and Mr TUNG Savio Wai-Hok**.*

* *Non-executive Directors*
** *Independent Non-executive Directors*