



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

Stock Code: 2388



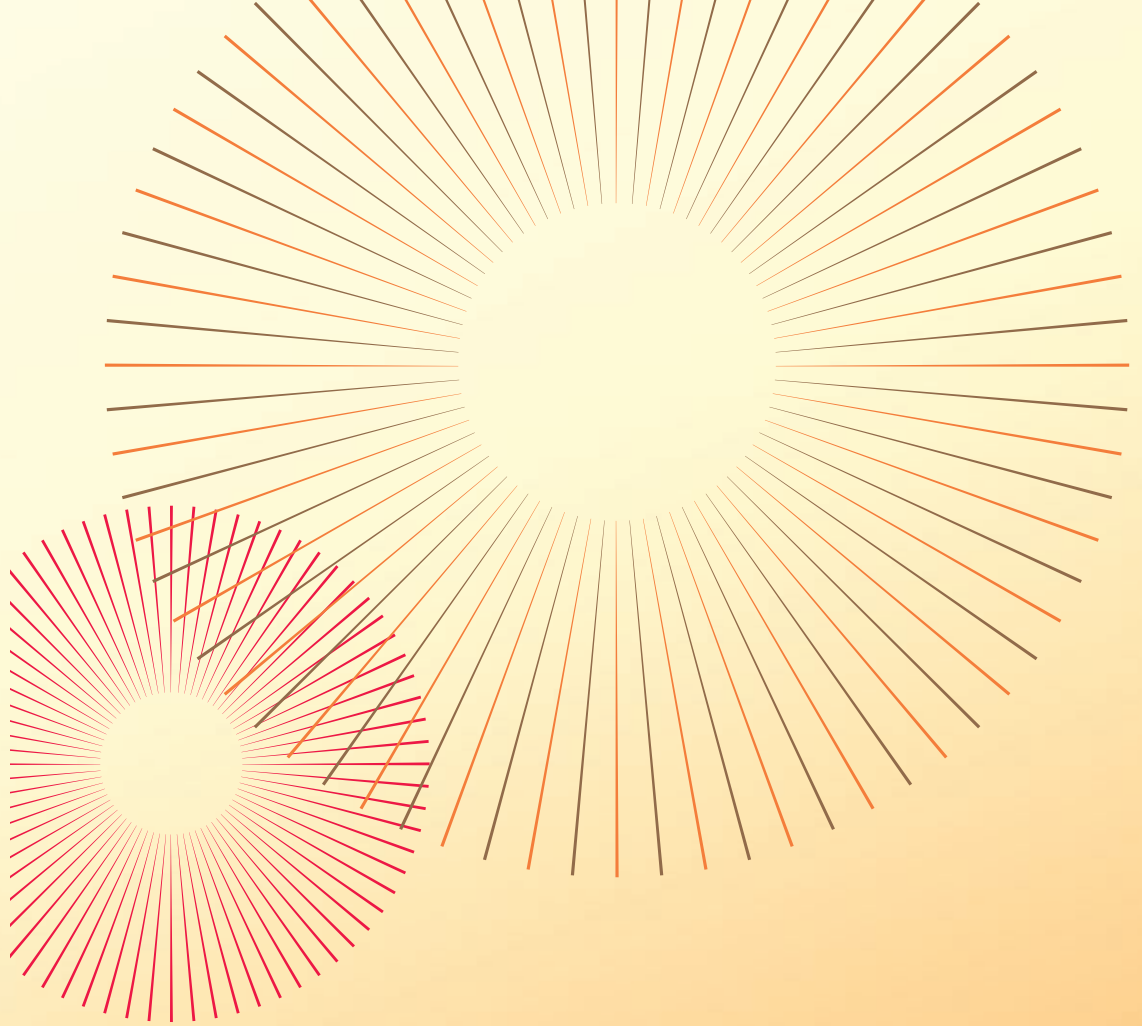
Sustainable
GROWTH
on Solid
FOUNDATIONS



Annual Report
2011



This version of the 2011 Annual Report will be replaced by the printed version available around mid April 2012.



OUR VISION

TO BE YOUR PREMIER BANK

OUR MISSION

Build

customer satisfaction and provide quality and professional service

Offer

rewarding career opportunities and cultivate staff commitment

Create

values and deliver superior returns to shareholders

Combining the initials of mission and core values, we have

BOC SPIRIT

OUR CORE VALUES

Social Responsibility

We care for and contribute to our communities

Performance

We measure results and reward achievement

Integrity

We uphold trustworthiness and business ethics

Respect

We cherish every individual

Innovation

We encourage creativity

Teamwork

We work together to succeed

BOC Hong Kong (Holdings) Limited (“the Company”) was incorporated in Hong Kong on 12 September 2001 to hold the entire equity interest in Bank of China (Hong Kong) Limited (“BOCHK”), its principal operating subsidiary. Bank of China Limited holds a substantial part of its interests in the shares of the Company through BOC Hong Kong (BVI) Limited, an indirect wholly-owned subsidiary of Bank of China Limited.

BOCHK is a leading commercial banking group in Hong Kong. With over 260 branches, more than 570 ATMs and other delivery channels in Hong Kong, BOCHK and its subsidiaries offer a comprehensive range of financial products and services to individual and corporate customers. BOCHK is one of the three note issuing banks in Hong Kong. In addition, the BOCHK Group (comprising BOCHK, Nanyang Commercial Bank and Chiyu Banking Corporation) and its subsidiaries have 29 branches and sub-branches in the Mainland of China to provide cross-border banking services to customers in Hong Kong and the Mainland. BOCHK is appointed by the People’s Bank of China as the Clearing Bank for Renminbi (“RMB”) business in Hong Kong. On 13 July 2010, BOCHK was authorised as the Clearing Bank of RMB banknotes business for the Taiwan region.

The Company began trading on the main board of the Stock Exchange of Hong Kong on 25 July 2002, with stock code “2388”, ADR OTC Symbol: “BHKLY”.

Theme

Year 2012 marks the 100th anniversary of the Bank of China (“BOC”), the parent bank of the Group. We take great pride in seeing that BOC has been growing into the most internationalised commercial bank in China and has earned high recognition in the world. The cover design of this annual report is made up of the BOC Tower and fireworks, symbolising the number “100” and expressing the joyful atmosphere in celebrating the centenary of BOC.

As an integral part of the BOC Group, we will capitalise on BOC Group’s strong franchise and extensive network to grow our business and deliver sustainable value for our stakeholders.

On the back of close collaboration with our parent, we strive to provide quality services to meet the diverse demands of our customers, especially in cross-border financial services and RMB business. These are reflected in the dividers of the report.



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FINANCIAL HIGHLIGHTS

	2011	2010	Change
For the year	HK\$'m	HK\$'m	+/(-)%
Net operating income before impairment allowances	30,846	27,508	12.13
Operating profit	22,478	18,239	23.24
Profit before taxation	24,680	19,742	25.01
Profit for the year	20,813	16,690	24.70
Profit attributable to the equity holders of the Company	20,430	16,196	26.14
Per share	HK\$	HK\$	+/(-)%
Basic earnings per share	1.9323	1.5319	26.14
Dividend per share	1.1880	0.9720	22.22
At year-end	HK\$'m	HK\$'m	+/(-)%
Capital and reserves attributable to the equity holders of the Company	129,765	115,181	12.66
Issued and fully paid share capital	52,864	52,864	–
Total assets	1,738,510	1,661,040	4.66
Financial ratios	%	%	
Return on average total assets ¹	1.14	1.21	
Return on average shareholders' equity ²	16.68	14.77	
Cost to income ratio ³	25.49	34.84	
Loan to deposit ratio ⁴	61.00	59.69	
Average liquidity ratio ⁵	36.17	38.77	
Capital adequacy ratio ⁶	16.90	16.14	

1. Return on average total assets = $\frac{\text{Profit for the year}}{\text{Daily average balance of total assets}}$

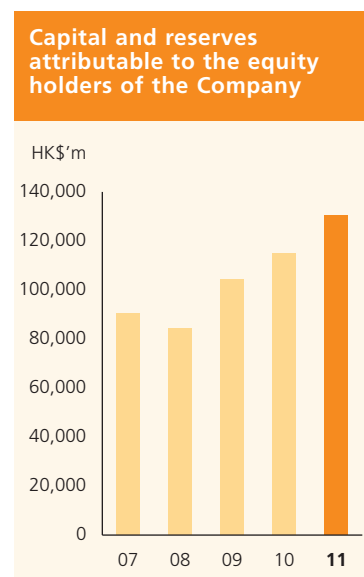
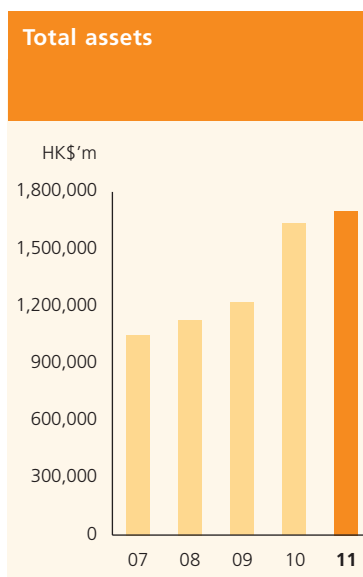
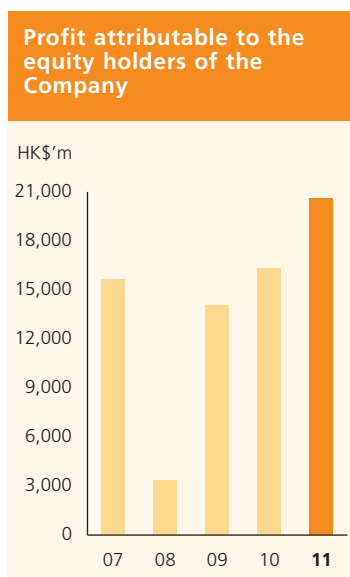
2. Return on average shareholders' equity = $\frac{\text{Profit attributable to the equity holders of the Company}}{\text{Average of the beginning and ending balance of capital and reserves attributable to the equity holders of the Company}}$

3. In calculating cost to income ratio, cost includes the impact of Lehman Brothers minibonds.

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".

5. Average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the year.

6. Capital adequacy ratio is computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules. The bases of regulatory capital calculation for credit risk, market risk and operational risk are described in Note 4.5 to the Financial Statements in this Annual Report. As a result of the change in the bases used, the capital ratios shown above are not directly comparable.



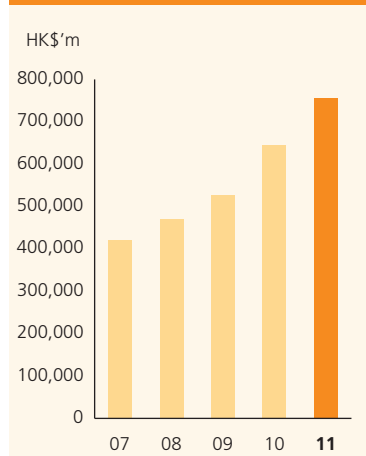
FIVE-YEAR FINANCIAL SUMMARY

The financial information of the Group for the last five years commencing from 1 January 2007 is summarised below:

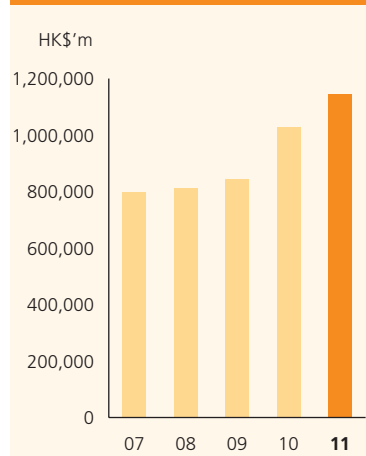
	2011	2010	2009 ²	2008 ²	2007 ²
For the year	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Net operating income before impairment allowances	30,846	27,508	26,055	25,526	27,254
Operating profit	22,478	18,239	15,104	4,182	18,033
Profit before taxation	24,680	19,742	16,724	4,078	19,126
Profit for the year	20,813	16,690	14,251	2,977	15,883
Profit attributable to the equity holders of the Company	20,430	16,196	13,930	3,313	15,512
Per share	HK\$	HK\$	HK\$	HK\$	HK\$
Basic earnings per share	1.9323	1.5319	1.3175	0.3134	1.4672
At year-end	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Advances and other accounts	755,229	645,424	527,135	469,493	420,234
Total assets	1,738,510	1,661,040	1,212,794	1,147,245	1,067,637
Daily average balance of total assets	1,823,989	1,382,121	1,177,294	1,099,198	1,032,577
Deposits from customers ¹	1,146,590	1,027,267	844,453	811,516	799,565
Total liabilities	1,605,327	1,542,751	1,105,879	1,061,695	971,540
Issued and fully paid share capital	52,864	52,864	52,864	52,864	52,864
Capital and reserves attributable to the equity holders of the Company	129,765	115,181	104,179	83,734	93,879
Financial ratios	%	%	%	%	%
Return on average total assets	1.14	1.21	1.21	0.27	1.54
Cost to income ratio	25.49	34.84	46.60	34.36	28.52
Loan to deposit ratio	61.00	59.69	60.98	56.74	51.66

1. Deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".
2. Certain comparative amounts have been restated to reflect the early adoption of HKAS 12 (Amendment) "Income Taxes".

Advances and other accounts



Deposits from customers





Deposits • Exchange • Remittances •
Bank Cards • Trade Settlement &
Finance • Payroll • Corporate Loans •
Cash Management • Funds •
Bonds • Insurance •
Dual Currency Cards • Cheques •
Cross-border Autopay Bill Payment





INNOVATIVE 
RMB Service

CHAIRMAN'S STATEMENT



It gives me great pleasure to report that the Group delivered another year of record results in 2011, reflecting the solid performance under our balanced growth strategy. Both net operating income before impairment allowances and profit attributable to the equity holders achieved new highs. Good progress was made during the year in growing our core businesses and developing new business initiatives. We remained focused on managing our capital, liquidity and risks, as reflected in our strong financial position.

The Group's net operating income before impairment allowances increased by 12.1% year-on-year to HK\$30,846 million. Operating profit before impairment allowances increased by 28.2% to HK\$22,984 million. The Group's profit attributable to the equity holders increased by 26.1% year-on-year to HK\$20,430 million or HK\$1.9323 per share, thanks to the growth of our core businesses and the Lehman-minibonds related recovery. Excluding such recovery, our profit attributable to the equity holders was also a new high since our listing. The Board has recommended a final dividend of HK\$0.558 per share. Together with the interim dividend of HK\$0.63 per share, this will mean a total dividend of HK\$1.188 per

share, representing an increase of 22.2% year-on-year. The Group's total dividend payout as a percentage of profit attributable to the equity holders will be 61.5%. Our consistent dividend policy reflects our strong capital position and commitment to delivering sustainable return to our shareholders. We remained well-capitalised with capital adequacy ratio of 16.90% as at the end of 2011. Our loan book grew 14.1% and deposits increased by 11.6%. The Group's total assets grew 4.7% to HK\$1.74 trillion. Asset quality further improved with classified or impaired loan ratio of 0.10%, among the lowest in the market.

This result was achieved despite more challenging market conditions in 2011, including intensified deposit competition, rising inflation and increased volatility in global markets amid the Eurozone debt crisis. Against this backdrop, we strictly adhered to our prudent and proactive growth strategy to balance growth, risk and return. Various measures were taken to enhance our asset and liability management, with an aim to improve overall profitability and to contain risks. In a low interest rate and highly competitive environment, we have taken conscious efforts to mitigate margin pressure. While growing our loans, we strived to improve loan structure and pricing. To support our business growth, a flexible deposit strategy was adopted to consciously manage our funding cost. Operating expenses were carefully managed to mitigate inflationary pressure while continuing to invest in our business. With a view to proactively managing our capital and liquidity, a Medium Term Note ("MTN") Programme was set up to enhance the Group's flexibility, diversity and efficiency in funding from a medium-to-long-term perspective. We also successfully issued US\$750 million senior notes to global investors under the MTN Programme to diversify our source of funding. Amid market uncertainties, we remained highly vigilant on risk management. Our loan quality stayed solid on the back of our strong credit discipline and prudent customer selection. To contain the potential risks arising from the Eurozone debt crisis, we have actively reduced our risk exposure in Europe. All these measures not only contributed to a set of satisfactory results in 2011 but have also solidified our position to capture market opportunities in 2012.

Over the past two years, we witnessed major breakthroughs in the development of the offshore RMB business in Hong Kong. Capitalising on our strong RMB franchise, we have made good progress in capturing new business opportunities and delivered encouraging results in 2011.

CHAIRMAN'S STATEMENT

We maintained our leading positions in the offshore RMB business including deposits, trade settlements, credit cards and insurance, etc. Increased asset deployment channels of our RMB funds also enabled us to improve returns. The momentum for offshore RMB lending has picked up, especially in the second half of the year. As the sole Clearing Bank of the RMB banking business in Hong Kong, we are fully committed to the healthy and orderly development of the offshore RMB market. During the period, we have further enhanced our clearing services and network. The introduction of RMB Repo facilities and RMB Fiduciary Account Scheme served to better meet the needs of the participating banks in developing the RMB business.

The offshore RMB business is an important strategic focus of the Group's mid to long term development. Riding on these opportunities, we have successfully enhanced our customer relationships and extended our global presence, laying a good foundation for our future development. With the increasing significance of RMB in the global economy, the demand for RMB products and services will continue to grow. We will continue to deepen and broaden our platform for RMB products and services. Together with our close cooperation with our parent bank, BOC, we are well positioned to provide high quality RMB services to meet the global needs of BOC Group's customers.

Looking ahead, there are good reasons for caution, especially with regard to the uneasy Eurozone situation which may continue to threaten the stability and recovery pace of global markets. We need to stay alert for any unpredictable shocks to the market from this uncertain environment. Despite the possible headwinds ahead, the Group will continue to pursue opportunities leveraging its core competencies and solid fundamentals. While cost management is a key priority, the Group will continue to make investments tied to its longer term development plans. In view of the fast changing market conditions and more stringent regulatory requirements, we will strive to enhance the efficiency of our internal control mechanisms and to safeguard our financial position. We will also firmly adhere to our strong discipline embedded in our business model to deliver quality growth.

With effect from 15 December 2011, Madam Zhang Yanling retired from her positions as a Non-executive Director of the Company and its principal operating subsidiary, Bank of China (Hong Kong) Limited ("BOCHK"). On behalf of the Board, I would like to thank Madam Zhang for her

valuable contributions to the Group during her tenure of office. At the same time, I would also like to welcome Mr. Chen Siqing who has joined the Board as a Non-executive Director of the Company and BOCHK.

This year is the 10th anniversary of the Company's listing in Hong Kong. I am pleased with the healthy development and consistently solid performance of the Group over the past ten years. This achievement was attributable to the outstanding efforts of our people, continuous support from our customers and wise counsel from our Board. I would also like to take this opportunity to thank our shareholders for their trust and support shown to us all these years.

At the Group, sustainability is the core belief of how we manage our business and plan for our development. We will remain committed to building a solid and sustainable platform for our customers, shareholders, employees and the communities where we serve. As a leading banking group, we attach great importance to Corporate Social Responsibility ("CSR") and will continue to implement our CSR programmes in different facets of our business. We deeply value the long-term relationships we have developed with our customers. On the back of its strong financial position, the Group was able to sustain its support to customers throughout the years, even in difficult market conditions. In 2011, the Lehman Brothers Mini-bonds issue was resolved with the implementation of the final resolution, demonstrating our commitment to the interests of our customers. Going forward, we will remain customer-centric through product and service innovation to meet the needs and expectations of our customers. My colleagues and I will continue to work tirelessly to strive for continual improvement and greater value for our shareholders.



XIAO Gang
Chairman

Hong Kong, 29 March 2012

CHIEF EXECUTIVE'S REPORT



In the year 2011 the Group recorded, once again, solid growth in its net operating income before impairment allowances, operating profit before impairment allowances and profit attributable to the equity holders, all of which reached record high levels. Notwithstanding the widespread volatility that plagued the global economy in the year, profit attributable to the equity holders surpassed the HK\$20 billion mark for the first time in our history. By capitalising on our core competencies and implementing a balanced and sustainable growth strategy, we succeeded in expanding our core businesses, maintaining our leading market positions, capturing new business opportunities and achieving major breakthroughs, particularly in offshore RMB banking business.

Last year was a turbulent period in which the operating environment was affected by natural catastrophes, financial troubles and economic slowdown on a massive scale. The eruption and spreading of the sovereign debt crisis in the Eurozone seriously undermined the stability of the world economy which was still recuperating from the 2008 global financial crisis. The ramifications of the European debt crisis and the lingering weakness of the US economy hit Hong Kong as the demand for exports faltered and investment sentiment in stock and property markets deteriorated, especially in the second half of the year. Inflationary pressure was mounting, with upward pressure on costs on all fronts, while the persistently low interest rates continued

to bring about pressure on margin, particularly in the first half of the year. In spite of this, with its solid economic fundamentals and strong support from the Mainland, Hong Kong was able to stay afloat and sustain a positive, albeit lower, GDP growth. For the banking and financial services sector as a whole, the steady and relatively fast development of the Mainland economy and the further relaxation of offshore RMB banking business have brought about inspiring new business opportunities.

Our robust performance in business development and financial results last year speaks for the effectiveness of the proactive strategies we have adopted over the past years, especially in the aftermath of the global financial crisis, in managing adversity in the external environment and maintaining our momentum for growth. We leveraged the increase in local business investment, private consumption, exports and re-exports as well as property transactions (mostly in the first half of 2011) to grow our loans and other services to customers by a healthy margin. Being the market leader in the fast-growing offshore RMB banking business, we have been playing a prominent role in developing RMB services and products, which have become increasingly important contributors to the Group's income and profit. On the other hand, in view of growing uncertainties in the financial markets, we took timely and effective measures in safeguarding the strength of our capital base and liquidity, enhancing the quality of our assets, and refining our lending and investment portfolios respectively. We continued to exercise high prudence in containing costs, including the costs of funding and operation. As a result, we kept our financial position strong. Our earnings and capital strength have enabled us to maintain a stable dividend policy.

Key Initiatives and Achievements

Our constant efforts in striking a right balance among growth, return and risks by pro-actively managing our assets and liabilities have been paying off well. We attained broad-based growth in income and profit. We succeeded in improving all of our major income streams, including net interest income, net fee and commission income as well as net trading gain from foreign exchange.

- Against the backdrop of a better market situation in the first half of the year, we effectively deployed our assets and adjusted these when the market evolved, thus optimising our yields and returns. We achieved a balanced growth in loans and deposits. Through a proactive yet prudent credit policy with emphasis on quality growth, we registered double-digit increases in loans and advances to both individual and corporate customers. Our customer base improved and the pricing

CHIEF EXECUTIVE'S REPORT

of new loans was raised to increase yields. At the same time, in spite of severe competition for funds in the market, we adopted flexible deposit-taking strategies to attract deposits and optimise our deposit mix. The Group maintained its loan-to-deposit ratio at a healthy level, thus ensuring better utilisation of funds while keeping adequate liquidity.

- We made significant advancement in our RMB business. Conspicuous growth and development was recorded in 2011 in RMB deposit-taking, lending, trade settlement, credit card business, life insurance, treasury products and funds distribution. By enhancing our clearing bank function and network, including the introduction of the RMB Fiduciary Account Scheme and Intra-day Repo facilities, we have facilitated the Participating Banks in developing RMB business and hence the growth of the RMB market as a whole. We were re-appointed as the Clearing Bank of RMB business in Hong Kong.
- By collaborating more closely with our parent, BOC, and connecting the Group's service platforms with those of BOC, we succeeded in enhancing our servicing capability for cross-border customers and expanding our clientele, including corporate clients and wealth management customers. Among many other businesses in joint efforts with BOC, we have made very encouraging progress in extending RMB services to a wide spectrum of customers in Hong Kong, the Mainland and overseas.
- Faced with the strong headwinds in the global financial scene due to the sovereign debt crisis in Europe, we stayed highly alert all the time in monitoring and managing the Group's investment portfolio to minimise our exposure to various investment risks. By adjusting our portfolio mix to focus on high-quality and low-risk investments and acting promptly to dispose of investments in the Eurozone, we have ensured the good quality and positive yield of our investment portfolio as a whole.
- To get well-prepared for the uncertainties in the external environment, we believe that it is essential to keep a close watch on the Group's key financial ratios. Our capital adequacy ratio, cost-to-income ratio and classified or impaired loan ratio were among the best in the local industry, while our loan-to-deposit ratio and liquidity ratio remained solid. The Group's credit ratings were upgraded. Notwithstanding deterioration in the external operating environment and downgrades for most of the global and US banks, BOCHK's long-term credit rating was raised by Standard & Poor's by two

notches (from "A-" to "A+") and short-term credit rating by one notch (from "A-2" to "A-1"), which clearly demonstrates the international recognition of the Group's strong fundamentals and core strengths in sustaining growth while fending off potential risks.

Financial Highlights

In 2011, the Group's profit attributable to the equity holders increased by 26.1% to HK\$20,430 million, as a result of a broadly based growth in business and profitability, effective cost management as well as a net recovery from the underlying collateral of the Lehman Brothers Minibonds. The Group's net operating income before impairment allowances was HK\$30,846 million, up 12.1% year-on-year. Operating profit before impairment allowances was HK\$22,984 million, up 28.2% year-on-year. If the net recovery and the Lehman Brothers-related expenses were to be excluded, the Group's profit attributable to the equity holders would still have increased by 11.5%.

Return on average total assets (ROA) and return on average shareholders' equity (ROE) were 1.14% and 16.68%, versus 1.21% and 14.77% respectively for 2010.

Net interest income (NII) increased by 17.3% to HK\$21,979 million with a surge of 32.4% in average interest-earning assets, which reached HK\$1,662,201 million by 31 December 2011. The net interest margin (NIM) narrowed by 17 basis points to 1.32% for the full year, but improved by 23 basis points in the second half as compared with the first half of the year. This improvement was made as, firstly, we enhanced the pricing of new loans, especially in corporate lending, when market opportunities arose. Secondly, we accomplished better deployment of RMB funds in lending and investment. Thirdly, by introducing the RMB Fiduciary Account Scheme for RMB Participating Banks, we were able to mitigate the diluting effect of RMB funds on our NIM.

Net fee and commission income was up by 11.2% to HK\$7,833 million, thanks mainly to the satisfactory performance of our core businesses. Fee income from the credit card business surged by 29.9% to HK\$2,887 million. Commission income from insurance almost doubled to HK\$1,097 million. Loan commissions and bills commissions increased by 20.7% and 13.7% to HK\$1,160 million and HK\$854 million respectively. Fee income from funds distribution, trust and custody, payment services and currency exchange, also saw good growth. Fee income from securities brokerage, however, declined by 16.7% to HK\$2,782 million in the lethargic stock market.

CHIEF EXECUTIVE'S REPORT

A healthy increase of 24.9% was recorded in net trading gain, which amounted to HK\$1,710 million in 2011, thanks to the significant growth in currency exchange activities and a reduction in foreign exchange loss on foreign exchange swap contracts.

There was a net loss of HK\$340 million on financial instruments designated at fair value through profit or loss versus a net gain in 2010 due mainly to the loss from the investment portfolio of BOC Life amid the weak financial market.

On the expenditure side, we remained prudent in managing costs while continuing to invest in service infrastructure and human resources for future growth. Total operating expenses decreased by 18.0% to HK\$7,862 million, largely due to the net recovery of HK\$2,854 million from the underlying collateral of the Lehman Brothers Minibonds. After excluding this net recovery and related expenses, core operating expenses increased by 12.3% to HK\$10,659 million due to the increases in staff numbers and performance-linked remuneration, rental for branches, IT-related expenses, other operation expenses related to increased business volume and the Group's expansion in the Mainland. Our cost-to-income ratio was low at 25.49% and the core ratio (excluding the Lehman effect) was 34.56%, ranking us the best in the market.

As at 31 December 2011, the Group's total assets stood at HK\$1,738,510 million, representing an increase of 4.7% year-on-year. The quality of our assets remained excellent, with the classified or impaired loan ratio further improved to 0.10%, down 4 basis points versus 2010 and outperforming our peers.

Our lending policy last year, consistent with what we have been implementing over the past few years, aimed at growing our loans in a balanced and steady manner, with emphasis on credit quality and higher yield. Total loans and advances to customers grew by 14.1% to HK\$699,379 million, of which corporate loans increased by 13.5% and personal loans, by 15.4%.

Amid keen competition for deposits in the market last year, we enlarged our deposit base to support loan growth through a flexible deposit policy with due regard for the cost involved. Deposits from customers increased by 11.6% to HK\$1,146,590 million. There was significant growth in RMB deposits. The Group's loan-to-deposit ratio was 61.00% at the end of 2011, around the level of the two preceding years.

The Group was well capitalised, which was important to support our long-term development, to ensure a stable dividend policy and to provide a buffer for us to meet the changing regulatory requirements. To optimise our asset and liability management, we established a Medium Term Note Programme in September 2011 and made the first drawdown of US\$750 million in November of the year. As at the end of 2011, the Group's consolidated capital adequacy ratio (CAR) was 16.90% while the core capital ratio was 12.51%. The average liquidity ratio stayed solid at 36.17%.

Business Review

Corporate Banking

In 2011 the Group's Corporate Banking business experienced strong performance by focusing on quality loan growth, customer base expansion, customer relationship management and service enhancement. We also made good progress in the development of cash management and custody business.

Robust financial results were recorded last year. Net operating income before impairment allowances rose by an impressive 27.6% to HK\$11,943 million, of which net interest income, net fee and commission income and net trading gain increased by 30.5%, 17.4% and 82.8% respectively. Profit before taxation grew by 24.1% to HK\$8,636 million.

The Group's corporate lending business maintained its strong growth momentum last year. Corporate loans increased by 13.5% while the pricing of new loans was improved to attain higher return. Our position as a leading corporate lender was further reinforced through better segmentation of both the local and cross-border clientele. We also maintained our position as the top mandated arranger in the Hong Kong-Macau syndicated loan market.

As cross-border trade settlement in RMB has been expanded to cover the entire nation since last August, we further advanced our trade finance business by exploiting our strong service capability. A number of new cross-border trade finance products were rolled out to serve the increased needs of corporate customers in both Hong Kong and the Mainland. The balance of the Group's trade finance increased by 11.4% year-on-year.

We enhanced our services for SMEs by offering total solutions and participating actively in the HKSAR Government's SME Financing Guarantee Scheme and the subsequently launched Bank Special Loan Guarantee Scheme. Last year we set up a new and comprehensive commercial centre specifically for serving the banking needs of corporate customers.

CHIEF EXECUTIVE'S REPORT

Our cash management service saw steady growth. We upgraded our service platform for both large corporate clients and SMEs. We also enriched our portfolio by launching a wide range of RMB payment and receivable products. In a breakthrough development, BOCHK acted as the RMB agent bank of the Stock Exchange of Hong Kong to facilitate the first RMB share listing in Hong Kong.

We successfully expanded the client base for our custody service. In addition to QDII and different types of fund clients, we were extending our service to RQFIs. We are especially encouraged by the increase in the custody volume of RMB investment instruments.

Personal Banking

Our Personal Banking business focused on maintaining our lead in core segments, enhancing our business model to drive sales, upgrading our wealth management capability to expand our high-net worth customer base, fostering closer collaboration with BOC to facilitate the development of cross-border services, and enhancing our distribution channels for long-term growth. Profit before taxation reached HK\$4,896 million.

In terms of business development, we continued to grow and maintain our market lead in customer deposits and residential mortgage business. By capturing the market's new demand arising from a bullish residential property market in the first half of 2011, our residential property mortgage loans grew by 15.2% year-on-year. To enhance the yield of mortgage lending, we adjusted upward the pricing of new mortgage loans. Different mortgage plans were offered to customers to meet their diverse needs. While driving business growth, we remained prudent to ensure high credit quality through stringent risk control. The combined delinquency and rescheduled loan ratio for mortgage stood at a low level of 0.01% at the end of 2011.

We recorded robust growth in both the funds distribution and life insurance businesses. Two BOCHK RMB bond funds were launched during the year for targeted investors. The Group's Investment Product Specialist Team has been providing professional advice to customers on investment products, including investment funds. As a result, commission income from funds distribution shot up by a staggering 110.6%. At the same time, commission income from insurance, including life insurance, general insurance and reinsurance, rose by 95.5%. By offering professional sales service and expanding our product spectrum, we have reinforced our position as a prominent life insurance provider and maintained our market lead in the RMB life insurance market.

Riding on the surge in consumer spending by both local residents and incoming tourists, we recorded solid growth in our credit card business in 2011. Through various incentives to attract new cardholders and encourage cardholder spending, the number of cards issued, cardholder spending and merchant acquiring volume increased by 12.4%, 20.6% and 34.1% respectively. Our RMB card business continued to flourish and outperform the market, especially in the RMB-HKD dual currency card business. We maintained our market lead in the China UnionPay merchant acquiring business and card issuance. Credit card advances rose strongly by 17.3%. The credit quality of card advances remained sound with the annualised charge-off ratio standing at 1.07%.

The personal stock brokerage segment experienced a setback amid subdued stock market volume. Fee income from securities brokerage declined by 16.7% to HK\$2,782 million. Despite that, we continued to upgrade our service platform for stock trading, including the mobile trading channel, to reinforce our market position for long-term development. To equip ourselves for the future, we have enhanced our trading system during the year by launching a host of RMB-denominated securities trading services.

We made significant progress in expanding our wealth management segment in 2011. Through service enhancement, the enrichment of product offerings and closer cooperation with BOC branches and NCB (China), we boosted our wealth management customer base by 17.4%, which covers both Hong Kong and Mainland customers.

To cater to the needs of local and cross-border customers, we further upgraded and expanded our distribution channels, including the electronic banking platform, for which more than a dozen awards were bestowed on us last year. The functions of our e-banking platform have been expanded while the scope of our mobile banking services has also been enriched. These initiatives were obviously conducive to the increase in e-banking customers and usage.

Treasury

Our Treasury segment operated with a high degree of prudence last year amid rising fluctuations in global financial markets. We focused on proactively diversifying our investment portfolio, minimising the exposure to risks arising from the Eurozone, and optimising our asset allocation and portfolio deployment. Net operating income before impairment allowances surged by a robust 24.2%, of which net interest income was up 27.7% while net fee and commission income, up 345.7%. Profit before taxation increased by 19.3% versus 2010.

CHIEF EXECUTIVE'S REPORT

Highly alert to the adverse impact of the sovereign debt crisis in the Eurozone last year, we took a number of decisive and timely measures in risk management so as to safeguard our investment assets. We adjusted the duration of our portfolio when the market evolved to ensure better liquidity. We focused on government-related securities as well as bonds issued by high-quality financial institutions and corporations. We also refined our portfolio mix to reduce exposure to the European market and low-yielding securities. As a result, at the end of 2011, the Group had zero exposure to debt securities issued by GIIPS (Greece, Italy, Ireland, Portugal and Spain) governments, financial institutions or other private entities. The Group's exposure to the Europe region as a whole was also reduced as we attached importance to maintain a defensive portfolio position.

Our RMB-related business saw substantial progress last year. We acted as the major market maker in Hong Kong's CNH market. BOCHK became the first offshore institution with the "Delivery versus Payment" settlement arrangement in the onshore market. We were also a major player in the RMB bond underwriting business. By cooperating with BOC's overseas branches, we have been developing a global RMB banknote network. This has again underscored Hong Kong's importance as an offshore RMB business centre.

We were re-appointed as the Clearing Bank for RMB business in Hong Kong and as the only bank for providing RMB banknotes clearing services to Taiwanese banks. Last year, we launched the RMB Fiduciary Account Scheme Service to reduce the counterparty risk of Participating Banks to the Clearing Bank. We also initiated the intra-day Repo service to facilitate Participating Banks' intra-day liquidity management.

Mainland Business

In the Mainland, we focused on enlarging our deposit base to ensure that our loan-to-deposit ratio was in compliance with regulatory requirements. To better equip ourselves for future development, NCB (China) continued to build up its service capability and expand its branch network.

Total operating income increased by a solid 42.2% with the growth in net interest income as well as net fee and commission income. Our deposit base in the Mainland grew substantially by 52.7%. At the end of 2011, NCB (China)'s loan-to-deposit ratio stood at 70.2%.

In response to the rise in the reserve requirement ratio, we took prompt measures to improve our asset mix and loan pricing, thereby mitigating the pressure on net interest margin. Asset quality remained sound, with the classified loan ratio standing at 0.27%.

Meanwhile, we enhanced the linkage of our service platform with that of BOC to enable customers to enjoy better and more comprehensive services. Our branch network continued to expand with the number of branches/sub-branches increasing to 27 as at end of 2011.

Insurance

Last year our Insurance segment focused on enhancing its product offerings, upgrading its service capability and reinforcing its market position.

By enlarging our product range and taking a more aggressive approach in sales and marketing, we made significant progress in growing our gross regular premium income, which shot up strongly by 56.4% during the year. Meanwhile we launched more new RMB products to create demand and solidified our leading position in the RMB insurance market. Our improvement in service quality was duly recognised by the market, as evidenced by the industry awards we received last year.

Net interest income grew by 13.8%. Yet net operating income before impairment allowances and profit before taxation decreased by 47.0% and 93.5% respectively, due mainly to a higher provision for insurance liabilities as a result of declining market interest rates, and the investment loss incurred in the turbulent investment market.

Outlook

The outlook for the coming year is expected to be more challenging as the European sovereign debt crisis and the deep-rooted problems facing the US economy may still drag on. Trade prospects are turning bleak as demand continues to weaken. These conditions may imply that the operating environment for the banking sector is becoming even tougher than before and interest rates are staying at the current low level for a much longer period than originally envisaged. On top of that, business risks are to increase and competition may intensify. Yet we believe that positive prospects still exist in Asia. In particular, the further relaxation of offshore RMB business and the opening of the Mainland's financial market to external participants should create new business opportunities for banks with the right expertise and capabilities.

In view of the foreseeable uncertainties in the market, we shall adhere to our proactive management philosophy that has proven to be effective in delivering a sustainable and balanced growth of the Group. Our tremendous efforts over the past few years in asset and liability management has resulted in the Group's greater earning power and stronger foundations for long-term development, which will help tide us over the difficult and thorny time ahead.

CHIEF EXECUTIVE'S REPORT

For 2012, we will strive to maintain our consistent growth strategy, and put more emphasis on quality growth and profitability. We will exploit our core competencies to grow our traditional segments and maintain our leadership in the market with good prospects. By means of service upgrade, product/service innovation, expansion of customer base, strengthening of customer relationship, and the enlargement and optimisation of service channels and platforms, we will grow our core businesses, including corporate lending, loan syndication, residential mortgage, deposit taking, wealth management, credit card and insurance. To broaden our income and profit base, we will further enhance our service platforms for newly developed business arenas.

The development of the offshore RMB banking business has opened a new chapter for the banking industry in Hong Kong and beyond. It will definitely be a major focus for us in the coming years. Given our abundant expertise and strong track record as the local market leader, we will continue to play a leading role in driving the development of RMB-related services in Hong Kong. As China relaxes her offshore RMB banking policies, we will explore and develop more diverse RMB services and products to create and cater to new market demands. The recent relaxation by the HKMA of certain regulatory requirements of the RMB business provides banks in Hong Kong with greater flexibility in RMB asset management, thus giving us more leeway in the deployment of RMB funds. To meet the rapidly increasing interest in RMB worldwide and to strengthen Hong Kong's status as a global hub for offshore RMB business, we will seek to extend our RMB clearing and banking-related services to more overseas markets.

As we are taking an increasingly global perspective with regard to the development of the offshore RMB banking business, we will capitalise on our close connections with BOC and its overseas branches to extend our reach across continents. We will enhance the collaboration with BOC and strengthen the inter-linkage of our service platforms for further promoting cross-border services for customers from both banks. In particular, our experience and expertise in providing service support for the Mainland's corporate clients seeking to expand overseas will give us an edge in that regard.

While growing our core businesses and penetrating into new segments and markets, we will be highly vigilant over the management of our assets and liabilities to ensure that our financial position and key financial ratios remain strong. As global financial markets are still beleaguered with volatility, we will step up our risk management and internal control to safeguard our capital base, liquidity and asset quality. Despite persistent margin pressure resulting

from low interest rates and keen market competition, we will make every endeavour to contain the cost of funding and increase the yields of lending and investment, with an aim to further improve our NIM. In the face of rising costs, we will exercise stringent cost control to attain higher cost-effectiveness while continuing to invest for the future.

This year we are celebrating the 100th anniversary of BOC. We take great pride in seeing that our parent is the only domestic bank that has been operating continuously for 100 years in the Mainland. Through a century of development, BOC has always been committed to the pursuit of excellence and has been growing into the most internationalised and most diversified commercial bank in China and earned high recognition in the world.

This year we are also entering the tenth year of BOCHK's public listing in Hong Kong. Through these years we have witnessed the Company's comprehensive transformation and advancement in such major areas as corporate governance, corporate development, income and profit performance, business diversification, asset quality, financial strength, human resources development, customer service capability, risk management and internal control, corporate social responsibility, credit ratings and so on.

While concluding the last year on a high note despite all the challenges, I must thank the Board of Directors, shareholders and customers for their wise counsel, trust and support. I must also thank my colleagues who have consistently contributed their best to enable the Group to perform well and attain new breakthroughs. Looking forward, we, as an integral part of the BOC Group, will further capitalise on BOC Group's strong franchise and extensive network to grow our business and deliver higher value for our shareholders, customers, staff and the community at large.

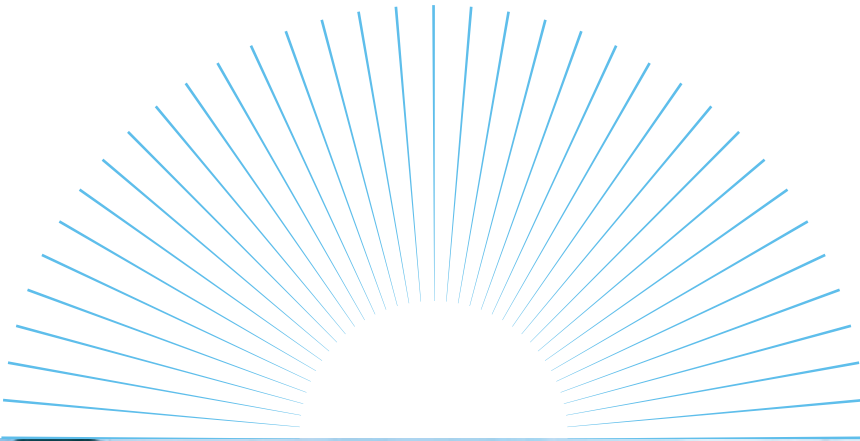


HE Guangbei
Vice Chairman & Chief Executive

Hong Kong, 29 March 2012



CROSS-BORDER 
Corporate Banking Service



DEPOSITS/CREDIT SERVICES

RMB
SERVICES

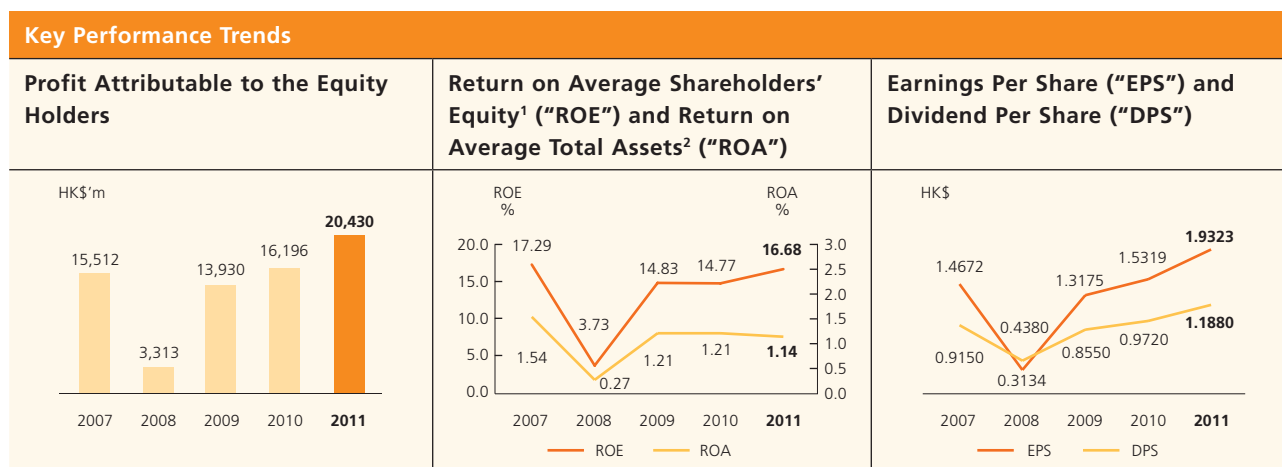
CONSOLIDATED STATEMENT

FUJIAN · ZHEJIANG · CHONGQING · TIANJIN · SHANGHAI · BEIJING · GUANGDONG

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE AND CONDITION IN BRIEF

Capitalising on its core competencies, the Group achieved encouraging financial results in 2011. Profit attributable to the equity holders reached a record high. Financial ratios and risk indicators remained solid.



Profit attributable to the equity holders reaching new high

- Profit attributable to the equity holders increased by 26.1% to HK\$20,430 million, part of the growth was attributable to the positive impact of Lehman Brothers-related products³. Should this impact be excluded, it would have increased by 11.5% year-on-year to HK\$18,148 million, a record high since listing.

Solid return with sustainable growth

- ROE was 16.68%. Excluding the impact of Lehman Brothers-related products, ROE would have been 14.55%, up 0.15 percentage point year-on-year.
- ROA was 1.14%. Excluding the impact of Lehman Brothers-related products, ROA would have been 1.01%, down 0.20 percentage point year-on-year. The decrease was due to the diluting effect of RMB clearing business in Hong Kong and the lower average return on the Group's other assets.

Continuous growth of return to shareholders

- EPS rose to a record high of HK\$1.9323. DPS was HK\$1.188, increasing by 22.2% year-on-year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Position

Loan-to-Deposit Ratio ⁴	Capital Adequacy Ratio ⁵	Average Liquidity Ratio
<p>%</p> <p>2007 2008 2009 2010 2011</p>	<p>%</p> <p>2007 2008 2009 2010 2011</p> <p>Core Capital Ratio Capital Adequacy Ratio</p>	<p>%</p> <p>2007 2008 2009 2010 2011</p>
* as at 31 December	* as at 31 December	

Well-balanced deposit and loan growth

- Advances to customers increased healthily by 14.1% while deposits from customers rose by 11.6%. Loan-to-deposit ratio was at 61.00%.

Solid capital base to support business growth

- CAR was strong at 16.90%, while core capital ratio stood at 12.51%.

Sound liquidity position

- Average liquidity ratio remained sound at 36.17%.

Key Operating Ratios

Net Interest Margin ("NIM")	Cost-to-Income Ratio	Classified or Impaired Loan Ratio ⁶
<p>%</p> <p>2007 2008 2009 2010 2011</p>	<p>%</p> <p>2007 2008 2009 2010 2011</p>	<p>%</p> <p>2007 2008 2009 2010 2011</p>
		* as at 31 December

NIM rebounded in the second half of the year

- NIM for the year was 1.32%, down 17 basis points year-on-year due to persistently low market interest rates, the diluting effect of RMB business in Hong Kong and rising funding costs. Meanwhile, NIM for the second half of the year was 1.44%, up 23 basis points from the first half.

Effective cost control

- Cost-to-income ratio was 25.49%. Should the impact of Lehman Brothers-related products be excluded, it would have been 34.56%, one of the lowest in the industry.

Low classified or impaired loan ratio under stringent risk management

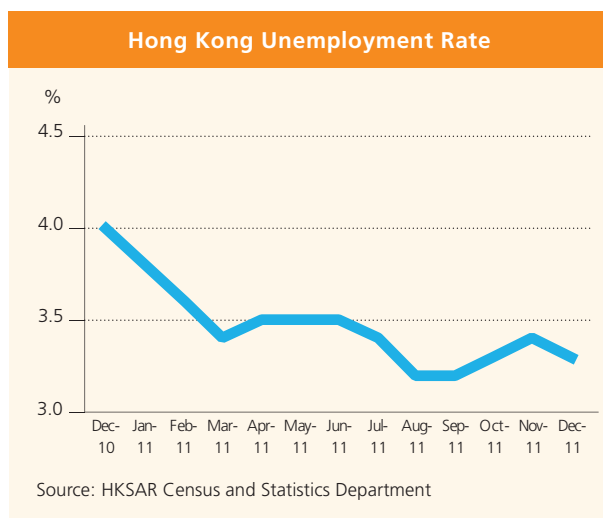
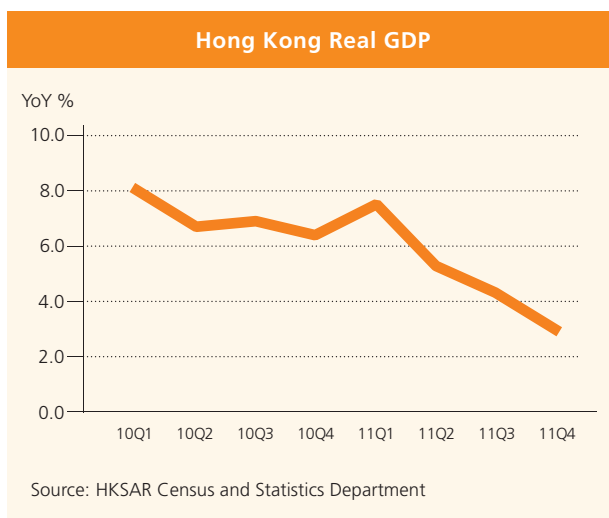
- Classified or impaired loan ratio was 0.10%. Formation of new classified loans remained at a low level.

- Return on Average Shareholders' Equity as defined in "Financial Highlights".
- Return on Average Total Assets as defined in "Financial Highlights".
- The final resolution of certain series of Lehman Brothers Minibonds was announced on 15 June 2011. The net amount of HK\$2,854 million recovered by the Group from the underlying collateral of the Lehman Brothers Minibonds, after deducting the ex gratia payments and provision for trustee expenses, was credited to operating expenses in 2011. The net recovery together with the expenses of Lehman Brothers-related products is referred to as "impact of Lehman Brothers-related products" in the Management's Discussion and Analysis.
- The deposit base also includes structured deposits reported as "Financial liabilities at fair value through profit or loss".
- Capital adequacy ratio is computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules. The bases of regulatory capital calculation for credit risk, market risk and operational risk are described in Note 4.5 to the Financial Statements in this Annual Report. As a result of the change in the bases used, the capital ratios shown above are not directly comparable.
- Classified or impaired loans follow the definitions set out in the Banking (Disclosure) Rules under the Banking Ordinance and 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.

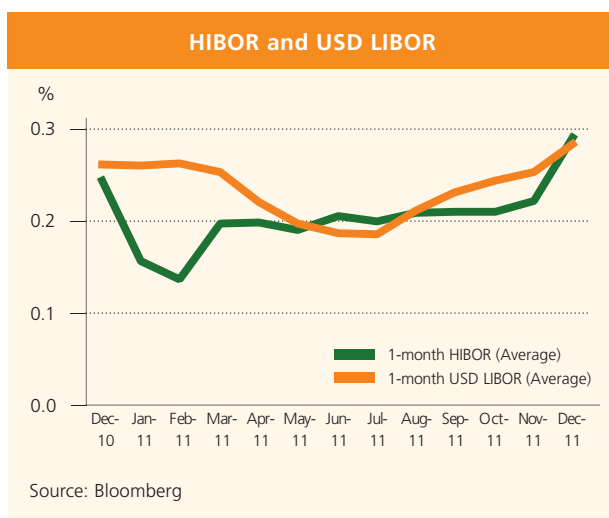
MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

The global economic environment was highly volatile during 2011, posing major challenges to the banking industry as a whole. There was an increased degree of uncertainty in the market as a result of various incidents and crises, including the earthquake and nuclear crisis in Japan, the downgrade of the US sovereign credit rating and the aggravation of the European debt crisis. The US continued with unconventional monetary easing measures to stimulate the economy while EU countries struggled to contain the spreading of the sovereign debt crisis from peripheral to core countries. Back in Asia, the Mainland of China remained the main engine of economic growth with its GDP growing by 9.2%. However, the Mainland's inflationary pressure also intensified during the year, which necessitated the implementation of contractionary monetary policies such as the raising of both the reserve requirement ratio and benchmark interest rates.



The Hong Kong economy continued to grow in 2011 though with a slower pace since the second quarter of the year. Supported by private consumption and fixed investment, Hong Kong's GDP for the year 2011 increased by 5.0% year-on-year. The unemployment rate stayed at a low level. Inflationary pressure was mounting, with the Composite CPI rising by 5.7% year-on-year in December 2011.



Interbank interest rates stayed low after the second round of quantitative easing in the US. Average 1-month HIBOR and USD LIBOR increased only slightly from 0.24% and 0.26% in December 2010 to 0.29% and 0.28% respectively in December 2011.

The Hong Kong stock market was volatile during the year. Market sentiments turned weak because of the uncertain global economic outlook, the worsening of the European debt crisis as well as the tightening of the Mainland's monetary policy. The Hang Seng Index reached the lowest point of the year at 16,250 in October, closing at 18,434 at the end of 2011, down 20.0% on a yearly basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The local residential property market was buoyant in the first half but had cooled down since the second half of the year, reflecting the combined impact of the weaker global growth outlook, rising mortgage interest rates, and various stabilising measures imposed by the Hong Kong government. The transaction volume of residential units plunged and prices fell modestly in the second half of the year.

The offshore RMB market in Hong Kong expanded further with several major breakthroughs. The demand for RMB trade settlement grew rapidly. Both RMB loans and deposits in Hong Kong saw remarkable growth. Foreign investors were permitted to invest directly in the Mainland with offshore RMB funds. Offshore monetary authorities and eligible banks began to participate in the Mainland's interbank bond market. With regard to the RMB clearing bank business in Hong Kong, a major development was the introduction of the RMB Fiduciary Account Service to help participating banks better manage their credit exposure to the clearing bank.

In summary, the operating environment for the banking industry was very challenging in 2011. Persistently low interest rates continued to put pressure on banks' net interest income. Funding costs were higher as competition for deposits remained intense. The inflation of operating costs also adversely affected banks' profitability. Nevertheless, the banking sector in general was able to benefit from business opportunities arising from the strong demand for corporate loans and the further expansion of the offshore RMB market in Hong Kong.

Outlook for 2012

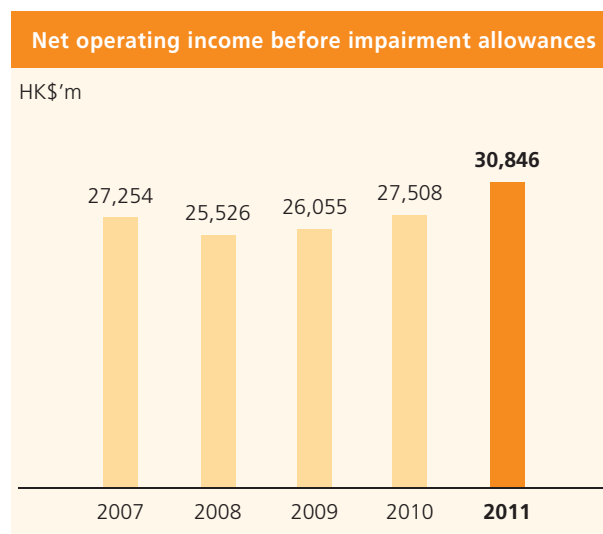
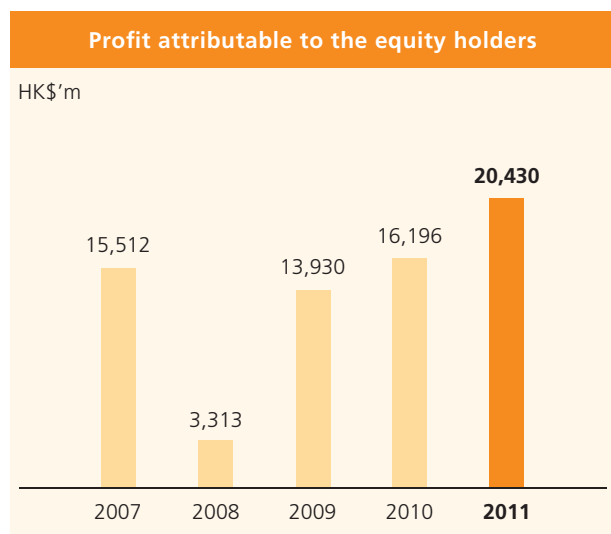
The external economic environment is likely to stay unstable in the coming year. The European debt crisis would continue to have a negative impact on the global financial market and lead to rising systemic risk. Given the weak economic outlook, the monetary policies of advanced economies would remain accommodative. The possibility of an economic slowdown would be a major risk facing the Mainland in the coming year. Some banks might face de-leveraging pressure in view of new capital adequacy requirements.

The demand for RMB loans in Hong Kong has picked up speed in the second half of 2011. The offshore RMB bond market would probably develop with greater momentum. RMB Foreign Direct Investment and RMB Qualified Foreign Institutional Investors would provide new channels for the deployment of RMB funds. Offshore RMB-related services are therefore expected to be the focus of the banking sector in 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL REVIEW

Financial Highlights



HK\$'m	2011	2010
Net operating income before impairment allowances	30,846	27,508
Operating expenses	(7,862)	(9,584)
Operating profit before impairment allowances	22,984	17,924
Operating profit after impairment allowances	22,478	18,239
Profit before taxation	24,680	19,742
Profit attributable to the equity holders of the Company	20,430	16,196

The Group's net operating income before impairment allowances increased by HK\$3,338 million or 12.1% year-on-year to HK\$30,846 million, a record high. This achievement was made possible by the solid growth of its traditional businesses and the better deployment of RMB funds. The increase in income was broad-based, covering net interest income, net fee and commission income as well as net trading gain from foreign exchange. There was, however, an investment loss on certain financial instruments due to higher volatility in the market. Operating expenses decreased sharply, primarily due to the net recovery from the underlying collateral of the Lehman Brothers Minibonds. The Group recorded a moderate amount of net charge of impairment allowances. The net gain on property revaluation also rose year-on-year. Profit attributable to the equity holders of the Company rose by 26.1% compared to 2010.

As compared to the first half of 2011, the Group's net operating income before impairment allowances rose by 3.9% in the second half. Higher net interest income was the main driver. Profit attributable to the equity holders decreased by HK\$3,556 million or 29.7% as the net recovery from the underlying collateral of the Lehman Brothers Minibonds was recorded in the first half. The decrease was also attributable to higher impairment allowances and lower net gain on property revaluation in the second half of the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Factors Affecting the Group's Performance in 2011

Below are the key positive factors that contributed to the Group's 2011 financial performance:

- The Group maintained **healthy growth in both loans and deposits** with improved loan pricing. This helped support the growth of net interest income and the development of other banking businesses.
- Net fee and commission income on **traditional banking businesses** recorded double-digit growth.
- The Group made good progress in developing its **RMB business in Hong Kong**. There was an increase in the channels of RMB deployment, which contributed to the rise in profit.
- The Group further improved its service capabilities and focused on **operational efficiency**.
- There was a **net recovery of HK\$2,854 million from the underlying collateral** of the Lehman Brothers Minibonds in the first half of 2011.

The Group's financial performance in 2011 was also subject to the following key negative factors:

- The exceptionally low market interest rates continued to impose pressure on the Group's **asset yield**. Intense market competition for deposits in both Hong Kong and the Mainland also led to higher **funding costs**.
- **Investment loss on certain financial instruments** was recorded in the second half of the year due to increased volatilities in the market.

INCOME STATEMENT ANALYSIS

Analyses of the Group's financial performance and business operations are set out in the following sections.

Net Interest Income and Margin

HK\$m, except percentage amounts	2011	2010
Interest income	31,931	23,449
Interest expense	(9,952)	(4,715)
Net interest income	21,979	18,734
Average interest-earning assets	1,662,201	1,255,879
Net interest spread	1.24%	1.43%
Net interest margin [#]	1.32%	1.49%
Adjusted net interest margin* (adjusted for clearing bank function)	1.49%	1.59%

[#] Net interest margin is calculated by dividing net interest income by average interest-earning assets.

* The adjusted net interest margin excludes the estimated impact of RMB clearing services performed by BOCHK. Since December 2003, the Bank has been appointed as the clearing bank to provide RMB clearing services in Hong Kong.

Net interest income was up HK\$3,245 million or 17.3% year-on-year. The growth was driven by the increase in average interest-earning assets. Average interest-earning assets grew by HK\$406,322 million or 32.4%, supported by the Group's customer deposits and the increase in RMB funds from the clearing bank business. Net interest margin was 1.32%, down 17 basis points compared to 2010. Net interest spread declined by 19 basis points while contribution from net free fund rose by 2 basis points.

The decrease in net interest margin was mainly due to the growth of local RMB business which had a lower spread than that of non-RMB business. Should the estimated impact of BOCHK's RMB clearing function in Hong Kong be excluded, the adjusted net interest margin would have been 1.49%, down 10 basis points year-on-year. Rising deposit costs amid keen market competition also put pressure on the interest spread. On the asset side, the increased proportion of loans and advances with pricing based on interbank market rates dragged the level of asset yield as the market rates remained low.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The summary below shows the average balances and average interest rates of individual categories of assets and liabilities:

	Year ended 31 December 2011		Year ended 31 December 2010	
	Average balance HK\$'m	Average yield %	Average balance HK\$'m	Average yield %
ASSETS				
Balances and placements with banks and other financial institutions	571,705	1.48%	276,827	1.07%
Debt securities investments	420,154	2.35%	393,865	2.24%
Loans and advances to customers	654,802	2.04%	570,697	2.01%
Other interest-earning assets	15,540	1.50%	14,490	1.37%
Total interest-earning assets	1,662,201	1.92%	1,255,879	1.87%
Non interest-earning assets	161,788	–	126,242	–
Total assets	1,823,989	1.75%	1,382,121	1.70%

	Year ended 31 December 2011		Year ended 31 December 2010	
	Average balance HK\$'m	Average rate %	Average balance HK\$'m	Average rate %
LIABILITIES				
Deposits and balances from banks and other financial institutions	378,841	0.77%	142,969	0.76%
Current, savings and fixed deposits	1,023,278	0.61%	859,366	0.34%
Subordinated liabilities	27,800	2.02%	27,113	1.88%
Other interest-bearing liabilities	39,403	0.50%	53,949	0.33%
Total interest-bearing liabilities	1,469,322	0.68%	1,083,397	0.44%
Non interest-bearing deposits	69,877	–	67,037	–
Shareholders' funds [#] and non interest-bearing liabilities	284,790	–	231,687	–
Total liabilities	1,823,989	0.55%	1,382,121	0.34%

[#] Shareholders' funds represent capital and reserves attributable to the equity holders of the Company.

Second Half Performance

Compared to the first half of 2011, net interest income rose by HK\$1,569 million or 15.4% to HK\$11,774 million. The increase was mainly attributable to higher net interest margin.

Average interest-earning assets dropped by 4.3% compared to the first half of the year. The drop was mainly caused by the decrease in participating banks' deposit balance with the clearing bank. Following the launch of the RMB fiduciary account scheme in April, participating banks might choose to place their RMB funds in the fiduciary account which will not be included in the Group's balance sheet. Participating banks might also reduce their deposits with the clearing bank as the use of offshore RMB funds further expanded in the latter half of the year.

Net interest margin was 1.44%, up 23 basis points half-on-half. Should the estimated impact of BOCHK's RMB clearing function in Hong Kong be excluded, the adjusted net interest margin would have been 1.51%, up 3 basis points. The diluting effect of the Group's RMB clearing bank business on net interest margin eased as the balance declined. The Group increased the deployment of its RMB funds to higher-yielding assets such as RMB loans and advances, interbank placements as well as bonds. Meanwhile, the pricing of its corporate and residential mortgage loans further improved, but rising deposit costs continued to compress net interest spread.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Fee and Commission Income

HK\$'m	2011	2010
Credit cards business	2,887	2,222
Securities brokerage	2,782	3,338
Loan commissions	1,160	961
Insurance	1,097	561
Bills commissions	854	751
Payment services	637	568
Trust and custody services	379	249
Funds distribution	337	160
Safe deposit box	211	200
Currency exchange	156	113
Others	358	356
Fee and commission income	10,858	9,479
Fee and commission expenses	(3,025)	(2,435)
Net fee and commission income	7,833	7,044

Net fee and commission income increased by HK\$789 million, or 11.2%, to HK\$7,833 million. The growth was broad-based. Fee income from credit cards grew by 29.9%, driven by the increase of 20.6% and 34.1% respectively in cardholder spending and merchant acquiring volume. Commission income from insurance, comprising life insurance, general insurance and reinsurance, grew by 95.5%, with the rise in business volume. Loan commissions and bills commissions grew by 20.7% and 13.7% respectively. The Group leveraged its marketing efforts and enhanced its services through the investment product specialist team. As a result, commission from funds distribution rose substantially by 110.6%. Fee and commission income from trust and custody services, payment services and currency exchange also registered satisfactory growth. Meanwhile, income from securities brokerage was down 16.7% under a weak market environment. Fee and commission expenses increased by HK\$590 million or 24.2%, mainly due to higher expenses of the credit card and insurance businesses.

Second Half Performance

Compared to the first half of 2011, net fee and commission income dropped by HK\$139 million or 3.5% in the second half. There was growth in the fee income from traditional businesses such as credit cards, trust and custody services, payment services and bills commissions. However, fee income from securities brokerage and insurance commission income declined as market sentiments weakened.

Net Trading Gain/(Loss)

HK\$'m	2011	2010
Foreign exchange and foreign exchange products	1,430	999
Interest rate instruments and items under fair value hedge	12	262
Equity instruments	82	(8)
Commodities	186	116
Net trading gain	1,710	1,369

Net trading gain was HK\$1,710 million, up HK\$341 million or 24.9% year-on-year. Benefiting from the fast-growing currency exchange activities and a reduction in foreign exchange loss on foreign exchange swap contracts*, the Group grew its net trading gain from foreign exchange and related products by HK\$431 million or 43.1%. Net trading gain from interest rate instruments and items under fair value hedge dropped by HK\$250 million or 95.4%, mainly reflecting mark-to-market losses on certain interest rate instruments versus gains in the previous year. The increase in trading gain from commodities was driven by the growth in bullion transactions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Second Half Performance

Compared to the first half of 2011, net trading gain increased by HK\$188 million or 24.7%. This was mainly due to a lower foreign exchange loss on foreign exchange swap contracts and increased contribution from bullion transactions.

* 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 original currency are swapped into another currency for liquidity and funding purposes without any foreign exchange risk. The exchange difference between the spot and forward contracts is recognised as foreign exchange gain or loss (as included in "net trading gain/(loss)"), while the corresponding interest differential between the surplus funds in 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	2011	2010
Banking business of the Group*	(1)	44
BOC Life	(339)	698
Net (loss)/gain on financial instruments designated at fair value through profit or loss	(340)	742

* The amount in 2011 was after group consolidation elimination.

The Group recorded a net loss of HK\$340 million on financial instruments designated at FVTPL in 2011, compared to a net gain recorded in the previous year. The net loss in 2011 was mainly due to the loss from the investment portfolio of BOC Life amid the weak financial market.

Second Half Performance

Net loss on financial instruments designated at FVTPL in the second half of the year was HK\$738 million, versus a gain of HK\$398 million recorded in the first half of 2011. The loss recorded in the second half of the year was mainly attributable to the BOC Life's investment portfolio.

Operating Expenses

HK\$'m	2011	2010
Staff costs	6,038	5,357
Premises and equipment expenses (excluding depreciation)	1,390	1,201
Depreciation on owned fixed assets	1,277	1,131
Other operating expenses	1,954	1,806
Core operating expenses	10,659	9,495
Impact of Lehman Brothers-related products*	(2,797)	89
Total operating expenses	7,862	9,584

	At 31 December 2011	At 31 December 2010
Staff headcount measured in full-time equivalents	14,475	13,806

* The final resolution of certain series of Lehman Brothers Minibonds was announced on 15 June 2011. The net amount of HK\$2,854 million recovered by the Group from the underlying collateral of the Lehman Brothers Minibonds, after deducting the ex gratia payments and provision for trustee expenses, was credited to operating expenses in 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total operating expenses decreased by HK\$1,722 million, or 18.0%, to HK\$7,862 million, mainly resulting from the net recovery of HK\$2,854 million from the underlying collateral of the Lehman Brothers Minibonds in 2011. Core operating expenses rose by HK\$1,164 million, or 12.3%, reflecting the Group's continued investments to support long-term business growth while maintaining disciplined cost control. Additional expenses were incurred for business expansion in strategic focus areas such as the Mainland operation.

Staff costs increased by 12.7%, mainly due to higher salaries as a result of annual salary increment, increase in headcount and performance-related remuneration.

Premises and equipment expenses rose by 15.7% with higher rental for the branches in Hong Kong and the Mainland as well as higher IT costs. Depreciation on owned fixed assets rose by 12.9% due to larger depreciation charge on premises following the upward property revaluation in Hong Kong.

Other operating expenses were up by 8.2% mainly due to higher expenses connected with the increased business volume.

Compared to the end of 2010, headcount measured in full-time equivalents rose by 669, mostly from the front-line staff. Headcount for the Mainland business also increased as a result of the expansion of NCB (China).

Second Half Performance

Compared to the first half of 2011, operating expenses rose by HK\$3,876 million. Excluding the impact of Lehman Brothers-related products, core operating expenses increased by HK\$1,003 million or 20.8%. The increase was due to higher staff cost, promotion, IT and rental expenses in the second half of the year.

Net (Charge)/Reversal of Loan Impairment Allowances

HK\$'m	2011	2010
Net (charge)/reversal of allowances before recoveries		
– individual assessment	(12)	149
– collective assessment	(720)	(528)
Recoveries	353	449
Net (charge)/reversal of loan impairment allowance	(379)	70

A net charge of loan impairment allowances of HK\$379 million was recorded in 2011 versus a net reversal of HK\$70 million in 2010. There was a modest amount of HK\$12 million in the net charge of individually assessed impairment allowances in 2011 compared to a reversal of HK\$149 million in 2010. The higher net charge of collectively assessed impairment allowances was primarily due to loan growth and the periodic review of the parameter values in the assessment model.

Second Half Performance

A net charge of loan impairment allowances amounting to HK\$342 million was recorded in the second half of 2011, up HK\$305 million from the first half. The increase was mainly caused by a higher net charge of collectively assessed impairment allowances, as a result of the periodic review of the parameter values in the assessment model and lower recoveries in the second half of the year.

Net (Charge)/Reversal of Impairment Allowances on Securities Investments

HK\$'m	2011	2010
Held-to-maturity securities	(124)	46
Available-for-sale securities	7	208
Net (charge)/reversal of impairment allowances on securities investments	(117)	254

MANAGEMENT'S DISCUSSION AND ANALYSIS

A net charge of impairment allowances on securities investments of HK\$117 million was recorded in 2011 compared to a net reversal of HK\$254 million in 2010. The net charge of impairment allowances in 2011 included a net charge of HK\$161 million (2010: HK\$56 million) made against debt securities issued by financial institutions of Ireland and Italy, which were subsequently disposed of during the second half.

Second Half Performance

A net charge of impairment allowances on securities investments amounting to HK\$129 million was registered in the second half of 2011, versus a net reversal of HK\$12 million in the first half. The net charge in the second half was mainly made against debt securities issued by financial institutions of Italy.

BALANCE SHEET ANALYSIS

Asset Deployment

HK\$'m, except percentage amounts	At 31 December 2011		At 31 December 2010	
	Amount	% of total	Amount	% of total
Cash and balances with banks and other financial institutions	278,795	16.0%	415,812	25.0%
Placements with banks and other financial institutions maturing between one and twelve months	107,910	6.2%	39,499	2.4%
Hong Kong SAR Government certificates of indebtedness	65,890	3.8%	46,990	2.8%
Securities investments ¹	425,600	24.5%	430,060	25.9%
Advances and other accounts	755,229	43.5%	645,424	38.9%
Fixed assets and investment properties	52,091	3.0%	41,391	2.5%
Other assets ²	52,995	3.0%	41,864	2.5%
Total assets	1,738,510	100.0%	1,661,040	100.0%

1. Securities investments comprise investment in securities and financial assets at fair value through profit or loss.

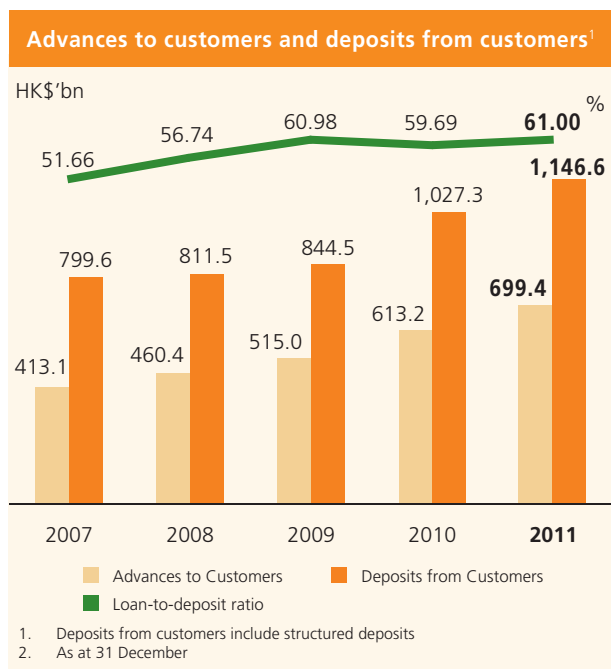
2. Interests in associates, deferred tax assets and derivative financial instruments are included in other assets.

In 2011, the Group managed its assets and liabilities proactively and focused on optimising asset allocation. It maintained a balanced growth in both deposits from customers and advances to customers. Particular emphasis was made in securing time deposits and quality lending. Funds were redeployed to higher yielding assets such as advances to customers, RMB interbank placements and RMB bonds. As at 31 December 2011, the Group's total assets amounted to HK\$1,738,510 million, increasing by HK\$77,470 million or 4.7% from the end of 2010.

Key changes in the Group's total assets include:

- Cash and balances with banks and other financial institutions decreased by 33.0%, mainly due to the decline in RMB funds placed with the People's Bank of China ("PBOC") by BOCHK's clearing business as RMB funds from participating banks to the clearing bank decreased.
- Placements with banks and other financial institutions maturing between one and twelve months increased by 173.2%, mainly due to growth in placements relating to the RMB business in Hong Kong.
- Securities investments decreased by 1.0% as the Group proactively reduced its exposure to European countries and lower-yielding securities to improve its portfolio mix. Meanwhile, the Group increased its holdings in higher-yielding RMB-denominated securities.
- Advances and other accounts rose by 17.0%, which was mainly attributable to the growth in advances to customers by 14.1% and trade bills by 78.8%.
- Other assets grew by 26.6%, which was mainly led by the increase in derivative financial instruments and reinsurance assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS



Advances to Customers

HK\$'m, except percentage amounts	At 31 December 2011		At 31 December 2010	
	Amount	% of total	Amount	% of total
Loans for use in Hong Kong	444,540	63.6%	387,087	63.1%
Industrial, commercial and financial	237,557	34.0%	206,947	33.7%
Individuals	206,983	29.6%	180,140	29.4%
Trade finance	59,508	8.5%	53,396	8.7%
Loans for use outside Hong Kong	195,331	27.9%	172,736	28.2%
Total advances to customers	699,379	100.0%	613,219	100.0%

The Group continued to optimise its loan portfolio structure and focus on quality and profitability. There was a healthy loan growth of HK\$86,160 million or 14.1% to HK\$699,379 million in 2011 with improved pricing on new corporate loans and residential mortgages.

Loans for use in Hong Kong grew by HK\$57,453 million or 14.8%.

- Lending to the industrial, commercial and financial sectors increased by HK\$30,610 million, or 14.8%, to HK\$237,557 million, covering a wide range of industries. Loans to the wholesale and retail trade sector grew strongly by 34.8%, benefiting from vibrant retail sales as a result of strong local consumption demand. Lending to the manufacturing, property investment and transport and transport equipment sectors also grew by 14.7%, 8.4% and 13.3% respectively.
- Lending to individuals increased by HK\$26,843 million, or 14.9%. Owing to the buoyant property market, particularly in the first half of the year, residential mortgage loans (excluding those under the Government-sponsored Home Ownership Scheme) grew by 15.2%. Credit card advances increased by 17.3%, supported by the 12.4% rise in the number of cards issued and the 20.6% increase in cardholder spending volume. Other loans to individuals rose strongly by 35.8%.

Trade finance rose by HK\$6,112 million, or 11.4%. Meanwhile, loans for use outside Hong Kong grew by HK\$22,595 million or 13.1%, mainly driven by strong Mainland-related credit demand. The Group remained highly vigilant in risk management and selective in credit approval.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Second Half Performance

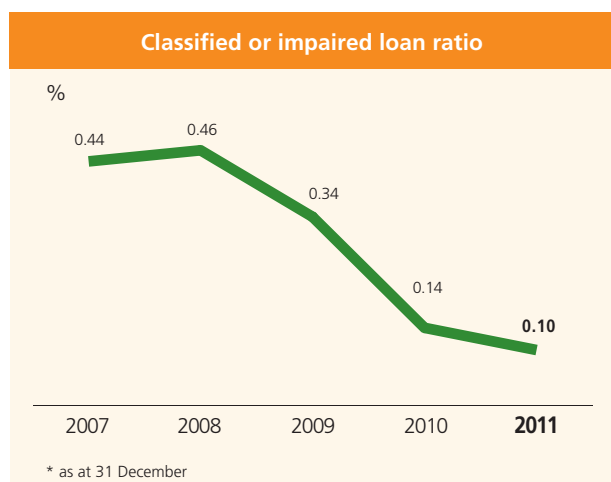
Loan growth slowed down in the second half of the year as the Group maintained stringent risk control in view of the worsening outlook and the slowing down of the local economy. Total advances to customers increased by HK\$26,521 million or 3.9%, mainly driven by the growth in loans for use outside Hong Kong and lending to the industrial, commercial and financial sectors.

Loan Quality

HK\$m, except percentage amounts	At 31 December 2011	At 31 December 2010
Advances to customers	699,379	613,219
Classified or impaired loan ratio ¹	0.10%	0.14%
Impairment allowances	2,830	2,311
Regulatory reserve for general banking risks	6,967	5,076
Total allowances and regulatory reserve	9,797	7,387
Total allowances as a percentage of advances to customers	0.40%	0.38%
Impairment allowances ² on classified or impaired loan ratio	39.86%	40.02%
Residential mortgage loans ³ – delinquency and rescheduled loan ratio ⁴	0.01%	0.02%
Card advances – delinquency ratio ^{4,5}	0.16%	0.15%

	2011	2010
Card advances – charge-off ratio ^{5,6}	1.07%	1.36%

1. Classified or impaired loans follow the definitions set out in the Banking (Disclosure) Rules under the Banking Ordinance and 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.
2. Referring to impairment allowances on loans classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.
3. Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.
4. Delinquency ratio is measured by a ratio of total amount of overdue loans (more than three months) to total outstanding loans.
5. Excluding Great Wall cards and computed according to the HKMA's definition.
6. Charge-off ratio is measured by a ratio of total write-offs made during the year to average card receivables during the year.



The Group's loan quality remained sound. The classified or impaired loan ratio dropped by 0.04 percentage point to 0.10% – one of the lowest in the industry. Classified or impaired loans decreased by HK\$157 million, or 18.1%, to HK\$710 million mainly due to collections. Formation of new classified loans in 2011 remained at a low level and represented approximately 0.07% of total loans outstanding.

Total impairment allowances, including both individual assessment and collective assessment, amounted to HK\$2,830 million. Total impairment allowances on classified or impaired loans as a percentage of total classified or impaired loans was at 39.86%.

The quality of the Group's residential mortgage loans remained sound with the combined delinquency and rescheduled loan ratio standing at a low level of 0.01% at the end of 2011. As compared to 2010, the charge-off ratio of card advances dropped by 0.29 percentage point to 1.07%, mainly due to cardholders' improved debt servicing capability.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Deposits from Customers*

HK\$m, except percentage amounts	At 31 December 2011		At 31 December 2010	
	Amount	% of total	Amount	% of total
Demand deposits and current accounts	77,440	6.7%	70,453	6.9%
Savings deposits	504,868	44.0%	528,035	51.4%
Time, call and notice deposits	563,643	49.2%	428,545	41.7%
	1,145,951	99.9%	1,027,033	100.0%
Structured deposits	639	0.1%	234	0.0%
Deposits from customers	1,146,590	100.0%	1,027,267	100.0%

* Including structured deposits.

The Group adopted a flexible deposit strategy to support business growth. In spite of fierce competition, the Group enlarged its deposit base by HK\$119,323 million, or 11.6% to HK\$1,146,590 million. A series of measures were taken to optimise the deposit mix to maintain a stable deposit growth. These included innovative promotion campaigns and the offering of various deposit products. Demand deposits and current accounts increased by 9.9% while time, call and notice deposits rose by 31.5%. Savings deposits recorded a drop of 4.4%. The Group's loan-to-deposit ratio was 61.00% at the end of 2011, up 1.31 percentage points.

Second Half Performance

Total deposits from customers increased by HK\$42,586 million or 3.9% in the second half of 2011. Demand deposits and current accounts increased by 9.7%. Time, call and notice deposits rose by 10.6%. Savings deposits decreased by 3.5%.

Senior Notes

As part of the Group's proactive measures in asset and liability management, BOCHK issued US\$750 million worth of senior notes to professional and institutional investors under the Medium Term Note Programme in November 2011. The outstanding of senior notes was shown as *Debt securities in issue at amortised cost* on the balance sheet.

Subordinated Liabilities

The outstanding subordinated liabilities comprised floating-rate subordinated loans obtained from BOC in 2008 and fixed-rate subordinated notes issued by BOCHK in 2010. Both subordinated liabilities were qualified as Tier 2 capital of BOCHK, which helped the Group better manage its capital structure.

Capital and Reserves Attributable to the Equity Holders of the Company

HK\$m	At 31 December 2011	At 31 December 2010
Share capital	52,864	52,864
Premises revaluation reserve	23,150	15,750
Reserve for fair value changes of available-for-sale securities	1,787	2,629
Regulatory reserve	6,967	5,076
Translation reserve	674	453
Retained earnings	44,323	38,409
Reserves	76,901	62,317
Capital and reserves attributable to the Equity Holders of the Company	129,765	115,181

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital and reserves attributable to the equity holders grew by HK\$14,584 million, or 12.7% to HK\$129,765 million at 31 December 2011. Retained earnings increased by 15.4%, reflecting the 2011 profit after the appropriation of dividends. Premises revaluation reserve increased by 47.0%, which was attributable to the increase in property prices in 2011. Increases in the carrying amount arising on revaluation of premises are credited to the premises revaluation reserve while any increase in the fair value of investment properties is reported directly in the income statement. Regulatory reserve rose by 37.3% due to loan growth and the higher reserve ratio requirement. Reserve for fair value changes of available-for-sale securities was down 32.0%, reflecting the drop in fair value of available-for-sale debt securities, mainly due to the widening of credit spread.

Capital and Liquidity Ratio

HK\$m, except percentage amounts	At 31 December 2011	At 31 December 2010
Core capital after deductions	84,600	77,943
Supplementary capital after deductions	29,654	33,544
Total capital base after deductions	114,254	111,487
Total risk-weighted assets	676,024	690,597
Capital adequacy ratios (consolidated basis)		
Core capital ratio	12.51%	11.29%
Capital adequacy ratio	16.90%	16.14%
	2011	2010
Average liquidity ratio	36.17%	38.77%

In prior years, the Group adopted the standardised (credit risk) ("STC") approach and the standardised (market risk) ("STM") approach to calculate credit risk capital charge and market risk capital charge respectively.

With the HKMA approval from 1 January 2011, the Group has migrated to the foundation internal ratings-based ("FIRB") approach to calculate the credit risk capital charge for the majority of its non-securitisation exposures and internal ratings-based (securitisation) approach to calculate the credit risk capital charge for its securitisation exposures. A small residual credit exposures was approved by HKMA to be exempted from FIRB approach and remained under STC approach.

BOCHK has adopted the internal models approach to calculate general market risk capital charge for foreign exchange and interest rate exposures as at 31 December 2011, while the remaining of the Group continued to adopt the STM approach to calculate the market risk capital charge.

The Group continues to adopt the standardised (operational risk) ("STO") approach to calculate the minimum capital charge for operational risk in year 2011.

Consolidated capital adequacy ratio at 31 December 2011 was 16.90%. As a result of the change in the bases of regulatory capital calculation, the amounts shown above are not directly comparable.

The average liquidity ratio in 2011 remained strong at 36.17%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2011 Business Highlights

Personal Banking

- Maintained its leading position in residential mortgages
- Boosted the sales of funds by 122.7% through the enhancement of the sales model and professionalism
- The credit card business achieved robust growth with credit card advances rising strongly by 17.3%
- Customer base for wealth management rose by 17.4%
- Received the "Best Internet Banking" and "Best Mobile Telephone Banking" awards under the Capital Weekly Service Awards 2011

Corporate Banking

- Registered a healthy growth of 13.5% in corporate loans with improved pricing on new loans
- Remained the top mandated arranger in the Hong Kong-Macau syndicated loan market
- Launched innovative cash management products, enlarged the customer base, and increased the number of CBS Online customers by 26.8%
- Expanded the client base for custody service
- Received the "SME's Best Partner Award" for the fourth consecutive year

Treasury

- Proactively improved the portfolio mix by reducing the exposure to European countries and lower-yielding securities in view of rising market volatilities
- Adjusted asset allocation and portfolio duration to enhance liquidity

Insurance

- Maintained its leading market position in the life insurance business
- Further improved the product mix and grew gross regular premium income by 56.4%
- The financial planning team was highly effective in boosting the sales of insurance products

Mainland Business

- Strengthened the deposit base and ensured that the loan-to-deposit ratio was in compliance with the regulatory requirement
- Improved the asset mix and loan pricing to counteract the negative impact from rising funding costs
- The branch network expanded to a total of 27 at end-2011 with the addition of two new sub-branches
- Enhanced the linkage of the Group's service platform with that of BOC to enable debit card holders to access services through BOC's network

RMB Business in Hong Kong

- Maintained the leading position in RMB banking business, including deposits taking, trade settlement, credit card and insurance
- Reappointed by the PBOC as the clearing bank for RMB business in Hong Kong
- Introduced securities trading & payment services, trade finance, and cash management products; two own-branded RMB bond funds were launched
- Developed a global RMB banknote network with BOC's overseas branches
- Introduced the RMB Fiduciary Account Scheme and RMB Repo facilities

MANAGEMENT'S DISCUSSION AND ANALYSIS

2012 Business Focuses

The external economic environment, in particular the global financial market, will continue to be uncertain. In view of that, while capitalising on its core competencies to implement growth strategies, the Group will also be highly alert in safeguarding its assets and investments by means of stringent risk management and control.

With offshore RMB business being one of the key strategic focuses, the Group will step up its effort in growing the business and enhancing its RMB banking service capabilities. It will also work closely with BOC to explore cross-border financial needs and pursue business opportunities from Mainland enterprises seeking global expansion.

The Group will continue with its focus on customer segmentation and market penetration. The service model for high-net-worth customers will be further enhanced to upgrade its service quality and boost wealth management-related businesses.

In the Mainland, the Group will optimise its distribution channels and focus on the development of an integrated cross-border financial service platform by cooperating closely with BOC.

Business Segment Performance

HK\$m, except percentage amounts	Personal Banking	Corporate Banking	Treasury	Insurance	Others ¹	Consolidated
2011						
Profit before taxation	4,896	8,636	6,515	33	4,600	24,680
% of total	19.8%	35.0%	26.4%	0.1%	18.7%	100.0%
2010						
Profit before taxation	4,656	6,961	5,463	505	2,157	19,742
% of total	23.6%	35.3%	27.7%	2.5%	10.9%	100.0%

1. Profit before taxation of Others in 2011 included the net recovery from the underlying collateral of the Lehman Brothers Minibonds.
2. For additional segmental information, see Note 49 to the Financial Statements.

PERSONAL BANKING

Financial Results

Personal Banking recorded a profit before taxation of HK\$4,896 million.

Net interest income decreased by 3.7%. There was growth in average loans and advances but the loan and deposit spread became narrower with more intense competition. Personal loans and customer deposits increased by 15.4% and 1.3% respectively from last year end.

Net fee and commission income decreased by 3.0%. This was mainly due to the lower commission income from securities brokerage. There was satisfactory growth in fee income from insurance and funds distribution, thanks to the contribution of the Group's professional sale teams. Net trading gain rose by 17.8%, which was mainly led by the mark-to-market gain from equity instruments.

Business operation

The Group made good progress in growing its Personal Banking business in 2011. Customer deposits and the residential mortgage business experienced solid growth and maintained their respective leading positions in the market. The fund distribution and life insurance businesses also performed strongly. The credit card business continued to grow and captured a larger market share. The range of RMB products was further widened with the launch of new RMB credit cards as well as investment and insurance products.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Residential mortgages – 15.2% growth

Thanks to the buoyant residential property market, particularly in the first half of 2011, the Group grew its residential mortgage loans by 15.2% from the end of 2010. The pricing on new residential mortgage loans was adjusted upward according to the market condition, while both HIBOR and Prime-based mortgages were provided in response to customers' demand. The Group also successfully offered the Reverse Mortgage Programme launched by The Hong Kong Mortgage Corporation Limited and achieved a leading market share. The Group worked in close partnership with major property developers and participated in the joint promotions of most of the prime property development projects.

Investment and insurance businesses – robust growth in the sales of funds and insurance products

The Group expanded its stock brokerage service spectrum, including its mobile trading platform, to reinforce its strong position in personal securities business. The trading system was enhanced with the launch of RMB-denominated securities trading services. These helped pave the way for the development of RMB-denominated securities business in Hong Kong. In the fund distribution business, the Group rolled out new products and tailor-made services to high-end customers. Two own-branded private funds, namely BOCHK RMB Bond Fund and BOCHK RMB High Yield Bond Fund were introduced to targeted customers. The Investment Product Specialist Team provided customers with professional service on investment products. As a result, commission income from fund distribution surged by 110.6%.

Regarding its Bancassurance business, the Group strengthened its position as a prominent life insurance provider and maintained its lead in the RMB insurance market. In view of the increasing demand for RMB products, a new flagship product – the “RMB Universal Life Insurance Plan” – was launched and met with keen response from customers. The Group further enhanced its financial planning model and cross-selling capabilities with encouraging results.

Credit card business – growth of merchant acquiring and cardholder spending outpacing the market

The Group's credit card business saw robust growth in 2011 with a gain in market share. It maintained its leadership in the China UnionPay (“CUP”) merchant acquiring business and card issuing business. The “BOC CUP Dual Currency Commercial Card” was launched with enthusiastic response from corporate customers. A number of co-branded cards were also issued to attract new quality cardholders. Customer incentive programmes were offered to segmented cardholders for promoting loyalty and boosting cardholder spending. As a result, the total number of cards issued increased by 12.4% while the merchant acquiring and cardholder spending volumes surged by 34.1% and 20.6% respectively. Credit card advances rose by 17.3%.

Wealth management customers – increasing by 17.4% from end of 2010

The Group continued to offer differentiated services and customised wealth management solutions to foster long-term relationship with wealth management customers. Through the Capital Investment Entrant Scheme and in collaboration with BOC branches and NCB (China), the Group was able to attract a larger number of high-net-worth customers in Hong Kong and the Mainland. The total number of wealth management customers grew by 17.4% year-on-year. The Group also further optimised its Investment Product Specialist Team for servicing the high net-worth customer group.

Distribution channels – enhancing e-channels to offer seamless customer service

The Group continued to optimise its distribution channels to meet the needs of both local and cross-border customers. At the end of 2011, the Group's service network in Hong Kong comprised 266 branches, including 133 wealth management centres and 21 dedicated Mainland customer service centres. In 2011, the service scope of the call centre was enhanced. A new hotline was set up specifically for providing enquiry services to Mainland customers.

The Group further invested in the automated banking channels. It upgraded the cheque deposit machines to accept RMB and USD cheques in addition to HKD cheques. This is the first of its kind in Hong Kong. It enhanced the functions of its e-Banking platform, including the extension of FX and Bullion Margin trading hours and functions. In response to customers' increasing usage of mobile smart phones, the mobile banking service was further enriched and expanded.

The Group introduced the Quality Management System for the operations of the Trade Services Centre, which successfully obtained ISO 9001:2008 certification in 2011. In recognition of its well-received electronic platform and outstanding services, the Group was honoured with the “Best Internet Banking” and “Best Mobile Telephone Banking” awards under the Capital Weekly Service Awards 2011. The Group was also awarded by the Hong Kong Call Centre Association (“HKCCA”) in 2011 with “HKCCA Grand Award of the Year” and “Asia Pacific Contact Centre Association Leaders (“APCCAL”) Recognition Award in Hong Kong Region” and 16 other awards.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CORPORATE BANKING

Financial Results

Corporate Banking recorded a growth of HK\$1,675 million, or 24.1%, in profit before taxation. This was attributable to the increase in net interest income as well as net fee and commission income.

Net interest income rose by 30.5%, driven by an expansion in loans and deposits with improvement in the average pricing of lending and deposit spread. Corporate loans and customer deposits grew by 13.5% and 25.0% respectively year-on-year.

Net fee and commission income increased by 17.4%, led by the growth in loan and bills commissions as well as fee income from currency exchange and payment services. Net trading gain rose by 82.8% mainly as a result of the higher income from foreign exchange services.

Business operation

The Group's Corporate Banking business maintained its growth momentum in 2011. Corporate loans grew satisfactorily with improvement in the pricing of new loans. The customer base was further enlarged. A full spectrum of financial services, including cross-border services, was offered to core corporate clients. The Group continued to provide efficient services to the SME segment. The development of the Group's custody and cash management services also made steady progress during the year.

Corporate lending business – 13.5% growth of corporate loans

Owing to the tightening of credit in the Mainland, the demand for corporate loans remained strong during the year. The Group's corporate loans grew by 13.5% with further improvement in the pricing of new loans. By implementing the "Total Solution" and capitalising on its strong cross-border relationship and servicing programmes, namely, the "Global Relationship Manager Programme" and the "Global Unified Facilities Agreement", the Group strengthened its service capabilities and improved its credit and risk management. During the year, the Group refined its management of clientele in different industries, thus furthering its expertise in industry management and bolstering customer and marketing segmentation. In 2011, the Group remained the top mandated arranger in the Hong Kong-Macau syndicated loan market.

SME business – won "SME's Best Partner Award" for the fourth consecutive year

The Group enhanced its services for SME customers by offering total solutions and participating actively in the government's "SME Financing Guarantee Scheme" as well as introducing the new "Bank Special Loan Guarantee Scheme". Closer collaboration with BOC and NCB (China) enabled the Group to acquire new targeted customers. The Group also set up a flagship commercial centre to further meet the banking needs of corporate and SME customers. In May 2011, BOCHK received for the fourth consecutive year the "SME's Best Partner Award" presented by the Hong Kong Chamber of Small and Medium Business Limited.

Trade finance – launch of innovative products

The Group capitalised its strong cross-border capabilities and the further relaxation of the offshore RMB business to capture more business opportunities. In collaboration with BOC, the Group offered cross-border trade finance products, such as RMB short-term overseas financing, to corporate customers in both Hong Kong and the Mainland. Various innovative trade finance products were launched during the year. In 2011, the Group's balance of trade finance rose by 11.4%.

Custody service – further expansion of client base

The Group successfully expanded the client base of its custody service in 2011. In addition to the services provided to Qualified Domestic Institutional Investors and various types of fund clients, the Group also took initiatives to secure business opportunities from RMB Qualified Foreign Institutional Investors. The custody volume of RMB investment instruments was on the increase. The Group continued to provide escrow services to large corporate entities and strengthen its cooperation with professional intermediaries. At the end of 2011, excluding the RMB fiduciary account for participating banks, total assets under the Group's custody were valued at about HK\$400 billion.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cash management service – launch of RMB-related products and services

The Group continued to strengthen its cash management platform. It not only provided Business Integrated Account to SME customers, but also enhanced its liquidity management services. Its Corporate Internet Banking Platform was reinforced to facilitate corporate customers in conducting their local and cross-border business activities. Meanwhile, new products and services were introduced, including a wide range of RMB payment and receivable products. The Group played an important role as the RMB agent bank of the Hong Kong Stock Exchange to facilitate the first RMB share listed in Hong Kong. The remittance points of BOC Remittance Plus increased to about 5,000. During the year, the number of Corporate Banking Services Online (“CBS Online”) customers recorded a satisfactory increase.

Risk management – proactive measures in place

To safeguard asset quality, the Group continued to carry out rigorous risk management and credit control. Corporate customers who could be adversely affected by the volatile global economic environment were closely monitored. Market and industry trends were frequently and thoroughly analysed to formulate timely and effective precautionary courses of action. Measures were taken to check customers’ fund flow and enhance credit review. The Group was also alert to any new development of the Mainland economy and the potential impact of the Central Government’s austerity measures, in particular the latest situation of local government debts. Precautionary measures and prudent credit standards have been put in place for lending to customers and counterparties in vulnerable segments.

MAINLAND BUSINESS

Distribution channels – two new sub-branches and enhanced linkage of service platform with BOC

The Group further strengthened its customer service capability and expanded its network in the Mainland. The linkage of the Group’s service platform with those of BOC has been augmented to enable debit card holders of NCB (China) to access services through BOC’s network. The Group also upgraded the platform and functionality of its e-banking to enhance customer experience. Close collaboration was fostered with BOC by developing different liaison models to deepen cooperation and explore business referral opportunities. New business platforms have been set up to cater for the expansion of the SME and credit card businesses. During the year, two sub-branches in Zhongguancun, Beijing and the Qingdao Economic & Technical Development Zone respectively commenced operation. NCB (China) also obtained approval to establish its Foshan Sub-branch, Dongguan Sub-branch, Shanghai Huangpu Sub-branch and Chengdu Chuangye Road Sub-branch. By the end of 2011, the Group’s total number of branches and sub-branches in the Mainland increased to 27.

Financial performance – customer deposits growing by 52.7%

The Group’s Mainland business experienced healthy growth in 2011. It succeeded in further strengthening its deposit base by growing its customer deposits by 52.7%. Advances to customers fell by 8.9% but the overall loan quality remained sound. Operating as a locally incorporated bank, NCB (China)’s loan-to-deposit ratio at the end of 2011 was 70.2%, which was in line with the regulatory requirement. To alleviate the impact of the continued rise in the reserve requirement ratio on the net interest margin, the Group managed to improve its asset mix and loan pricing. Total operating income increased by 42.2% with notable growth in both net interest income and net fee and commission income.

TREASURY

Financial Results

Treasury recorded a strong increase of 19.3% in profit before taxation over the previous year.

Net interest income was up 27.7% with the improvement in the interest spread of RMB funds and the improved yield on debt securities.

Net trading gain improved as net trading gain from foreign exchange activities and bullion transactions increased. However, there was a mark-to-market loss on certain interest rate instruments versus a gain recorded last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Operation

Proactive investment strategy – reduced exposure to European countries and lower-yielding securities

The Group continued with a proactive approach in managing its banking book investments. The portfolio was well diversified in terms of geographic and counterparty exposure. During the year, the Group extended the portfolio duration and focused more on government-related securities as well as high-quality financial institutions and corporate bonds. In view of rising market volatilities, the Group swiftly adjusted its strategy by improving its portfolio mix to reduce its exposure to European countries and lower-yielding securities. At the end of 2011, the Group had no exposure to debt securities issued by the GIIPS (Greece, Italy, Ireland, Portugal and Spain) financial institutions, governments or other private entities.

RMB-related businesses – major market maker in RMB FX and derivative products in Hong Kong

During the year, the Group acted as the major market maker in the CNH market of Hong Kong and was the first offshore institution with the "Delivery Versus Payment" settlement arrangement in the onshore market. The Group was an active participant in the RMB bond underwriting business. It cooperated with BOC's overseas branches in developing a global RMB banknote network, providing product support and pricing-quoting services to these branches and extending business relationships with central banks and financial institutions in their host countries.

RMB-clearing bank business – providing better clearing bank services for Hong Kong and offshore markets

BOCHK was reappointed as the clearing bank for the offshore RMB business in Hong Kong and as the sole bank to provide RMB banknotes clearing service to Taiwanese banks. The Group further enhanced its clearing services to expand the global RMB business network. It launched the RMB Fiduciary Account Scheme Service to reduce the counterparty risk of the participating banks to the clearing bank. The Group further improved its RMB clearing function and infrastructure. RMB Repo facilities were offered to the participating banks to facilitate intraday liquidity management. The Group also demonstrated its commitment to the promotion of the CNH interbank market and the setting of CNY HIBOR.

INSURANCE

Financial Results

The Group's Insurance segment registered a decline of 93.5% in its profit before taxation to HK\$33 million in 2011. The decline was mainly attributable to a higher provision for insurance liabilities as a result of declining market interest rates. The decrease was also caused by the investment loss of its securities portfolio under a highly volatile investment environment.

Net interest income grew by 13.8%, which was mainly driven by the expansion of securities assets acquired with the new premiums received. Gross insurance premiums increased by 49.5% with the sharp rise in regular premiums. During the year, a net charge of impairment allowances on securities investment of HK\$167 million was made for BOC Life's debt securities investments mainly in Italy and Ireland which had been disposed of by the end of 2011.

Business Operation

Improved product mix – significant growth of regular premium income

The Group continued to build up its insurance business by implementing a "Needs-based Selling" approach and expanding the product mix. Regular-premium products remained the Group's focus. Total gross regular premium income rose by 56.4% year-on-year. New products, such as the "Tactics Investment Insurance Plan" and "RMB Universal Life Insurance Plan", were launched during the year. In 2011, BOC Life maintained its leading market position in the life insurance business in Hong Kong.

During the year, BOC Life was entered as one of the three finalists for the title of "Life insurance Company of the Year" under the Asia Insurance Industry Awards. In recognition of its outstanding service quality, it was given three awards under the Hong Kong Management Association's Quality Award scheme, namely, the Award for Excellence in Training and Development – Gold Prize, Most Innovative Award and Best Presentation Award.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RMB insurance products – a prominent provider

The Group's leading role in the RMB insurance market was solidified through the development and innovation of RMB insurance products. Popular RMB insurance products such as the "Target 5 Years Insurance Plan Series" and "Multi-Plus Savings Insurance Plan" continued to attract substantial new business. During the year, the new "RMB Universal Life Insurance Plan" was launched to provide customers with lifelong protection and flexibility in target saving.

REGULATORY DEVELOPMENT

Implementation of Basel III

In December 2010, Basel Committee on Banking Supervision ("BCBS") issued *A Global Regulatory Framework for More Resilient Banks and Banking Systems and International Framework for Liquidity Risk Measurement, Standards and Monitoring*. It sets out a better-quality capital framework, the introduction of leverage ratio as a backstop to the risk-based capital requirement, measures to strengthen the resilience of the banking sector against cyclical economic shocks, and the introduction of global liquidity standards. The Group set up a task force led by the senior management to coordinate various units within the Group to comply with the new requirements and monitor the implementation of the Basel III Accord, taking into consideration the Group's development strategy. The Group has conducted a detailed impact analysis on the new capital rules and been in constant dialogue with the regulatory authority. The objective of Basel III is to improve the banking sector's ability to absorb shocks arising from financial and economic stress in the future. The Group will follow HKMA's timetable in the implementation of Basel III.

CREDIT RATINGS

As at 31 December 2011	Long-term	Short-term
Standard & Poor's	A+	A-1
Moody's	Aa3	P-1
Fitch	A	F1

On 29 November 2011, Standard & Poor's raised BOCHK's long-term counterparty credit rating from 'A-' to 'A+' and the short-term counterparty credit rating from 'A-2' to 'A-1'. This rating upgrade demonstrates the effectiveness of the Group's balanced and sustainable development strategy in the past years.

As at 31 December 2011, BOCHK's long-term and short-term local and foreign currency bank deposit ratings assigned by Moody's were 'Aa3' and 'P-1' respectively. The Bank Financial Strength Rating was 'C+'.

In respect of the ratings assigned by Fitch Ratings, BOCHK's long-term and short-term foreign currency issuer default ratings were 'A' and 'F1' respectively while the support rating was '1'.

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 growth and development. The principal types of risks 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 of Directors ("the Board"), which is an expression of the types and level of risk that the Group is willing to take in order to achieve its business goals and to meet the expectations of its stakeholders under a controllable risk level. For details of the Group's risk management governance structure, please refer to Note 4 to the Financial Statements in this Annual Report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Credit Risk Management

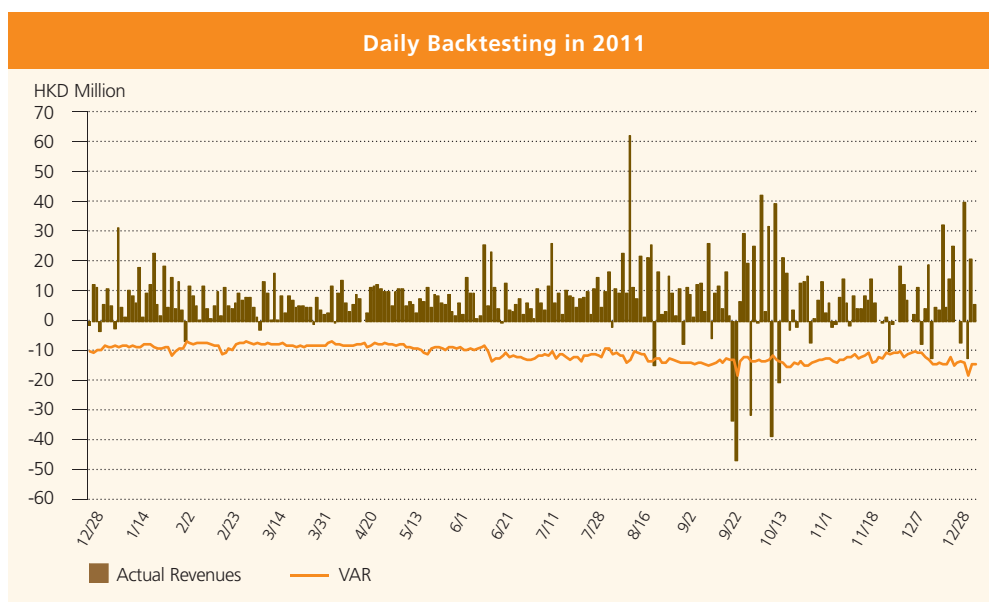
Credit risk is the risk of loss that a customer or counterparty will be unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, on- and off-balance sheet exposures of a bank. It arises principally from the lending, trade finance and treasury businesses, and covers inter-bank transactions, foreign exchange and derivative transactions as well as investments in bonds and securities. For details of the Group's Credit Risk Management, please refer to Note 4.1 to the Financial Statements in this Annual Report.

Market Risk Management

Market risk refers to the risk of losses arising from adverse movements in the value of foreign exchange and commodity positions and the trading book interest rate and equity positions held by the Group due to the volatility of financial market price (debt security price/interest rate, foreign exchange rate, equity price, commodity price). The Group adopts robust market risk appetite to achieve balance between risk and return. For details of the Group's market risk management, please refer to Note 4.2 to the Financial Statements in this Annual Report.

The Group uses the VAR technique to measure potential losses and market risks of its trading book for reporting to the Risk Committee ("RC") and senior management on a periodic basis. The Group adopts a uniformed VAR calculation model, using historical simulation approach and 2-year historical data, to calculate VAR of the Group and subsidiaries over 1-day holding period with 99% confidence level, and set up VAR limit of the Group and subsidiaries.

The predictive power of the VAR measure is monitored by back-testing, which compares the calculated VAR figure of trading positions of each business day with the actual revenues arising on 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. BOCHK conducts back-testing on a monthly basis and the graph below shows the back-testing result of the trading book VAR of BOCHK.



There were 7 actual losses exceeding the VAR estimates for BOCHK in 2011. The exceptions of the back-testing mainly resulted from unanticipated market movement. In response to this circumstance, measures have been taken by the Group to improve the model.

Interest Rate Risk Management

Interest rate risk means the risks to a bank's earnings and economic value arising from adverse 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 re-pricing risk, basis risk, yield curve risk and options risk. For details of the Group's Interest Rate Risk Management, please refer to Note 4.2 to the Financial Statements in this Annual Report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 adopts a sound liquidity risk appetite to provide stable, reliable and adequate sources of cash to meet liquidity needs under normal circumstances or stressed scenarios; and survive with net positive cumulative cash flow in extreme scenarios, without requesting HKMA to act as the lender of last resort. For details about Liquidity Risk Management, please refer to Note 4.3 to the Financial Statements in this Annual Report.

Operational Risk Management

Operational risk is the risk of loss resulting from an inadequate or failed internal process, any of the staff, the information technology system or an external event. The risk is inherent in every aspect of business operations and confronted by the Bank in its day to day operational activities.

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. Proper segregation of duties and authorisation is the fundamental principle followed by the Group. Corporate-level policy and procedure on operational risk management are formulated by Operational Risk and Compliance Department ("OR&CD") and approved by the RC.

The Group has adopted the "Three Lines of Defence" model for its operational risk management governance structure: all departments as the first line of defence are the owner of operational risk and are responsible for carrying out the duties and functions of self risk control in the process of business operation through self-assessment, self-checking and self-correction. OR&CD together with certain specialist functional units in relation to operational risk management within the Group are the second line of defence, which is responsible for assessing and monitoring the operational risk condition of the first line of defence, and providing it with guidance. In addition to formulating the operational risk management policy and procedure, OR&CD, being independent from business units, is the central management unit of the Group's operational risk management and also responsible for designing the operational risk assessment methodologies, tools and the reporting mechanism (including the capturing of data on operational risk events loss), monitoring the implementation status of policies and operational procedures in the departments of the first line of defence through operational risk management tools, and assessing and reporting the overall operational risk position to the Management and RC. Certain specialist functional units, including the Human Resources Department, Information Technology Department, Corporate Services Department, OR&CD, Financial Management Department and General Accounting & Accounting Policy Department, are required to carry out their managerial duties of the second line of defence with respect to some specific aspects of operational risk. 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 corporate-level operational risk management. The Group Audit is the third line of defence which provides independent assessment with respect to the operational risk management framework and is required to conduct periodic audit of the operational risk management activities of various departments/business units within the Group regarding their compliance and effectiveness and to put forward recommendations for corrective actions.

The Group adopts the 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 takes out insurance to mitigate unforeseeable operational risks. Business continuity plans are in place 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 erosion. Reputation risk is inherent in other types of risk and every aspect of business operation and covers a wide spectrum of issues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In order to mitigate reputation risk, the Group has formulated and duly followed its Reputation Risk Management Policy. The policy aims to prevent and manage 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 framework, including system support, to achieve continuous monitoring of external reputation risk incidents and published failures of risk incidents in the financial industry.

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 a bank may suffer as a result of its failure to comply with all applicable laws and regulations. Legal and compliance risks are managed by OR&CD, which reports directly to the Chief Risk Officer ("CRO"). All legal matters are handled by the Legal Services Centre ("LSC"), which reports to the Chief Operating Officer. OR&CD is responsible for legal risk management of the Group with support rendered by the LSC. As part of the Group's corporate governance framework, the policy for the management of legal and compliance risk is approved by RC.

Strategic Risk Management

Strategic risk generally refers to the risks that may induce immediate or future negative impact on the financial and market positions of the Group because of poor strategic decisions, improper implementation of strategies and lack of response to the market. The Board reviews and approves the policy for the management of strategic risks. Key strategic issues have to be fully evaluated and properly endorsed by the senior management and the Board.

The Group will regularly review 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 Group periodically reviews its capital structure and adjusts the capital mix where appropriate to achieve the required rate of return on capital.

To comply with HKMA's requirements as stated in the Supervisory Policy Manual "Supervisory Review Process", the Group has established the internal capital adequacy assessment process (ICAAP) and reviews it annually. Using the statutory minimum CAR, 8%, as a starting point, extra capital (capital add-on) needed to cover the risks not captured under Pillar I is assessed. A Scorecard approach based on HKMA's compliance guidance on Pillar II has been used to evaluate the Group's risk profile in order to assess the add-on capital to determine the minimum CAR. An Operating CAR Range has also been established which incorporates the need for future business growth and efficiency of capital utilisation. In response to the core capital requirements under the Basel III Accord, the minimum common equity CAR and minimum core CAR are further introduced in 2011's ICAAP.

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 and ALCO monitors the results against key risk limit approved by the RC. The Financial Management Department reports the combined stress test results to the Board and RC regularly.

BOC Life Insurance

BOC Life's principal business activity is the underwriting of long-term insurance business in life and annuity, unit-linked long-term business and retirement scheme management in Hong Kong. Major types of risk arising from the BOC Life's insurance business are insurance risk, interest rate risk, liquidity risk and credit risk. BOC Life closely monitors these risks and reports to its RC on a regular basis. The key risks of its insurance business and related risk control process are as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS

Insurance Risk Management

BOC 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 arrangement.

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 BOC Life's underwriting procedures.

The reinsurance arrangement does not, however, discharge BOC Life's liability as the primary insurer. If a reinsurer fails to pay a claim for any reasons, BOC 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 contract. BOC 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. BOC Life also monitors the recoverability of its reinsurance assets 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 in this Annual Report.

Interest Rate Risk Management

An increase in interest rates may result in the depreciation of the value of BOC Life's bond portfolio. It may also result in customers accelerating surrenders. 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. BOC Life manages the asset liability matching of its portfolios within an asset liability management (ALM) framework that has been developed to achieve investment returns that match its obligations under insurance contracts.

Liquidity Risk Management

Liquidity risk is the risk of not being able to fund increases in assets or meet obligations as they fall due without incurring unacceptable loss. BOC Life's asset liability matching framework includes cash flow management to preserve liquidity to match policy payout from time to time. In the normal course of BOC Life's business, new business premiums generate constant cash inflows and, as a result, the portfolios also grow gradually to meet future liquidity requirement.

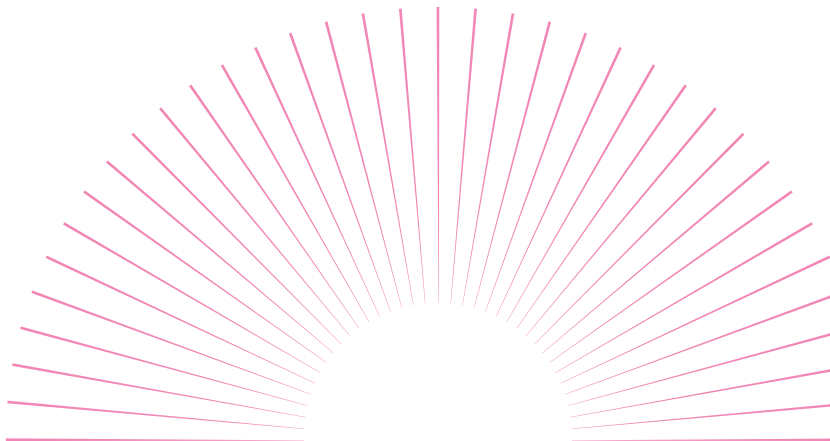
Credit Risk Management

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

- Default risk of bond issuers or the counterparties of structured products
- Credit spread widening as a result of credit migration (downgrade)
- Re-insurers' share of insurance unpaid liabilities
- Amounts due from re-insurers in respect of claims already paid
- Amount due from insurance contract holders
- Amount due from insurance intermediaries

BOC Life manages credit risk by placing limits on its exposure to each investment counterparty or group of counterparties. Such limits are subject to annual or more frequent review by the Management.

In order to enhance its credit risk management, BOC Life has strengthened its communication with the Investment Management of the Group while closely monitoring and updating the established Bonds Issuers Disposal and Watch Lists to ensure consistency with the Group's credit risk management and investment strategy.





PROFESSIONAL

100

BOC Wealth Management Service

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman

XIAO Gang[#]

Vice Chairmen

LI Lihui[#]

HE Guangbei

Directors

LI Zaohang[#]

ZHOU Zaiqun[#]

ZHANG Yanling[#] (resignation effective from
15 December 2011)

CHEN Siqing[#] (appointment effective from
15 December 2011)

GAO Yingxin

FUNG Victor Kwok King*

KOH Beng Seng*

SHAN Weijian*

TUNG Chee Chen*

TUNG Savio Wai-Hok*

[#] Non-executive Directors

^{*} Independent Non-executive Directors

COMPANY SECRETARY

YEUNG Jason Chi Wai

(ceasation of appointment effective from 1 April 2011)

CHAN Chun Ying

(appointment effective from 1 April 2011)

REGISTERED OFFICE

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

AUDITOR

PricewaterhouseCoopers

SENIOR MANAGEMENT

Chief Executive

HE Guangbei

Deputy Chief Executive

GAO Yingxin

Chief Financial Officer

ZHUO Chengwen

Deputy Chief Executive

WONG David See Hong

Deputy Chief Executive

LAM Yim Nam (retirement effective from 1 April 2011)

YEUNG Jason Chi Wai (appointment effective from
1 April 2011)

Chief Risk Officer

LI Jiuzhong

Chief Operating Officer

LEE Alex Wing Kwai

Assistant Chief Executive

ZHU Yanlai

SHARE REGISTRAR

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

ADS 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



Mr. XIAO Gang



Mr. LI Lihui



Mr. HE Guangbei



Mr. LI Zaohang



Mr. ZHOU Zaiqun

Directors

Mr. XIAO Gang

Chairman

Aged 53, is the Chairman of the Board of Directors of the Company and BOCHK. He is also a director of BOC (BVI) and BOCHKG. Mr. XIAO was Chairman and President of BOC from March 2003 to August 2004 and has been Chairman of BOC since its restructuring in August 2004. Prior to joining BOC, Mr. XIAO joined People's Bank of China ("PBOC") in 1981 and has served various positions in PBOC, including Director of the Research Bureau, Head of the China Foreign Exchange Trading Center, Director of the Planning and Treasury Department, Assistant Governor and Director of the Monetary Policy Department, Assistant Governor and President of Guangdong Branch of PBOC and Director of the Guangdong Branch of the State Administration of Foreign Exchange. Mr. XIAO served as Deputy Governor of PBOC from 1998 to 2003. He was also Chairman of China Association of Banks from June 2003 to December 2004. Mr. XIAO graduated from Renmin University of China with a Master's Degree in Law.

Mr. LI Lihui

Vice Chairman

Born in 1952, is the Vice Chairman of the Board of Directors and a member of the Nomination and Remuneration Committee of the Company and BOCHK. He is currently the Vice Chairman and the President of BOC and a Director of BOC (BVI) and BOCHKG. Prior to joining BOC in August 2004, Mr. LI served as the Deputy Governor of Hainan Province from September 2002 to August 2004. Mr. LI was an Executive Vice President of Industrial and Commercial Bank of China ("ICBC") from July 1994 to September 2002 and served in a number of positions at ICBC from January 1989 to July 1994, including the Deputy General Manager of

the Fujian Branch, the Chief Representative of the Singapore Representative Office and the General Manager of the International Business Department. Mr. LI graduated from the Economics Department of Xiamen University in 1977 and obtained a Doctorate in Economics from the Guanghua School of Management of Peking University in 1999.

Mr. HE Guangbei

Vice Chairman and Chief Executive

Aged 57, is the Vice Chairman 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. Mr. HE is also Chairman of NCB (China), Chiyu, BOC Life and BOCHK Charitable Foundation. He is currently the Vice Chairman of Hong Kong General Chamber of Commerce, and a Director of Hong Kong Interbank Clearing Limited, HKICL Services Limited and Hong Kong Note Printing Limited. He is the designated representative of BOCHK to the Hong Kong Association of Banks where he serves as the presiding Chairman in 2011. He holds various public positions which include member of the HKMA Exchange Fund Advisory Committee and Banking Advisory Committee, member of the Hong Kong Government Commission on Strategic Development, Honorary President of the Hong Kong Chinese Enterprises Association, general committee member of the Hong Kong General Chamber of Commerce and member of Hong Kong/Japan Business Cooperation Committee. Mr. HE joined BOC in 1980 and since then, he has assumed various positions at BOC and was posted to its New York Branch and Paris Branch. He was Managing Director of BOC from 1999 to 2004 and Executive Vice President from 2000 to 2003. Mr. HE graduated from the Beijing Second Foreign Languages Institute in 1979 with a Bachelor's

Degree and obtained a Master's Degree in International Management Studies from the University of Texas at Dallas in 1985.

Mr. LI Zaohang

Non-executive Director

Aged 56, is a Non-executive Director and a member of the Risk Committee and the Nomination and Remuneration Committee of the Company and BOCHK. He joined China Construction Bank ("CCB") in 1980 and had held various positions including Manager, Branch Manager, General Managers of various departments at CCB's Head Office and Executive Vice President. In 2000, Mr. LI joined BOC as Executive Vice President and has served as Managing Director and Executive Director successively. Mr. LI graduated from Nanjing University of Information Science and Technology.

Mr. ZHOU Zaiqun

Non-executive Director

Aged 59, is a Non-executive Director, the Chairman of the Strategy and Budget Committee and a member of the Audit Committee of the Company and BOCHK. He is also Chairman of Nanyang and a Vice Chairman of NCB (China). Mr. ZHOU was the Executive Director of BOC during the period from February 2008 to May 2011 and the Executive Vice President of BOC during the period from November 2000 to May 2011. He was the Managing Director of BOC from 2000 to 2004. During the period from January 1997 to November 2000, Mr. ZHOU held various positions in ICBC, namely General Manager of Beijing Branch, General Manager of Accounting Department and General Manager of Financial Planning Department. Mr. ZHOU has over 20 years' experience in the banking industry. Mr. ZHOU obtained a Master's Degree from Dongbei University of Finance and Economics in 1997.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT



Mr. CHEN Siqing



Mr. GAO Yingxin



Dr. FUNG Victor Kwok King

Directors

Mr. CHEN Siqing

Non-executive Director

Aged 51, is a Non-executive Director and a member of the Risk Committee and the Strategy and Budget Committee of the Company and BOCHK. He is currently the Executive Vice President of BOC. 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. Mr. CHEN was appointed the Chairman of BOC Aviation Pte. Ltd. since December 2011. He is also a member of Trade Finance Committee and Factoring Committee of China Banking Association. Mr. CHEN graduated from Hubei College of Finance and Economics in 1982 and obtained a MBA from Murdoch University, Australia in 1999.

Mr. GAO Yingxin

Executive Director and Deputy Chief Executive

Aged 49, is an Executive Director of the Company and BOCHK as well as the Deputy Chief Executive in charge of Corporate Banking and Financial Institutions. He is also Vice Chairman of NCB (China) and Director of Nanyang and BOC Insurance. 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 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 in Shanghai with a Master's Degree in Engineering in 1986.

Dr. FUNG Victor Kwok King

Independent Non-executive Director

Aged 66, is an Independent Non-executive Director and a member of the Audit Committee and the Strategy and Budget Committee of the Company and BOCHK. Dr. FUNG holds Bachelor's and Master's Degrees in Electrical Engineering from the Massachusetts Institute of Technology and a Doctorate in Business Economics from Harvard University. He is the Group Chairman of Li & Fung group of companies, including publicly listed Li & Fung Limited, Trinity Limited and Convenience Retail Asia Limited. He has been appointed as

an Independent Non-executive Director of Chow Tai Fook Jewellery Group Limited in Hong Kong since November 2011. He is also an Independent Non-executive Director of Baosteel Group Corporation in PRC and Koc Holding A.S. (a company listed on the Istanbul Stock Exchange). Dr. FUNG is the Founding Chairman of the Fung Global Institute, an independent and non-profit think-tank that generates and disseminates innovative thinking and business-relevant research on global issues from Asian perspectives. He is also the Honorary Chairman of International Chamber of Commerce following two years (2008-2010) as its Chairman. In public service, Dr. FUNG is a member of the Chinese People's Political Consultative Conference, a vice chairman of China Centre for International Economic Exchanges and a member of the Commission on Strategic Development of the Hong Kong Government. Dr. FUNG is also Chairman of the Greater Pearl River Delta Business Council. He was Chairman of the Hong Kong Trade Development Council (1991-2000), the Hong Kong representative on the APEC Business Advisory Council (1996-2003). He was also Chairman of the Hong Kong Airport Authority (1999-2008), Chairman of the Council of The University of Hong Kong (2001-2009), Chairman of the International Chamber of Commerce (2008-2010) and Chairman of the Hong Kong-Japan Business Co-operation Committee (2004-2010). The Hong Kong Government awarded Dr. FUNG the Gold Bauhinia Star and Grand Bauhinia Medal in 2003 and 2010 respectively for his distinguished services to the community.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT



Mr. KOH Beng Seng



Mr. SHAN Weijian



Mr. TUNG Chee Chen



Mr. TUNG Savio Wai-Hok

Directors

Mr. KOH Beng Seng

Independent Non-executive Director

Aged 61, is an Independent Non-executive Director, the Chairman of the Risk Committee and a member of the Audit 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 an Independent Non-executive Director of three Singaporean listed companies, namely, Singapore Technologies Engineering Ltd, Fraser and Neave Limited and Great Eastern Holdings Limited. He is also a Director of Sing Han International Financial Services Limited. 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 58, is an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Nomination and Remuneration Committee of the Company and BOCHK. Mr. SHAN is the Chairman and Chief Executive Officer of PAG, an investment firm. He is director of a number of companies, including TCC International Holdings Limited, Taiwan Cement Corporation and Taishin Financial Holdings Co., Ltd. He 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 Chee Chen

Independent Non-executive Director

Aged 69, is an Independent Non-executive Director, the Chairman of the Nomination and Remuneration Committee and a member of the Audit Committee of the Company and BOCHK. Mr. TUNG is also the Chairman and Chief Executive Officer of Orient Overseas (International) Limited. He is an Independent Non-executive Director of a number of listed companies, including Zhejiang Expressway Company Limited, Wing Hang Bank Limited, U-Ming Marine Transport Corp., Sing Tao News Corporation Limited and Cathay Pacific Airways Limited. He was formerly an Independent Non-

executive Director of PetroChina Company Limited, a company listed in Hong Kong. Mr. TUNG was educated at the University of Liverpool, United Kingdom, where he obtained a Bachelor's Degree in Science in 1964. He later obtained a Master's Degree in Mechanical Engineering from the Massachusetts Institute of Technology in 1966.

Mr. TUNG Savio Wai-Hok

Independent Non-executive Director

Aged 60, is an Independent Non-executive Director and a member of the Audit Committee, the Nomination and Remuneration Committee, the Risk Committee and the Strategy and Budget Committee of the Company and BOCHK. Mr. TUNG is currently the Chief Executive, North America, of Investcorp and he is one of the founding partners of Investcorp. Mr. TUNG was appointed a Director and a member of the Audit 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 and a board member of the Committee of 100, a Chinese-American organisation in the U.S. He ceased to be the Chairman of Wireless Telecom Group in May 2010. Mr. TUNG holds a BSc in Chemical Engineering from Columbia University of New York. He is a trustee emeritus of Columbia University. He is also on the board of the Columbia Investment Management Company and is a member of the Columbia University Medical Center Board of Visitors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT



Mr. ZHUO Chengwen



Mr. WONG David See Hong



Mr. YEUNG Jason Chi Wai

Senior Management

Mr. ZHUO Chengwen

Chief Financial Officer

Aged 41, is the Chief Financial Officer of the Group. He is also a Director of Nanyang, NCB (China) and BOCHK Asset Management Limited. Prior to joining the Group, Mr. ZHUO was a Deputy General Manager in the Financial Management Department of BOC responsible for various financial management functions of BOC Group including financial planning, accounting policy, financial compliance, management reporting and financial disclosure. Mr. ZHUO has assumed a financial management role for over 15 years in the banking industry and has extensive knowledge and experience in financial management. Mr. ZHUO graduated from the Peking University with a Bachelor's Degree in Economics in 1992 and a Master's Degree in Economics in 1995 and was awarded a MBA Degree by the City University of New York in 2005. Mr. ZHUO has been a member of the Chinese Institute of Certified Public Accountants, the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants since 1995, 2005 and 2009 respectively.

Mr. WONG David See Hong

Deputy Chief Executive

Aged 58, is the Deputy Chief Executive of the Group with the overall responsibility for the financial market businesses which include Global Markets, Global Transaction Banking, Investment Management, Insurance, Asset Management and other capital market-related businesses. He is also a Director of BOC Life. Prior to joining the Group, Mr. WONG was the Corporate Executive Vice President and Country Executive of ABN AMRO Bank ("ABN") and was responsible for ABN's operations in South East Asia. He joined ABN in 1995 and has held various senior positions within ABN, including Regional Head of Financial Markets, Country Executive in Singapore, and Managing Director of the Hong Kong Branch. Mr. WONG has spent over 25 years in the banking sector and has extensive knowledge and experience in treasury and financial products. Mr. WONG served as a board member of Energy Market Authority till 31 March 2009. He continues to serve as board member of Civil Service College in Singapore and Customer Advisory Board Member of Thomson Reuters in Hong Kong from August 2009. Mr. WONG graduated from the University of Singapore with a Bachelor's Degree in Business Administration and was awarded a Master's Degree in Science in Investment Management by the Hong Kong University of Science and Technology. He was awarded the Financial Industry Certified Professional from the Institute of Banking and Finance, Singapore. He has also received the Distinguished Award for his contribution to the financial industry in Singapore.

Mr. YEUNG Jason Chi Wai

*Deputy Chief Executive (appointment effective from 1 April 2011)
Company Secretary (cessation of appointment effective from 1 April 2011)*

Aged 57, is the Deputy Chief Executive of the Group in charge of the Personal Banking business. He is currently a member of the Management Committee of the Group which provides overall leadership and guidance on the business development, strategic planning and operation of the Group. Mr. YEUNG joined the Group as the Board Secretary and Company Secretary of the Company and its principal operating subsidiary, BOCHK, in 2001. He also acted as the Board and Company Secretary of BOC from November 2005 to April 2008. Prior to joining the Group, Mr. YEUNG was General Counsel and director of China Everbright Limited, a company listed on the main board of the Stock Exchange, and before that, a partner of Woo, Kwan, Lee & Lo with over 10 years' experience practising corporate and commercial law. He had also served at the Securities and Futures Commission in Hong Kong. Mr. YEUNG was educated at the University of Hong Kong where he obtained a Bachelor's Degree in social sciences. Mr. YEUNG later graduated from The College of Law, United Kingdom and further obtained a Bachelor's Degree in law from the University of Western Ontario, Canada and a Master's Degree in business administration from the Richard Ivey School of Business of the University of Western Ontario, Canada.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT



Mr. LI Jiuzhong



Mr. LEE Alex Wing Kwai



Mdm. ZHU Yanlai

Senior Management

Mr. LI Jiuzhong

Chief Risk Officer

Aged 49, is the Chief Risk Officer of the Group in charge of the Group's overall risk management function, overseeing BOCHK's Risk Management Department and Operational Risk and Compliance Department. He is also a Director of Nanyang, NCB (China), BOC-CC and BOC Life. Mr. LI has over 28 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 Daqing Petroleum Institute 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.

Mr. LEE Alex Wing Kwai

Chief Operating Officer

Aged 53, is the Chief Operating Officer of the Group. He is also a Director of BOC-CC. Prior to joining the Group, Mr. LEE was the Managing Director responsible for the operations and technology of the entire business of Citigroup in Hong Kong. Mr. LEE held various leadership roles within Citigroup. He has strong experience in operation and technology with a major financial institution for over 26 years. Mr. LEE graduated from the Arizona State University with a Bachelor's Degree in General Business Administration in 1981 and a MBA Degree specialised in Accounting in 1983. Mr. LEE passed the uniform examination of the American Institute of Certified Public Accountants in 1984. He has been an Associate Member of the Institute of Internal Auditor and a Chartered Bank Auditor of the Bank Administration Institute of the United States of America since 1986.

Mdm. ZHU Yanlai

Assistant Chief Executive

Aged 57, is an Assistant Chief Executive of the Group in charge of overall leadership for the planning and implementation of the Group's strategy, business direction, market positioning and sustainable development. Mdm. ZHU has been the General Manager of Economics and Strategic Planning Department of BOCHK since the merger of the Group in October 2001. She is currently a Director of Nanyang and NCB (China). Mdm. ZHU joined BOC in 1997 and was the Head of Business Development of BOC (Canada), and Assistant General Manager of Hong Kong and Macau Regional Office of BOC. Prior to joining BOC, Mdm. ZHU worked for Royal Bank of Canada and Nesbitt Burns, Bank of Montreal Group. She was previously the visiting scholar of York University in Canada and the lecturer in Renmin University of China. Mdm. ZHU obtained a Master's Degree in Sociology from the University of Regina, Sask, Canada, and graduated from Renmin University of China with Bachelor's and Master's Degrees in Philosophy.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2011.

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 49 to the Financial Statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 102.

The Board has recommended a final dividend of HK\$0.558 per share, amounting to approximately HK\$5,899 million, subject to the approval of shareholders at the forthcoming annual general meeting to be held on Tuesday, 29 May 2012. If approved, the final dividend will be paid on Friday, 15 June 2012 to shareholders whose names appear on the Register of Members of the Company on Thursday, 7 June 2012. Together with the interim dividend of HK\$0.63 per share declared in August 2011, the total dividend payout for 2011 would be HK\$1.188 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 Thursday, 24 May 2012 to Tuesday, 29 May 2012 (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 Wednesday, 23 May 2012. The Annual General Meeting of the Company will be held at 2:00 p.m. on Tuesday, 29 May 2012.

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, 4 June 2012 to Thursday, 7 June 2012 (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, 1 June 2012. Shares of the Company will be traded ex-dividend as from Thursday, 31 May 2012.

Reserves

Details of movements in the reserves of the Group are set out in the consolidated statement of changes in equity on page 107.

Donations

Charitable and other donations made by the Group during the year amounted to approximately HK\$8 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 of this Annual Report. The Foundation is a separate legal entity established in Hong Kong and is a charitable institution exempt from tax under the Inland Revenue Ordinance.

Properties, Plant and Equipment

Details of movements in properties, plant and equipment of the Group are set out in Note 31 to the Financial Statements.

Share Capital

Details of the share capital of the Company are set out in Note 42 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.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2011, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK\$9,469 million.

REPORT OF THE DIRECTORS

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 present Directors of the Company are set out on page 44. The biographical details of the Directors and senior management are set out on pages 45 to 49 of this Annual Report. The term of office for each Non-executive Director is approximately three years.

Mdm. ZHANG Yanling resigned and Mr. CHEN Siqing was appointed as Non-executive Director with effect from 15 December 2011. The Board expresses its sincere gratitude to Mdm. ZHANG for her valuable contributions to the Company during her tenure of office and welcomes Mr. CHEN to join the Board.

In accordance with Article 103 of the Company's Articles of Association, any Director appointed by the Board shall hold office only until the next annual general meeting of the Company, but shall be eligible for re-election at such meeting. Accordingly, Mr. CHEN Siqing being a Director so appointed, shall retire at the forthcoming annual general meeting and, being eligible, offer himself for election.

In accordance with Article 98 of the Company's Articles of Association, at each annual general meeting, one-third of the Directors or the number nearest to but not less than one-third of the Directors shall retire from office by rotation and be eligible for re-

election. Accordingly, Mr. XIAO Gang, Mr. ZHOU Zaiqun, Mr. KOH Beng Seng and Mr. TUNG Savio Wai-Hok will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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 Contracts of Significance

No 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 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

Messrs. XIAO Gang, LI Lihui and LI Zaohang are Executive Directors of BOC. Mr. CHEN Siqing is a member of the senior management of BOC.

BOC is a joint stock limited liability commercial bank in the Mainland of China 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

On 5 July 2002, the following Directors were granted options by BOC (BVI), the immediate holding company of the Company, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) existing issued shares of the Company at a price of HK\$8.50 per share. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years.

REPORT OF THE DIRECTORS

Particulars of the outstanding options granted to the Directors under the Pre-Listing Share Option Scheme as at 31 December 2011 are set out below:

Name of Director	Date of grant	Exercise price per share (HK\$)	Exercisable period	Number of share options					
				Granted on 5 July 2002	Balances as at 1 January 2011	Exercised during the year	Surrendered during the year	Lapsed during the year	Balances as at 31 December 2011
LI Zaohang	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	-	-	-	1,446,000
ZHOU Zaiqun	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,084,500	-	-	-	1,084,500
Total				2,892,000	2,530,500	-	-	-	2,530,500

Note: Mdm. ZHANG Yanling resigned as a Non-executive Director with effect from 15 December 2011. As at the date thereof, Mdm. ZHANG had 1,446,000 outstanding options of the Company. According to the rules of the Pre-Listing Share Option Scheme, all of the outstanding options held by Mdm. ZHANG are exercisable in whole or in part within 3 months from the date of her resignation. Such options were lapsed on 15 March 2012.

Save as disclosed above, 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 2011, the Directors, the Chief Executive and their respective associates had the following interests in the shares and underlying shares of the Company, 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:

Name of Director	Number of shares/underlying shares held					Total	% of the issued share capital
	Personal interests	Family interests	Corporate interests	Other interests			
HE Guangbei	100,000	-	-	-	-	100,000	0.001%
LI Zaohang	1,446,000 ^{Note}	-	-	-	-	1,446,000	0.014%
ZHOU Zaiqun	1,084,500 ^{Note}	-	-	-	-	1,084,500	0.010%
Total	2,630,500	-	-	-	-	2,630,500	0.025%

Note: Such interests represented the respective Directors' interests in underlying shares in respect of the share options granted to him pursuant to the Pre-Listing Share Option Scheme, details of which are set out in the section titled "Directors' Rights to Acquire Shares" above.

Save as disclosed above, as at 31 December 2011, 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.

REPORT OF THE DIRECTORS

Substantial Interests in Share Capital

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31 December 2011, 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 of HK\$5 each in the Company	% 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 share capital of BOCHKG, which in turn holds the entire issued share capital 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 share capital of BOCI, which in turn holds the entire issued share capital 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. Save as disclosed above, as at 31 December 2011, 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 2011.

Management Contracts

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

REPORT OF THE DIRECTORS

Share Options

Pursuant to written resolutions of all the Company's shareholders passed on 10 July 2002, the Company has approved and adopted two share option schemes, namely, the Share Option Scheme and the Sharesave Plan. No options have been granted by the Company pursuant to the Share Option Scheme or the Sharesave Plan during the year.

The following is a summary of the Share Option Scheme and the Sharesave Plan disclosed in accordance with the Listing Rules:

	Share Option Scheme	Sharesave Plan
Purpose	To provide the participants with the opportunity to acquire proprietary interests in the Company, to attract and retain the best available personnel, to encourage and motivate the participants to work towards enhancing the value of the Company and its shares, to allow the participants to participate in the growth of the Company and to align the interests of the Company's shareholders with those of the participants.	To encourage broad-based employee ownership of the Company's shares, to increase employee awareness and participation in the Company's share price performance, to provide employees with an additional vehicle for asset accumulation and to align the interests of all employees with those of the Company's shareholders.
Participants	Subject to compliance with applicable laws, any full-time or part-time employee, executive or officer of the Group, executive or non-executive director of the Group, or full-time or part-time employee, executive, officer or director of BOC or any of its subsidiaries serving as a member of any committee of the Group.	Any employee, executive, officer or director of the Group, having such qualifying period of service (if any) as the Board may determine from time to time and not having been granted any options under the Share Option Scheme.
Total number of shares available for issue and percentage of issued share capital as at 31 December 2011	The maximum number of shares in respect of which options may be granted under the Share Option Scheme, the Sharesave Plan and any other share option schemes and savings-based share option plans of any company in the Group (the "Other Schemes and Plans") shall not in aggregate exceed 10% of the shares in issue on 10 July 2002, that is, 1,057,278,026 shares.	Same as Share Option Scheme.

REPORT OF THE DIRECTORS

	Share Option Scheme	Sharesave Plan
Maximum entitlement of each participant	The total number of shares issued and to be issued upon the exercise of the options granted and to be granted to any one participant under the Share Option Scheme and the Other Schemes and Plans (including exercised, cancelled and outstanding options) in any twelve-month period up to and including the date of grant shall not exceed 1% of the shares in issue from time to time.	The maximum number of shares (rounded down to the next whole number) which can be paid for at the exercise price with monies equal to the aggregate of the savings contributions the participant has undertaken to make by the Maturity Date (defined as below) and interest which may be accrued thereon. Provided that the total number of shares issued and to be issued upon the exercise of the options granted and to be granted to any one participant under the Sharesave Plan and the Other Schemes and Plans (including exercised, cancelled and outstanding options) in any twelve-month period up to and including the date of grant shall not exceed 1% of the shares in issue from time to time. The amount of the monthly contribution to be made by a participant shall not be less than 1% and not more than 10% of the participant's monthly salary or such other maximum or minimum amounts as permitted by the Board.
Period within which the shares must be taken up under an option	Such period as shall be prescribed by the Board and specified in the letter of offer.	The thirty-day period (excluding the anniversary days) immediately after the first and second anniversary days from the date of grant or such other date as determined by the Board, or the thirty-day period immediately after the third anniversary of the date of grant or such other date as determined by the Board (the "Maturity Date"), or such other period(s) as may be determined by the Board.
Minimum period for which an option must be held before it can be exercised	Such minimum period as shall be prescribed by the Board and specified in the letter of offer.	One year.

REPORT OF THE DIRECTORS

	Share Option Scheme	Sharesave Plan
(a) Amount payable on acceptance of the option	(a) HK\$1.00	(a) HK\$1.00
(b) Period within which payments or calls must or may be made	(b) Payment or an undertaking to make payment on demand of the Company must be received by the Company within the period open for acceptance as set out in the letter of offer which shall not be less than 7 days after the offer date.	(b) Payment or an undertaking to make payment on demand of the Company must be received by the Company not later than the date specified in the letter of invitation as the directors may determine.
(c) The period within which loans for such purposes must be repaid	(c) Not applicable.	(c) Not applicable.
Basis of determining the exercise price	<p>The exercise price is determined on the date of grant by the Board and shall not be less than the highest of:</p> <p>(a) the nominal value of the Company's shares;</p> <p>(b) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and</p> <p>(c) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.</p>	Same as Share Option Scheme.
Remaining life	The Share Option Scheme shall remain in force for a period of ten years commencing on the first day of dealings in the Company's shares on the Stock Exchange which was 25 July 2002.	The Sharesave Plan shall remain in force for a period of ten years after the date of approval and adoption of the Sharesave Plan by the Company's shareholders which was 10 July 2002.

Please refer to the section "Directors' Rights to Acquire Shares" for details of the options granted by BOC (BVI) over shares of the Company pursuant to the Pre-Listing Share Option Scheme.

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.

REPORT OF THE DIRECTORS

Compliance with “Code on Corporate Governance Practices”

The Company is committed to embrace and enhance good corporate governance principles and practices. The Company has been in full compliance with all the code provisions of the “Code on Corporate Governance Practices” contained in Appendix 14 of the Listing Rules (the “CG Code”) save as disclosed in the paragraph headed “Directors’ Securities Transactions” in the section titled “Corporate Governance” contained in this Annual Report, and it has also complied with nearly all the recommended best practices set out in the CG Code throughout the year. For further details, please refer to the section titled “Corporate Governance” contained in this Annual Report.

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 30 December 2010 and confirmed that these transactions were:

- (i) entered into in the ordinary and usual course of business of the Group;
- (ii) conducted either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;

(iii) entered into in accordance with 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 paragraph 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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 “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. A copy of the auditor’s letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

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 capital and recurring expenditures. Proposed significant expenditures outside the

approved budget will be referred to the Board or the relevant Board committee for decision. Financial performance against targets is reported to the Board regularly. Should significant changes in relation to the operations arise, a 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

The financial statements for the year ended 31 December 2011 comply with the requirements set out in the Banking (Disclosure) Rules under the Banking Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Auditor

The financial statements for the year 2011 have been audited by PricewaterhouseCoopers. A resolution for their re-appointment as auditor for the ensuing year will be proposed at the forthcoming annual general meeting.

On behalf of the Board



XIAO Gang
Chairman

Hong Kong, 29 March 2012

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 laws and regulations in Hong Kong, and observes the rules and guidelines issued by regulatory authorities including Hong Kong Monetary Authority, 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 is **in full compliance with all the code provisions set out in the Code on Corporate Governance Practices** (the “Code”) contained in Appendix 14 of the Listing Rules. It also **complies with nearly all the recommended best practices** as set out in the Code. In particular, the Company **publishes quarterly financial and business reviews** so that shareholders 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 Authorized Institutions” issued by Hong Kong Monetary Authority.

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 judgment.

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 four standing Board Committees which are delegated with different responsibilities to assist the Board in performing its duties. They are Audit Committee, Nomination and 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.

CORPORATE GOVERNANCE

(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 fulfill 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 Nomination and 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 and price sensitive 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 memorandum and articles of association of the Company 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) Safeguarded 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 and Remuneration 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

Corporate Governance Framework

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.

To avoid concentration of power in any single individual, the **positions of the Chairman and the Chief Executive 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.

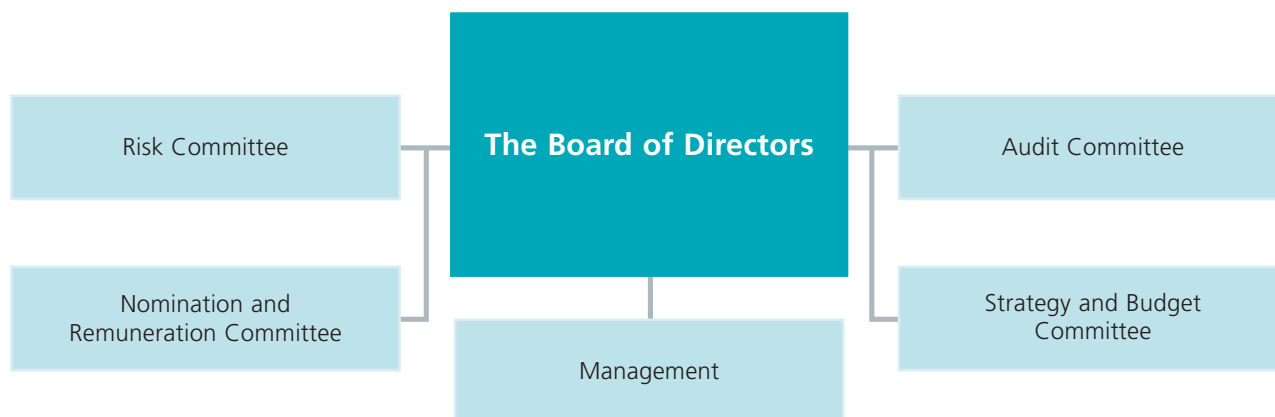
Taking into consideration market practices and international best practices in corporate governance, **the Board has established four standing Board Committees** to assist in performing its responsibilities. They are the Audit Committee, the Nomination and Remuneration Committee, the Risk Committee, 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 the continuing connected transactions) in accordance with the 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 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 the Board Committees will review and evaluate the effectiveness of the work process of the professional secretarial departments annually, with a view to identifying areas for further improvements.**

CORPORATE GOVERNANCE

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, Shareholder Communication Policy, Corporate Governance Policy and Fair 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

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 shareholders' value and fulfilling its corporate responsibility to other stakeholders of the Group.

The Board currently has twelve members, comprising five Independent Non-executive Directors, five Non-executive Directors and two Executive

Directors. Mdm. Zhang Yanling resigned as a Non-executive Director of the Company with effect from 15 December 2011 and Mr. Chen Siqing was appointed as a Non-executive Director of the Company in place of Mdm. Zhang Yanling on 15 December 2011. Save as disclosed above, there were no other changes to the composition of the Board in 2011 and up to the date of this report.

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, of whom some of them are experts in financial and/or risk management.

The Board has adopted the "Policy on Independence of Directors" (the "Independence Policy") 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 independence by reference to the 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 Directors are set out in the section headed "Board of Directors and Senior Management" of this Annual Report and are available under the sub-section "Organisation" of the section headed "About Us" on the Company's website at www.bochk.com.

All the existing **Non-executive Directors and Independent Non-executive Directors** of the Company have been **appointed for a fixed term, with formal letters of appointment** setting out the key terms and conditions of their appointment. Pursuant to the Articles of Association, all Directors, including the Chairman, Vice Chairmen and Chief Executive, shall retire by rotation at least once every three years at annual general meetings and be eligible for re-election. Accordingly, Mr. Xiao Gang, Mr. Zhou Zaiqun, Mr. Koh Beng Seng and Mr. Tung Savio Wai-Hok will retire by rotation at the forthcoming annual general meeting and, 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 annual general meeting of the Company, but shall

CORPORATE GOVERNANCE

be eligible for re-election at such meeting. Accordingly, Mr. Chen Siqing, being a Director appointed on 15 December 2011, shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election. Further details regarding the proposed re-election of Directors are set out in the section headed "Report of the Directors" of this Annual Report. In addition, the Nomination and Remuneration Committee 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.**

Mr. Xiao Gang, Mr. Li Lihui and Mr. Li Zaohang are Executive Directors of BOC. Mr. Zhou Zaiqun ceased to be an Executive Director and Executive Vice President of BOC with effect from 28 May 2011. Mr. Chen Siqing is an Executive Vice President of BOC. Mdm. Zhang Yanling is a former Executive Vice President of BOC (she ceased to be an Executive Vice President of BOC with effect from 23 July 2010). **Save as disclosed above, there are no other relationships between the Board members, including financial, business, family or other material/ relevant 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.

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.

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 Company's expense. In 2011, the Company invited Mr. Cao Yuanzheng, Chief Economist of BOC, to share with the Directors and senior management the global economic trend which enable them to grasp effectively the latest market information.

Nine Board meetings were held during 2011 with an average attendance rate of 88%. The meeting schedule for the year was prepared and approved by the Board in the preceding year. In general, 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, the Chairman meets 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.

CORPORATE GOVERNANCE

In 2011, details of respective Directors' attendance at the Board meetings are set out as follows:

Director	Number of Board meetings attended	Attendance rate
<i>Non-executive Directors</i>		
Mr. XIAO Gang (Chairman)	8 out of 9	89%
Mr. LI Lihui (Vice Chairman)	6 out of 9	67%
Mr. LI Zaohang	9 out of 9	100%
Mr. ZHOU Zaiqun	9 out of 9	100%
Mdm. ZHANG Yanling (Note)	9 out of 9	100%
<i>Independent Non-executive Directors</i>		
Dr. FUNG Victor Kwok King	7 out of 9	78%
Mr. KOH Beng Seng	8 out of 9	89%
Mr. SHAN Weijian	7 out of 9	78%
Mr. TUNG Chee Chen	6 out of 9	67%
Mr. TUNG Savio Wai-Hok	9 out of 9	100%
<i>Executive Directors</i>		
Mr. HE Guangbei (Vice Chairman and Chief Executive)	9 out of 9	100%
Mr. GAO Yingxin	8 out of 9	89%

Note: with effect from 15 December 2011, Mdm. Zhang Yanling resigned as a Non-executive Director of the Company and Mr. Chen Siqing was appointed as a Non-executive Director in place of Mdm. Zhang Yanling.

Apart from formal Board meetings and annual general meetings, the Company arranges, on a regular basis, other relatively relaxed events for the Board members and the senior management to facilitate their communication and interactions. For example, **certain Board members have been invited to deliver a talk to the Company's middle to senior management on various**

specialised topics with regard to their respective background and expertise. Further, off-site events have been held from time to time to enhance communication among Board members, and between the Board and the senior management.

Audit Committee

The Audit Committee currently comprises six members, including five Independent

Non-executive Directors, namely Mr. Shan Weijian, Dr. Fung Victor Kwok King, Mr. Koh Beng Seng, Mr. Tung Chee Chen and Mr. Tung Savio Wai-Hok, and one Non-executive Director, Mr. Zhou Zaiqun. Independent Non-executive Directors make up 83% of the Committee members. The Audit Committee is chaired by Mr. Shan Weijian, an Independent Non-executive Director.

CORPORATE GOVERNANCE

The Audit Committee assists the Board in performing the duties in respect of the Company and its subsidiaries in, among others, the following areas:

- integrity of financial statements and financial reporting process;
- 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; and
- corporate governance framework of the Group and implementation thereof.

The work performed by the Audit Committee during 2011 included

the review and, where applicable, approval of:

- the Company's Directors' Report and financial statements for the year ended 31 December 2010 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 2011 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 2011 and 30 September 2011 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 re-appointment of external auditor, the fees payable to external auditor for the annual audit, interim review and other non-audit services;
- the Company's audit plan for 2011 and key issues identified;

- the deployment of human resources and pay level of the Internal Audit and its budget for 2011; and
- the 2011 key performance indicators for and 2010 performance appraisal of the Head of Group Audit and the Group Audit.

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.

Pursuant to paragraph C.2 of the Code, the Audit Committee conducted an annual review of the effectiveness of the internal control systems of the Group in 2011. The review covers all the material 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 and financial reporting functions. Details of the relevant review will be elaborated in the section headed "Internal Control" of this Annual Report.

CORPORATE GOVERNANCE

Five Audit Committee meetings were held during 2011 with an average attendance rate of 97%. Attendance records of relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. SHAN Weijian (<i>Chairman</i>)	5 out of 5	100%
Mr. ZHOU Zaiqun	5 out of 5	100%
Dr. FUNG Victor Kwok King	4 out of 5	80%
Mr. KOH Beng Seng	5 out of 5	100%
Mr. TUNG Chee Chen	5 out of 5	100%
Mr. TUNG Savio Wai-Hok	5 out of 5	100%

Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprises five members, including two Non-executive Directors, namely Mr. Li Lihui and Mr. Li Zaohang, and three Independent Non-executive Directors, namely Dr. Fung Victor Kwok King, Mr. Shan Weijian and Mr. Tung Chee Chen. It was chaired by Mr. Li Lihui, a Non-executive Director of the Board. With effect from 9 January 2012, Mr. Li Lihui has resigned as the Chairman of Nomination and Remuneration Committee, but remained as a member; Mr. Tung Chee Chen was appointed as the Chairman; Dr. Fung Victor Kwok King resigned as a member and Mr. Tung Savio Wai-Hok was appointed as a member in place of Dr. Fung Victor Kwok King. Prior and subsequent to such change, the Independent Non-executive Directors represent 60% of the Committee members.

The Nomination and Remuneration Committee assists the Board in performing the duties in respect of the Company and its subsidiaries in, among others, the following areas:

- overall human resources, remuneration strategy and incentive framework of the Group;
- selection and nomination of Directors, Board Committee members and certain senior executives as designated by the Board from time to time;
- structure, size and composition (including skills, experience and knowledge) of the Board and Board Committees;
- remuneration of Directors, Board Committee members, designated senior management and key personnel, and
- effectiveness of the Board and Board Committees.

The work performed by the Nomination and Remuneration Committee during 2011 included the review and, where applicable, approval of:

- formulation, review and amendment on major human resources and remuneration policies, including the review and revision of the threshold conditions for variable pay deferment after taking into account the market conditions; review of the identification criteria of "Senior Management", "Key Personnel", "Key Employee Group" and "Risk Control Personnel" as delineated in the "Guideline on a Sound Remuneration System" published by Hong Kong Monetary Authority, as well as the review of specified jobs for "Senior Management" and "Key Personnel" in accordance with the changes in organisational structure and risk management requirements;

CORPORATE GOVERNANCE

- performance appraisal of the Executive Directors and designated senior executives for year 2010;
- proposal on staff bonus for year 2010 and salary adjustment for year 2011 for the Group, including the designated senior executives;
- key performance indicators of the Group and the designated senior executives for year 2011;
- proposal on human resources budget of the Group for year 2011;
- appointment/resignation of designated senior executives;
- monitoring the implementation progress of the Group's medium-term human resources strategies and other major human resources policies;
- report of self-evaluation results of the Board and Board Committees,

which were analysed by the Nomination and Remuneration Committee. It also made recommendations to the Board regarding the results of the self-evaluation, with a view to further enhancing the role and effectiveness of the Board and Board Committees; and

- consideration of the matters relating to the adjustment and appointment of directors in certain major subsidiaries of the Group.

Pursuant to the **"Policy on Directors' Remuneration"** adopted by the Company, in recommending the remuneration of Directors, the

Committee makes reference to companies of comparable business type or scale, and the nature and quantity of work at both Board and Board Committee levels (including frequency of meetings and nature of agenda items) in order to compensate Directors reasonably. **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 2011 is set out in Note 21 to the financial statements of the 2011 Annual Report. 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 2011, all Non-executive Directors waived their Directors' fee as mentioned above.

The Nomination and Remuneration Committee also has the delegated responsibility to **determine the specific remuneration packages**

of the Executive Directors and designated senior executives.

Five Nomination and Remuneration Committee meetings were held

during 2011 with an average attendance rate of 84%. Attendance records of relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. Li Lihui (<i>Chairman</i>)	5 out of 5	100%
Mr. Li Zaohang	5 out of 5	100%
Dr. FUNG Victor Kwok King	3 out of 5	60%
Mr. SHAN Weijian	3 out of 5	60%
Mr. TUNG Chee Chen	5 out of 5	100%

Note: With effect from 9 January 2012, Mr. Li Lihui resigned as the Chairman of Nomination and Remuneration Committee, but remains as a member of the Committee; Mr. Tung Chee Chen was appointed as the Chairman of Nomination and Remuneration Committee; in addition, Dr. Fung Victor Kwok King resigned as a member of the Nomination and Remuneration Committee and Mr. Tung Savio Wai-Hok was appointed as a member in place of Dr. Fung Victor Kwok King.

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Risk Committee

The Risk Committee comprises four members, including two Non-executive Directors, namely Mr. Li Zaohang and Mdm. Zhang Yanling, and two Independent Non-executive Directors, namely Mr. Koh Beng Seng and Mr. Tung Savio Wai-Hok. With effect from 15 December 2011, Mdm. Zhang Yanling resigned as a member of the Risk Committee and Mr. Chen Siqing was appointed as a member in place of Mdm. Zhang Yanling. The Committee is chaired by Mr. Koh Beng Seng, an Independent Non-executive Director.

The Risk Committee assists the Board in performing the duties in respect of the Company and its subsidiaries in, among others, the following areas:

- 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, system and internal control;
- review and monitoring of the Group's capital management;

- review of the Group's target balance sheet;
- review and monitoring of the Group's compliance with the risk management policies, system and internal control, 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 of significant or high risk exposures and transactions; and
- review of key reports, including risk exposure reports, model development and validation reports, and credit risk model performance reports.

The work performed by the Risk Committee during 2011 included the following:

- review/approval of policies, including the "BOCHK Group Operating Principles", the "Risk Management Policy Statement", the "Requirements Relating to the Approval, Formulation, Review and Revision of Risk Management Policies and Procedures of BOCHK Group", the "Capital Management Policy", the "Staff Code of Conduct", the "Policy for Validating Internal Rating Systems", the "Connected

Transactions Management Policy", 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 and stress testing;

- review/approval of the risk adjustment method for group bonus funding mechanics;
- review 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, results of Internal Capital Adequacy Assessment Process (ICAAP), as well as risk management limits;
- review and monitoring of Basel II implementation, including approval of IRB models, review of model validation reports, receiving the implementation progress reports of IRB, as well as the status reports of the allocation of risk-weighted assets;
- review of various risk management reports; and
- review of significant high risk exposures and transactions.

Eight Risk Committee meetings were held during 2011 with an average attendance rate of 94%. Attendance records of relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. KOH Beng Seng (<i>Chairman</i>)	8 out of 8	100%
Mr. TUNG Savio Wai-Hok	7 out of 8	88%
Mdm. ZHANG Yanling (<i>Note</i>)	7 out of 8	88%
Mr. LI Zaohang	8 out of 8	100%

Note: With effect from 15 December 2011, Mdm. Zhang Yanling resigned as a member of Risk Committee and Mr. Chen Siqing was appointed as a member of Risk Committee in place of Mdm. Zhang Yanling.

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Strategy and Budget Committee

The Strategy and Budget Committee comprises five members, including two Non-executive Directors, namely Mr. Zhou Zaiqun and Mdm. Zhang Yanling, and two Independent Non-executive Directors, namely Dr. Fung Victor Kwok King and Mr. Tung Savio Wai-Hok, and Mr. He Guangbei, the Chief Executive as well as the Executive Director of the Company. Dr. Fung Victor Kwok King was appointed as a member of the Strategy and Budget Committee with effect from 21 October 2011. Mdm. Zhang Yanling resigned as a member of the Strategy and Budget Committee and Mr. Chen Siqing was appointed as a member in place of Mdm. Zhang Yanling with effect from 15 December 2011. The Strategy and Budget Committee is chaired by Mr. Zhou Zaiqun, a Non-Executive Director.

The Strategy and Budget Committee assists the Board in performing the duties in respect of the Company and

its subsidiaries in, among others, the following areas:

- drafting, review of, making motion, and monitoring the Group's medium to long-term strategies;
- drafting and review of the process of formulating the Group's medium to long-term strategies to ensure that they are sufficiently robust to take into account a range of alternatives;
- monitoring the implementation of the Group's medium to long-term strategies through pre-determined metrics and providing guidance to the Management;
- review of and monitoring the Group's regular/periodic (including annual) business plans and financial budgets; and
- making recommendations to the Board on major capital expenditures, merger & acquisition

and strategic commitments of the Group and monitoring the implementation thereof.

During the year, the Strategy and Budget Committee played a prominent role in providing guidance and monitoring the implementation of the Group's short-term business strategies and driving the formulation and implementation of the Group's key business strategies, such as the development of China business, RMB business, etc. In particular, the Strategy and Budget Committee guided the Management to review the medium to long-term rolling strategic plans of the Group for further improvements in response to the new opportunities and threats arising from the new operating environment. In addition, it also reviewed and monitored the implementation of the Group's financial budgets and business plans for 2011. The Strategy and Budget Committee also reviewed and endorsed the Group's financial budgets and business plans for the year 2012 and recommended the same to the Board for approval.

Six Strategy and Budget Committee meetings were held during 2011 with an average attendance rate of 97%. Attendance records of relevant Directors are set out as follows:

Director	Number of committee meetings attended	Attendance rate
Mr. ZHOU Zaiqun (<i>Chairman</i>)	6 out of 6	100%
Mr. HE Guangbei	6 out of 6	100%
Mdm. ZHANG Yanling (<i>Note 1</i>)	5 out of 6	83%
Mr. TUNG Savio Wai-Hok	6 out of 6	100%
Dr. FUNG Victor Kwok King (<i>Note 2</i>)	1 out of 1	100%

Note 1: Mdm. Zhang Yanling resigned as a member of the Strategy and Budget Committee and Mr. Chen Siqing was appointed as a member of the Strategy and Budget Committee in place of Mdm. Zhang Yanling with effect from 15 December 2011.

Note 2: Dr. Fung Victor Kwok King was appointed as a member of the Strategy and Budget Committee with effect from 21 October 2011.

CORPORATE GOVERNANCE

Ad Hoc Committee

The Board established an ad hoc Independent Board Committee during the year with details as follows:

Independent Board Committee

An Independent Board Committee was established in June 2011 to review and approve the terms and conditions of the appointment of BOCI, an indirect wholly-owned subsidiary of BOC, as one of the dealers and joint lead managers in relation to the issue of medium term note by BOCHK in November 2011 to professional and institutional investors. The Independent Board Committee comprised all the Independent Non-executive Directors of the Company and was chaired by Mr. Tung Chee Chen. Though the subject transaction was exempted from compliance with relevant requirements for independent review under the Listing Rules, yet the Independent Board Committee was established to review and approve relevant issues in view of good corporate governance. As the terms and conditions for BOCI's appointment are consistent with those for the appointment of the other two dealers and joint lead managers who are independent third parties, the Independent Board Committee considered that the appointment was fair and reasonable, on normal commercial terms and was in the interests of the Company and its shareholders as a whole.

Directors' Securities Transactions

The Company has established and implemented the "Code for Securities Transactions by Directors" (the "Company's Code") to govern securities transactions by Directors. 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 inquiry 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 2011.

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, performance and risk management tightly, and encourages staff to enhance their performance and at the same time strengthen their awareness of risk management so as to achieve sound remuneration management.

The Remuneration and Incentive Policy of the Group is applicable for the Company and all its subsidiaries (including the branches and

institutions both 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, Assistant Chief Executive, 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 Head of material business line, Head of major subsidiary, Head of Trading and Chief Dealer, as well as Head of risk control functions.

CORPORATE GOVERNANCE

- **Determination of the Remuneration Policy**

To fulfill 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 with the Management Committee, it will be submitted to the Nomination and Remuneration Committee for review and thereafter to the Board of Directors for approval. The Nomination and Remuneration Committee and the Board of Directors 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 corporate culture of "Achieving Performance and Effectiveness", 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 block/key tasks, human capital, risk management and compliance. As to the performance management of individual staff at different levels, the annual targets of the Group will be tied to the job requirements of different posts at different levels through the model of level-based performance management. Performance of individuals will be appraised with reference to their accomplishment of work targets, contribution towards overall performance of their corresponding units and compliance of risk management and internal control policies. Under this mechanism, not only the target accomplishment has been taken into account, the risk exposure involved during the course of work of a staff member could also be evaluated and managed so as to provide safeguards to the Group against the risk and ensure normal operations. The mechanism is also associated with the assessment on system of values, thereby facilitating the attainment of the core values.

2. *Risk Modification of Remuneration*

To implement the principle of aligning the performance and remuneration with the risk, based on "The Risk Adjustment Method for Group Bonus Funding Mechanics", the key risk modifiers of the bank have been incorporated into the performance management mechanism of the Group. 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.

"The Risk Adjustment Method for Group Bonus Funding Mechanics" consists of "Risk Modifier" and "Post Result Score Adjustment":

- "Risk Modifier" measures the risk factors that are quantifiable and directly linked to group's financial performance, including credit risk, market risk, interest rate risk, as well as liquidity risk. With most of the indicators being quantitative, "Risk Modifier" utilises both absolute and relative measures, and assesses the risk level from both ex-ante and ex-post perspectives.

- "Post Result Score Adjustment" measures the risk factors that are not quantifiable, aiming at the overall adjustment to the group's performance results upon the occurrence of major risk events. These risk factors include operational risk, legal and compliance risk, as well as reputation risk. "Post Result Score Adjustment" utilises qualitative measures, assesses the impact of non quantifiable risk factors to the group's performance results from ex-post perspective.

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

The remuneration of staff is composed of "fixed remuneration" and "variable remuneration", the

CORPORATE GOVERNANCE

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 to 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 Mechanics, 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, the assessment of which should include risk modifiers. The performance and remuneration arrangement of risk control personnel are determined by the achievements of their core job responsibilities, independent from the business they oversee; for front-line risk controllers, a matrix 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 linked to the yearly performance (financial and non-financial) of the Group in the next 3 years to the effect that the variable remuneration could only be vested to such extent as set for the relevant year in that 3-year period subject to the condition that the Group's performance has met the threshold requirement in the corresponding year. In case of material revision of the original estimates of the performance of the Group or individual units, or if a staff is found to commit fraud, or found to be of malfeasance or in violation of internal control policies, the unvested portion of the deferred variable remuneration of the relevant staff will be clawed back.

• **External Remuneration Consultant**

To ensure the suitability and competitiveness of the remuneration and incentive mechanism, the Group appointed Towers Watson Pennsylvania Inc. for independent consultation in areas of base pay management approach, pay management mechanism of Senior Management, short-term incentive schemes as well as market remuneration data.

CORPORATE GOVERNANCE

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 PricewaterhouseCoopers, 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 PricewaterhouseCoopers be re-appointed as auditor of the Group at the Company's 2012 annual general meeting. Subject to shareholders' authorisation, the Board will authorise the Audit Committee to determine the remuneration of PricewaterhouseCoopers. For 2011, the fee charged by PricewaterhouseCoopers was HK\$38 million, of which HK\$32 million was for audit services and HK\$6 million related to other services. For 2010, the fee charged by PricewaterhouseCoopers was HK\$39 million, of which HK\$31 million was for audit services and HK\$8 million related to other services. Among the said HK\$8 million, HK\$4 million of which was the fee charged by PricewaterhouseCoopers in relation to issue of subordinated notes by BOCHK.

The Audit Committee was satisfied that the non-audit services in 2011 did not affect the independence of PricewaterhouseCoopers. The amount paid to PricewaterhouseCoopers for non-audit services in 2011 comprised mainly the tax-related services fee of approximately HK\$2 million and other non-audit services fee of approximately HK\$4 million.

Internal Control

The Board has the responsibility to ensure that the Group maintains

sound and effective internal controls to safeguard the Group's assets. According to the Board's scope of delegation, the Management is responsible for the day-to-day operations and risk management.

The internal control system is designed to provide appropriate 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 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 and financial reporting functions. The review is coordinated by the Group's Internal Audit which, after the Management and various business departments have performed their self-assessment, then carries out an independent examination and other

post-assessment work on the review process and results. The results of the 2011 review have been reported to the Audit Committee and the Board.

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, the implementation of internal controls 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 identifying, assessing and managing all the major risks. These include reputation, strategic, legal, compliance, credit, market, operational, liquidity and interest rate risks (The Group's risk management is given on page 37 to page 41 in this Annual Report);

CORPORATE GOVERNANCE

- 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. 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 internal control. 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 2011, 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. In response to the volatility in global financial markets and uncertain economic outlook, the Group has implemented a series of measures and undertaken an on-going review on the effectiveness of the internal control mechanism. In 2011, 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.

The Chairman of the Board, the Chairman of the Nomination and Remuneration Committee, the Chairman of the Risk Committee, the Chairman of the Strategy and Budget Committee, members of the Audit Committee and representatives of PricewaterhouseCoopers were present at the Company's 2011 annual general meeting and extraordinary general meeting held on 25 May 2011 at the Grand Ballroom, Lower Lobby, Conrad Hong Kong, Pacific Place to respond to enquiries raised by shareholders. As the Chairman of Audit Committee was unable to attend the annual general meeting due to other business engagements, members of Audit Committee were present on behalf of the Chairman of Audit Committee. Resolutions passed at the Company's 2011 annual general meeting

included: adoption of the Company's 2010 financial statements, declaration of 2010 final dividend, re-election of Directors, re-appointment of auditor and the grant of general mandates to the Board to issue and repurchase shares of the Company.

As disclosed in the 2010 Annual Report of the Company, in view of the investors' concern regarding the potential dilution of the shareholders' 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 issued share capital 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 2011 annual general meeting. The Board would also recommend the said 5% threshold at the forthcoming 2012 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 repurchase 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 shareholders' value. In the exercise of such power to issue shares for cash, the Board will have regard to factors such as the Group's capital adequacy 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

CORPORATE GOVERNANCE

- the Board has set the triggering events for the exercise of the power to repurchase 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 the general mandate for enhancing the return on equity or net assets or earnings per share of the Company. In general, such purchases will be made on the Stock Exchange. However, if it is expected that the size of the purchases may lead to a disorderly market for the Company's shares, then the Board will consider making the purchases through a general offer, i.e. offer to all existing shareholders in proportion to their respective shareholdings. The price at which shares are repurchased will not be higher than the fair value of the shares of the Company.

All the resolutions proposed at the Company's 2012 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 Company's website and the Stock Exchange'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 2012 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 2012 annual general meeting in a circular to shareholders** which includes introductions to the proposed resolutions to be approved at the annual general meeting, information on the retiring Directors who are eligible for re-election and information on voting and other issues relating to the 2012 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 the issued capital of the Company may request the Board of Directors 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, Central, Hong Kong. The Company would take appropriate actions and make necessary arrangements in accordance with

the requirements under Section 113 of the 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:

- any number of members representing not less than 2.5% of the total voting rights of the Company on the date of the requisition; or
- not less than 50 members holding shares in the Company on which there has been paid up an average sum, per member, of not less than HK\$2,000.

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, Central, 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 115A of the Companies Ordinance once valid documents are received.

CORPORATE GOVERNANCE

- **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, Central, Hong Kong), (a) a notice 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" of this Annual Report. 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, Central, 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.

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 contained in this Annual 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 contained in this Annual Report, 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 strive 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 which are important for the formulation of the Company's growth strategies to enhance shareholder values and to ensure its sustainable development.

Investor Relations Programmes

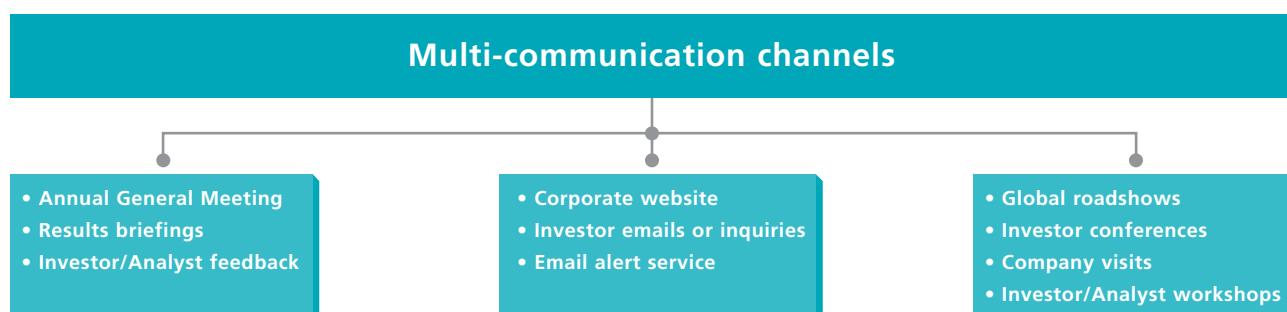
The objective of the Company's investor relations programmes aims to promote, through various channels, timely and effective communication

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 consists of other senior executives. 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.

Through various channels, the Company continues to enhance its profile among international investors by conducting investor relations activities on a global basis. The Company's senior management is highly supportive and actively involved in these activities. We will actively meet with the investment community in meetings, conferences and road-shows. During these meetings, we will discuss financial information and historical data that have been previously released to the public. Information regarding our markets, products, corporate strategies, business strengths and weaknesses, growth opportunities and threats etc., will also be discussed as long as it is not considered to be material non-public information.



Fair Disclosure Policy

To attain a high standard of investor relations practice, the Company adopts the Fair Disclosure Policy, which is available on the Company's website for public reference. The policy contains clear guidelines to ensure:

1. compliance with the Listing Rules and other regulatory requirements in relation to the disclosure of price-sensitive information.
2. all communications with the public, including the investment community and the media, are fair.
3. material non-public information is not disseminated on a selective basis.

Access to Corporate Information

The Investor Relations section of the Company's website (www.bochk.com/ir) provides shareholders and investors with access to important and relevant corporate information about the Company's latest development on a fair and timely basis. These include information in relation to the Company's key developments, interim and annual results as well as quarterly financial and business review updates. The Company publishes all important announcements through the Stock Exchange of Hong Kong and the Company's website.

The Investor Relations section also includes information on credit ratings, share and dividend, as well as a

corporate calendar which provides 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 development. Shareholders and other interested parties may register if they are interested to receive such updates by email.

Overview of Investor Relations Activities in 2011

In 2011, the Company continued its efforts to provide effective channels for proactive communication with investors.

INVESTOR RELATIONS

Annual General Meeting

At the AGM held in May 2011, the Chairmen of the Board, the Nomination and Remuneration Committee, the Risk Committee and the Strategy and Budget Committee respectively, members of the Audit Committee, the Company's senior management as well as external auditor were present to respond to questions and comments from shareholders. A total of 825 registered shareholders and their authorised proxies and 117 authorised corporate representatives holding an aggregate of 10,359,163,269 shares, representing 97.98% of the total issued share capital of the Company were present at the 2011 AGM. Minutes of the AGM were available to shareholders on the Company's website.

Results Announcement

At the Company's 2010 annual results announcement and 2011 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 also published quarterly financial and business reviews to keep shareholders up to date about the Company's latest performance and financial position.

Communication with Investors

In 2011, the Company had over 270 meetings with investors and analysts across the world with total attendances of over 780. These meetings were held during global road-shows, international investor conferences, company visits and conference calls. Proactive discussions were conducted to enable investors better understand the Company's strategies and new business initiatives. The Company is widely covered by more than 20 securities research institutions.

Through investor emails, continuous 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 the market focus which helps formulate its investor relations plan and continually improve the investor relations practices.

Investor Relations Awards

During 2011, BOC Hong Kong (Holdings) received the following Investor Relations awards which reflected the investment community's recognition of our efforts to promote investor relations and transparency.

Institutional Investor Magazine: Best Investor Relations Second Place – Nominated by the Buy Side in the Banks sector

For the survey by Institutional Investor Magazine, portfolio managers were asked to name the companies in their coverage universe that excelled at the following investor-relations attributes: 1) the accessibility of senior management; 2) credibility and candor of investor relations department; 3) quality and depth of answers to inquiries; 4) transparency of financial reporting and disclosure.

IR Magazine: Best Reporting by a Hong Kong Company – Top 3

Portfolio managers and analysts across Greater China and South East Asia participated in the survey were asked to nominate and rank up to 3 companies which they believed to be best reporting by a Hong Kong Company.

Going Forward

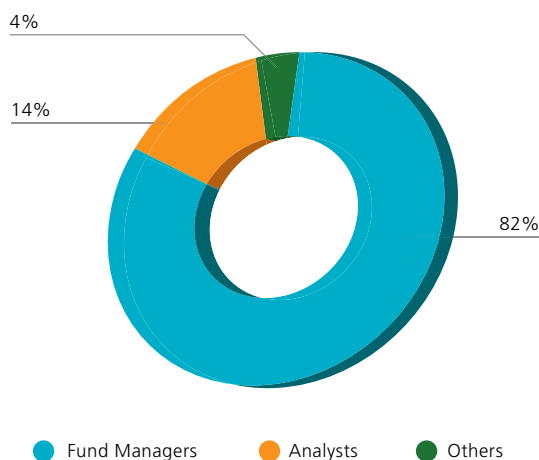
Under the principles of timeliness, fairness and transparency, the Company will continue to pursue proactive and effective investor programmes to keep the investment community adequately informed of the Company's present and future development. The Company will also benchmark its programmes against best 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

Investor Meetings by Category



INVESTOR RELATIONS

Shareholder Information

Financial Calendar 2012

Major Events	Dates
Announcement of 2011 annual results	29 March (Thursday)
Latest time for lodging transfers for entitlement to attend and vote at the 2012 Annual General Meeting	23 May (Wednesday) 4:30 p.m.
Book closure period (both days inclusive)	24 May (Thursday) to 29 May (Tuesday)
Latest time for lodging proxy forms for the 2012 Annual General Meeting	27 May (Sunday) 2:00 p.m.
2012 Annual General Meeting	29 May (Tuesday) 2:00 p.m.
Last day in Hong Kong for dealing in the Company's shares with entitlement to final dividend	30 May (Wednesday)
Ex-dividend date	31 May (Thursday)
Latest time for lodging transfers for entitlement to final dividend	1 June (Friday) 4:30 p.m.
Book closure period (both days inclusive)	4 June (Monday) to 7 June (Thursday)
Record date for final dividend	7 June (Thursday)
Final dividend payment date	15 June (Friday)
Announcement of 2012 interim results	Mid to late August

Annual General Meeting

The 2012 Annual General Meeting will be held at 2:00 p.m. on Tuesday, 29 May 2012 at Four Seasons Grand Ballroom, Level 2, Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong.

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 2011, the Company's market capitalisation was HK\$194.5 billion. Given the Company's market capitalisation and liquidity, its shares are a constituent of the Hang Seng Index, MSCI Index and FTSE Index series. In addition, the Company has been included as a constituent of Hang Seng Corporate Sustainability Index Series in recognition of its performance with regard to corporate sustainability issues.

INVESTOR RELATIONS

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 (HKEX)		
Subordinated Notes			
Description	: Bank of China (Hong Kong) Limited 5.55% Subordinated Notes 2020		
Issue size	: US\$2,500 million		
Stock codes	: HKEX	4316	
	: ISIN	USY1391CAJ00	
	: 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	
	: Bloomberg	EI8623411	

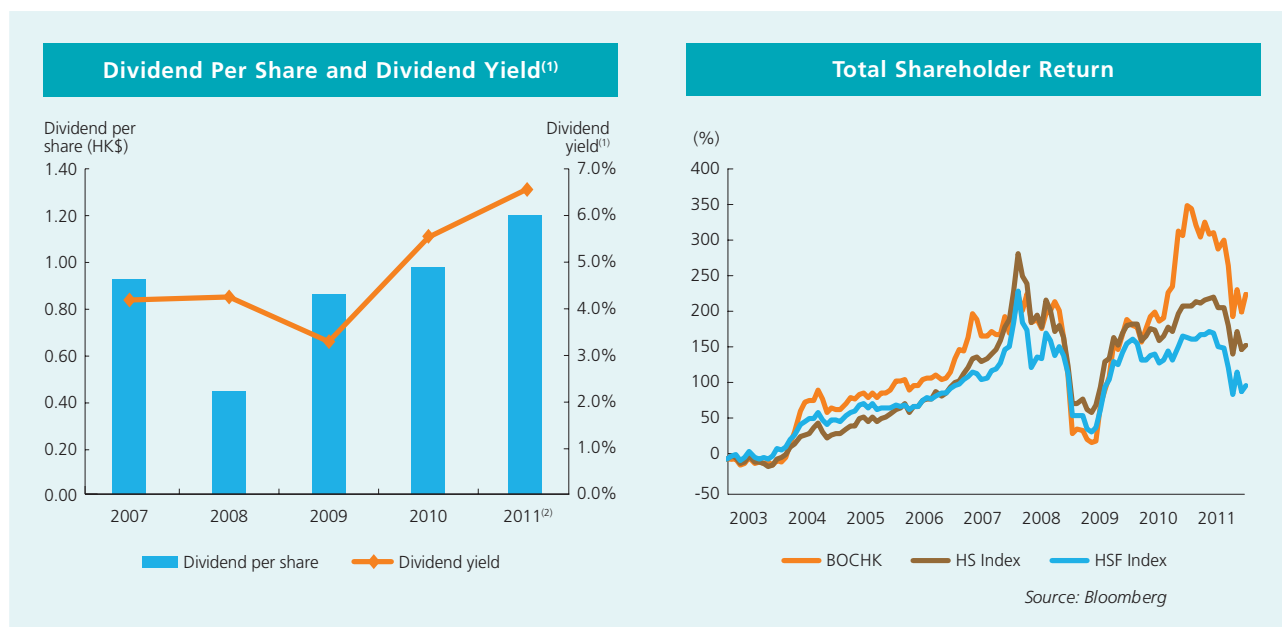
Share Price and Trading Information

Share price (HK\$)	2011	2010	2009
Closing price at year end	18.40	26.45	17.60
Highest trading price during the year	28.35	29.40	19.88
Lowest trading price during the year	14.24	15.92	6.30
Average daily trading volume (m shares)	18.97	17.20	27.51
Number of ordinary shares issued (shares)	10,572,780,266		
Public float	Approximately 34%		
Nominal value per share	HK\$5.00		

INVESTOR RELATIONS

Dividends

The Directors has recommended a final dividend of HK\$0.558 per share, which is subject to the approval of shareholders at the 2012 Annual General Meeting. With the interim dividend per share of HK\$0.630 paid during 2011, the total dividend per share will be amounted to HK\$1.188 for the whole year.



(1) Annual dividend yield is calculated based on actual dividends paid to shareholder during that year (final dividend of previous year and interim dividend of the year) and closing share price of previous year-end.

(2) 2011 final dividend will be subject to shareholders' approval at the Company's forthcoming Annual General Meeting.

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

Shareholding Structure and Shareholder Base

As at 31 December 2011, the Company had 10,572,780,266 shares in issue of which approximately 34% was held by the public and 0.3% was held in the form of ADSs. The Company's 87,598 registered shareholders were distributed in various parts of the world, including Asia, Europe and North America. 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 Securities and Futures Ordinance of Hong Kong.

INVESTOR RELATIONS

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 2011:

Category	Number of registered shareholders	% of shareholders	Number of shares held by registered shareholders	% of total issued share capital ^(Note 2)
Individuals	87,467	99.85	222,489,935	2.10
Institutions, corporates and nominees ^(Note 1)	130	0.15	3,408,965,275	32.24
Bank of China Group ^(Note 1)	1	0.00	6,941,325,056	65.65
Total	87,598	100.00	10,572,780,266	100.00

Note 1:

As recorded in the register maintained by the Company pursuant to section 336 of the Securities and Futures Ordinance, the total number of shares held by Bank of China Group was 6,984,274,213 shares, representing 66.06% of the total issued share capital of the Company as at 31 December 2011. 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'.

Note 2:

Total percentage may not add up due to rounding.

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.



EFFICIENT ¹⁰⁰
e-Banking Service



CORPORATE SOCIAL RESPONSIBILITY



BOCHK was appointed one of the Joint Coordinators, Lead Managers and Bookrunners in the third issue of RMB sovereign bonds in Hong Kong



We launched the new "BOC UnionPay Dual Currency Commercial Card", helping customers reduce currency conversion costs

BOCHK is committed to providing customers with premium financial services and fulfilling corporate social responsibility ("CSR"). Meanwhile, we endeavour to strengthen our relationships with shareholders, employees, customers, business partners, the government and the community, with a view to contributing to the sustainable development of the economy, society and environment.

In 2011, the Group published its first independent CSR Report to enhance the disclosure and transparency of the Group's accomplishments in CSR.

The Group is devising a mid-to-long-term stakeholder engagement strategy that employs different

approaches to engaging stakeholders on a regular basis in the next few years. By listening to stakeholders' opinions and suggestions on our current and future development, and helping them understand our overall development, the Group will have opportunities to involve stakeholders in the formulation of the long-term direction and strategy.

The Group's outstanding performance with regard to corporate sustainability has earned us wide recognition. For two years in a row, BOC Hong Kong (Holdings) Limited has been included as a constituent of the *Hang Seng Corporate Sustainability Index Series*, which evaluates the environmental, social and corporate governance performances of listed companies

in Hong Kong and the Mainland of China. This ranking moved up 14 places to the 18th in 2011. In addition, we have been named a *Caring Company* by the Hong Kong Council of Social Service ("HKCSS") for nine consecutive years.

Customer-centric through Innovation and Service

In the ever-changing market environment, we strive to embrace customer service values by offering innovative and tailor-made products and services, and enhancing our service platform. We continue to maintain our market lead in RMB business in particular. BOCHK is the sole Clearing Bank of RMB business in Hong Kong.

CORPORATE SOCIAL RESPONSIBILITY



With the signing of the new "Settlement Agreement on the Clearing of Renminbi (RMB) Businesses" between the People's Bank of China and Bank of China (Hong Kong) in November 2011, we have been re-appointed the Clearing Bank for RMB Business in Hong Kong



Global Coordinator of ICBC Asia's Basel III compliant RMB subordinated bond, that won the acclaims of *Best Offshore Renminbi Offering 2011* and *Investment-grade Bond of the Year 2011* by *FinanceAsia* and *International Financing Review Asia* respectively.

To enrich our investment product offerings in RMB, the Group launched "BOCHK RMB Bond Fund" and "BOCHK Wealth Achieve Fund Series SPC – BOCHK RMB High Yield Bond Fund (SP)" in 2011. Both funds have outperformed their peers since their inception.

To coincide with the implementation of the "Interbank RMB Autopay System" in Hong Kong, BOCHK took the lead in offering products for RMB payments and receivables in 2011, including RMB payroll, autopay, and outsourcing of cashier order for corporate customers, as well as RMB cashier order and gift cheque services for personal customers. RMB bill payment can now be made via cheque deposit machines. Customers can also make cross-border bill payment using "BOC CUP Dual Currency Credit Card". Online payment for Mainland bills

Innovative RMB Products and Services

Leveraging our competitive edge in the RMB business, we pioneered a number of cross-border RMB products for trade settlement, bonds, investment and insurance during the year. It enhances our RMB product suite and product integration and helps provide total solutions to our corporate and individual customers.

In August 2011, BOCHK was appointed one of the Joint

Coordinators, Lead Managers and Bookrunners in the third issue of RMB sovereign bonds in Hong Kong, which included the tender of RMB15 billion sovereign bonds for institutional investors and the issue of RMB5 billion sovereign bonds for retail investors. This facilitated the development of the RMB offshore market in Hong Kong. The Group was thus awarded the *China Bond House of the Year 2011* by *International Financing Review Asia*. In addition, BOCHK was a Joint

CORPORATE SOCIAL RESPONSIBILITY



Our Mobile Banking offers a one-stop solution of banking services which are well-received by customers



BOCHK is a major bank providing the *Reverse Mortgage Programme*

has been available on our Internet Banking since the end of 2011.

In addition, the new RMB negotiated payment, RMB factoring services and the completion of the first overseas short-term financing in RMB have set the stage for RMB business cooperation among banking peers.

In respect of corporate finance in RMB, the Bank successfully assisted Hui Yan Real Estate Investment Trust ("REIT") to float in Hong Kong. It was Hong Kong's first RMB-denominated initial public offering ("IPO"). RMB IPO loan and RMB dividend payment services were launched to complement the IPO.

The Group has already taken initiatives to forge strategic partnership with qualified fund houses in 2010 and now offers customers a wide range of choices by distributing Renminbi Qualified Foreign Institutional Investor ("RQFII") products for over 10 RQFII fund houses. When more RQFII products are being introduced in the market, BOCHK will become the leading and largest service provider in RMB public funds.

Following the launch of strategic exchange service and CNY HIBOR pricing system in the previous year, BOCHK has extended such systems to the market platform during the year, marking a major step forward in the development of offshore RMB market. BOCHK provides its RMB lending rate to the Treasury Markets Association for dissemination of a reference rate for the pricing of RMB commercial loans in Hong Kong in early 2012. We also contribute to the Association for its compilation of the daily spot CNH Fixing which serves as a benchmark for the market exchange rates for RMB in June 2011.

In addition, we introduced three new offshore RMB bond sub-indices in early 2012, including the "BOCHK Offshore RMB Chinese Sovereign Bond Index", the "BOCHK Offshore RMB Investment Grade Bond Index" and the "BOCHK Offshore RMB 1 to 3 Years Central Government Bond Index", with an aim to provide a performance benchmark for the respective sectors of the offshore RMB bond market.

To satisfy growing demand for RMB investment products, BOC Life launched Hong Kong's first-ever "RMB Universal Life Insurance Plan" that offers a flexible financial solution combining both savings and whole life protection in 2011. The "Specialty Outpatient Plan", the first of its kind in Hong Kong, provides customers with wider protection.

The new "BOC UnionPay Dual Currency Commercial Card" helps customers reduce currency conversion costs by using RMB and HKD as settlement currencies.

NCB (China) introduced a number of competitive wealth management products, such as the "Gold Yield" structured deposit linking to gold investments, to further expand its cross-border RMB business. In September 2011, NCB (China) successfully shared the extensive service network of BOC and allowed its debit card holders to conduct transactions at counters and ATMs of BOC in the Mainland of China. The "credit facilities secured by deposits in the Mainland" jointly launched by NCB (China) and BOCHK enable domestic customers to apply for secured loans from BOCHK backing

CORPORATE SOCIAL RESPONSIBILITY



The Kowloon East Flagship Commercial Centre at Millennium City covers an area of 25,000 square feet to further meet the banking needs of corporate customers

by their deposits at NCB (China). The service serves as a channel for foreign investment.

Our ongoing efforts in offering quality and innovative RMB services have won us the *Excellent Brand of RMB Banking Service of the Hong Kong Leaders' Choice Brand Awards 2012* by Metro Finance.

Access to Banking Services

BOCHK strives to provide elderly customers with a flexible financial solution and becomes a major bank offering the "Reverse Mortgage Programme" in Hong Kong. Under the Programme, the elderly can pledge their self-occupied residential property in Hong Kong as security for a mortgage loan to enjoy greater financial flexibility after retirement. The Group implemented a number of measures to assist eligible Hong Kong citizens in registering for "Scheme \$6,000" of the HKSAR Government via our branches or Internet Banking, and receiving the payment through bank transfer.

To cater for the banking needs of the public at large, the Group offers monthly fee waivers of our deposit accounts to senior citizens aged 65 or above, account holders aged below 18, recipients of Government Disability Allowances/Comprehensive Social Security Assistance. Senior citizens aged 65 or above can also enjoy an annual fee waiver of BOC Fast Cash Card. A handling fee waiver for purchasing gift cheque at counters is applicable to holders of Senior Citizen Card.

Supporting Local Enterprises

The SME sector is an important pillar for the growth of Hong Kong economy. We have been lending tremendous support to the "SME Loan Guarantee Scheme" of the Hong Kong Mortgage Corporation to meet the financing and liquidity needs of SMEs.

As part of our efforts to reinforce support to commercial customers with small-sized enterprises in particular, we are transforming a

total of 33 branches into "integrated branches for commercial business". The first nine pilot branches were opened in 2012, while the rest of these integrated branches are expected to be in operation in the third quarter of 2012. The transformed branches offer our SME customers and their respective owners, shareholders and directors quality commercial banking services and all-rounded personal financial management solutions. In November 2011, the Kowloon East Flagship Commercial Centre was moved to Millennium City in Kwun Tong, covering an area of 25,000 square feet, to further meet the banking needs of corporate customers.

The Group received the *Best SME's Partner Award* for four successive years, in recognition of our full support to SMEs. Our service excellence received the seal of approval as the survey report by Synovate on Hong Kong Corporate Banking Services in April 2011 revealed that about 94% of corporate customers were satisfied with our service quality.

CORPORATE SOCIAL RESPONSIBILITY



The relocation celebration of NCB (China) marks its further development to provide more comprehensive and quality integrated service to customers

The Group organises a diverse range of customer activities, like investment and wealth management seminars, workshops and exchange meetings, to let customers keep abreast of market developments



Enhancing Service Platforms

The Group continually enhances our service capability to provide greater convenience to local and cross-border customers. At the end of 2011, the Group had an extensive network of 266 branches across Hong Kong, Kowloon and the New Territories. Customers can enjoy 24-hour banking service through our 1,000 automated banking machines. The Group promotes wider use of electronic channels by organising educational workshops to teach the elderly how to use ATMs.

To encourage customers to switch to electronic banking services, the Group further upgraded its electronic banking and Mobile Banking platforms. Registration of e-Statement is available online.

The Group's Trade Service Centre took initiatives to implement ISO quality management system to continuously enhance its service and customer experience in 2011. The Centre was awarded the *ISO 9001:2008 Quality Management System Certification* in November 2011.

With the vision of "We Care", the Group has been employing different methods to gather information on customer satisfaction and strives to

improve our service. We conducted customer satisfaction surveys, organised seminars and visited our corporate customers to gain a better understanding of our customer needs. In recognition of our excellence in customer service and provision of a reliable service platform, the Group's Call Centre and BOC-CC received 20 awards by the Hong Kong Call Centre Association ("HKCCA"), including the *HKCCA Awards – Grand Award of the Year* in 2011 for the Call Centre. BOC-CC has received the *ISO 10002 Certification* from Hong Kong Quality Assurance Agency since 2008, signifying our compliance with the international standard of customer complaint management.

Conservation of Resources for Environmental Protection

We endeavour to minimise our environmental impact by reducing our carbon footprint, using resources more efficiently and effectively and promoting environmentally responsible business practices which contribute to the sustainable development of the environment.

Building a Green Bank

During the year, the Group completed an energy-cum carbon audit in respect of Bank of China Tower ("BOC Tower"), Bank of China Building ("BOC Building"), Bank of China Centre ("BOC Centre") and the Group's IT Centre in Fo Tan, Shatin to have a comprehensive review of the current level of carbon emissions and energy consumption. This provides a foundation to set up indicators for further reduction of carbon emissions and conservation of energy.

Through implementation of energy-efficiency measures continuously at BOC Tower, BOC Building and BOC Centre in 2011, BOCHK's electricity consumption was reduced by about 1 million kWh, resulting in the reduction of carbon dioxide emissions by 690 tons and a saving of HK\$1.25 million in energy costs. In addition, the Group achieved an annual saving of water of 18,800 cubic metres and collected more than 76,000 kg of recycled paper, aluminium cans and plastic bottles. We continue to carry out recycling projects with regard to

CORPORATE SOCIAL RESPONSIBILITY



We participated in the *Eco Expo Asia 2011* to exchange information with environmental experts and companies on air quality control and energy management

batteries, compact fluorescent lamps, fluorescent tubes, toner cartridges and used computers on our premises. To demonstrate our efforts to promote low-carbon living, BOCHK participated in the *Eco Expo Asia 2011* to exchange information with environmental experts and companies on air quality control and energy management.

Our sound environmental practices to reduce energy and water consumption have earned us recognition and environmental accreditations from a number of professional organisations for many years. In 2011, BOC Tower, BOC Building, BOC Centre and Bank of China Wanchai Commercial Centre attained the *ISO 14001 Certification* granted by UKAS and the *Certificate of the Quality Water Recognition Scheme for Building* by the Water Supplies Department of the HKSAR Government. Furthermore, BOC Tower and BOC Centre obtained the *Indoor Air Quality Certificate (Excellent Class)* from the Environmental Protection Department and the *Hygiene Control Management Systems Certificate* from SGS Hong Kong, while BOC Building received the *Carbon Reduction Label* awarded

by the Hong Kong Quality Assurance Agency. On top of the above awards, BOC Centre was awarded the *Carbon Less 4% Certificate* under the Hong Kong Awards for the Environmental Excellence and the *ISO 50001:2011 Energy Management System Certification* from the SGS Hong Kong. BOC Group Life Assurance Tower also received the *Indoor Air Quality Certificate (Good Class)* and *Certificate of the Quality Water Recognition Scheme for Building*.

The Group established a risk evaluation system which is designed to rate our suppliers annually according to their risk exposure. In addition, our "Centralised Procurement and Tender Policy" has been revised to further refine the criteria in the selection of suppliers. We also requested our major suppliers to complete and submit to us a "Supply Chain Code of Conduct Self-Assessment" to ensure

that the content and packaging of their products can be recycled and environmental certification has been obtained. Our brochures, promotional leaflets, Lunar New Year cards and posters have been printed on paper with environmental certification by the Forest Stewardship Council. Moreover, our company vehicles are economy models.

To reduce paper use, we encourage our customers to manage their finances via Internet Banking and Mobile Banking and switch to e-Statement and e-Card services. By the end of 2011, customers using our Internet Banking Service increased by 13% compared with a year earlier and those choosing to receive consolidated statements and investment statements in electronic forms were up 78% and 54% respectively. Working towards a paperless office, we reduced paper use by 4% in 2011, as compared to 2010. In addition, we have been awarded *Green Employer* by the Inland Revenue Department of the HKSAR Government for submission of our annual Employer's Tax Returns in the form of CD-ROMs.

Since 2009, we have participated in the global environmental initiative *Earth Hour* organised by WWF to raise public awareness of the global climate change. Shark's fin, endangered reef species and black mosses have no longer been served



CORPORATE SOCIAL RESPONSIBILITY



Our Dynamic Volunteer Team has more than 1,000 volunteers participating in various community and charitable activities, like *Hong Kong Geopark Charity Green Walk*, proactively spreading the message of caring for society



at corporate banquets since 2009. To pledge our support to conservation of sharks, the Group signed the “No Shark’s Fin Pledge” initiated by WWF Hong Kong in 2011, stopping to supply or serve shark’s fin or provide any promotions relating to shark’s fin.

BOCHK also supports the *Green Day* of the Hong Kong Community Chest (“the Chest”) to encourage staff to take greener forms of transportation to work. With our efforts, we received the *Second Highest Donation Award of the Green Day*.

Promoting Green Credit Services

We have offered the “Green Equipment Financing Scheme” through collaboration with the Hong Kong Productivity Council (“HKPC”) for four consecutive years. The scheme encourages corporate customers to purchase environmentally friendly equipment. We also continue to offer the “Energy Efficiency Loan Scheme” launched jointly with the two electricity companies in Hong Kong to provide loans to commercial and industrial customers for the implementation of energy-saving initiatives.

In Support of Bio-environmentalism

Environmental education is another key focus of our corporate responsibility initiative. BOCHK joined hands with the Association for Geoconservation, Hong Kong (“AGHK”), in establishing the first-ever *Hong Kong Global Geopark of China – Prehistoric Story Room*, featuring life on earth at the BOC Tower in October 2011. Various valuable fossils and models are displayed in an interactive way. More than 42,000 visitors and over 200 visiting organisations were recorded as at February 2012.

BOCHK also sponsors the *Global Geopark E-Classroom* jointly organised by the Agriculture, Fisheries and Conservation Department and the AGHK. The first-ever E-Classroom provides local and overseas students with an online platform to learn more about geo-conservation from world-class experts. This project has been well received by the education community, with eight participating schools in the first phase, and will

be gradually extended to all schools in Hong Kong.

In 2009 BOCHK spearheaded the *Hong Kong Geopark Charity Green Walk*, which brought together the important elements of environmental protection and charity. As at February 2012, 84 eco-tours were organised for more than 7,600 customers, citizens, staff members and their companions to better understand Hong Kong’s geo-conservation. In addition, more than 260 new immigrants, members from single-parent or low income families, youths and senior citizens were invited to take part in the *Hong Kong Global Geopark of China In-depth Tour* and explore the geological wonders.

To further promote the significance of environmental protection, the Group sponsored the *Power Plant*, a large-scale international outdoor sound and light exhibition presented by the 39th Hong Kong Arts Festival. A wide range of environmentally friendly materials were used in art installations, and over 23,000 visitors were recorded during the 21 days of exhibition.

CORPORATE SOCIAL RESPONSIBILITY



Hong Kong Global Geopark of China – Prehistoric Story Room has attracted more than 42,000 visitors and over 200 visiting organisations since October 2011

Embracing LOHAS (“Lifestyles for Health and Sustainability”) can help reduce the carbon footprint in our daily life. In 2011, BOCHK sponsored the *ECOLITY Global Youth Summit on Sustainability* held by the AIESEC, with the aim of encouraging over 120 global youth representatives to formulate creative green initiatives through *Business Plan Competition*. Meanwhile, the *LOHAS Atelier* set up in Chai Wan under the *LOHAS@BOCHK* integrated environmental education programme recorded nearly 9,000 visitors during the period from November 2010 to May 2011. More than 2,300 and 1,000 participants took part respectively in the 150 *LOHAS Workshops* and the *LOHAS Carnival* complemented by a waste recycling competition designed for the local secondary and primary school students.

Caring for Community We Serve

Rooted in Hong Kong, BOCHK has been serving Hong Kong with a dedication to developing harmonious relationships with different sectors of the city. Over the years, by donating to and working closely with the

BOCHK Charitable Foundation (“The Foundation”), a charity organisation registered as an independent legal entity in Hong Kong, we actively participate in a diverse range of charitable activities, covering education and culture, sports and arts, environmental protection, social welfare and assistance to the needy in Hong Kong and the Mainland of China, to share our success with the communities we serve.

Building a Harmonious Community

In 2009 we designated HK\$90 million of the net proceeds from the sale of the Olympic Commemorative Banknote to set up the *BOCHK’s Caring Hong Kong – A Heart Warming Campaign*, with the objectives to assist the disadvantaged groups and to build a harmonious community. Under the campaign, an aggregate of HK\$85 million was approved to subvent 78 large-scale projects of the member social welfare agencies of the Chest and HKCSS. Over 900,000 service attendants are expected. In recognition of our contribution to the sustainable development of the Hong Kong society, in 2011 we were presented the *Partner in Giving and*

Sharing Award, which was set up and presented for the first time by the Chest.

BOCHK fully supports various activities organised by the Chest. The funds raised have all been channelled to enhance the social welfare services provided by its member agencies. BOCHK was presented the Chest’s *Silver Award of the Corporate and Employee Contribution Programme* and the *President’s Award* in 2011.

With social responsibility being recognised as a key element for sustainable development of Hong Kong, BOCHK has sponsored the *Hong Kong Corporate Citizenship Programme* organised by the HKPC since 2010 for two consecutive years. Through a series of competitions, seminars and presentation of the *Hong Kong Outstanding Corporate Citizen Award*, the programme aims to encourage enterprises to adopt social responsibility principles in their business strategies and management measures. This year, a number of activities were designed to enhance the youths’ awareness of the responsibility of a company as a corporate citizen.

CORPORATE SOCIAL RESPONSIBILITY

We support the *Festival of Sport* to promote the "Sport for All" message in the community



In addition, the Group sponsored the *CSR CUMBA Conference 2011* organised by the Faculty of Business Administration of the Chinese University of Hong Kong ("CUMBA") under the theme of "Global Partnership for a Sustainable Future". More than 250 delegates from over 50 organisations of various business domains participated in the conference to share their experience and aspirations of CSR fulfillment.

Spreading the Message of Caring

We organised a *Kids and Kiss – Pay Love Forward* jointly with the Boys' & Girls' Clubs Association of Hong Kong for two consecutive years to show our care to children from low income and "foster care" families. In addition, BOCHK and BOC Life continued to sponsor the "*Kiddie Sky*" *Green Kids Banking Programme* and *Kids Garden* set up by the Department of Child Education and Community Services of Hong Kong Institute of Vocational Education, teaching children the basic operation of banks. We also sponsored the Institute to conduct a survey research on the topic of "Influence of parents' spending behaviours on children's money concepts and attitudes", aiming to

raise the public awareness of the importance of financial management education for children.

Caring has no boundaries. Ours is spread far and wide to the Mainland of China. BOCHK has supported the *Sowers Action* for three consecutive years from 2009. In 2011, a team of 10 staff took part in the *Charity Expedition in Qinghai for Education* organised by the *Sowers Action* in 2011. Over HK\$250,000 was raised and donated to the children in the Mainland mountain regions.

As the wholly-owned subsidiary of BOCHK Group in the Mainland of China, NCB (China) has been committed to undertaking social responsibility in the Mainland communities it serves. In 2011, the Bank assisted an orphan school in the Liaoning Province and continued to support a local school called Yangpeng School with donations. NCB (China) also continued to take part in the *Caring Deposits Programme* jointly launched with the Red Cross Society of China. Through the programme, the Bank collected books for donation to the children stricken by disaster or living in poverty-stricken areas.

Nurturing Future Talents

We spare no effort in nurturing our younger generation to build a better society. Since 1990, the Foundation has awarded HK\$14.43 million scholarships and bursaries to nine universities in Hong Kong, benefitting a total of 1,540 students. We organised the seventh *Internship Programme for Financial Professionals in the Mainland of China*, together with the *Summer Internship Programme for Tertiary Institution Students*, offering university and tertiary institution students the internship opportunities at the branches of BOC in the Mainland.

Meanwhile, BOC Life fully supports youth development by sponsoring the *Meet Challenge in Wudang*, a martial art training programme organised for the first time by the Hong Kong Federation of Youth Groups. 30 youths from 14 local tertiary institutions built up physical and mental strength during their 17-day stay at the Wudang Monastery in the Hubei Province, China. In addition, BOC Life and the Junior Achievement jointly organised the *JA Primary*

CORPORATE SOCIAL RESPONSIBILITY

鋼琴巨星
雲迪
浪漫
奏會



In celebration of the centenary of Bank of China, we specially presented the *Yundi Red Romance Recital*

BOCHK proactively supported the *Hong Kong Corporate Citizenship Programme* to encourage enterprises to adopt social responsibility principles in their business strategies and management measures



Programme 2011 to give over 1,200 primary school children the basic knowledge about our society.

Fostering a Culture of Sport for All

Participation in sports not only promotes good health, but also helps one develop a positive attitude towards life. We advocate the "Sport for All" message in the community through sponsorship of the *Festival of Sport* from 2007, with more than 500,000 participants over the past six years.

In recognition of the Hong Kong athletes for their achievements at large-scale sport games, we have been supporting the *Bank of China (Hong Kong) Sports Stars Awards* for six years in a row and set up the *Best of the Best Hong Kong Sports Stars Award*. In the online public voting of the *Hong Kong Sports Stars Awards 2011* held in 2012, we recorded a total of over 63,000 votes.

Badminton is the key sports initiative of the Foundation. A total of more than HK\$12 million was allocated for the development of the badminton in the past 13 years, benefitting over 920,000 participants. We continue our support with a donation of over HK\$4 million to the *Badminton Development & Training Scheme 2011-2014*. The Scheme includes competitions, fun days, training courses, reward programmes and demonstration sessions, in which over 80,000 people participated in 2011.

For 10 consecutive years, the Foundation has sponsored the *Hong Kong Island & Kowloon Regional Inter-school Sports Competition*, the largest school sports competition of its kind in Hong Kong. The competition's top honours, *BOCHK Bauhinia Bowls Award* and *BOCHK Rising Star Award*, have been set up to foster the young talented athletes.



BOCHK Charitable Foundation sponsored the *Hong Kong International Conducting Competition for Chinese Music* to help promote the development of Chinese orchestral music

In 2011, we recorded over 79,000 athlete enrolments from 274 schools, which participated in more than 8,400 matches of this competition.

Promoting Art and Culture

Dunhuang is home to the world-renowned grottoes. In 2011, BOCHK fully supported the *Dunhuang Culture and Preservation Study Series* organised by the University of Hong Kong. Led by scholars and experts, university students visited Dunhuang on a study tour to have a deeper understanding of the Chinese cultural heritage. Two public seminars, students' reporting sessions and exhibitions were organised with over 2,600 participants from the public.

Art and culture enrich our life and enhance creativity. In 2011, BOCHK sponsored the *Hong Kong International Conducting Competition for Chinese Music* to help identify conducting talents and promote the development of Chinese orchestral music. In addition, nearly 1,500 people participated in the *Conductor Demystified Workshops*, the *Art of Management with a Baton Sharing Sessions* and *Final Competition*. At the end of 2011, BOCHK specially presented *Yundi Red Romance Recital*. At the concert, Yundi played unique traditional Chinese music on top of Chopin's classical pieces.

CORPORATE SOCIAL RESPONSIBILITY



We organise a diverse range of staff recreational activities locally and in the Mainland to advocate work-life balance while enhancing staff communications and relations



Serving Our Shareholders with a Solid Foundation

The Group is committed to maximising shareholders' value and safeguarding shareholders' interests by enhancing corporate governance and ensuring a higher degree of transparency. For details, please refer to "Corporate Governance", "Investor Relations" and "Management's Discussion and Analysis".

With prudent operations and solid foundation, the Group continues to enhance our core competences amid an ever-changing economic environment. We also keep moving forward and seize every opportunity to grow our business and maximise our shareholders' value.

People-oriented with Team Spirit

We understand that people are the foundation to our success. We are dedicated to nurturing talents and fostering promising careers so that our staff can grow along with the Group.

Staff Training and Development

The Group has a staff team of over 14,000, including talented professionals from different backgrounds with versatile experience and expertise. We recruited well-qualified management and business professionals, as well as university graduates through the *Management Trainee Programme*, *Officer Trainee Programme* and *Summer Internship Programme* for new ideas and inspiration.

The Group has been devising customised schemes that cover career development, performance appraisal, remuneration, training and career advancement plans for different managerial, professional and operational positions. Job rotation, cross-posting programmes, secondment and mentor programmes are available to promote continuous professional development of staff and prepare them for career advancement.

Talent development is one of our priorities. We invest heavily in staff training and development every year through diverse and multi-faceted training programmes. In 2011, the Group organised about 3,200 courses for approximately 188,000 participants. The programmes include a series of courses and workshops related to risk management, legal and compliance, business knowledge, sales and service, leadership development and corporate culture. Evaluation and monitoring systems are in place to ensure effectiveness of the training programmes.

We also work with internationally renowned universities, such as Peking University, Tsinghua University, Columbia University, Oxford University and Richard Ivey School of Business, to enhance the leadership and strategic thinking capabilities of our management staff.

Competitive Incentive Schemes

We are committed to providing our staff with competitive remuneration

CORPORATE SOCIAL RESPONSIBILITY



A different variety of staff training, be they active or static, held locally or abroad, are suitable for all levels of staff to join

package. We continue to review and refine our remuneration and benefits policy in line with market practices. Our staff is rewarded according to a performance-linked annual bonus scheme in relation to the performance of the Group, its respective business units as well as individual staff. We also have sales incentive schemes linked to business performance.

The Group attaches great importance to recognition of outstanding staff performance. We pay tribute to distinguished individuals and teams in our annual award presentation.

Caring Our Staff

"Respect our staff" is a core value of the Group. We put great emphasis on having two-way communication between the Group and our staff. A dedicated staff hotline is in place to gather staff feedback and opinions. To ensure a fair and reasonable treatment for staff, the Group's Human Resources Policy states clearly the mechanism of addressing our staff concerns. In 2011, we conducted an online staff engagement survey to understand opinions and suggestions of our staff in an effort to enhance our policies and measures.

Provision of a safe and congenial workplace is crucial to achieving good performance. The Group has been providing free body check-ups, medical insurance and counselling services to our staff.

We established the Dynamic Volunteer Team in 2006, with more than 1,000 registered volunteers now. The team proactively spreads the message of caring by participating in various community and volunteer activities organised by the Group jointly with a number of charitable organisations. In 2011, these included visiting the elderly and the mildly mentally handicapped persons, as well as outings with children and the elderly. Our staff also volunteered to

offer assistance to the *LOHAS Atelier*, *Hong Kong Geopark Charity Green Walk*, the *Power Plant* presented by Hong Kong Arts Festival, a counselling programme for those who have suffered a bereavement, and a special movie day for the visually impaired and their families to enjoy a movie with audio description.

To promote a harmonious relationship and enhance cohesion among staff, we organised a fun day for staff at Hong Kong Disneyland at the end of 2011, in which about 99% of our staff had enrolled. It eventually attracted nearly 30,000 staff members and their companions to participate. Educational workshops by financial professionals were organised to teach our employees' children the important financial concepts. We raised our staff's health awareness by arranging a series of health seminars. During Chinese New Year and Mid-autumn Festival, we also share the joy with our staff by giving them special festive gifts.

Corporate social responsibility has a positive impact on staff morale and creates long-term value for the Group. It is a priority for the Group in the year ahead. We will therefore continue to uphold our corporate social responsibility in order to build a harmonious society and contribute to the sustainable development of society.



AWARDS AND RECOGNITION



Customer-centric

- One of the World's 10 Strongest Banks and the Top among Banks in Hong Kong (Bloomberg Markets)
- "One of the Top 10 Banks in Hong Kong and Top 20 Banks with the Highest Net Profits" of the Top 300 Banks in Asia in 2011 (Yazhou Zhoukan)
- China Bond House of the Year 2011 (International Financing Review Asia)
- In the capacity of a Joint Global Coordinator of ICBC Asia's Basel III compliant RMB subordinated bond: Best Offshore Renminbi Offering Award 2011 (FinanceAsia)
- Investment-grade Bond of the Year 2011 (International Financing Review Asia)
- Top bank in the Hong Kong-Macau syndicated loan market for seven consecutive years (Basis Point)
- Excellent Brand of RMB Banking Service of the Hong Kong Leaders' Choice Brand Awards 2012 (Metro Finance)
- Best SME's Partner Award for four consecutive years (The Hong Kong General Chamber of Small and Medium Business)
- USD STP Excellence Award (JPMorgan Chase & Deutsche Bank respectively)
- EUR STP Excellence Award (The Commerzbank, A.G, Frankfurt)
- The Person-to-Person Telemarketing Code of Practice Certification and the following awards presented by the Hong Kong Call Centre Association (HKCCA): HKCCA Grand Award of the Year 2011 Asia Pacific Contact Centre Association Leaders Award – Hong Kong Region

AWARDS AND RECOGNITION

- Mystery Caller Assessment Award – Gold
- Inbound Contact Centre of the Year (Over 50 Seats) – Gold
- Outbound Contact Centre of the Year (Over 50 Seats) – Gold
- Best Contact Centre Video – Gold
- Outbound Contact Centre Manager of the Year – Gold
- Inbound Contact Centre Team Leader of the Year – Gold
- Inbound Contact Centre Agent of the Year – Gold
- Customer Service Excellence Award 2011 – Individual Award (Counter Service) (Hong Kong Association for Customer Service Excellence)
- The HKIB Outstanding Financial Management Planner Awards (The Hong Kong Institute of Bankers):
 - Outstanding Financial Planner Gold Award
 - Outstanding Financial Planner Certificate of Merit
 - Best Presentation Award
- ISO 9001: 2008 Quality Management System Certification presented to the Trade Service Centre (SGS Hong Kong)
- Certificate of Merit for Crime Prevention (Tsuen Wan Police Station)
- Best Retail Bank of the Prime Awards for Banking & Finance Corporations 2011 (MetroBOX)
- Capital Weekly Service Awards for Mobile Banking, and Internet Banking for three consecutive years (Capital Weekly)

Awards presented to BOC-CC by various organisations:

- **China UnionPay:**
 - Largest Card Number (Credit Card) – Gold Award – Hong Kong
 - Highest Card Volume (Credit Card) – Gold Award – Hong Kong
 - Highest Acquiring Volume – Gold Award – Hong Kong
 - Innovative Awards – Inflight Acceptance and UnionPay Online Payment – Hong Kong and Macau
 - Bank of the Year Award – Hong Kong and Macau
- **Visa International:**
 - Largest Merchant Sales Volume Growth – Silver Prize – Hong Kong
 - Highest Merchant Sales Volume – Bronze Prize – Hong Kong
 - New Visa payWave Programme Launch – Hong Kong
 - Largest Card Issuer – Macau
 - Highest Retail Sales Volume – Macau

• **MasterCard Worldwide:**

- The Highest Market Share: Number of Open Cards in Macau – Champion
- The Highest Market Share: Cardholder Spending in Macau – Champion
- The Highest Market Share: Number of Open Cards in Hong Kong – 1st Runner up
- The Highest Market Share: Cross-Border Cardholder Spending in Hong Kong – 1st Runner up
- Complaints Handling System Certificate of ISO 10002 (Hong Kong Quality Assurance Agency)
- Hong Kong Call Centre Association Awards:
 - Mystery Caller Assessment Award – Best of the Best
 - Mystery Caller Assessment Award – Gold

Awards presented to BOC Life by various organisations:

- One of the Top 3 of the 15th Asia Insurance Industry Award – 2011 Life Insurance Company of the Year (Asia Insurance Review, Singapore and The Review Worldwide Reinsurance Magazine, UK)
- Best Practice Awards – Best Practices in Customer Engagement (Best Practice Management Group)
- Awards for Excellence in Training and Development (Hong Kong Management Association):
 - Award for Excellence in Training and Development – Gold
 - Best Presentation Award
 - Most Innovative Award
- Love Weight: 2011 The Kam Fan Award – Crafts – Best Chinese Copy Merit Award (The Association of Accredited Advertising Agencies of Hong Kong)
- Person-to-Person Telemarketing Code of Practice Certification (Hong Kong Call Centre Association)

Chiyu Banking Corporation:

- “2011 Honorary Award for One of the Top 20 Banks – Hong Kong Region” of the Top 300 Banks in Asia (Yazhou Zhoukan)

NCB (China):

- 2011 Wealth Management Bank with Distinguished Competitiveness Award (China Business Journal)
- The Most Popular Wealth Management Service Award of the 9th Wealth Management Exhibition (Money Weekly)

AWARDS AND RECOGNITION



Environmental Protection

- Green Employer Award (Inland Revenue Department of the HKSAR Government)

BOC Tower, BOC Building, BOC Centre and Bank of China Wanchai Commercial Centre:

- ISO 14001 Certification (UKAS)
- Certificate of Quality Water Recognition Scheme for Building (Water Supplies Department of the HKSAR Government)

BOC Tower and BOC Centre:

- Indoor Air Quality Certificate – Excellent Class (Environmental Protection Department of the HKSAR Government)
- Hygiene Control Management Systems Certificate (SGS Hong Kong)

BOC Tower:

- One of the top 20 iconic skyscrapers in the world (CNGO of CNN)

BOC Building:

- HKQAA Carbon Reduction Label (Hong Kong Quality Assurance Agency)

BOC Centre:

- Carbon Less 4% Certificate (Hong Kong Awards for the Environmental Excellence)
- ISO 50001:2011 Energy Management System Certification (SGS Hong Kong)

BOC Group Life Assurance Tower:

- Indoor Air Quality Certificate – Good Class (Environmental Protection Department of the HKSAR Government)
- Certificate of Quality Water Recognition Scheme for Building (Water Supplies Department of the HKSAR Government)

BOC-CC:

- Certificate of Merit of the Hong Kong Awards for Environmental Excellence in the sector of Financial, Insurance and Accounting Institutions (Environmental Campaign Committee)

AWARDS AND RECOGNITION

Social Responsibility

- Included as a constituent of Hang Seng Corporate Sustainability Index and Hang Seng (Mainland and HK) Corporate Sustainability Index respectively for two consecutive years, and included as a constituent of the Hang Seng Corporate Sustainability Benchmark Index
- Partner in Giving and Sharing Award, President's Award, Silver Award of the Corporate and Employee Contribution Programme and the Second Highest Donation Award of the Green Day in 2011 (The Community Chest)
- Caring Company for nine consecutive years (The Hong Kong Council of Social Service)
- Gold Award of Enterprises with Integrity and Credibility and Award of Justice in the Financial and Insurance Category (Hang Seng Management College)

BOC-CC and BOC Life:

- Caring Company (The Hong Kong Council of Social Service)

Corporate Governance and Investor Relations

- 2011 Best Investor Relations – Second Place in the banking sector, nominated by the Buy Side (Institutional Investor Magazine)
- Top 3 Best Reporting by a Hong Kong Company Award 2011 (Investor Relations Magazine)
- Hong Kong Corporate Governance Excellence Award 2011 – Main Board Companies: Hang Seng Index Constituent Companies (The Chamber of Hong Kong Listed Companies and the Hong Kong Baptist University)



Innovation and Creativity

- The Best Creative Buy – Metro Creative Awards Ceremony 2011 (MetroHK)
- Corporate Strategy Excellence Award 2011 (Eastweek)
- Outstanding Corporate Image Award 2011 (TVB Weekly)
- International ARC Awards
Annual Report 2010 of BOC Hong Kong (Holdings) Limited: Honours for "Financial Data – Bank Holding Company"
- Astrid Awards
BOCHK's Caring Hong Kong – A Heart Warming Campaign: Silver Award for "Campaigns: Corporate Social Responsibility"
Desk Top Calendar 2011: Bronze Award for "Calendars: Corporate"
- Galaxy Awards
Desk Top Calendar 2011: Gold Award for "Design: Calendar"
RMB Business Advertisements: Bronze Award for "Advertising: Print Campaign (Other Countries)"
BOC UnionPay Dual Currency Commercial Card: Honours for "Promotion: New Product Introduction"
- Mercury Awards
Power Plant: Bronze Award for "Special Events: Exhibition Promoting Environmental Protection"
Hong Kong Global Geopark of China – Prehistoric Story Room: Silver Award for "Special Events: Exhibition (Geology Formation)" and Honours for "Promotion/Marketing: Earth Science"
Desk Top Calendar 2011: Honours for "Design: Calendar"
- iNOVA Awards
2010 Christmas E-Cards: Grand Award for "Brand Management" and Gold Award for "Brand Management: E-Cards"
BOCHK Corporate Website: Silver Award for "Corporate Website: Banking/Financial"
- The Beauty of Geo Rocks: Award of Merit in the "Promotional Material Printing: Others" category of the 23rd Hong Kong Print Awards 2011 (Graphic Arts Association of Hong Kong)



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INDEPENDENT AUDITOR'S REPORT

To the shareholders 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 (together, the "Group") set out on pages 102 to 237, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated and company statements of comprehensive income, the consolidated and company statements of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 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 auditor's judgment, 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 auditor considers 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 state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 29 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	Notes	2011 HK\$'m	2010 HK\$'m
Interest income		31,931	23,449
Interest expense		(9,952)	(4,715)
Net interest income	5	21,979	18,734
Fee and commission income		10,858	9,479
Fee and commission expense		(3,025)	(2,435)
Net fee and commission income	6	7,833	7,044
Gross earned premiums		12,927	8,650
Gross earned premiums ceded to reinsurers		(7,244)	(2,166)
Net insurance premium income		5,683	6,484
Net trading gain	7	1,710	1,369
Net (loss)/gain on financial instruments designated at fair value through profit or loss		(340)	742
Net gain on other financial assets	8	308	656
Other operating income	9	525	467
Total operating income		37,698	35,496
Gross insurance benefits and claims	10	(13,844)	(10,053)
Reinsurers' share of benefits and claims		6,992	2,065
Net insurance benefits and claims		(6,852)	(7,988)
Net operating income before impairment allowances		30,846	27,508
Net (charge)/reversal of impairment allowances	11	(506)	315
Net operating income		30,340	27,823
Operating expenses	12	(7,862)	(9,584)
Operating profit		22,478	18,239
Net gain from disposal of/fair value adjustments on investment properties	13	2,213	1,511
Net loss from disposal/revaluation of properties, plant and equipment	14	(34)	(6)
Share of profits less losses after tax of associates	29	23	(2)
Profit before taxation		24,680	19,742
Taxation	15	(3,867)	(3,052)
Profit for the year		20,813	16,690
Profit attributable to:			
Equity holders of the Company		20,430	16,196
Non-controlling interests		383	494
		20,813	16,690
Dividends	17	12,560	10,277
		HK\$	HK\$
Earnings per share for profit attributable to the equity holders of the Company			
Basic and diluted	18	1.9323	1.5319

The notes on pages 110 to 237 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Notes	2011 HK\$'m	2010 HK\$'m
Profit for the year		20,813	16,690
Premises:			
Revaluation of premises		8,989	4,942
Deferred tax	39	(1,422)	(788)
		7,567	4,154
Available-for-sale securities:			
Change in fair value of available-for-sale securities		(548)	1,774
Release upon disposal of available-for-sale securities		(469)	(675)
Net reversal of impairment allowances on available-for-sale securities transferred to income statement	11	(7)	(208)
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities		(29)	(41)
Deferred tax	39	156	(129)
		(897)	721
Change in fair value of hedging instruments under net investment hedges		(117)	(30)
Currency translation difference		345	223
Other comprehensive income for the year, net of tax		6,898	5,068
Total comprehensive income for the year		27,711	21,758
Total comprehensive income attributable to:			
Equity holders of the Company		27,293	21,258
Non-controlling interests		418	500
		27,711	21,758

The notes on pages 110 to 237 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Notes	2011 HK\$'m	2010 HK\$'m
Profit for the year	16	12,823	9,584
Available-for-sale securities:			
Change in fair value of available-for-sale securities		(269)	145
Other comprehensive income for the year, net of tax		(269)	145
Total comprehensive income for the year		12,554	9,729

The notes on pages 110 to 237 are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December	Notes	2011 HK\$'m	2010 HK\$'m
ASSETS			
Cash and balances with banks and other financial institutions	22	278,795	415,812
Placements with banks and other financial institutions maturing between one and twelve months		107,910	39,499
Financial assets at fair value through profit or loss	23	48,602	69,876
Derivative financial instruments	24	26,787	23,854
Hong Kong SAR Government certificates of indebtedness		65,890	46,990
Advances and other accounts	25	755,229	645,424
Investment in securities	27	376,998	360,184
Interests in associates	29	234	212
Investment properties	30	12,441	10,342
Properties, plant and equipment	31	39,650	31,049
Deferred tax assets	39	210	157
Other assets	32	25,764	17,641
Total assets		1,738,510	1,661,040
LIABILITIES			
Hong Kong SAR currency notes in circulation	33	65,890	46,990
Deposits and balances from banks and other financial institutions		236,694	313,784
Financial liabilities at fair value through profit or loss	34	3,237	25,493
Derivative financial instruments	24	22,281	21,355
Deposits from customers	35	1,145,951	1,027,033
Debt securities in issue at amortised cost	36	5,985	–
Other accounts and provisions	37	41,811	35,480
Current tax liabilities		2,237	1,726
Deferred tax liabilities	39	5,365	4,206
Insurance contract liabilities	40	47,220	39,807
Subordinated liabilities	41	28,656	26,877
Total liabilities		1,605,327	1,542,751
EQUITY			
Share capital	42	52,864	52,864
Reserves	43	76,901	62,317
Capital and reserves attributable to the equity holders of the Company		129,765	115,181
Non-controlling interests		3,418	3,108
Total equity		133,183	118,289
Total liabilities and equity		1,738,510	1,661,040

The notes on pages 110 to 237 are an integral part of these financial statements.

Approved by the Board of Directors on 29 March 2012 and signed on behalf of the Board by:



XIAO Gang
Director



HE Guangbei
Director

BALANCE SHEET

As at 31 December	Notes	2011 HK\$'m	2010 HK\$'m
ASSETS			
Bank balances		281	424
Investment in securities	27	2,506	2,775
Investment in subsidiaries	28	54,814	54,814
Other assets		5,984	5,728
Total assets		63,585	63,741
LIABILITIES			
Other accounts and provisions		2	3
EQUITY			
Share capital	42	52,864	52,864
Reserves	43	10,719	10,874
Total equity		63,583	63,738
Total liabilities and equity		63,585	63,741

The notes on pages 110 to 237 are an integral part of these financial statements.

Approved by the Board of Directors on 29 March 2012 and signed on behalf of the Board by:

XIAO Gang
Director

HE Guangbei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the Company								
	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 2010	52,864	11,660	1,880	4,040	225	33,510	104,179	2,736	106,915
Profit for the year	-	-	-	-	-	16,196	16,196	494	16,690
Other comprehensive income:									
Premises	-	4,122	-	-	-	-	4,122	32	4,154
Available-for-sale securities	-	-	795	-	-	(40)	755	(34)	721
Change in fair value of hedging instruments under net investment hedges	-	-	-	-	(28)	-	(28)	(2)	(30)
Currency translation difference	-	3	(46)	-	256	-	213	10	223
Total comprehensive income	-	4,125	749	-	228	16,156	21,258	500	21,758
Release upon disposal of premises	-	(35)	-	-	-	35	-	-	-
Transfer from retained earnings	-	-	-	1,036	-	(1,036)	-	-	-
Dividend paid	-	-	-	-	-	(10,256)	(10,256)	(128)	(10,384)
At 31 December 2010	52,864	15,750	2,629	5,076	453	38,409	115,181	3,108	118,289
Company and subsidiaries	52,864	15,750	2,629	5,076	453	38,359	115,131		
Associates	-	-	-	-	-	50	50		
	52,864	15,750	2,629	5,076	453	38,409	115,181		
At 1 January 2011	52,864	15,750	2,629	5,076	453	38,409	115,181	3,108	118,289
Profit for the year	-	-	-	-	-	20,430	20,430	383	20,813
Other comprehensive income:									
Premises	-	7,508	-	-	-	-	7,508	59	7,567
Available-for-sale securities	-	-	(838)	-	-	(28)	(866)	(31)	(897)
Change in fair value of hedging instruments under net investment hedges	-	-	-	-	(110)	-	(110)	(7)	(117)
Currency translation difference	-	4	(4)	-	331	-	331	14	345
Total comprehensive income	-	7,512	(842)	-	221	20,402	27,293	418	27,711
Release upon disposal of premises	-	(112)	-	-	-	112	-	-	-
Transfer from retained earnings	-	-	-	1,891	-	(1,891)	-	-	-
Dividend paid	-	-	-	-	-	(12,709)	(12,709)	(108)	(12,817)
At 31 December 2011	52,864	23,150	1,787	6,967	674	44,323	129,765	3,418	133,183
Company and subsidiaries	52,864	23,150	1,787	6,967	674	44,251	129,693		
Associates	-	-	-	-	-	72	72		
	52,864	23,150	1,787	6,967	674	44,323	129,765		
Representing:									
2011 final dividend proposed (Note 17)						5,899			
Others						38,424			
Retained earnings as at 31 December 2011						44,323			

* 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 110 to 237 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	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 2010	52,864	1,374	10,027	64,265
Profit for the year	–	–	9,584	9,584
Other comprehensive income: Available-for-sale securities	–	145	–	145
Total comprehensive income	–	145	9,584	9,729
Dividend paid	–	–	(10,256)	(10,256)
At 31 December 2010	52,864	1,519	9,355	63,738
At 1 January 2011	52,864	1,519	9,355	63,738
Profit for the year	–	–	12,823	12,823
Other comprehensive income: Available-for-sale securities	–	(269)	–	(269)
Total comprehensive income	–	(269)	12,823	12,554
Dividend paid	–	–	(12,709)	(12,709)
At 31 December 2011	52,864	1,250	9,469	63,583

The notes on pages 110 to 237 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December	Notes	2011 HK\$'m	2010 HK\$'m
Cash flows from operating activities			
Operating cash (outflow)/inflow before taxation	44(a)	(102,729)	268,227
Hong Kong profits tax paid		(3,267)	(3,188)
Overseas profits tax paid		(248)	(86)
Net cash (outflow)/inflow from operating activities		(106,244)	264,953
Cash flows from investing activities			
Purchase of properties, plant and equipment	31	(910)	(688)
Purchase of investment properties	30	(14)	(2)
Proceeds from disposal of properties, plant and equipment		94	107
Proceeds from disposal of investment properties		38	171
Dividend received from associates	29	1	3
Net cash outflow from investing activities		(791)	(409)
Cash flows from financing activities			
Dividend paid to the equity holders of the Company		(12,709)	(10,256)
Dividend paid to non-controlling interests		(108)	(128)
Proceeds from issuance of subordinated notes		–	19,261
Repayment of subordinated loans		–	(19,418)
Interest paid for subordinated liabilities		(630)	(371)
Net cash outflow from financing activities		(13,447)	(10,912)
(Decrease)/increase in cash and cash equivalents		(120,482)	253,632
Cash and cash equivalents at 1 January		446,679	182,708
Effect of exchange rate changes on cash and cash equivalents		14,249	10,339
Cash and cash equivalents at 31 December	44(b)	340,446	446,679

The notes on pages 110 to 237 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. Summary of 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 requirements of 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, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

- (a) Standards, amendments and interpretations already mandatorily effective for accounting periods beginning on 1 January 2011

Standard/ Interpretation	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 24 (Revised)	Related Party Disclosures	1 January 2011	Yes
HKAS 32 (Amendment)	Classification of Rights Issues	1 February 2010	No
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards – Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010	No
HK(IFRIC)-Int 14 (Amendment)	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2011	No
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	No

- HKAS 24 (Revised), 'Related Party Disclosures'. The Group early adopted the partial exemption regarding disclosure requirements for transactions with government-related entities in its annual financial statements for the year ended 31 December 2009. The application of the remainder of the revised standard this year which amends the definition of related parties will not have significant impact on the presentation and disclosure of the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2011

The following standards and amendments have been issued and are mandatory for accounting periods beginning on or after 1 July 2011:

Standard	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 1 (Revised)	Presentation of Financial Statements	1 July 2012	Yes
HKAS 19 (2011)	Employee Benefits	1 January 2013	Yes
HKAS 27 (2011)	Separate Financial Statements	1 January 2013	Yes
HKAS 28 (2011)	Investments in Associates and Joint Ventures	1 January 2013	Yes
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014	Yes
HKFRS 1 (Revised)	First-time Adoption of HKFRS – Fixed Dates and Hyperinflation	1 July 2011	No
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Transfer of Financial Assets	1 July 2011	Yes
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	Yes
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Transition to HKFRS 9	1 January 2015	Yes
HKFRS 9	Financial Instruments	1 January 2015	Yes
HKFRS 10	Consolidated Financial Statements	1 January 2013	Yes
HKFRS 11	Joint Arrangements	1 January 2013	Yes
HKFRS 12	Disclosure of Interests in Other Entities	1 January 2013	Yes
HKFRS 13	Fair Value Measurement	1 January 2013	Yes

- HKAS 1 (Revised), 'Presentation of Financial Statements'. The amendments to HKAS 1 (Revised) require companies preparing financial statements in accordance with HKFRSs to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The adoption of this revised standard will affect the presentation of the Group's statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2011 (continued)

- HKAS 19 (2011), 'Employee Benefits'. The revised standard mainly amends the part related to accounting for changes in defined benefit obligations and plan assets, and related presentation and disclosure. The amendments do not have impact on the Group's financial statements.
- HKAS 27 (2011), 'Separate Financial Statements'. Please refer to the below on HKFRS 10, 'Consolidated Financial Statements'.
- HKAS 28 (2011), 'Investments in Associates and Joint Ventures'. Please refer to the below on HKFRS 11, 'Joint Arrangements'.
- HKAS 32 (Amendment), 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'. The amendment addresses inconsistencies in current practice when applying the offsetting criteria and clarifies the meaning of 'currently has a legally enforceable right of set-off'; and the application of offsetting criteria to some gross settlement systems (such as central clearing house systems) that may be considered equivalent to net settlement. The Group is considering the financial impact of the amendment.
- HKFRS 7 (Amendment), 'Financial Instruments: Disclosures – Transfer of Financial Assets'. The amendment introduces new quantitative disclosure requirements for transfers of financial assets that are either fully derecognised or derecognised not in their entirety. The adoption of this amendment will affect the disclosures of the Group's financial statements when the Group undertakes transfers of financial assets that fall within its scope.
- HKFRS 7 (Amendment), 'Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities'. The new disclosures, which are similar to the new US GAAP disclosure requirements, would provide users with information that is useful in (i) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (ii) analysing and comparing financial statements prepared in accordance with HKFRSs and US GAAP. The adoption of this amended standard will affect the disclosure of the Group's financial statements.
- HKFRS 7 (Amendment), 'Financial Instruments: Disclosures – Transition to HKFRS 9'. The amendments provide relief from the requirement to restate comparative financial statements which was originally available only to entities that chose to apply HKFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help users to better understand the effect of initial application of the standard.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2011 (continued)

- HKFRS 9, 'Financial Instruments'. The first part of HKFRS 9 was issued in November 2009 and will replace those parts of HKAS 39 relating to the classification and measurement of financial assets. In November 2010, a further pronouncement was published to address financial liabilities and derecognition. Key features are as follows:

(i) Classification and Measurement

Financial assets are required to be classified into one of the following measurement categories: (1) those to be measured subsequently at fair value or (2) those to be measured subsequently at amortised cost. 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 instrument.

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 represent only unleveraged payments of principal and interest. All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at 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 through other comprehensive income rather than income statement. Once elected to be recognised through other comprehensive income, there will be no reclassification of fair value gains and losses to income statement. Dividends are to be presented in income statement as long as they represent a return on investment.

(ii) Financial Liabilities and Derecognition

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. For the derecognition principles, they are consistent with that of HKAS 39.

The requirements related to the fair value option for financial liabilities were changed to address own credit risk. It requires the amount of change in fair value attributable to changes in the credit risk of the financial liabilities be presented in other comprehensive income. The remaining amount of the total gain or loss is included in income statement. If this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in 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 income statement but may be transferred within equity.

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

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2011 (continued)

The mandatory effective date of HKFRS 9 is deferred from 1 January 2013 to 1 January 2015 with earlier adoption still permitted. The deferral will make it possible to have the same mandatory effective date for the entire standard. New transitional disclosures are required instead of comparative restatement. The Group is considering the financial impact of the standard and the timing of its application.

- HKFRS 10, 'Consolidated Financial Statements'. HKFRS 10 builds on existing principles by identifying the concept of control as the determining factor when considering whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. It also replaces all of the guidance on control and consolidation stipulated in HKAS 27 (Revised), 'Consolidated and Separate Financial Statements' and HK(SIC)-Int 12, 'Consolidation – Special Purpose Entities'. The remainder of HKAS 27 (Revised) is renamed HKAS 27 (2011), 'Separate Financial Statements' as a standard dealing solely with separate financial statements without changing the existing guidance for separate financial statements.
- HKFRS 11, 'Joint Arrangements'. Changes in the definitions stipulated in HKFRS 11 have reduced the 'types' of joint arrangements to two: joint operations and joint ventures. A joint operation is a joint arrangement that gives parties to the arrangement direct rights to the assets and obligations for the liabilities. The 'jointly controlled assets' classification in HKAS 31, 'Interests in Joint Ventures', has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome. A joint venture, in contrast, gives the parties rights to the net assets or outcome of the arrangement. Joint ventures are accounted for using the equity method in accordance with HKAS 28, 'Investments in Associates' which is renamed as HKAS 28 (2011), 'Investments in Associates and Joint Ventures'. The standard is amended to include the requirements of joint ventures accounting and to merge with the requirements of HK(SIC)-Int 13, 'Jointly Controlled Entities – Non-Monetary Contributions by Venturers'. After the application of HKAS 28 (2011), entities can no longer account for an interest in a joint venture using the proportionate consolidation method.
- HKFRS 12, 'Disclosure of Interests in Other Entities'. The standard sets out the required disclosures for entities reporting under the two new standards, HKFRS 10 and HKFRS 11, and the revised standard HKAS 28 (2011). The existing guidance and disclosure requirements for separate financial statements stipulated in HKAS 27 (Revised) are unchanged. HKFRS 12, requires entities to disclose information that helps financial statements readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2011 (continued)

The above HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011) and HKAS 28 (2011) issued in June 2011 are a group of five new standards that address the scope of reporting entity and will supersede HKAS 27 (Revised), HKAS 28, HKAS 31, HK(SIC)-Int 12 and HK(SIC)-Int 13. Earlier application of these standards are permitted but only when they are applied at the same time. The Group is assessing the impact on the financial statements of the Group as a result of the adoption of these new standards.

- HKFRS 13, 'Fair Value Measurement'. The new standard which was issued in June 2011 replaces the fair value measurement guidance contained in individual HKFRSs by providing a revised definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied when its use is already required or permitted by other standards within HKFRSs. The Group is assessing the impact on the financial statements of the Group as a result of the adoption of this new standard.

(c) Improvements to HKFRS

'Improvements to HKFRS' contains numerous amendments to HKFRS 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 HKFRS. Most of the amendments are effective for annual periods beginning on or after 1 July 2010. For amendments that are effective for the financial year beginning on 1 January 2011, there is no material impact on the financial statements of the Group.

(d) Amendment issued that is not yet mandatorily effective but has been early adopted by the Group

Standard	Content	Applicable for financial years beginning on/after	Currently relevant to the Group	Year of early adoption
HKAS 12 (Amendment)	Income Taxes	1 January 2012	Yes	2010

- HKAS 12 (Amendment), 'Income Taxes'. The standard which was revised in December 2010 is mandatorily effective for reporting periods beginning on or after 1 January 2012. Earlier application is permitted. The Group considers that the required treatment under the revised standard better reflects the tax position of the investment properties of the Group, and has early adopted the amended standard retrospectively since the year ended 31 December 2010.

Upon early adoption, deferred tax liabilities for the revaluation of investment properties have been calculated subject to a nil tax rate.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(1) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group controls the composition of the Board of Directors, controls more than half of the voting power, holds more than half of the issued capital or by any other means that entitle the Group to govern the financial and operating policies of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. 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.

(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 income statement as a bargain purchase gain. Subsequently, goodwill is subject to impairment testing.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(1) Subsidiaries (continued)

(ii) *Business combinations under common control*

For 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 other comprehensive income. 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.

(2) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests 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 income statement. The fair value is the initial carrying amount for the purposes of subsequently 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 income statement.

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

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(3) Associates

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. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates 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 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 equals or exceeds its interest in the associate, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associates.

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

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 business 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.

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 rate of exchange at the end of the reporting period are recognised directly in the income statement.

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 the available-for-sale reserve in equity.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

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, and of 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 options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received).

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.

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 flows 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.5 *Derivative financial instruments and hedge accounting (continued)*

(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 effective interest method. If the hedged item is derecognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

(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 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 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

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 are amortised as interest income or expense over the expected life of the financial instrument.

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 that of 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 were 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 amortised costs.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of 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 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 rate method less allowances for impairment losses.

(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 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.8 *Financial assets (continued)*

(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 disposed of 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.

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

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 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 issued 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.9 Financial liabilities (continued)

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

Deposits and debt securities 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.

2.10 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 guarantees 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 guarantees 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 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 expired. 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.11 Recognition and derecognition of financial instruments (continued)

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 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.

2.12 Determination of fair value of financial instruments

The fair values of financial assets and financial liabilities that are quoted in active markets are based on current bid prices and current ask prices respectively. If the market for financial assets and financial liabilities is not active (such as unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.13 Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals are initially recognised at fair value and subsequently re-measured at their respective market prices as at the end of the reporting period. 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 estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. 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

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of 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 investment 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of 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 such a 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 such a 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 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.

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.

In the Company's financial statements, impairment testing of the investment in a subsidiary or associate 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

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 assessed by professional valuers on the basis of open market value. If information of open market value is not available, alternative valuation methods are used such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with valuation standards on properties published by The Hong Kong Institute of Surveyors.

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 branch and office premises. Premises are shown at fair value based on periodic, at least annually, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.17 *Properties, plant and equipment (continued)*

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 3-15 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 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 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.

2.18 *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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.18 Leases (continued)

(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 market anticipates that the leases can be extended for a nominal amount, the risks and rewards of leasehold land would have already been substantially transferred to the lessee 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 contracts

(1) Insurance contracts classification, recognition and measurement

The Group's insurance subsidiary follows the local regulatory requirements to measure its insurance contract liabilities.

The Group's insurance subsidiary issues insurance contracts, which are contracts that transfer significant insurance 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's insurance subsidiary issues long term business insurance contracts, which insure events associated with human life (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.

For 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 an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of 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 III insurance contracts, as defined in the Insurance Companies Ordinance, insure events associated with the cessation of employment by termination of 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. 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).

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.19 Insurance contracts (continued)

(1) Insurance contracts classification, recognition and measurement (continued)

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

The benefits to which the Group's insurance subsidiary is entitled under its reinsurance contracts held are recognised as reinsurance assets. These reinsurance assets consist of short-term balances due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured 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) 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 test.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.22 Employee benefits (continued)

(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. Such compensated absences are recognised when the absences occur.

(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 recognised using discounted cash flow method 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 within the corresponding item.

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 and associates 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, revaluation of certain assets including available-for-sale securities and premises, and tax losses carried forward. 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 and deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

2.23 *Current and deferred income taxes (continued)*

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.

2.24 *Reposessed assets*

Reposessed 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, reposessed 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 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 controls, jointly controls or has significant influence over the Group; is a member of the same financial reporting group, such as parents, subsidiaries and fellow subsidiaries; is an associate or a joint venture of the Group or parent reporting group; is a key management personnel of the Group or parents, or where the Group and the party are subject to common control. Related parties may be individuals or entities.

NOTES TO THE FINANCIAL STATEMENTS

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 2011 are shown in Note 25 to the Financial Statements.

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, market price etc 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. 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.

Carrying amounts of investment in securities as at 31 December 2011 are shown in Note 27 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

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 only use observable data.

Carrying amounts of derivative financial instruments as at 31 December 2011 are shown in Note 24 to the Financial Statements.

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 2011 are shown in Note 27 to the Financial Statements.

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 under insurance contracts, 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 reflect 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.

Were the number of deaths in future years to differ by 10% from the Management's estimate, the long term business fund liability would increase by approximately HK\$91 million (2010: approximately HK\$52 million), which accounts for 0.2% (2010: 0.14%) 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.

NOTES TO THE FINANCIAL STATEMENTS

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)*

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 from the Management's estimates, the long term business fund liability would increase by approximately HK\$993 million (2010: approximately HK\$763 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. In the calculation of expense reserve, the Group has assumed it will carry on selling new business rather than ceases in 12 months period.

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 advice of a 20 basis points (2010: 29 basis points) change in market yield of the underlying assets and valuation interest rates. The amount of resilience reserve to be set up depends on the degree of change in interest rate assumed.

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, 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 the whole process of all businesses and ensure various risks are properly managed and controlled in the course of conducting business. The Group has a sound risk management organisational structure. It implements 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 modified 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 formulating risk management strategies and ensuring that the Group has an effective risk management system to implement these strategies.

The Risk Committee ("RC"), a standing committee established by the Board of Directors, is responsible for overseeing the Group's various types of risks, reviewing and approving high-level risk-related policies and overseeing 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.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

Financial risk management framework (continued)

The Chief Executive (“CE”) is responsible for managing the Group’s various types of risks, approving detailed risk management policies, and approving 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. He may 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.

The Group’s principal banking subsidiaries, Nanyang, NCB (China) and Chiyu, are subject to risk policies that are consistent with those of the Group. Moreover, the Group’s non-banking subsidiaries, such as BOC 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 respectively.

The Group has put in place appropriate internal control systems, including establishment of an organisation structure that sets adequately 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

To ensure effective risk assessment and monitoring, the Group developed a comprehensive product development and management framework which clearly defines the roles and responsibilities of all related units, and the proper risk assessment procedures for the product development process.

In accordance with the strategic objectives set by the Board and the Management, the respective product management units are responsible for formulating business and product development plans, and 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, the respective business units shall work closely with relevant risk evaluating departments to identify and assess all the related risks. Risk evaluating departments shall conduct independent review on risk management procedures and assessment results. Products can only be launched after the risk management procedures are fulfilled and endorsed by all risk evaluating departments.

In order to be prudent in offering treasury products to our clients, all treasury products, regardless brand new or modified, require approval from a special committee before launching.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk

Credit risk is the risk of loss that a customer or counterparty will be unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, on- and off-balance sheet exposures of a bank. It arises principally from the lending, trade finance and treasury businesses, and covers inter-bank transactions, foreign exchange and derivative transactions as well as investments in bonds and securities.

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 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 exposure of subsidiaries in line with the credit risk management principles and requirements set by the Group. The Chief Analytics Officer, who also reports directly to the CRO, is responsible for the development and maintenance of internal rating models and establishing the rating criteria. 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 of the Group's internal rating system and ensuring the system complies with the relevant regulatory requirements.

In accordance with Group's operating principle, the Group's principal banking subsidiaries, Nanyang, 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 business nature, rating, the level of transaction risk, and the extent of the credit exposure.

NOTES TO THE FINANCIAL STATEMENTS

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.

Loans and 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 the Group's credit and other functions is responsible for making an independent assessment of all credit facilities which require the approval of Deputy Chief Executives or above. Corporate and financial institution credit applications are independently reviewed and objectively assessed by risk management units. Obligor ratings and facility grades are assigned to these portfolios. Retail internal rating systems are deployed in risk assessment of retail credit transactions, including small business retail exposures, residential mortgage loans, personal loans and credit cards. Loan grades, obligor ratings as well as loss estimates (if applicable) are used to support credit approval.

The Group uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, analysis and reporting. For corporate and financial institution, more frequent rating review and closer monitoring are required for higher risk customers. For retail exposures, monthly updated 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 has established credit master scale for internal rating purpose, which is in compliance with the Banking (Capital) Rules under the Hong Kong Banking Ordinance on rating structure, and can be mapped to Standard & Poor's external ratings.

In addition to obligor ratings, the Group adopts a facility rating system (in the case of corporate and bank exposure) and expected loss (in the case of retail exposure) to assess the risk in the facility structure during credit approval. This two-dimensional rating approach to evaluate credit risk complies with the HKMA's requirements on IRB.

RMD provides regular credit management information reports and ad hoc reports to MC, RC and Board of Directors to facilitate their continuous monitoring of credit risk.

The Group identifies credit concentration risk by industry, geography, customer and counterparty risk. The Group monitors changes to counterparties credit risk, quality of the credit portfolio and risk concentrations, and reports regularly to the Group's management.

As of 31 December 2011, the Group continues to adopt loan grading criteria which divide credit assets into 5 categories with reference to 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.

"Substandard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

Credit risk measurement and control (continued)

Loans and advances (continued)

“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 loans and 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 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.

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 2011 and 2010, the Group did not hold any collateral that it was permitted to sell or re-pledge in the absence of default by the borrower.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(A) Credit exposures

The maximum exposure is a worst case scenario of credit risk exposure to the Group without taking account of 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.

Derivative financial instruments

The International Swaps and Derivatives Association Master Agreement is the preferred agreement for documenting derivatives activities of the Group. It provides the contractual framework within which dealing activities across a full range of OTC products are conducted, and contractually bind both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or another pre-agreed termination event occurs.

Advances and other accounts, contingent liabilities and commitments

The general types of collateral are disclosed on page 141. 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 150 to 151. The components and nature of contingent liabilities and commitments are disclosed in Note 45. 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. Accordingly, these commitments do not expose the Group to significant credit risk.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts

Gross advances and other accounts before loan impairment allowances are summarised by product type as follows:

	2011 HK\$'m	2010 HK\$'m
Advances to customers		
Personal		
– Mortgages	185,259	163,027
– Credit cards	9,655	8,229
– Others	20,801	15,744
Corporate		
– Commercial loans	424,156	372,823
– Trade finance	59,508	53,396
	699,379	613,219
Trade bills	56,506	31,605
Advances to banks and other financial institutions	2,174	2,911
Total	758,059	647,735

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 outside the approved limit that was advised to the borrower.

A financial asset 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 and that loss event(s) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If there is objective evidence that an impairment loss on loans 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 financial asset. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the holder of the asset about the loss events.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

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 interest or principal 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 loans and advances.

(a) Advances neither overdue nor impaired

Advances that were neither overdue nor impaired are analysed by internal credit grades as follows:

	2011			
	Pass HK\$m	Special mention HK\$m	Substandard or below HK\$m	Total HK\$m
Advances to customers				
Personal				
– Mortgages	183,192	165	53	183,410
– Credit cards	9,395	–	–	9,395
– Others	20,447	117	9	20,573
Corporate				
– Commercial loans	418,412	4,369	98	422,879
– Trade finance	59,127	181	5	59,313
	690,573	4,832	165	695,570
Trade bills	56,103	398	5	56,506
Advances to banks and other financial institutions	2,174	–	–	2,174
Total	748,850	5,230	170	754,250

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

(a) Advances neither overdue nor impaired (continued)

	2010			
	Pass HK\$m	Special mention HK\$m	Substandard or below HK\$m	Total HK\$m
Advances to customers				
Personal				
– Mortgages	161,218	131	73	161,422
– Credit cards	8,012	–	–	8,012
– Others	15,442	30	15	15,487
Corporate				
– Commercial loans	370,876	930	133	371,939
– Trade finance	52,983	240	6	53,229
	608,531	1,331	227	610,089
Trade bills	31,605	–	–	31,605
Advances to banks and other financial institutions	2,294	617	–	2,911
Total	642,430	1,948	227	644,605

The occurrence of loss event(s) may not necessarily result in impairment loss where the loans are fully collateralised. While such loans are of “substandard” or lower grades, they are regarded as not being impaired and have been included in the above tables.

NOTES TO THE FINANCIAL STATEMENTS

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:

	2011				
	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	1,825	11	1	3	1,840
– Credit cards	239	–	–	–	239
– Others	181	2	1	10	194
Corporate					
– Commercial loans	1,017	3	1	37	1,058
– Trade finance	36	–	–	3	39
Total	3,298	16	3	53	3,370

	2010				
	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	1,558	7	7	26	1,598
– Credit cards	199	–	–	–	199
– Others	203	1	–	13	217
Corporate					
– Commercial loans	493	2	3	79	577
– Trade finance	79	–	–	5	84
Total	2,532	10	10	123	2,675

NOTES TO THE FINANCIAL STATEMENTS

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:

	2011		2010	
	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	9	5	7	5
– Credit cards	21	–	18	–
– Others	34	5	40	22
Corporate				
– Commercial loans	219	52	307	71
– Trade finance	156	97	83	11
Total	439	159	455	109
Loan impairment allowances made in respect of such advances	281		344	

The loan impairment allowances were made after taking into account the value of collateral in respect of impaired advances.

	2011 HK\$'m	2010 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	159	109
Covered portion of such advances to customers	108	80
Uncovered portion of such advances to customers	331	375

NOTES TO THE FINANCIAL STATEMENTS

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:

	2011 HK\$'m	2010 HK\$'m
Gross classified or impaired advances to customers	710	867
Gross classified or impaired advances to customers as a percentage of gross advances to customers	0.10%	0.14%
Individually assessed loan impairment allowances made in respect of such advances	259	326

Classified or impaired advances to customers follow the definitions set out in the Banking (Disclosure) Rules under the Banking Ordinance and 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:

	2011		2010	
	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	78	0.01%	38	0.01%
– one year or less but over six months	83	0.01%	38	0.01%
– over one year	227	0.04%	359	0.05%
Advances overdue for over three months	388	0.06%	435	0.07%
Individually assessed loan impairment allowances made in respect of such advances	219		194	

NOTES TO THE FINANCIAL STATEMENTS

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)

	2011 HK\$'m	2010 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	468	558
Covered portion of such advances to customers	116	213
Uncovered portion of such advances to customers	272	222

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 2011 and 2010, there were no advances to banks and other financial institutions overdue for more than three months.

(e) Rescheduled advances

	2011		2010	
	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"	90	0.01%	228	0.04%

As at 31 December 2011 and 2010, there were no rescheduled advances to banks and other financial institutions.

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 overdue advances.

NOTES TO THE FINANCIAL STATEMENTS

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 information concerning gross advances to customers has been analysed into loans used inside or outside Hong Kong by industry sectors of the borrowers as follows:

	2011					
	Gross advances 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	30,788	46.81%	3	3	–	112
– Property investment	72,910	85.78%	59	747	6	433
– Financial concerns	10,562	22.52%	–	4	–	58
– Stockbrokers	931	78.93%	–	–	–	3
– Wholesale and retail trade	32,755	69.51%	31	152	13	184
– Manufacturing	17,352	41.95%	67	132	36	115
– Transport and transport equipment	26,525	43.36%	61	4	1	108
– Recreational activities	605	15.87%	–	–	–	3
– Information technology	16,050	0.74%	2	2	1	58
– Others	29,079	41.17%	54	195	24	128
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	10,987	99.96%	48	324	–	9
– Loans for purchase of other residential properties	169,780	99.98%	44	1,443	–	99
– Credit card advances	9,655	–	21	260	–	71
– Others	16,561	62.65%	30	153	13	22
Total loans for use in Hong Kong	444,540	73.09%	420	3,419	94	1,403
Trade finance	59,508	15.85%	166	189	85	281
Loans for use outside Hong Kong	195,331	25.11%	124	184	80	887
Gross advances to customers	699,379	54.82%	710	3,792	259	2,571

NOTES TO THE FINANCIAL STATEMENTS

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)

	2010					
	Gross advances 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	29,542	34.21%	3	3	–	93
– Property investment	67,265	88.59%	87	273	7	374
– Financial concerns	9,011	30.57%	–	4	–	50
– Stockbrokers	556	69.32%	–	–	–	2
– Wholesale and retail trade	24,300	67.23%	29	127	12	131
– Manufacturing	15,125	44.57%	70	118	22	83
– Transport and transport equipment	23,409	34.39%	80	21	2	80
– Recreational activities	521	19.00%	–	–	–	2
– Information technology	14,212	0.62%	3	3	1	44
– Others	23,006	42.85%	48	168	7	86
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	12,291	99.96%	64	377	–	10
– Loans for purchase of other residential properties	147,424	99.99%	75	1,199	–	84
– Credit card advances	8,230	–	18	217	–	75
– Others	12,195	63.44%	44	179	20	15
Total loans for use in Hong Kong	387,087	72.71%	521	2,689	71	1,129
Trade finance	53,396	16.73%	95	141	57	228
Loans for use outside Hong Kong	172,736	24.45%	251	153	198	628
Gross advances to customers	613,219	54.24%	867	2,983	326	1,985

* Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid.

NOTES TO THE FINANCIAL STATEMENTS

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 amount of new impairment allowances charged to the income statement, and classified or impaired loans written off during the year are shown below:

	2011		2010	
	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	28	–	22	–
– Property investment	75	1	56	1
– Financial concerns	14	–	13	–
– Stockbrokers	1	–	–	–
– Wholesale and retail trade	62	6	54	45
– Manufacturing	48	6	27	14
– Transport and transport equipment	30	–	19	2
– Recreational activities	1	–	1	–
– Information technology	16	–	12	–
– Others	59	15	19	7
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1	–	1	–
– Loans for purchase of other residential properties	15	–	15	–
– Credit card advances	103	103	118	118
– Others	43	39	33	43
Total loans for use in Hong Kong	496	170	390	230
Trade finance	135	26	76	111
Loans for use outside Hong Kong	235	25	132	–
Gross advances to customers	866	221	598	341

NOTES TO THE FINANCIAL STATEMENTS

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 location of the counterparties, after taking into account the transfer of risk. In general, such transfer of risk takes place if the advances to customers are guaranteed by a party in a country which is different from that of the customer.

Gross advances to customers

	2011 HK\$'m	2010 HK\$'m
Hong Kong	540,862	460,306
Mainland China	121,207	116,353
Others	37,310	36,560
	699,379	613,219
Collectively assessed loan impairment allowances in respect of the gross advances to customers		
Hong Kong	1,855	1,422
Mainland China	550	437
Others	166	126
	2,571	1,985

Overdue advances

	2011 HK\$'m	2010 HK\$'m
Hong Kong	3,506	2,770
Mainland China	182	167
Others	104	46
	3,792	2,983
Individually assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	187	139
Mainland China	28	62
Others	36	2
	251	203
Collectively assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	57	51
Mainland China	5	4
Others	2	1
	64	56

NOTES TO THE FINANCIAL STATEMENTS

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

	2011 HK\$'m	2010 HK\$'m
Hong Kong	574	681
Mainland China	79	86
Others	57	100
	710	867
Individually assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	193	166
Mainland China	28	62
Others	38	98
	259	326
Collectively assessed loan impairment allowances in respect of the classified or impaired advances		
Hong Kong	21	19
Mainland China	2	2
Others	1	–
	24	21

During the year, the basis of the above analyses has been refined and the comparative amounts have been reclassified accordingly.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(C) Repossessed assets

During the year, the Group obtained assets by taking possession of collateral held as security. The nature and carrying value of such assets held as at 31 December are summarised as follows:

	2011 HK\$'m	2010 HK\$'m
Commercial properties	1	–
Industrial properties	–	2
Residential properties	10	79
	11	81

The estimated market value of repossessed assets held by the Group as at 31 December 2011 amounted to HK\$19 million (2010: HK\$280 million). They comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the borrowers 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

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(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.

	2011			
	Aaa to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Central banks	158,950	–	–	158,950
Banks and other financial institutions	161,436	15,731	44,163	221,330
	320,386	15,731	44,163	380,280

	2010			
	Aaa to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Central banks	336,923	–	–	336,923
Banks and other financial institutions	90,428	11,584	11,805	113,817
	427,351	11,584	11,805	450,740

As at 31 December 2011 and 2010, there were no overdue or impaired balances and placements with banks and other financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities

The tables below represent an analysis of the carrying value of debt securities by issue rating and credit risk characteristic.

	2011							
					Unrated			
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Hong Kong government and government bodies HK\$'m	Other governments and government agencies HK\$'m	Others HK\$'m	Total HK\$'m
Investment in securities								
US non-agency residential mortgage-backed								
– Subprime	150	35	94	-	-	-	-	279
– Alt-A	24	12	-	82	-	-	-	118
– Prime	65	4	94	82	-	-	-	245
Fannie Mae								
– mortgage-backed securities	-	-	-	-	-	6	-	6
Freddie Mac								
– issued debt securities	79	-	-	-	-	-	-	79
– mortgage-backed securities	-	-	-	-	-	377	-	377
Other MBS/ABS	1,588	40	17	2	-	8,937	-	10,584
Other debt securities	72,872	102,704	44,405	11,377	18,159	54,656	56,638	360,811
Subtotal	74,778	102,795	44,610	11,543	18,159	63,976	56,638	372,499
Financial assets at fair value through profit or loss								
Other MBS/ABS	-	-	5	-	-	-	-	5
Other debt securities	3,306	14,034	15,254	1,395	8,356	301	3,852	46,498
Subtotal	3,306	14,034	15,259	1,395	8,356	301	3,852	46,503
Total	78,084	116,829	59,869	12,938	26,515	64,277	60,490	419,002

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

	2010							
					Unrated			Total HK\$'m
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Hong Kong government and government bodies HK\$'m	Other governments and government agencies HK\$'m	Others HK\$'m	
Investment in securities								
US non-agency residential mortgage-backed								
– Subprime	351	1	5	–	–	–	–	357
– Alt-A	90	112	40	–	–	–	–	242
– Prime	391	64	87	53	–	–	–	595
Fannie Mae								
– mortgage-backed securities	–	–	–	–	–	15	–	15
Freddie Mac								
– issued debt securities	79	158	–	–	–	–	–	237
– mortgage-backed securities	–	–	–	–	–	602	–	602
Other MBS/ABS	2,490	282	–	–	–	7,334	–	10,106
Other debt securities	99,456	79,249	45,852	6,885	15,989	49,260	47,812	344,503
Subtotal	102,857	79,866	45,984	6,938	15,989	57,211	47,812	356,657
Financial assets at fair value through profit or loss								
Other MBS/ABS	19	–	–	–	–	–	–	19
Other debt securities	1,303	7,958	17,037	1,682	33,486	–	3,306	64,772
Subtotal	1,322	7,958	17,037	1,682	33,486	–	3,306	64,791
Total	104,179	87,824	63,021	8,620	49,475	57,211	51,118	421,448

The total amount of unrated issues amounted to HK\$151,282 million (2010: HK\$157,804 million) as at 31 December 2011, of which only HK\$17,966 million (2010: HK\$6,697 million) were without issuer ratings. For details, please refer to page 159.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

For the above debt securities with no issue rating, their issuer ratings are analysed as follows:

	2011					
	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	30,974	56,273	11,293	1,349	14,192	114,081
Held-to-maturity securities	425	16,367	516	200	511	18,019
Loans and receivables	–	4,797	1,876	–	–	6,673
Financial assets at fair value through profit or loss	–	8,696	447	103	3,263	12,509
Total	31,399	86,133	14,132	1,652	17,966	151,282

	2010					
	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	39,825	34,342	8,321	4,833	5,638	92,959
Held-to-maturity securities	668	10,910	1,119	–	–	12,697
Loans and receivables	–	11,187	4,169	–	–	15,356
Financial assets at fair value through profit or loss	–	33,581	2,152	–	1,059	36,792
Total	40,493	90,020	15,761	4,833	6,697	157,804

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

The following tables present an analysis of debt securities neither overdue nor impaired as at 31 December by rating agency designation.

	2011					
	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	59,547	92,171	36,142	9,916	114,081	311,857
Held-to-maturity securities	15,083	10,590	8,369	1,615	18,019	53,676
Loans and receivables	–	–	–	–	6,673	6,673
Financial assets at fair value through profit or loss	3,306	14,034	15,259	1,395	12,509	46,503
Total	77,936	116,795	59,770	12,926	151,282	418,709

	2010					
	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	82,128	66,585	36,226	4,600	92,959	282,498
Held-to-maturity securities	20,336	13,229	9,673	2,055	12,697	57,990
Loans and receivables	–	–	–	–	15,356	15,356
Financial assets at fair value through profit or loss	1,322	7,958	17,037	1,682	36,792	64,791
Total	103,786	87,772	62,936	8,337	157,804	420,635

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities (continued)

The impaired debt securities by issue rating are analysed as follows:

	2011						
	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	
Available-for-sale securities	19	–	11	12	–	42	2
Held-to-maturity securities	129	34	88	–	–	251	25
Total	148	34	99	12	–	293	27
Of which accumulated impairment allowances	15	4	7	1	–	27	

	2010						
	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	
Available-for-sale securities	90	–	85	244	–	419	99
Held-to-maturity securities	303	52	–	39	–	394	49
Total	393	52	85	283	–	813	148
Of which accumulated impairment allowances	53	14	21	60	–	148	

As at 31 December 2011 and 2010, there were no overdue debt securities.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.2 Market Risk

Market risk refers to the risk of losses arising from adverse movements in the value of foreign exchange and commodity positions and the trading book interest rate and equity positions held by the Group due to the volatility of financial market price (debt security price/interest rate, foreign exchange rate, equity price, commodity price). The Group adopts robust market risk appetite to achieve balance between risk and return. The Group's objective in managing market risk is to secure healthy growth of 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 and based on well established risk management regime and measures.

According to corporate governance in risk management, the Board and RC, senior management and functional departments/units perform their duties and responsibilities to manage the Group's market risk. Market Risk Management Division of 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, ensuring the aggregate and individual market risk are within acceptable level.

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 work; meanwhile, the Group sets up Group VAR limit, which is allocated and monitored across the Group, according to subsidiaries' business requirements and risk tolerance level. In line with the requirements set in the Group policy, subsidiaries may, subject to prior consent by BOCHK, formulate the detailed policies and procedures and must bear the responsibility to manage daily market risk of the institution. Subsidiaries set up independent risk monitoring team 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 three levels, and approved by RC, MC or CRO and DCE in charge of treasury business respectively. Treasury business units of BOCHK and other subsidiaries (as for Group Limit) are required to conduct their business within approved market risk indicators and limits.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.2 Market Risk (continued)

(A) VAR

The Group uses the VAR technique to measure potential losses and market risks of its trading book for reporting to RC and senior management on a periodic basis. The Group adopts a uniformed VAR calculation model, using historical simulation approach and 2-year historical data, to calculate VAR of the Group and subsidiaries over 1-day holding period with 99% confidence level, and set up VAR limit of the Group and subsidiaries.

The following table sets out the VAR for all trading market risk exposure¹ of BOCHK.

	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	2011	14.4	6.8	19.5	11.6
	2010	9.8	5.7	15.7	9.5
VAR for foreign exchange risk products	2011	9.1	1.9	17.7	8.6
	2010	1.3	1.3	11.2	5.3
VAR for interest rate risk products	2011	10.6	5.1	11	7.8
	2010	10.4	3.6	13.6	7.9
VAR for equity risk products	2011	1.0	0.0	1.3	0.1
	2010	0.0	0.0	1.7	0.2
VAR for commodity risk products	2011	0.2	0.0	0.7	0.1
	2010	0.0	0.0	0.2	0.0

In 2011, the average daily revenue² of BOCHK earned from market risk-related trading activities was HK\$7.34 million (2010: HK\$5.75 million).

Notes:

1 Structural FX positions have been excluded.

2 Revenues from structural FX positions and back-to-back transactions have been excluded.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.2 Market Risk (continued)

(A) VAR (continued)

Although a valuable guide to risk, VAR should always be viewed in the context of its limitations. For example:

- the use of historical 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 trading book 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, the 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 Hong Kong 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 asset and liability in the same currency. Foreign exchange contracts (e.g. FX swap) are usually used to manage FX risk associated with foreign currency-denominated assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.2 Market Risk (continued)

(B) Currency risk (continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December. Included in the tables are the assets and liabilities at carrying amounts in HK dollars equivalent, categorised by the original currency.

	2011							
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	Euro HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	Total HK\$'m
Assets								
Cash and balances with banks and other financial institutions	222,388	30,932	17,138	1,991	2,390	543	3,413	278,795
Placements with banks and other financial institutions maturing between one and twelve months	93,278	10,689	3,443	-	25	-	475	107,910
Financial assets at fair value through profit or loss	4,547	11,833	32,146	-	-	-	76	48,602
Derivative financial instruments	843	4,586	21,330	4	-	-	24	26,787
Hong Kong SAR Government certificates of indebtedness	-	-	65,890	-	-	-	-	65,890
Advances and other accounts	54,189	214,930	472,415	3,105	1,835	84	8,671	755,229
Investment in securities								
– Available-for-sale securities	27,671	149,143	58,883	9,467	44,335	251	26,648	316,398
– Held-to-maturity securities	17,015	20,522	8,262	1,089	2,125	-	4,914	53,927
– Loans and receivables	-	-	-	1,876	-	4,640	157	6,673
Interests in associates	-	-	234	-	-	-	-	234
Investment properties	106	-	12,335	-	-	-	-	12,441
Properties, plant and equipment	554	1	39,095	-	-	-	-	39,650
Other assets (including deferred tax assets)	9,381	412	15,007	423	381	72	298	25,974
Total assets	429,972	443,048	746,178	17,955	51,091	5,590	44,676	1,738,510
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	65,890	-	-	-	-	65,890
Deposits and balances from banks and other financial institutions	155,582	40,110	38,668	40	181	5	2,108	236,694
Financial liabilities at fair value through profit or loss	203	51	2,665	-	-	-	318	3,237
Derivative financial instruments	886	4,025	16,752	393	1	1	223	22,281
Deposits from customers	245,375	231,136	596,308	13,634	1,756	14,434	43,308	1,145,951
Debt securities in issue at amortised cost	-	5,868	117	-	-	-	-	5,985
Other accounts and provisions (including current and deferred tax liabilities)	5,607	14,309	26,225	670	806	778	1,018	49,413
Insurance contract liabilities	10,728	6,501	29,991	-	-	-	-	47,220
Subordinated liabilities	-	22,031	-	6,625	-	-	-	28,656
Total liabilities	418,381	324,031	776,616	21,362	2,744	15,218	46,975	1,605,327
Net on-balance sheet position	11,591	119,017	(30,438)	(3,407)	48,347	(9,628)	(2,299)	133,183
Off-balance sheet net notional position*	604	(110,908)	148,444	3,118	(48,403)	9,634	2,402	4,891
Contingent liabilities and commitments	25,032	102,857	253,398	3,572	1,158	857	3,311	390,185

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.2 Market Risk (continued)

(B) Currency risk (continued)

	2010							
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	Euro HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	Total HK\$'m
Assets								
Cash and balances with banks and other financial institutions	369,368	18,084	22,058	2,762	657	1,884	999	415,812
Placements with banks and other financial institutions maturing between one and twelve months	8,886	22,840	6,279	42	-	144	1,308	39,499
Financial assets at fair value through profit or loss	1,560	16,413	51,716	112	-	-	75	69,876
Derivative financial instruments	122	2,540	21,144	18	-	-	30	23,854
Hong Kong SAR Government certificates of indebtedness	-	-	46,990	-	-	-	-	46,990
Advances and other accounts	25,299	190,935	413,767	5,447	1,260	53	8,663	645,424
Investment in securities								
– Available-for-sale securities	15,279	155,583	46,438	22,876	4,421	1,767	40,080	286,444
– Held-to-maturity securities	6,577	28,811	11,567	1,743	2,028	15	7,643	58,384
– Loans and receivables	-	5,791	9,565	-	-	-	-	15,356
Interests in associates	-	-	212	-	-	-	-	212
Investment properties	96	-	10,246	-	-	-	-	10,342
Properties, plant and equipment	420	-	30,629	-	-	-	-	31,049
Other assets (including deferred tax assets)	2,200	404	14,916	77	89	40	72	17,798
Total assets	429,807	441,401	685,527	33,077	8,455	3,903	58,870	1,661,040
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	46,990	-	-	-	-	46,990
Deposits and balances from banks and other financial institutions	241,539	42,496	13,393	99	252	15	15,990	313,784
Financial liabilities at fair value through profit or loss	-	76	25,280	-	-	-	137	25,493
Derivative financial instruments	130	3,599	16,863	681	2	-	80	21,355
Deposits from customers	156,391	184,993	612,360	15,764	1,921	16,745	38,859	1,027,033
Other accounts and provisions (including current and deferred tax liabilities)	4,430	10,799	24,267	535	48	642	691	41,412
Insurance contract liabilities	2,761	6,963	30,083	-	-	-	-	39,807
Subordinated liabilities	-	20,029	-	6,848	-	-	-	26,877
Total liabilities	405,251	268,955	769,236	23,927	2,223	17,402	55,757	1,542,751
Net on-balance sheet position	24,556	172,446	(83,709)	9,150	6,232	(13,499)	3,113	118,289
Off-balance sheet net notional position*	(17,769)	(165,279)	192,604	(9,078)	(6,290)	13,368	(3,256)	4,300
Contingent liabilities and commitments	11,813	85,973	227,256	5,720	1,559	1,076	3,313	336,710

* Off-balance sheet net notional position represents the net notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements.

NOTES TO THE FINANCIAL STATEMENTS

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 adverse 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 so 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;
- Option risk: exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cashflows of assets and liabilities.

The Group's risk management framework applies also to interest rate risk management. The Assets and Liabilities Management Committee ("ALCO") exercises its oversight of interest rate risk in accordance with "BOCHK Group Interest Rate Risk Management Policy" approved by RC. Market Risk Management Division of RMD is the unit responsible for interest rate risk management. With the cooperation of Financial Management Department (Asset & Liability Management) and Investment Management, RMD assists the ALCO to manage day-to-day interest rate risk positions. Its roles include, but are not limited to, formulation of management policies, selection of methodologies, setting risk indicators and limits, assessment of target balance sheet, monitoring the compliance with policies and limits, and submission of interest rate risk management reports to RC and senior management, etc.

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, re-pricing gap limits, basis risk, duration, price value of a basis point (PVBP), Greeks, net interest income sensitivity ratio, economic value sensitivity ratio (including sub-limit for AFS securities), etc. The indicators and limits are classified into three levels, which are approved by RC, ALCO and CRO respectively. 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, relevant departments are required to go through a risk assessment process, which includes 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 reported to both the CFO and CRO and submitted to RC for approval.

Net interest income sensitivity ratio (NII) and economic value sensitivity ratio (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 projected net interest income for the year. The latter assesses the impact of interest rate movement on economic value (i.e. the 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 RC on these two indicators to monitor and control the Group's banking book interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.2 Market Risk (continued)

(C) Interest rate risk (continued)

The Group uses scenario analysis and stress test to assess the banking book interest rate risk the Group would face under adverse circumstances. Scenario analysis and stress test are also devised to assess the impact on net interest income and economic value as well as capital base arising from the optionality of demand and savings deposits, the prepayment of mortgage loans and the prepayment of ABS/MBS due to extension/contraction of weighted average life.

The Group is principally exposed to HK Dollar, US Dollar, onshore and offshore Renminbi in terms of interest rate risk. As at 31 December 2011, 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 impacts on net interest income over a twelve-month period and on reserves would have been as follows:

	Impact on net interest income over the next twelve months at 31 December		Impact on reserves at 31 December	
	2011 HK\$'m	2010 HK\$'m	2011 HK\$'m	2010 HK\$'m
HK Dollar	896	905	(219)	(257)
US Dollar	(589)	(1,414)	(4,025)	(3,698)
Renminbi	(560)	119	(433)	(172)

The overall negative impact on net interest income of the above currencies has decreased when compared with 2010 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 portfolio due to the above simulated market rates movement. The reduction of reserves is larger compared with 2010 because the size and duration of available-for-sale portfolio is increased.

The Group uses more severe assumptions when conducting stress test, including a change in the correlation between interest rates of relevant currencies, parallel movement of interest rates for the banking book positions of all repricing or maturity dates, and that in the absence of actions that would be taken to mitigate the impact of interest rates shock, all positions are assumed to run to maturity and reprice or mature simultaneously within a given time band. As the risk is complicated by having optionality embedded in certain products, behavioural assumptions are made to reflect more accurately the interest rate risk exposures.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.2 Market Risk (continued)

(C) Interest rate risk (continued)

The tables below summarise the Group's 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 or maturity dates.

	2011						Total HK\$m
	Up to 1 month HK\$m	1-3 months HK\$m	3-12 months HK\$m	1-5 years HK\$m	Over 5 years HK\$m	Non-interest bearing HK\$m	
Assets							
Cash and balances with banks and other financial institutions	269,960	-	-	-	-	8,835	278,795
Placements with banks and other financial institutions maturing between one and twelve months	-	48,637	59,273	-	-	-	107,910
Financial assets at fair value through profit or loss	5,732	10,339	5,474	13,080	11,878	2,099	48,602
Derivative financial instruments	-	-	-	-	-	26,787	26,787
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	65,890	65,890
Advances and other accounts	554,348	128,984	54,042	12,563	31	5,261	755,229
Investment in securities							
– Available-for-sale securities	60,433	64,432	42,885	97,200	46,949	4,499	316,398
– Held-to-maturity securities	5,336	14,862	8,299	17,992	7,438	-	53,927
– Loans and receivables	2,033	-	4,640	-	-	-	6,673
Interests in associates	-	-	-	-	-	234	234
Investment properties	-	-	-	-	-	12,441	12,441
Properties, plant and equipment	-	-	-	-	-	39,650	39,650
Other assets (including deferred tax assets)	-	-	-	-	-	25,974	25,974
Total assets	897,842	267,254	174,613	140,835	66,296	191,670	1,738,510
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	65,890	65,890
Deposits and balances from banks and other financial institutions	211,777	1,807	1,429	-	-	21,681	236,694
Financial liabilities at fair value through profit or loss	1,116	802	824	473	22	-	3,237
Derivative financial instruments	-	-	-	-	-	22,281	22,281
Deposits from customers	867,556	138,977	74,731	9,134	162	55,391	1,145,951
Debt securities in issue at amortised cost	96	20	13	5,856	-	-	5,985
Other accounts and provisions (including current and deferred tax liabilities)	13,137	1,001	2,849	-	-	32,426	49,413
Insurance contract liabilities	-	-	-	-	-	47,220	47,220
Subordinated liabilities	-	-	6,625	-	22,031	-	28,656
Total liabilities	1,093,682	142,607	86,471	15,463	22,215	244,889	1,605,327
Interest sensitivity gap	(195,840)	124,647	88,142	125,372	44,081	(53,219)	133,183

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.2 Market Risk (continued)

(C) Interest rate risk (continued)

	2010						
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 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	409,210	-	-	-	-	6,602	415,812
Placements with banks and other financial institutions maturing between one and twelve months	-	19,346	20,153	-	-	-	39,499
Financial assets at fair value through profit or loss	3,439	30,225	3,638	14,214	13,275	5,085	69,876
Derivative financial instruments	-	-	-	-	-	23,854	23,854
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	46,990	46,990
Advances and other accounts	513,018	92,528	27,356	7,659	119	4,744	645,424
Investment in securities							
– Available-for-sale securities	34,227	41,732	49,471	125,084	32,403	3,527	286,444
– Held-to-maturity securities	7,142	16,570	9,808	16,132	8,732	-	58,384
– Loans and receivables	5,791	3,402	6,163	-	-	-	15,356
Interests in associates	-	-	-	-	-	212	212
Investment properties	-	-	-	-	-	10,342	10,342
Properties, plant and equipment	-	-	-	-	-	31,049	31,049
Other assets (including deferred tax assets)	-	-	-	-	-	17,798	17,798
Total assets	972,827	203,803	116,589	163,089	54,529	150,203	1,661,040
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	46,990	46,990
Deposits and balances from banks and other financial institutions	298,078	8,729	969	-	-	6,008	313,784
Financial liabilities at fair value through profit or loss	4,996	16,993	3,316	168	20	-	25,493
Derivative financial instruments	-	-	-	-	-	21,355	21,355
Deposits from customers	787,316	107,409	73,421	5,010	-	53,877	1,027,033
Other accounts and provisions (including current and deferred tax liabilities)	11,005	1,070	2,163	394	-	26,780	41,412
Insurance contract liabilities	-	-	-	-	-	39,807	39,807
Subordinated liabilities	-	-	6,848	-	20,029	-	26,877
Total liabilities	1,101,395	134,201	86,717	5,572	20,049	194,817	1,542,751
Interest sensitivity gap	(128,568)	69,602	29,872	157,517	34,480	(44,614)	118,289

NOTES TO THE FINANCIAL STATEMENTS

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 the due obligations, and need to bear an unacceptable loss. The Group follows the sound liquidity risk appetite, to provide stable, reliable and adequate sources of cash to meet liquidity needs under normal circumstances or stressed scenarios; and survive with net positive cumulative cash flow in extreme scenarios, without requesting HKMA to act as a lender of last resort.

The Group's liquidity risk management objective is to effectively manage the liquidity of on-balance sheet and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Customer deposits 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 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 in support of normal business needs and ensure its ability to raise enough 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 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 overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, intra-day liquidity, intra-group liquidity, the liquidity risk arising from other risks, etc., and has formulated corresponding funding contingency plan.

RC, a standing committee established by the Board of Directors, 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. Market Risk Management Division of RMD is the unit responsible for overseeing the Group's liquidity risk. It cooperates with Financial Management Department (Assets and Liabilities Management), Investment Management, etc. to assist 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. Such indicators and limits include (but are not limited to) liquidity ratio, deposit stability ratio, loan-to-deposit ratio, Maximum Cumulative Outflow ("MCO") and liquidity buffer asset portfolio. The Group applies cash flow analysis (under normal and stress conditions) and liquidity stress test (including institution specific and world wide crisis) to assess the Group's capability to withstand various severe liquidity crises. Also, Assets and Liabilities Management System ("ALM") is developed to provide data support for facilitating the liquidity risk management duties.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

The Group's liquidity risk management also covers new product or business development. 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 (subject to approval by BOCHK), and assumes its own liquidity risk management responsibility. Subsidiaries are required to report their respective liquidity positions on a regular basis to Market Risk Management Division of RMD of BOCHK which consolidates such information and evaluates group-wide liquidity risk.

(A) Liquidity ratio

	2011	2010
Average liquidity ratio	36.17%	38.77%

The average liquidity ratio is calculated as the simple average 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 Fourth Schedule to the Banking Ordinance.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(B) Maturity analysis

Tables below analyse assets and liabilities of the Group as at 31 December into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	2011							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Assets								
Cash and balances with banks and other financial institutions	213,787	65,008	-	-	-	-	-	278,795
Placements with banks and other financial institutions maturing between one and twelve months	-	-	48,637	59,273	-	-	-	107,910
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- certificates of deposit held	-	-	-	15	62	-	-	77
- others	-	5,052	9,587	2,740	2,944	4,633	-	24,956
- debt securities designated at fair value through profit or loss								
- certificates of deposit held	-	-	8	7	927	496	-	1,438
- others	-	282	301	2,672	9,661	7,116	-	20,032
- fund and equity securities	-	-	-	-	-	-	2,099	2,099
Derivative financial instruments	18,640	541	732	1,341	1,934	3,599	-	26,787
Hong Kong SAR Government certificates of indebtedness	65,890	-	-	-	-	-	-	65,890
Advances and other accounts								
- advances to customers	55,319	21,353	52,703	140,462	232,840	193,258	614	696,549
- trade bills	31	10,577	21,847	24,046	-	-	5	56,506
- advances to banks and other financial institutions	-	-	155	2,019	-	-	-	2,174
Investment in securities								
- debt securities held for available-for-sale								
- certificates of deposit held	-	3,170	2,316	12,561	9,495	-	-	27,542
- others	-	43,824	44,025	40,829	105,225	50,412	42	284,357
- debt securities held for held-to-maturity								
- certificates of deposit held	-	226	192	2,293	333	-	-	3,044
- others	-	1,510	5,251	10,853	24,187	8,831	251	50,883
- debt securities held for loans and receivables	-	2,033	-	4,640	-	-	-	6,673
- equity securities	-	-	-	-	-	-	4,499	4,499
Interests in associates	-	-	-	-	-	-	234	234
Investment properties	-	-	-	-	-	-	12,441	12,441
Properties, plant and equipment	-	-	-	-	-	-	39,650	39,650
Other assets (including deferred tax assets)	8,749	8,548	21	152	7,350	1,126	28	25,974
Total assets	362,416	162,124	185,775	303,903	394,958	269,471	59,863	1,738,510
Liabilities								
Hong Kong SAR currency notes in circulation	65,890	-	-	-	-	-	-	65,890
Deposits and balances from banks and other financial institutions	216,490	16,968	1,801	1,435	-	-	-	236,694
Financial liabilities at fair value through profit or loss								
- certificates of deposit issued	-	-	-	-	-	-	-	-
- others	-	1,116	802	825	472	22	-	3,237
Derivative financial instruments	13,661	700	771	1,491	3,945	1,713	-	22,281
Deposits from customers	583,005	337,186	137,991	76,830	10,777	162	-	1,145,951
Debt securities in issue at amortised cost	-	96	20	45	5,824	-	-	5,985
Other accounts and provisions (including current and deferred tax liabilities)	30,772	6,137	2,191	4,423	5,890	-	-	49,413
Insurance contract liabilities	1,530	729	866	4,379	26,458	13,258	-	47,220
Subordinated liabilities	-	-	419	1	-	28,236	-	28,656
Total liabilities	911,348	362,932	144,861	89,429	53,366	43,391	-	1,605,327
Net liquidity gap	(548,932)	(200,808)	40,914	214,474	341,592	226,080	59,863	133,183

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	2010							Total HK\$m
	On demand HK\$m	Up to 1 month HK\$m	1-3 months HK\$m	3-12 months HK\$m	1-5 years HK\$m	Over 5 years HK\$m	Indefinite HK\$m	
Assets								
Cash and balances with banks and other financial institutions	374,818	40,994	-	-	-	-	-	415,812
Placements with banks and other financial institutions maturing between one and twelve months	-	-	19,346	20,153	-	-	-	39,499
Financial assets at fair value through profit or loss								
- debt securities held for trading								
- certificates of deposit held	-	-	568	1,678	2	-	-	2,248
- others	-	3,209	27,603	2,628	3,179	5,054	-	41,673
- debt securities designated at fair value through profit or loss								
- certificates of deposit held	-	-	118	422	1,316	474	-	2,330
- others	-	63	180	722	9,964	7,611	-	18,540
- fund and equity securities	-	-	-	-	-	-	5,085	5,085
Derivative financial instruments	19,539	507	509	1,080	1,167	1,052	-	23,854
Hong Kong SAR Government certificates of indebtedness	46,990	-	-	-	-	-	-	46,990
Advances and other accounts								
- advances to customers	43,572	17,031	43,051	107,513	232,575	166,473	693	610,908
- trade bills	53	10,109	16,190	5,253	-	-	-	31,605
- advances to banks and other financial institutions	-	1	147	1,209	1,554	-	-	2,911
Investment in securities								
- debt securities held for available-for-sale								
- certificates of deposit held	-	303	501	11,577	11,248	-	-	23,629
- others	-	18,164	12,873	48,637	142,051	37,144	419	259,288
- debt securities held for held-to-maturity								
- certificates of deposit held	-	3	41	1,280	2,910	366	-	4,600
- others	-	1,054	3,743	11,637	26,645	10,311	394	53,784
- debt securities held for loans and receivables	-	5,791	3,402	6,163	-	-	-	15,356
- equity securities	-	-	-	-	-	-	3,527	3,527
Interests in associates	-	-	-	-	-	-	212	212
Investment properties	-	-	-	-	-	-	10,342	10,342
Properties, plant and equipment	-	-	-	-	-	-	31,049	31,049
Other assets (including deferred tax assets)	4,609	10,744	6	211	2,125	-	103	17,798
Total assets	489,581	107,973	128,278	220,163	434,736	228,485	51,824	1,661,040
Liabilities								
Hong Kong SAR currency notes in circulation	46,990	-	-	-	-	-	-	46,990
Deposits and balances from banks and other financial institutions	260,453	43,633	8,729	969	-	-	-	313,784
Financial liabilities at fair value through profit or loss								
- certificates of deposit issued	-	-	-	-	-	-	-	-
- others	-	4,996	16,994	3,316	167	20	-	25,493
Derivative financial instruments	14,706	1,040	495	1,287	3,082	745	-	21,355
Deposits from customers	599,586	239,253	107,982	74,014	6,198	-	-	1,027,033
Other accounts and provisions (including current and deferred tax liabilities)	22,967	8,579	1,829	3,237	4,800	-	-	41,412
Insurance contract liabilities	1,407	1,131	55	3,413	25,351	8,450	-	39,807
Subordinated liabilities	-	-	419	1	-	26,457	-	26,877
Total liabilities	946,109	298,632	136,503	86,237	39,598	35,672	-	1,542,751
Net liquidity gap	(456,528)	(190,659)	(8,225)	133,926	395,138	192,813	51,824	118,289

NOTES TO THE FINANCIAL STATEMENTS

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 "Repayable 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.

(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 maturities.

	2011					Total HK\$'m
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	
Financial liabilities						
Hong Kong SAR currency notes in circulation	65,890	-	-	-	-	65,890
Deposits and balances from banks and other financial institutions	233,472	1,840	1,450	-	-	236,762
Financial liabilities at fair value through profit or loss	1,116	804	829	477	22	3,248
Deposits from customers	920,349	138,367	77,730	11,752	220	1,148,418
Debt securities in issue at amortised cost	97	21	231	6,701	-	7,050
Subordinated liabilities	-	539	707	4,983	30,069	36,298
Other financial liabilities	29,580	1,312	3,269	6	-	34,167
Total financial liabilities	1,250,504	142,883	84,216	23,919	30,311	1,531,833

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities (continued)

(a) Non-derivative cash flows (continued)

	2010					Total HK\$m
	Up to 1 month HK\$m	1-3 months HK\$m	3-12 months HK\$m	1-5 years HK\$m	Over 5 years HK\$m	
Financial liabilities						
Hong Kong SAR currency notes in circulation	46,990	-	-	-	-	46,990
Deposits and balances from banks and other financial institutions	304,106	8,804	1,013	-	-	313,923
Financial liabilities at fair value through profit or loss	4,997	17,001	3,320	179	23	25,520
Deposits from customers	838,895	108,138	74,604	6,641	-	1,028,278
Subordinated liabilities	-	539	682	4,973	31,579	37,773
Other financial liabilities	25,977	1,192	2,302	269	-	29,740
Total financial liabilities	1,220,965	135,674	81,921	12,062	31,602	1,482,224

(b) Derivative cash flows

(i) Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis include:

- Exchange rate contracts: non-deliverable OTC currency options, currency futures, non-deliverable currency forwards;
- Interest rate contracts: interest rate swaps;
- Bullion contracts: bullion margin contracts; and
- Equity contracts: exchange traded equity options and equity linked swaps.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities (continued)

(b) Derivative cash flows (continued)

(i) Derivatives settled on a net basis (continued)

The tables below analyse the Group's derivative financial instruments as at 31 December that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the net contractual undiscounted cash flows of derivatives with net negative fair value.

	2011					
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Total HK\$'m
Exchange rate contracts	(13,030)	(223)	(236)	24	–	(13,465)
Interest rate contracts	(154)	(357)	(1,572)	(3,724)	(192)	(5,999)
Bullion contracts	(717)	–	–	–	–	(717)
Equity contracts	–	(1)	–	–	–	(1)
	(13,901)	(581)	(1,808)	(3,700)	(192)	(20,182)

	2010					
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Total HK\$'m
Exchange rate contracts	(13,838)	(148)	(296)	129	–	(14,153)
Interest rate contracts	(192)	(417)	(2,003)	(4,150)	(605)	(7,367)
Bullion contracts	(899)	–	–	–	–	(899)
	(14,929)	(565)	(2,299)	(4,021)	(605)	(22,419)

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities (continued)

(b) Derivative cash flows (continued)

(ii) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include OTC currency options, currency forwards, cross currency interest rate swaps, bullion swaps and OTC equity options.

The tables below analyse the Group's derivative financial instruments as at 31 December that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the gross contractual undiscounted cash flows for all derivatives that are settled on a gross basis.

	2011					
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Total HK\$'m
Exchange rate contracts:						
– Outflow	(235,421)	(91,921)	(138,311)	(22,614)	(964)	(489,231)
– Inflow	235,286	91,899	138,285	22,619	962	489,051
Bullion contracts:						
– Outflow	(3,792)	–	–	–	–	(3,792)
– Inflow	–	–	–	–	–	–
Equity contracts:						
– Outflow	(1)	–	–	–	–	(1)
– Inflow	8	1	–	–	–	9
Total outflow	(239,214)	(91,921)	(138,311)	(22,614)	(964)	(493,024)
Total inflow	235,294	91,900	138,285	22,619	962	489,060

	2010					
	Up to 1 month HK\$'m	1-3 months HK\$'m	3-12 months HK\$'m	1-5 years HK\$'m	Over 5 years HK\$'m	Total HK\$'m
Exchange rate contracts:						
– Outflow	(195,060)	(82,467)	(53,436)	(10,163)	(1,017)	(342,143)
– Inflow	194,521	82,463	53,436	10,070	1,013	341,503
Bullion contracts:						
– Outflow	(3,021)	(867)	–	–	–	(3,888)
– Inflow	–	–	–	–	–	–
Equity contracts:						
– Outflow	(2)	–	–	–	–	(2)
– Inflow	19	13	–	–	–	32
Total outflow	(198,083)	(83,334)	(53,436)	(10,163)	(1,017)	(346,033)
Total inflow	194,540	82,476	53,436	10,070	1,013	341,535

NOTES TO THE FINANCIAL STATEMENTS

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 2011 that the Group commits to extend credit to customers and other facilities amounting to HK\$319,768 million (2010: HK\$281,138 million). Those loan commitments can be drawn within 1 year.

Financial guarantees and other financial facilities

Financial guarantees and other financial facilities of the Group as at 31 December 2011 amounting to HK\$70,417 million (2010: HK\$55,572 million) are maturing no later than 1 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 arrangement.

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 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 for standard risks (from a medical point of view) to reinsurer under an excess of loss reinsurance arrangement. For some of the insurance liabilities dominated in Renminbi, the Group's insurance subsidiary has entered into another reinsurance arrangement that reinsures 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 and persistency. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducts mortality study and lapse study in order to determine the appropriate assumptions. In these studies, consistent results are reflected in both assumptions with appropriate margins.

NOTES TO THE FINANCIAL STATEMENTS

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 Group periodically reviews its capital structure and adjusts the capital mix where appropriate to achieve the required rate of return on capital.

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. 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.

In prior years, the Group adopted the standardised (credit risk) ("STC") approach and the standardised (market risk) ("STM") approach to calculate credit risk capital charge and market risk capital charge respectively.

With the HKMA approval from 1 January 2011, the Group has migrated to the foundation internal ratings-based ("FIRB") approach to calculate the credit risk capital charge for the majority of its non-securitisation exposures and internal ratings-based (securitisation) approach to calculate the credit risk capital charge for its securitisation exposures. A small residual credit exposures was approved by HKMA to be exempted from FIRB approach and remained under STC approach.

BOCHK has adopted the internal models approach to calculate general market risk capital charge for foreign exchange and interest rate exposures as at 31 December 2011, while the remaining of the Group continued to adopt STM approach to calculate the market risk capital charge.

The Group continues to adopt standardised (operational risk) ("STO") approach to calculate the minimum capital charge for operational risk in year 2011.

In compliance with the Banking (Capital) Rules, this regulatory capital framework aligns regulatory capital requirements more closely with the inherent risks. Following announcement of the Basel III regulations by Basel Committee, the Group has conducted a detailed impact analysis on the expected new capital rules, and participated in the "Implementation Monitoring Process" organised by the Basel Committee on Banking Supervision, and well prepared for the future implementation of the new regulatory requirements.

The Group has continued to adopt an internal capital adequacy assessment process ("ICAAP") in capital management in 2011. Through this process, each material risk associated with the Group's main activities is assessed by pre-defined scorecard methods, and a comprehensive judgment of the overall risk profile is made subsequently with consideration of Group's governance structure, risk management quality, internal control environment and capital strength. As a result, the minimum CAR is derived and aims to cover the various material risks undertaken by the Group. The Group considers this ICAAP process as an on-going process for capital management and periodically reviews and adjusts its capital structure 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 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's capital adequacy and achieve optimal capital structure in order to align with its business development needs and risk profile.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.5 Capital Management (continued)

As a result of the change in the bases of regulatory capital calculation, the amounts shown below are not directly comparable.

(A) Capital adequacy ratio

	2011	2010
Capital adequacy ratio	16.90%	16.14%
Core capital ratio	12.51%	11.29%

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

The differences between the basis of consolidation for accounting and regulatory purposes are described in "Appendix – Subsidiaries of the Company" on page 268.

(B) Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratio as at 31 December and reported to the HKMA is analysed as follows:

	2011 HK\$'m	2010 HK\$'m
Core capital:		
Paid up ordinary share capital	43,043	43,043
Reserves	31,947	28,475
Profit and loss account	8,318	5,332
Non-controlling interests	1,605	1,425
	84,913	78,275
Deductions from core capital	(313)	(332)
Core capital	84,600	77,943
Supplementary capital:		
Fair value gains arising from holdings of available-for-sale securities	290	588
Fair value gains arising from holdings of securities designated at fair value through profit or loss	18	29
Collective loan impairment allowances	91	1,985
Regulatory reserve	253	5,076
Surplus provisions	3,354	–
Term subordinated debt	25,961	26,198
	29,967	33,876
Deductions from supplementary capital	(313)	(332)
Supplementary capital	29,654	33,544
Total capital base after deductions	114,254	111,487

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.5 Capital Management (continued)

(B) Components of capital base after deductions (continued)

Subsidiaries which are not included in the consolidation group for the calculation of capital adequacy ratios are denoted in "Appendix – Subsidiaries of the Company" on pages 265 to 268. Investment costs in such subsidiaries are deducted from the capital base.

Term subordinated debt represents subordinated liabilities qualified as Tier 2 Capital of BOCHK pursuant to the regulatory requirements of the HKMA.

4.6 Fair values of financial assets and liabilities

(A) 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 banks and other financial institutions and Trade bills

The maturities of these financial assets and liabilities are within one year and the carrying value approximates fair value.

Advances to customers, banks and other financial institutions

Substantially all the advances to customers, 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

Fair value for held-to-maturity securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. Their carrying value approximates fair value.

Loans and receivables

A discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity and their carrying value approximates fair value.

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 in issue at amortised cost

Fair value for senior notes and other debt securities in issue is based on market prices or broker/dealer price quotations and their carrying value approximates fair value.

Subordinated liabilities

The subordinated loans are on floating rate terms, bear interest at prevailing market interest rates and their carrying value approximates fair value. Fair value for subordinated notes is based on market prices or broker/dealer price quotations. The carrying value and fair value of subordinated notes as at 31 December 2011 amounted to HK\$22,031 million (2010: HK\$20,029 million) and HK\$20,704 million (2010: HK\$20,834 million) respectively.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.6 Fair values of financial assets and liabilities (continued)

(B) Financial instruments measured at fair value

Financial instruments measured at fair value are classified into following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange, debt instruments issued by certain governments and certain foreign exchange derivative contracts.
- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the OTC derivative contracts, debt securities with quote from pricing services providers and issued structured deposits.
- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investment and debt instruments with significant unobservable components.

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 all observable and obtainable from open market.

For certain illiquid debt securities and unlisted private equity held by the Group, management obtains valuation quotations from counterparties. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and 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.

There have been no significant transfers between level 1 and 2 during the year 2011 and 2010.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.6 Fair values of financial assets and liabilities (continued)

(B) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy

	2011			
	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				
– Trading securities				
– Debt securities	–	25,033	–	25,033
– Equity securities	12	161	–	173
– Financial assets designated at fair value through profit or loss				
– Debt securities	–	21,336	134	21,470
– Fund	1,103	–	–	1,103
– Equity securities	823	–	–	823
Derivative financial instruments	18,611	8,176	–	26,787
Available-for-sale securities				
– Debt securities	65,235	243,842	2,822	311,899
– Equity securities	3,752	563	184	4,499
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– Trading liabilities	–	2,598	–	2,598
– Financial liabilities designated at fair value through profit or loss	–	436	203	639
Derivative financial instruments	13,655	8,626	–	22,281

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.6 Fair values of financial assets and liabilities (continued)

(B) Financial instruments measured at fair value (continued)

(i) Fair value hierarchy (continued)

	2010			
	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				
– Trading securities				
– Debt securities	–	43,821	100	43,921
– Equity securities	38	97	–	135
– Financial assets designated at fair value through profit or loss				
– Debt securities	–	20,607	263	20,870
– Fund	3,028	–	–	3,028
– Equity securities	1,922	–	–	1,922
Derivative financial instruments	19,527	4,327	–	23,854
Available-for-sale securities				
– Debt securities	39,048	237,914	5,955	282,917
– Equity securities	2,971	390	166	3,527
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– Trading liabilities	–	25,259	–	25,259
– Financial liabilities designated at fair value through profit or loss	–	234	–	234
Derivative financial instruments	14,705	6,650	–	21,355

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.6 Fair values of financial assets and liabilities (continued)

(B) Financial instruments measured at fair value (continued)

(ii) Reconciliation of level 3 items

	2011				
	Financial assets				Financial liabilities
	Financial assets designated at fair value				Financial liabilities designated at fair value through profit or loss
	Trading securities	through profit or loss	Available-for-sale securities		
Debt securities HK\$'m	Debt securities HK\$'m	Debt securities HK\$'m	Equity securities HK\$'m	through profit or loss HK\$'m	
At 1 January 2011	100	263	5,955	166	-
(Losses)/gains					
– Profit or loss	-	(10)	(30)	-	-
– Other comprehensive income	-	-	(21)	18	-
Purchases	-	-	1,812	10	-
Issues	-	-	-	-	203
Sales	(100)	(119)	(3,379)	(10)	-
Transfers out of level 3	-	-	(1,515)	-	-
At 31 December 2011	-	134	2,822	184	203
Total losses for the year included in profit or loss for assets and liabilities held as at 31 December 2011	-	(10)	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management (continued)

4.6 Fair values of financial assets and liabilities (continued)

(B) Financial instruments measured at fair value (continued)

(ii) Reconciliation of level 3 items (continued)

	2010			
	Financial assets			
	Financial assets designated at fair value through profit or loss		Available-for-sale securities	
	Trading securities	Debt securities	Debt securities	Equity securities
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2010	–	136	4,293	143
(Losses)/gains				
– Profit or loss	–	(7)	29	–
– Other comprehensive income	–	–	23	23
Purchases	100	141	3,492	–
Sales	–	(7)	(3,697)	–
Transfers into level 3	–	–	1,815	–
At 31 December 2010	100	263	5,955	166
Total losses for the year included in profit or loss for assets held as at 31 December 2010	–	(7)	–	–

(Losses)/gains included in profit or loss for the year as well as losses relating to assets held as at year end are presented in “Net trading gain”, “Net (loss)/gain on financial instruments designated at fair value through profit or loss” or “Net (charge)/reversal of impairment allowances” depending on the nature or the category of the related financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

5. Net interest income

	2011 HK\$'m	2010 HK\$'m
Interest income		
Due from banks and other financial institutions	8,455	2,972
Advances to customers	13,386	11,466
Listed investments	4,470	4,181
Unlisted investments	5,387	4,631
Others	233	199
	31,931	23,449
Interest expense		
Due to banks and other financial institutions	(2,917)	(1,086)
Deposits from customers	(6,275)	(2,938)
Debt securities in issue	(26)	–
Subordinated liabilities	(562)	(510)
Others	(172)	(181)
	(9,952)	(4,715)
Net interest income	21,979	18,734

Included within interest income is HK\$3 million (2010: HK\$6 million) of interest with respect to income recognised on advances classified as impaired for the year ended 31 December 2011. Interest income accrued on impaired investment in securities amounted to HK\$16 million (2010: HK\$88 million).

Included within interest income and interest expense are HK\$31,850 million (2010: HK\$23,272 million) and HK\$10,573 million (2010: HK\$5,169 million), before hedging effect, for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

NOTES TO THE FINANCIAL STATEMENTS

6. Net fee and commission income

	2011 HK\$'m	2010 HK\$'m
Fee and commission income		
Credit card business	2,887	2,222
Securities brokerage	2,782	3,338
Loan commissions	1,160	961
Insurance	1,097	561
Bills commissions	854	751
Payment services	637	568
Trust and custody services	379	249
Funds distribution	337	160
Safe deposit box	211	200
Currency exchange	156	113
Others	358	356
	10,858	9,479
Fee and commission expense		
Credit card business	(2,106)	(1,542)
Securities brokerage	(431)	(504)
Payment services	(91)	(87)
Others	(397)	(302)
	(3,025)	(2,435)
Net fee and commission income	7,833	7,044
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	1,363	1,149
– Fee and commission expense	(5)	(7)
	1,358	1,142
– trust and other fiduciary activities		
– Fee and commission income	571	438
– Fee and commission expense	(6)	(6)
	565	432

Certain comparative amounts have been reclassified to conform with the current year's presentation.

NOTES TO THE FINANCIAL STATEMENTS

7. Net trading gain

	2011 HK\$'m	2010 HK\$'m
Net gain/(loss) from:		
– foreign exchange and foreign exchange products	1,430	999
– interest rate instruments and items under fair value hedge	12	262
– equity instruments	82	(8)
– commodities	186	116
	1,710	1,369

8. Net gain on other financial assets

	2011 HK\$'m	2010 HK\$'m
Net gain from disposal of available-for-sale securities	469	665
Net loss from disposal/redemption of held-to-maturity securities	(19)	(9)
Others	(142)	–
	308	656

9. Other operating income

	2011 HK\$'m	2010 HK\$'m
Dividend income from investment in securities		
– listed investments	93	73
– unlisted investments	27	24
Gross rental income from investment properties	386	339
Less: Outgoings in respect of investment properties	(72)	(69)
Others	91	100
	525	467

Included in the "Outgoings in respect of investment properties" is HK\$4 million (2010: HK\$12 million) of direct operating expenses related to investment properties that were not let during the year.

NOTES TO THE FINANCIAL STATEMENTS

10. Gross insurance benefits and claims

	2011 HK\$'m	2010 HK\$'m
Claims, benefits and surrenders paid	6,437	3,650
Movement in liabilities	7,407	6,403
	13,844	10,053

11. Net (charge)/reversal of impairment allowances

	2011 HK\$'m	2010 HK\$'m
Advances to customers		
Individually assessed		
– new allowances	(146)	(70)
– releases	134	219
– recoveries	327	416
Net reversal of individually assessed loan impairment allowances (Note 26)	315	565
Collectively assessed		
– new allowances	(720)	(528)
– releases	–	–
– recoveries	26	33
Net charge of collectively assessed loan impairment allowances (Note 26)	(694)	(495)
Net (charge)/reversal of loan impairment allowances	(379)	70
Available-for-sale securities		
Net reversal of impairment allowances on available-for-sale securities		
– Individually assessed	7	208
Held-to-maturity securities		
Net (charge)/reversal of impairment allowances on held-to-maturity securities		
– Individually assessed (Note 27)	(124)	46
Others	(10)	(9)
Net (charge)/reversal of impairment allowances	(506)	315

NOTES TO THE FINANCIAL STATEMENTS

12. Operating expenses

	2011 HK\$'m	2010 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	5,606	4,966
– pension cost	432	391
	6,038	5,357
Premises and equipment expenses (excluding depreciation)		
– rental of premises	613	506
– information technology	429	400
– others	348	295
	1,390	1,201
Depreciation (Note 31)	1,277	1,131
Auditor's remuneration		
– audit services	32	31
– non-audit services	6	4
Lehman Brothers related products*	(2,797)	89
Other operating expenses	1,916	1,771
	7,862	9,584

* The final resolution of certain series of Lehman Brothers minibonds was announced on 15 June 2011. The net amount of HK\$2,854 million recovered by the Group from the underlying collateral of the Lehman Brothers minibonds, after deducting the ex gratia payments and provision for trustee expenses, was credited to operating expenses in 2011.

13. Net gain from disposal of/fair value adjustments on investment properties

	2011 HK\$'m	2010 HK\$'m
Net gain from disposal of investment properties	13	–
Net gain from fair value adjustments on investment properties (Note 30)	2,200	1,511
	2,213	1,511

NOTES TO THE FINANCIAL STATEMENTS

14. Net loss from disposal/revaluation of properties, plant and equipment

	2011 HK\$'m	2010 HK\$'m
Net loss from disposal of premises	(2)	–
Net loss from disposal of other fixed assets	(32)	(10)
Net gain from revaluation of premises (Note 31)	–	4
	(34)	(6)

15. Taxation

Taxation in the consolidated income statement represents:

	2011 HK\$'m	2010 HK\$'m
Hong Kong profits tax		
Current tax		
– current year taxation	3,718	2,930
– under-provision in prior years	7	8
	3,725	2,938
Deferred tax credit (Note 39)	(159)	(30)
Hong Kong profits tax	3,566	2,908
Overseas taxation	301	144
	3,867	3,052

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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.

NOTES TO THE FINANCIAL STATEMENTS

15. Taxation (continued)

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:

	2011 HK\$'m	2010 HK\$'m
Profit before taxation	24,680	19,742
Calculated at a taxation rate of 16.5% (2010: 16.5%)	4,072	3,257
Effect of different taxation rates in other countries	37	23
Income not subject to taxation	(432)	(300)
Expenses not deductible for taxation purposes	104	52
Tax losses not recognised	24	1
Utilisation of previously unrecognised tax losses	(2)	(45)
Under-provision in prior years	7	8
Foreign withholding tax	57	56
Taxation charge	3,867	3,052
Effective tax rate	15.7%	15.5%

16. Profit attributable to the equity holders of the Company

The profit of the Company for the year ended 31 December 2011 attributable to the equity holders of the Company and dealt with in the financial statements of the Company amounted to HK\$12,823 million (2010: HK\$9,584 million).

17. Dividends

	2011		2010	
	Per share HK\$	Total HK\$'m	Per share HK\$	Total HK\$'m
Interim dividend paid	0.630	6,661	0.400	4,229
Proposed final dividend	0.558	5,899	0.572	6,048
	1.188	12,560	0.972	10,277

At a meeting held on 24 August 2011, the Board declared an interim dividend of HK\$0.63 per ordinary share for the first half of 2011 amounting to approximately HK\$6,661 million.

At a meeting held on 29 March 2012, the Board proposed to declare a final dividend of HK\$0.558 per ordinary share for the year ended 31 December 2011 amounting to approximately HK\$5,899 million. This declared 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 2012.

NOTES TO THE FINANCIAL STATEMENTS

18. Earnings per share for profit attributable to the equity holders of the Company

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the year ended 31 December 2011 of approximately HK\$20,430 million (2010: HK\$16,196 million) and on the ordinary shares in issue of 10,572,780,266 shares (2010: 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 2011 (2010: Nil).

19. Retirement benefit costs

The principal 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 termination of employment after completing 10 years of service, or at a scale ranging from 30% to 90% for employees who have completed between 3 to 10 years of service, on conditions of retirement, early retirement, permanent incapacity and ill-health or termination of employment other than summary dismissal.

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 2011 amounted to approximately HK\$327 million (2010: approximately HK\$308 million), after a deduction of forfeited contributions of approximately HK\$4 million (2010: approximately HK\$13 million). For the MPF Scheme, the Group contributed approximately HK\$51 million (2010: approximately HK\$44 million) for the year ended 31 December 2011.

20. Share option schemes

(a) *Share Option Scheme and Sharesave Plan*

The principal terms of the Share Option Scheme and the Sharesave Plan were approved and adopted by written resolutions of all the shareholders of the Company dated 10 July 2002.

The purpose of the Share Option Scheme is to provide the participants with the opportunity to acquire proprietary interests in the Company. The Board may, in its absolute discretion, offer to grant options under the Share Option Scheme to any person as the Board may select. The subscription price for the shares shall be determined on the date of grant by the Board as an amount per share calculated on the basis of established rules. An option may be exercised in whole or in part at any time after the date prescribed by the Board and from time to time as specified in the offer and on or before the termination date prescribed by the Board.

The purpose of the Sharesave Plan is to encourage broad-based employee ownership of the shares of the Company. The amount of the monthly contribution under the savings contract to be made in connection with an option shall be the amount which the relevant eligible employee is willing to contribute, which amount shall not be less than 1% and not more than 10% of the eligible employee's monthly salary as at the date of application or such other maximum or minimum amounts as permitted by the Board. When an option is exercised during an exercise period, it may be exercised in whole or in part.

NOTES TO THE FINANCIAL STATEMENTS

20. Share option schemes (continued)

(a) Share Option Scheme and Sharesave Plan (continued)

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the year 2011 (2010: Nil).

(b) Pre-Listing Share Option Scheme

On 5 July 2002, several directors together with approximately 60 senior management personnel of the Group and employees of BOC were granted options by BOC (BVI), the immediate holding company of the Company, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) an aggregate of 31,132,600 existing issued shares of the Company. The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the recognition and measurement policies have not been applied to all options granted to employees on or before 7 November 2002.

Details of the share options outstanding as at 31 December 2011 and 2010 are disclosed as follows:

	Directors	Senior management	Others*	Total number of share options	Average exercise price (HK\$ per share)
At 1 January 2011	3,976,500	247,300	–	4,223,800	8.5
Transfer	(1,446,000)	–	1,446,000	–	8.5
At 31 December 2011	2,530,500	247,300	1,446,000	4,223,800	8.5
Exercisable at 31 December 2011	2,530,500	247,300	1,446,000	4,223,800	8.5
At 1 January 2010	3,976,500	1,074,300	–	5,050,800	8.5
Less: Share options exercised during the year	–	(827,000)	–	(827,000)	8.5
At 31 December 2010	3,976,500	247,300	–	4,223,800	8.5
Exercisable at 31 December 2010	3,976,500	247,300	–	4,223,800	8.5

* Represented share options held by ex-directors of the Group

No share options were exercised during the year. Share options were exercised on a regular basis throughout the year of 2010 and its weighted average share price was HK\$22.73.

The options granted under this scheme can be exercised at HK\$8.50 per share in respect of the option price of HK\$1.00. These options have a vesting period of four years from the date on which dealings in the shares commenced on the Stock Exchange with a valid exercise period of ten years. No offer to grant any options under the Pre-Listing Share Option Scheme will be made on or after the date on which dealings in the shares commenced on the Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS

21. Directors' and senior management's emoluments

(a) 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:

	2011			
	Directors' fee HK\$'000	Basic salaries, allowances and benefits in kind HK\$'000	Bonus HK\$'000	Total HK\$'000
Executive Directors				
He Guangbei	100	7,265	4,836	12,201
Gao Yingxin	100	5,077	3,042	8,219
	200	12,342	7,878	20,420
Non-executive Directors				
Xiao Gang	–	–	–	–
Li Lihui	–	–	–	–
Li Zaohang	–	–	–	–
Zhou Zaiqun [#]	2,435	–	–	2,435
Zhang Yanling	–	–	–	–
Chen Siqing	–	–	–	–
Fung Victor Kwok King [*]	310	–	–	310
Koh Beng Seng [*]	350	–	–	350
Shan Weijian [*]	350	–	–	350
Tung Chee Chen [*]	300	–	–	300
Tung Savio Wai-Hok [*]	350	–	–	350
	4,095	–	–	4,095
	4,295	12,342	7,878	24,515

Madam Zhang Yanling resigned as a Non-executive Director of the Company and Mr. Chen Siqing was appointed as a Non-executive Director of the Company with effect from 15 December 2011.

NOTES TO THE FINANCIAL STATEMENTS

21. Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

	2010			
	Directors' fee HK\$'000	Basic salaries, allowances and benefits in kind HK\$'000	Bonus HK\$'000	Total HK\$'000
Executive Directors				
He Guangbei	100	6,614	3,419	10,133
Gao Yingxin	100	4,742	2,465	7,307
	200	11,356	5,884	17,440
Non-executive Directors				
Xiao Gang	–	–	–	–
Li Lihui	–	–	–	–
Li Zaohang	–	–	–	–
Zhou Zaiqun	–	–	–	–
Zhang Yanling	–	–	–	–
Fung Victor Kwok King*	300	–	–	300
Koh Beng Seng*	350	–	–	350
Shan Weijian*	350	–	–	350
Tung Chee Chen*	300	–	–	300
Tung Savio Wai-Hok*	350	–	–	350
Yang Linda Tsao*	155	–	–	155
	1,805	–	–	1,805
	2,005	11,356	5,884	19,245

Note:

* Includes fee as Chairman and Non-executive Director of Nanyang Commercial Bank, Limited

* Independent Non-executive Directors

In July 2002, options were granted to several directors of the Company by the immediate holding company, BOC (BVI), under the Pre-Listing Share Option Scheme as set out in Note 20(b). Full details of the scheme are stated in Note 20. During the year, no options were exercised and no benefits arising from the granting of these share options were included in the directors' emoluments disclosed above or recognised in the income statement (2010: Nil).

For the year ended 31 December 2011, certain directors waived emoluments of HK\$2 million (2010: HK\$2 million), which include directors' fee from subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

21. Directors' and senior management's emoluments (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2010: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2010: three) individuals during the year are as follows:

	2011 HK\$m	2010 HK\$m
Basic salaries and allowances	14	16
Bonus	7	5
Contributions to pension schemes	–	1
Directors' fee from subsidiaries	1	–
Amount paid as an inducement to join the Group	–	2
	22	24

Emoluments of individuals were within the following bands:

	Number of individuals	
	2011	2010
HK\$5,000,001 – HK\$5,500,000	1	–
HK\$5,500,001 – HK\$6,000,000	1	–
HK\$6,000,001 – HK\$6,500,000	–	2
HK\$11,000,001 – HK\$11,500,000	1	1

NOTES TO THE FINANCIAL STATEMENTS

21. Directors' and senior management's emoluments (continued)

(c) Remuneration for the Senior Management and Key Personnel

Pursuant to CG-5 Guideline on a Sound Remuneration System issued by the HKMA, details of the remuneration for the Senior Management and Key Personnel of the Group during the year are as follows:

(i) Remuneration awarded during the year

	2011					
	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	44	–	44	47	–	47
Variable remuneration						
Cash	15	7	22	22	8	30
Total	59	7	66	69	8	77

	2010					
	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	45	–	45	42	–	42
Variable remuneration						
Cash	13	3	16	19	1	20
Total	58	3	61	61	1	62

The remuneration above includes 11 (2010: 11) members of Senior Management and 21 (2010: 18) members of Key Personnel.

NOTES TO THE FINANCIAL STATEMENTS

21. Directors' and senior management's emoluments (continued)

(c) Remuneration for the Senior Management and Key Personnel (continued)

(ii) Deferred remuneration outstanding

	2011		2010	
	Senior Management HK\$'m	Key Personnel HK\$'m	Senior Management HK\$'m	Key Personnel HK\$'m
Deferred remuneration				
Vested	1	1	–	–
Unvested	9	8	3	1
	10	9	3	1
At 1 January	3	1	–	–
Awarded	7	8	3	1
Paid out	(1)	(1)	–	–
Reduced through performance adjustments	–	–	–	–
At 31 December	9	8	3	1

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, Assistant Chief Executive, 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 Head of material business line, Head of major subsidiary, Head of Trading and Chief Dealer, as well as Head of risk control functions.

NOTES TO THE FINANCIAL STATEMENTS

22. Cash and balances with banks and other financial institutions

	2011 HK\$'m	2010 HK\$'m
Cash	6,425	4,571
Balances with central banks	158,950	336,923
Balances with banks and other financial institutions	48,412	33,324
Placements with banks and other financial institutions maturing within one month	65,008	40,994
	278,795	415,812

23. Financial assets at fair value through profit or loss

	Trading securities		Financial assets designated at fair value through profit or loss		Total	
	2011 HK\$'m	2010 HK\$'m	2011 HK\$'m	2010 HK\$'m	2011 HK\$'m	2010 HK\$'m
At fair value						
Debt securities						
– Listed in Hong Kong	3,628	1,398	776	829	4,404	2,227
– Listed outside Hong Kong	4,732	5,188	5,376	3,253	10,108	8,441
	8,360	6,586	6,152	4,082	14,512	10,668
– Unlisted	16,673	37,335	15,318	16,788	31,991	54,123
	25,033	43,921	21,470	20,870	46,503	64,791
Fund						
– Unlisted	–	–	1,103	3,028	1,103	3,028
Equity securities						
– Listed in Hong Kong	12	38	823	1,810	835	1,848
– Listed outside Hong Kong	–	–	–	112	–	112
– Unlisted	161	97	–	–	161	97
	173	135	823	1,922	996	2,057
Total	25,206	44,056	23,396	25,820	48,602	69,876

NOTES TO THE FINANCIAL STATEMENTS

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

Financial assets at fair value through profit or loss are analysed by type of issuer as follows:

	2011 HK\$'m	2010 HK\$'m
Sovereigns	19,524	35,223
Public sector entities*	285	302
Banks and other financial institutions	17,731	25,135
Corporate entities	11,062	9,216
	48,602	69,876

* Included financial assets at fair value through profit or loss of HK\$263 million (2010: HK\$258 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

Financial assets at fair value through profit or loss are analysed as follows:

	2011 HK\$'m	2010 HK\$'m
Treasury bills	14,691	32,840
Certificates of deposit held	1,515	4,578
Other financial assets at fair value through profit or loss	32,396	32,458
	48,602	69,876

24. Derivative financial instruments and hedge accounting

The Group enters into the following exchange rate, interest rate, precious metal 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 ("OTC") between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock option).

NOTES TO THE FINANCIAL STATEMENTS

24. Derivative financial instruments and hedge accounting (continued)

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 consolidated 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 assets and liabilities can fluctuate significantly from time to time.

(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 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 as at 31 December:

	2011			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting* HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot and forwards	311,393	–	–	311,393
Swaps	394,781	4,234	5,181	404,196
Foreign currency options				
– Options purchased	2,595	–	–	2,595
– Options written	3,556	–	–	3,556
	712,325	4,234	5,181	721,740
Interest rate contracts				
Futures	4,035	–	–	4,035
Swaps	340,641	34,587	49,359	424,587
Interest rate options				
– Swaptions purchased	1,005	–	–	1,005
– Swaptions written	505	–	–	505
	346,186	34,587	49,359	430,132
Bullion contracts	13,010	–	–	13,010
Equity contracts	372	–	–	372
Other contracts	82	–	–	82
Total	1,071,975	38,821	54,540	1,165,336

* Derivative transactions 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.

NOTES TO THE FINANCIAL STATEMENTS

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

	2010			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts				
Spot and forwards	332,032	–	111	332,143
Swaps	310,451	4,437	2,993	317,881
Foreign currency options				
– Options purchased	1,543	–	–	1,543
– Options written	2,601	–	–	2,601
	646,627	4,437	3,104	654,168
Interest rate contracts				
Futures	7,735	–	–	7,735
Swaps	266,326	46,345	3,144	315,815
	274,061	46,345	3,144	323,550
Bullion contracts	13,761	–	–	13,761
Equity contracts	145	–	–	145
Other contracts	99	–	–	99
Total	934,693	50,782	6,248	991,723

NOTES TO THE FINANCIAL STATEMENTS

24. 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 as at 31 December:

	2011							
	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 and forwards	18,484	-	-	18,484	(13,804)	-	-	(13,804)
Swaps	1,531	59	89	1,679	(1,553)	(100)	(150)	(1,803)
Foreign currency options								
- Options purchased	18	-	-	18	-	-	-	-
- Options written	-	-	-	-	(23)	-	-	(23)
	20,033	59	89	20,181	(15,380)	(100)	(150)	(15,630)
Interest rate contracts								
Futures	1	-	-	1	(1)	-	-	(1)
Swaps	2,695	2,946	-	5,641	(4,688)	(1,110)	(128)	(5,926)
Interest rate options								
- Swaptions purchased	1	-	-	1	-	-	-	-
- Swaptions written	-	-	-	-	(5)	-	-	(5)
	2,697	2,946	-	5,643	(4,694)	(1,110)	(128)	(5,932)
Bullion contracts	961	-	-	961	(717)	-	-	(717)
Equity contracts	2	-	-	2	(2)	-	-	(2)
Total	23,693	3,005	89	26,787	(20,793)	(1,210)	(278)	(22,281)

NOTES TO THE FINANCIAL STATEMENTS

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

	2010							
	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 and forwards	19,376	-	1	19,377	(14,673)	-	-	(14,673)
Swaps	843	56	63	962	(1,315)	(74)	(83)	(1,472)
Foreign currency options								
– Options purchased	11	-	-	11	-	-	-	-
– Options written	-	-	-	-	(12)	-	-	(12)
	20,230	56	64	20,350	(16,000)	(74)	(83)	(16,157)
Interest rate contracts								
Futures	-	-	-	-	(3)	-	-	(3)
Swaps	1,592	869	1	2,462	(2,339)	(1,842)	(114)	(4,295)
	1,592	869	1	2,462	(2,342)	(1,842)	(114)	(4,298)
Bullion contracts	1,040	-	-	1,040	(899)	-	-	(899)
Equity contracts	2	-	-	2	(1)	-	-	(1)
Total	22,864	925	65	23,854	(19,242)	(1,916)	(197)	(21,355)

The credit risk weighted amounts of the above derivative financial instruments are as follows:

	2011 HK\$m	2010 HK\$m
Exchange rate contracts		
Forwards	1,487	1,938
Swaps	1,325	1,365
Foreign currency options		
– Options purchased	2	-
Interest rate contracts		
Swaps	1,733	1,165
Bullion contracts	14	2
Equity contracts	5	-
	4,566	4,470

NOTES TO THE FINANCIAL STATEMENTS

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

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 Group adopted the FIRB approach in respect of banking operation to calculate credit risk exposures as at 31 December 2011, as opposed to the STC approach that was used as at 31 December 2010. As a result of the change in the basis used, the risk weighted amounts shown above are not directly comparable.

There is no effect of valid bilateral netting agreement on the fair values or the credit risk weighted amounts of the derivative financial instruments.

(b) Hedge accounting

The fair values of derivative financial instruments designated as hedging instruments as at 31 December are as follows:

	2011		2010	
	Assets HK\$m	Liabilities HK\$m	Assets HK\$m	Liabilities HK\$m
Fair value hedges	2,946	(1,110)	869	(1,842)
Cash flow hedges	59	(100)	56	(74)
	3,005	(1,210)	925	(1,916)

(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:

	2011		2010	
	Hedged assets HK\$m	Hedged liabilities HK\$m	Hedged assets HK\$m	Hedged liabilities HK\$m
Net loss				
– hedging instruments	(634)	2,064	(504)	348
– hedged items	589	(2,066)	474	(395)
	(45)	(2)	(30)	(47)

NOTES TO THE FINANCIAL STATEMENTS

24. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

(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 are no gains or losses on ineffective portion recognised in the income statement during the year (2010: Nil).

(iii) Hedges of net investments in foreign operations

As at 31 December 2011, a proportion of the Group's RMB-denominated deposits from customers of HK\$2,642 million (2010: HK\$2,525 million) are designated as a hedging instrument to hedge against the net investments in foreign operations.

There are no gains or losses on ineffective portion recognised in the income statement during the year (2010: Nil).

25. Advances and other accounts

	2011 HK\$m	2010 HK\$m
Personal loans and advances	215,715	187,000
Corporate loans and advances	483,664	426,219
Advances to customers*	699,379	613,219
Loan impairment allowances		
– Individually assessed	(259)	(326)
– Collectively assessed	(2,571)	(1,985)
	696,549	610,908
Trade bills	56,506	31,605
Advances to banks and other financial institutions	2,174	2,911
Total	755,229	645,424

As at 31 December 2011, advances to customers included accrued interest of HK\$1,305 million (2010: HK\$886 million).

As at 31 December 2011 and 2010, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

* Included advances to customers denominated in HK dollars of HK\$470,898 million (2010: HK\$415,585 million) and US dollars equivalent to HK\$179,888 million (2010: HK\$159,766 million).

NOTES TO THE FINANCIAL STATEMENTS

26. Loan impairment allowances

	2011		
	Individual assessment		
	Personal HK\$'m	Corporate HK\$'m	Total HK\$'m
At 1 January 2011	23	303	326
Credited to income statement (Note 11)	(2)	(313)	(315)
Loans written off during the year as uncollectible	(7)	(71)	(78)
Recoveries	14	313	327
Unwind of discount on impairment allowances	–	(3)	(3)
Exchange difference	–	2	2
At 31 December 2011	28	231	259

	2011		
	Collective assessment		
	Personal HK\$'m	Corporate HK\$'m	Total HK\$'m
At 1 January 2011	186	1,799	1,985
Charged to income statement (Note 11)	167	527	694
Loans written off during the year as uncollectible	(142)	(1)	(143)
Recoveries	26	–	26
Exchange difference	–	9	9
At 31 December 2011	237	2,334	2,571

NOTES TO THE FINANCIAL STATEMENTS

26. Loan impairment allowances (continued)

	2010		
	Individual assessment		
	Personal HK\$'m	Corporate HK\$'m	Total HK\$'m
At 1 January 2010	40	631	671
Credited to income statement (Note 11)	(21)	(544)	(565)
Loans written off during the year as uncollectible	(14)	(179)	(193)
Recoveries	18	398	416
Unwind of discount on impairment allowances	–	(6)	(6)
Exchange difference	–	3	3
At 31 December 2010	23	303	326

	2010		
	Collective assessment		
	Personal HK\$'m	Corporate HK\$'m	Total HK\$'m
At 1 January 2010	170	1,428	1,598
Charged to income statement (Note 11)	130	365	495
Loans written off during the year as uncollectible	(147)	(1)	(148)
Recoveries	33	–	33
Exchange difference	–	7	7
At 31 December 2010	186	1,799	1,985

NOTES TO THE FINANCIAL STATEMENTS

27. Investment in securities

	2011 HK\$'m	2010 HK\$'m
The Group		
(a) Available-for-sale securities		
Debt securities, at fair value		
– Listed in Hong Kong	9,614	10,176
– Listed outside Hong Kong	102,098	111,966
	111,712	122,142
– Unlisted	200,187	160,775
	311,899	282,917
Equity securities, at fair value		
– Listed in Hong Kong	3,660	2,971
– Listed outside Hong Kong	92	–
	3,752	2,971
– Unlisted	747	556
	4,499	3,527
	316,398	286,444
(b) Held-to-maturity securities		
Listed, at amortised cost		
– in Hong Kong	1,164	1,121
– outside Hong Kong	14,125	19,296
	15,289	20,417
Unlisted, at amortised cost	38,663	38,016
	53,952	58,433
Impairment allowances	(25)	(49)
	53,927	58,384
(c) Loans and receivables		
Unlisted, at amortised cost	6,673	15,356
Total	376,998	360,184
Market value of listed held-to-maturity securities	15,288	20,414
	2011 HK\$'m	2010 HK\$'m
The Company		
Available-for-sale securities		
Equity securities, at fair value		
– Listed in Hong Kong	2,506	2,775

NOTES TO THE FINANCIAL STATEMENTS

27. Investment in securities (continued)

Investment in securities is analysed by type of issuer as follows:

	2011			
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m	Total HK\$'m
The Group				
Sovereigns	104,799	20,882	–	125,681
Public sector entities*	36,458	6,509	–	42,967
Banks and other financial institutions	148,056	23,107	6,673	177,836
Corporate entities	27,085	3,429	–	30,514
	316,398	53,927	6,673	376,998

	2010			
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m	Total HK\$'m
The Group				
Sovereigns	73,394	10,507	–	83,901
Public sector entities*	32,975	7,741	–	40,716
Banks and other financial institutions	165,201	34,647	15,356	215,204
Corporate entities	14,874	5,489	–	20,363
	286,444	58,384	15,356	360,184

* Included available-for-sale securities of HK\$20,746 million (2010: HK\$15,973 million) and held-to-maturity securities of HK\$832 million (2010: HK\$822 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

As at 31 December 2011 and 2010, all of the available-for-sale securities held by the Company are issued by banks and other financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

27. Investment in securities (continued)

The movements in investment in securities are summarised as follows:

	2011		
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m
The Group			
At 1 January 2011	286,444	58,384	15,356
Additions	547,949	44,116	18,861
Disposals, redemptions and maturity	(518,880)	(49,523)	(26,852)
Amortisation	(640)	218	127
Change in fair value	41	–	–
Net charge of impairment allowances (Note 11)	–	(124)	–
Exchange difference	1,484	856	(819)
At 31 December 2011	316,398	53,927	6,673
	2010		
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m
The Group			
At 1 January 2010	228,613	72,439	12,703
Additions	347,376	36,909	16,530
Disposals, redemptions and maturity	(295,366)	(51,623)	(14,025)
Amortisation	66	(20)	134
Change in fair value	2,248	–	–
Net reversal of impairment allowances (Note 11)	–	46	–
Exchange difference	3,507	633	14
At 31 December 2010	286,444	58,384	15,356

NOTES TO THE FINANCIAL STATEMENTS

27. Investment in securities (continued)

	Available-for-sale securities	
	2011 HK\$'m	2010 HK\$'m
The Company		
At 1 January	2,775	2,630
Change in fair value	(269)	145
At 31 December	2,506	2,775

Available-for-sale and held-to-maturity securities are analysed as follows:

	Available-for-sale securities		Held-to-maturity securities	
	2011 HK\$'m	2010 HK\$'m	2011 HK\$'m	2010 HK\$'m
The Group				
Treasury bills	72,906	23,847	6,195	5,037
Certificates of deposit held	27,542	23,629	3,044	4,600
Others	215,950	238,968	44,688	48,747
	316,398	286,444	53,927	58,384

The movements in impairment allowances on held-to-maturity securities are summarised as follows:

	2011 HK\$'m	2010 HK\$'m
The Group		
At 1 January	49	112
Charged/(credited) to income statement (Note 11)	124	(46)
Disposals	(148)	(17)
At 31 December	25	49

NOTES TO THE FINANCIAL STATEMENTS

28. Investment in subsidiaries

	2011 HK\$'m	2010 HK\$'m
Unlisted shares, at cost	54,814	54,814

The particulars of all direct and indirect subsidiaries of the Company are set out in the Appendix of this Annual Report, "Subsidiaries of the Company". The following is a list of principal subsidiaries as at 31 December 2011:

Name	Place of incorporation and operation	Particulars of issued share capital	Interest held	Principal activities
Bank of China (Hong Kong) Limited	Hong Kong	43,042,840,858 ordinary shares of HK\$1 each	*100%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong	303,800,000 ordinary shares of HK\$10 each	*51%	Life insurance business
Nanyang Commercial Bank, Limited	Hong Kong	7,000,000 ordinary shares of HK\$100 each	100%	Banking business
Chiyu Banking Corporation Limited	Hong Kong	3,000,000 ordinary shares of HK\$100 each	70.49%	Banking business
BOC Credit Card (International) Limited	Hong Kong	4,800,000 ordinary shares of HK\$100 each	100%	Credit card services
Po Sang Futures Limited	Hong Kong	250,000 ordinary shares of HK\$100 each	100%	Commodities brokerage
Nanyang Commercial Bank (China), Limited	PRC	Registered capital RMB4,100,000,000	100%	Banking business

* Shares held directly by the Company

NOTES TO THE FINANCIAL STATEMENTS

29. Interests in associates

	2011 HK\$'m	2010 HK\$'m
At 1 January	212	217
Share of result	28	–
Share of tax	(5)	(2)
Dividend received	(1)	(3)
At 31 December	234	212

The Group's interests in its associates, all of which are unlisted, are as follows:

Name	Joint Electronic Teller Services Limited		BOC Services Company Limited		BOC Expresspay Company Limited	
	Hong Kong		PRC		PRC	
Place of incorporation	Hong Kong		PRC		PRC	
Particulars of issued share capital/registered capital	100,238 ordinary shares of HK\$100 each		Registered capital RMB50,000,000		Registered capital RMB450,000,000	
Principal activities	Operation of a private inter-bank message switching network in respect of ATM services		Credit card back-end service support		Prepay debit card services	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Assets	377,539	362,078	272,540	318,851	3,083,539	1,569,615
Liabilities	75,644	77,299	160,334	234,424	2,536,960	1,073,916
Revenues	70,075	66,044	827,296	562,586	36,220	4,959
Profit/(loss) after taxation	27,677	28,823	28,270	9,285	22,594	(33,788)
	2011	2010	2011	2010	2011	2010
Interest held	19.96%	19.96%	45.00%	45.00%	25.33%	25.33%

NOTES TO THE FINANCIAL STATEMENTS

30. Investment properties

	2011 HK\$'m	2010 HK\$'m
At 1 January	10,342	9,364
Additions	14	2
Disposals	(25)	(171)
Fair value gains (Note 13)	2,200	1,511
Reclassification to properties, plant and equipment (Note 31)	(92)	(365)
Exchange difference	2	1
At 31 December	12,441	10,342

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	2011 HK\$'m	2010 HK\$'m
Held in Hong Kong		
On long-term lease (over 50 years)	2,261	1,738
On medium-term lease (10 – 50 years)	9,944	8,398
Held outside Hong Kong		
On long-term lease (over 50 years)	2	6
On medium-term lease (10 – 50 years)	234	200
	12,441	10,342

As at 31 December 2011, investment properties are included in the consolidated balance sheet at valuation carried out at 31 December 2011 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 estimated amount at which the asset should be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

NOTES TO THE FINANCIAL STATEMENTS

31. Properties, plant and equipment

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Net book value at 1 January 2011	28,581	2,468	31,049
Additions	83	827	910
Disposals	(95)	(33)	(128)
Revaluation	8,989	–	8,989
Depreciation for the year (Note 12)	(610)	(667)	(1,277)
Reclassification from investment properties (Note 30)	92	–	92
Exchange difference	9	6	15
Net book value at 31 December 2011	37,049	2,601	39,650
At 31 December 2011			
Cost or valuation	37,049	7,414	44,463
Accumulated depreciation and impairment	–	(4,813)	(4,813)
Net book value at 31 December 2011	37,049	2,601	39,650
Net book value at 1 January 2010	23,701	2,585	26,286
Additions	92	596	688
Disposals	(106)	(11)	(117)
Revaluation	4,946	–	4,946
Depreciation for the year (Note 12)	(484)	(647)	(1,131)
Reclassification from/(to) investment properties (Note 30)	378	(13)	365
Transfer	47	(47)	–
Exchange difference	7	5	12
Net book value at 31 December 2010	28,581	2,468	31,049
At 31 December 2010			
Cost or valuation	28,581	6,859	35,440
Accumulated depreciation and impairment	–	(4,391)	(4,391)
Net book value at 31 December 2010	28,581	2,468	31,049

NOTES TO THE FINANCIAL STATEMENTS

31. Properties, plant and equipment (continued)

The analysis of cost or valuation of the above assets is as follows:

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
At 31 December 2011			
At cost	–	7,414	7,414
At valuation	37,049	–	37,049
	37,049	7,414	44,463
At 31 December 2010			
At cost	–	6,859	6,859
At valuation	28,581	–	28,581
	28,581	6,859	35,440

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

	2011 HK\$'m	2010 HK\$'m
Held in Hong Kong		
On long-term lease (over 50 years)	12,792	9,869
On medium-term lease (10 – 50 years)	23,819	18,288
Held outside Hong Kong		
On long-term lease (over 50 years)	102	94
On medium-term lease (10 – 50 years)	321	299
On short-term lease (less than 10 years)	15	31
	37,049	28,581

As at 31 December 2011, premises are included in the consolidated balance sheet at valuation carried out at 31 December 2011 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 estimated amount at which the asset should be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

NOTES TO THE FINANCIAL STATEMENTS

31. Properties, plant and equipment (continued)

As a result of the above-mentioned revaluations, changes in value of the Group's premises were recognised in the Group's premises revaluation reserve, the income statement and non-controlling interests as follows:

	2011 HK\$m	2010 HK\$m
Increase in valuation credited to premises revaluation reserve	8,918	4,905
Increase in valuation credited to income statement (Note 14)	–	4
Increase in valuation credited to non-controlling interests	71	37
	8,989	4,946

As at 31 December 2011, the net book value of premises that would have been included in the Group's consolidated balance sheet had the assets been carried at cost less accumulated depreciation and impairment losses was HK\$6,666 million (2010: HK\$6,663 million).

32. Other assets

	2011 HK\$m	2010 HK\$m
Repossessed assets	13	81
Precious metals	5,260	3,664
Reinsurance assets	9,022	2,158
Accounts receivable and prepayments	11,469	11,738
	25,764	17,641

33. 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.

NOTES TO THE FINANCIAL STATEMENTS

34. Financial liabilities at fair value through profit or loss

	2011 HK\$'m	2010 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	2,598	25,259
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 35)	639	234
	3,237	25,493

The carrying amount of financial liabilities designated at fair value through profit or loss as at 31 December 2011 is more than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$1 million (2010: HK\$2 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 credit risk is insignificant.

35. Deposits from customers

	2011 HK\$'m	2010 HK\$'m
Current, savings and other deposit accounts (per consolidated balance sheet)	1,145,951	1,027,033
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 34)	639	234
	1,146,590	1,027,267
Analysed by:		
Demand deposits and current accounts		
– corporate	62,847	54,660
– personal	14,593	15,793
	77,440	70,453
Savings deposits		
– corporate	162,672	158,284
– personal	342,196	369,751
	504,868	528,035
Time, call and notice deposits		
– corporate	334,581	235,283
– personal	229,701	193,496
	564,282	428,779
	1,146,590	1,027,267

NOTES TO THE FINANCIAL STATEMENTS

36. Debt securities in issue at amortised cost

	2011 HK\$'m	2010 HK\$'m
Senior notes under the Medium Term Note Programme	5,856	–
Other debt securities	129	–
	5,985	–

37. Other accounts and provisions

	2011 HK\$'m	2010 HK\$'m
Other accounts payable	41,445	35,284
Provisions	366	196
	41,811	35,480

38. Assets pledged as security

As at 31 December 2011, liabilities of the Group amounting to HK\$4,614 million (2010: HK\$23,832 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$2,005 million (2010: HK\$14,071 million) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK\$6,643 million (2010: HK\$37,932 million) included in "Trading securities" and "Available-for-sale securities".

NOTES TO THE FINANCIAL STATEMENTS

39. 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 in accordance with HKAS 12 "Income Taxes".

The major components of deferred tax (assets)/liabilities recorded in the consolidated balance sheet, and the movements during the year are as follows:

	2011					
	Accelerated tax depreciation HK\$'m	Property revaluation HK\$'m	Losses HK\$'m	Impairment allowance HK\$'m	Other temporary differences HK\$'m	Total HK\$'m
At 1 January 2011	535	3,881	(124)	(333)	90	4,049
Charged/(credited) to income statement (Note 15)	12	(5)	(7)	(116)	(43)	(159)
Charged/(credited) to other comprehensive income	-	1,422	-	-	(156)	1,266
Exchange difference	-	1	-	(2)	-	(1)
At 31 December 2011	547	5,299	(131)	(451)	(109)	5,155

	2010					
	Accelerated tax depreciation HK\$'m	Property revaluation HK\$'m	Losses HK\$'m	Impairment allowance HK\$'m	Other temporary differences HK\$'m	Total HK\$'m
At 1 January 2010	529	3,090	(139)	(274)	(44)	3,162
Charged/(credited) to income statement (Note 15)	6	1	15	(57)	5	(30)
Charged to other comprehensive income	-	788	-	-	129	917
Exchange difference	-	2	-	(2)	-	-
At 31 December 2010	535	3,881	(124)	(333)	90	4,049

NOTES TO THE FINANCIAL STATEMENTS

39. 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 consolidated balance sheet:

	2011 HK\$'m	2010 HK\$'m
Deferred tax assets	(210)	(157)
Deferred tax liabilities	5,365	4,206
	5,155	4,049

	2011 HK\$'m	2010 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(141)	(106)
Deferred tax liabilities to be settled after more than twelve months	5,421	4,085
	5,280	3,979

As at 31 December 2011, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK\$1,264 million (2010: HK\$1,208 million) which is considered unlikely to be utilised. These tax losses do not expire under the current tax legislation.

40. Insurance contract liabilities

	2011 HK\$'m	2010 HK\$'m
At 1 January	39,807	33,408
Benefits paid	(6,037)	(3,366)
Claims incurred and movement in liabilities	13,450	9,765
At 31 December	47,220	39,807

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK\$9,012 million (2010: HK\$2,053 million) and the associated reinsurance assets of HK\$9,022 million (2010: HK\$2,158 million) are included in "Other assets" (Note 32).

NOTES TO THE FINANCIAL STATEMENTS

41. Subordinated liabilities

	2011 HK\$'m	2010 HK\$'m
Subordinated loans, at amortised cost EUR660m*	6,625	6,848
Subordinated notes, at amortised cost with fair value hedge adjustment USD2,500m**	22,031	20,029
Total	28,656	26,877

In 2008, BOCHK obtained floating-rate subordinated loans from BOC, the intermediate holding company of the Group. The subordinated loans are repayable prior to maturity after the first 5-year tenure at the option of the borrower. In 2010, BOCHK issued listed subordinated notes with an aggregate amount of USD2,500 million.

Amounts qualified as supplementary capital for regulatory purposes are shown in Note 4.5(B).

* Interest rate at 6-month EURIBOR plus 0.85% for the first 5 years, 6-month EURIBOR plus 1.35% for the remaining tenure payable semi-annually, due June 2018.

** Interest rate at 5.55% per annum payable semi-annually, due February 2020.

42. Share capital

	2011 HK\$'m	2010 HK\$'m
Authorised: 20,000,000,000 ordinary shares of HK\$5 each	100,000	100,000
Issued and fully paid: 10,572,780,266 ordinary shares of HK\$5 each	52,864	52,864

43. Reserves

The Group's and the Company's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity and statement of changes in equity respectively on pages 107 to 108 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

44. Notes to consolidated cash flow statement

(a) Reconciliation of operating profit to operating cash (outflow)/inflow before taxation

	2011 HK\$m	2010 HK\$m
Operating profit	22,478	18,239
Depreciation	1,277	1,131
Net charge/(reversal) of impairment allowances	506	(315)
Unwind of discount on impairment allowances	(3)	(6)
Advances written off net of recoveries	132	108
Change in subordinated liabilities	2,409	629
Change in balances with banks and other financial institutions with original maturity over three months	(5,315)	10,574
Change in placements with banks and other financial institutions with original maturity over three months	(66,391)	18,982
Change in financial assets at fair value through profit or loss	11,924	(22,892)
Change in derivative financial instruments	(2,007)	1,118
Change in advances and other accounts	(110,324)	(118,331)
Change in investment in securities	25,445	(47,541)
Change in other assets	(8,133)	(3,323)
Change in deposits and balances from banks and other financial institutions	(77,090)	214,137
Change in financial liabilities at fair value through profit or loss	(22,256)	9,205
Change in deposits from customers	118,918	184,712
Change in debt securities in issue at amortised cost	5,985	–
Change in other accounts and provisions	6,331	5,550
Change in insurance contract liabilities	7,413	6,399
Effect of changes in exchange rates	(14,028)	(10,149)
Operating cash (outflow)/inflow before taxation	(102,729)	268,227
Cash flows from operating activities included:		
– Interest received	30,089	22,635
– Interest paid	8,404	3,685
– Dividend received	120	97

Certain comparative figures have been revised to conform with the current year's presentation. The effect of exchange rate changes on cash and cash equivalents has also been separately presented on the consolidated cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS

44. Notes to consolidated cash flow statement (continued)

(b) Analysis of the balances of cash and cash equivalents

	2011 HK\$'m	2010 HK\$'m
Cash and balances with banks and other financial institutions with original maturity within three months	267,152	409,484
Placements with banks and other financial institutions with original maturity within three months	15,571	13,551
Treasury bills with original maturity within three months	54,544	23,644
Certificates of deposit held with original maturity within three months	3,179	–
	340,446	446,679

45. Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the corresponding aggregate credit risk weighted amount:

	2011 HK\$'m	2010 HK\$'m
Direct credit substitutes	8,124	5,619
Transaction-related contingencies	11,871	7,262
Trade-related contingencies	50,422	42,691
Commitments that are unconditionally cancellable without prior notice	263,246	216,626
Other commitments with an original maturity of		
– up to one year	11,506	15,470
– over one year	45,016	49,042
	390,185	336,710
Credit risk weighted amount	41,502	38,282

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.

The Group adopted the FIRB approach in respect of banking operation to calculate credit risk exposures as at 31 December 2011, as opposed to the STC approach that was used as at 31 December 2010. As a result of the change in the basis used, the risk weighted amounts shown above are not directly comparable.

NOTES TO THE FINANCIAL STATEMENTS

46. Capital commitments

The Group has the following outstanding capital commitments not provided for in the financial statements:

	2011 HK\$'m	2010 HK\$'m
Authorised and contracted for but not provided for	244	169
Authorised but not contracted for	8	12
	252	181

The above capital commitments mainly relate to commitments to purchase computer equipment and software, and to renovate the Group's premises.

47. Operating lease commitments

(a) *The Group as lessee*

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	2011 HK\$'m	2010 HK\$'m
Land and buildings		
– not later than one year	598	474
– later than one year but not later than five years	1,050	547
– later than five years	299	22
	1,947	1,043

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.

(b) *The Group as lessor*

The Group has contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

	2011 HK\$'m	2010 HK\$'m
Land and buildings		
– not later than one year	377	309
– later than one year but not later than five years	441	594
	818	903

The Group leases its investment properties (Note 30) 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 periodic rent adjustments according to the prevailing market conditions. None of the leases include contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS

48. Litigation

The Group is currently being 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.

49. 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 business segments are identified which are 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, etc. Personal Banking mainly serves retail customers 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 shows business relates to the long-term life insurance products, including traditional and investment-linked individual life insurance and group life insurance products. "Others" mainly represents Group's holdings of premises, investment properties, equity investments and interests in associates.

As the Group's major revenue is derived from interest and the senior management relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments will be presented on a net basis. The senior management also relies primarily on net insurance premium income and benefits and claims to assess the performance of the Insurance segment.

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.

In 2011, a more comprehensive cost allocation mechanism was adopted. No revision has been made to the comparative figures of last year. However, if the same mechanism is applied last year, it is estimated that the operating expenses of Personal Banking, Corporate Banking, Treasury and Others would be HK\$5,497 million, HK\$2,763 million, HK\$802 million, and HK\$1,273 million respectively.

NOTES TO THE FINANCIAL STATEMENTS

49. Segmental reporting (continued)

	2011							
	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
Net interest income/(expense)								
– external	1,386	6,901	11,991	1,697	4	21,979	–	21,979
– inter-segment	4,378	1,757	(5,978)	–	(157)	–	–	–
	5,764	8,658	6,013	1,697	(153)	21,979	–	21,979
Net fee and commission income	4,485	3,015	205	78	143	7,926	(93)	7,833
Net insurance premium income	–	–	–	5,696	–	5,696	(13)	5,683
Net trading gain/(loss)	583	298	724	136	(31)	1,710	–	1,710
Net loss on financial instruments designated at fair value through profit or loss	–	–	(4)	(339)	–	(343)	3	(340)
Net (loss)/gain on other financial assets	(2)	(29)	437	(22)	(76)	308	–	308
Other operating income	36	1	1	15	1,341	1,394	(869)	525
Total operating income	10,866	11,943	7,376	7,261	1,224	38,670	(972)	37,698
Net insurance benefits and claims	–	–	–	(6,852)	–	(6,852)	–	(6,852)
Net operating income before impairment allowances	10,866	11,943	7,376	409	1,224	31,818	(972)	30,846
Net (charge)/reversal of impairment allowances	(176)	(213)	50	(167)	–	(506)	–	(506)
Net operating income	10,690	11,730	7,426	242	1,224	31,312	(972)	30,340
Operating expenses	(5,787)	(3,085)	(911)	(209)	1,158	(8,834)	972	(7,862)
Operating profit	4,903	8,645	6,515	33	2,382	22,478	–	22,478
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	2,213	2,213	–	2,213
Net loss from disposal/revaluation of properties, plant and equipment	(7)	(9)	–	–	(18)	(34)	–	(34)
Share of profits less losses after tax of associates	–	–	–	–	23	23	–	23
Profit before taxation	4,896	8,636	6,515	33	4,600	24,680	–	24,680
Assets								
Segment assets	241,275	536,091	860,848	57,299	61,099	1,756,612	(18,336)	1,738,276
Interests in associates	–	–	–	–	234	234	–	234
	241,275	536,091	860,848	57,299	61,333	1,756,846	(18,336)	1,738,510
Liabilities								
Segment liabilities	676,928	507,852	368,709	54,282	15,892	1,623,663	(18,336)	1,605,327
Other information								
Capital expenditure	26	4	–	20	874	924	–	924
Depreciation	317	153	59	5	743	1,277	–	1,277
Amortisation of securities	–	–	(294)	(1)	–	(295)	–	(295)

NOTES TO THE FINANCIAL STATEMENTS

49. Segmental reporting (continued)

	2010							
	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
Net interest income/(expense)								
– external	2,377	6,738	8,130	1,491	(2)	18,734	–	18,734
– inter-segment	3,608	(104)	(3,423)	–	(81)	–	–	–
	5,985	6,634	4,707	1,491	(83)	18,734	–	18,734
Net fee and commission income/(expense)	4,626	2,568	46	(227)	143	7,156	(112)	7,044
Net insurance premium income	–	–	–	6,490	–	6,490	(6)	6,484
Net trading gain/(loss)	495	163	611	171	(70)	1,370	(1)	1,369
Net gain on financial instruments designated at fair value through profit or loss	–	–	44	698	–	742	–	742
Net gain on other financial assets	–	–	533	123	–	656	–	656
Other operating income	35	(5)	–	13	1,956	1,999	(1,532)	467
Total operating income	11,141	9,360	5,941	8,759	1,946	37,147	(1,651)	35,496
Net insurance benefits and claims	–	–	–	(7,988)	–	(7,988)	–	(7,988)
Net operating income before impairment allowances	11,141	9,360	5,941	771	1,946	29,159	(1,651)	27,508
Net (charge)/reversal of impairment allowances	(108)	169	307	(53)	–	315	–	315
Net operating income	11,033	9,529	6,248	718	1,946	29,474	(1,651)	27,823
Operating expenses	(6,369)	(2,568)	(785)	(213)	(1,300)	(11,235)	1,651	(9,584)
Operating profit	4,664	6,961	5,463	505	646	18,239	–	18,239
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	1,511	1,511	–	1,511
Net (loss)/gain from disposal/ revaluation of properties, plant and equipment	(8)	–	–	–	2	(6)	–	(6)
Share of profits less losses after tax of associates	–	–	–	–	(2)	(2)	–	(2)
Profit before taxation	4,656	6,961	5,463	505	2,157	19,742	–	19,742
Assets								
Segment assets	210,978	458,928	910,772	48,195	50,650	1,679,523	(18,695)	1,660,828
Interests in associates	–	–	–	–	212	212	–	212
	210,978	458,928	910,772	48,195	50,862	1,679,735	(18,695)	1,661,040
Liabilities								
Segment liabilities	657,605	407,328	437,174	45,149	14,190	1,561,446	(18,695)	1,542,751
Other information								
Capital expenditure	11	4	–	7	668	690	–	690
Depreciation	298	149	85	4	595	1,131	–	1,131
Amortisation of securities	–	–	106	74	–	180	–	180

NOTES TO THE FINANCIAL STATEMENTS

50. Loans to directors and officers

Particulars of advances made to directors and officers of the Company pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	2011 HK\$'m	2010 HK\$'m
Aggregate amount of relevant transactions outstanding at year end	4,015	3,492
Maximum aggregate amount of relevant transactions outstanding during the year	4,572	3,878

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.

(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.

(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 and 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, purchase, 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.

NOTES TO THE FINANCIAL STATEMENTS

51. Significant related party transactions (continued)

(c) Summary of transactions entered into during the ordinary course of business with associates and other related parties

The aggregate income and expenses arising from related party transactions with associates and other related parties of the Group are summarised as follows:

	2011		2010	
	Associates HK\$m	Other related parties HK\$m	Associates HK\$m	Other related parties HK\$m
Income statement items:				
Administrative services fees received/receivable	–	8	–	8
Balance sheet items:				
Deposits from customers	173	–	157	–
Off-balance sheet items:				
Contingent liabilities and commitments	20	–	20	–

(d) Key management personnel

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and senior management. 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 BOCHK, its holding companies and parties related to them.

The key management compensation for the year ended 31 December is detailed as follows:

	2011 HK\$m	2010 HK\$m
Salaries and other short-term employee benefits	66	59
Post-employment benefits	1	1
	67	60

NOTES TO THE FINANCIAL STATEMENTS

52. Currency concentrations

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions and is prepared with reference to the Completion Instructions for the prudential return "Foreign Currency Position of an Authorized Institution" issued by the HKMA. The net options position is calculated based on the basis of delta-weighted positions of all foreign exchange options contracts.

	2011							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Australian Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	451,222	51,268	18,271	32,826	6,108	449,786	16,695	1,026,176
Spot liabilities	(339,118)	(2,921)	(21,407)	(26,183)	(15,738)	(436,987)	(25,490)	(867,844)
Forward purchases	331,290	30,300	30,439	28,440	23,152	126,276	35,522	605,419
Forward sales	(438,296)	(78,706)	(27,604)	(35,125)	(13,500)	(132,354)	(26,524)	(752,109)
Net options position	441	–	(1)	(15)	(11)	(2)	(14)	398
Net long/(short) position	5,539	(59)	(302)	(57)	11	6,719	189	12,040
Net structural position	315	–	–	–	–	5,261	–	5,576

	2010							
	Equivalent in million of HK\$							
	US Dollars	Japanese Yen	Australian Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	454,733	8,486	33,414	46,818	4,366	434,077	15,517	997,411
Spot liabilities	(281,774)	(2,250)	(23,881)	(37,113)	(17,865)	(412,948)	(22,109)	(797,940)
Forward purchases	250,546	28,083	20,996	22,732	32,637	91,295	34,530	480,819
Forward sales	(417,632)	(34,375)	(30,466)	(32,549)	(19,273)	(109,072)	(27,925)	(671,292)
Net options position	262	1	3	(19)	(7)	–	15	255
Net long/(short) position	6,135	(55)	66	(131)	(142)	3,352	28	9,253
Net structural position	296	–	–	–	–	3,309	–	3,605

NOTES TO THE FINANCIAL STATEMENTS

53. Cross-border claims

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty, or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are analysed by geographical areas and disclosed as follows:

	2011			
	Banks HK\$'m	Public sector entities* HK\$'m	Others HK\$'m	Total HK\$'m
Asia, other than Hong Kong				
– Mainland China	246,133	171,336	111,932	529,401
– Others	58,475	52,622	24,026	135,123
	304,608	223,958	135,958	664,524
North America				
– United States	10,389	42,037	29,949	82,375
– Others	13,590	1,739	245	15,574
	23,979	43,776	30,194	97,949
Western Europe				
– United Kingdom	19,533	2,043	2,390	23,966
– Others	31,341	15,567	4,773	51,681
	50,874	17,610	7,163	75,647
Total	379,461	285,344	173,315	838,120

	2010			
	Banks HK\$'m	Public sector entities* HK\$'m	Others HK\$'m	Total HK\$'m
Asia, other than Hong Kong				
– Mainland China	155,935	347,683	87,066	590,684
– Others	51,481	12,405	27,333	91,219
	207,416	360,088	114,399	681,903
North America				
– United States	5,653	51,303	30,968	87,924
– Others	8,761	3,438	125	12,324
	14,414	54,741	31,093	100,248
Western Europe				
– United Kingdom	29,834	2,722	1,246	33,802
– Others	56,616	14,083	4,989	75,688
	86,450	16,805	6,235	109,490
Total	308,280	431,634	151,727	891,641

* Included United States of HK\$8,937 million (2010: HK\$7,334 million), other countries in North America of HK\$1,704 million (2010: HK\$3,405 million) and other countries in Western Europe of HK\$10,140 million (2010: HK\$5,026 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

NOTES TO THE FINANCIAL STATEMENTS

54. Non-bank Mainland China exposures

Non-bank counterparties are identified in accordance with the definitions set out in the prudential return “Quarterly Analysis of Loans and Advances and Provisions” issued by the HKMA. Exposures in Mainland China arising from non-bank counterparties are summarised as follows:

	2011			
	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m	Individually assessed impairment allowances HK\$'m
Mainland China entities	234,738	56,381	291,119	34
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	40,038	17,964	58,002	14
Other non-bank Mainland China exposures	27,294	2,542	29,836	44
	302,070	76,887	378,957	92

	2010			
	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m	Individually assessed impairment allowances HK\$'m
Mainland China entities	185,309	48,278	233,587	59
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	25,600	11,827	37,427	18
Other non-bank Mainland China exposures	25,545	3,907	29,452	43
	236,454	64,012	300,466	120

During the year, the basis of the above analyses has been refined and the comparative amounts have been reclassified accordingly.

55. 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.

56. Comparative amounts

Certain comparative amounts have been reclassified to conform with the current year’s presentation.

57. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2012.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1. Capital charge 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 in this Annual Report.

As a result of the change in the bases of regulatory capital calculation, the amounts shown below are not directly comparable.

The financial information contained in these supplementary notes has been prepared on a consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules. Subsidiaries that are not included in the consolidation for regulatory purposes in respect of calculation of capital adequacy ratio are denoted in "Appendix – Subsidiaries of the Company" on pages 265 to 268.

The table below summarises the capital requirements and capital charge calculated by applying 8% on the risk-weighted amounts, computed on the same consolidation basis for credit, market, and operational risks.

	2011 HK\$m	2010 HK\$m
Credit risk	46,341	51,859
Market risk	1,625	1,466
Operational risk	4,065	3,832
	52,031	57,157

For detail of capital management and capital adequacy ratio of the Group, please refer to Note 4.5 to the Financial Statements in this Annual Report.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2. Capital requirements for credit risk

The table below shows the capital requirements for credit risk for each class and subclass of exposures as specified in the Banking (Capital) Rules.

	2011 HK\$'m	2010 HK\$'m
Capital required for exposures under the IRB approach		
Corporate		
Specialised lending under supervisory slotting criteria approach		
– Project finance	223	–
Small-and-medium sized corporate	3,625	–
Other corporates	24,054	–
Bank		
Banks	9,913	–
Securities firms	7	–
Retail		
Residential mortgages		
– Individuals	702	–
– Property-holding shell companies	46	–
Qualifying revolving retail	779	–
Small business retail	86	–
Other retail to individuals	409	–
Others		
Cash items	–	–
Other items	4,870	–
Securitisation	22	–
Total capital requirements for exposures under the IRB approach	44,736	–
Capital required for exposures under the standardised (credit risk) approach		
On-balance sheet exposures		
Sovereign	94	118
Public sector entity	36	320
Multilateral development bank	–	–
Bank	3	8,620
Securities firm	–	17
Corporate	779	28,628
Regulatory retail	271	1,762
Residential mortgage loans	173	5,213
Other exposures which are not past due	76	3,646
Past due exposures	2	45
Off-balance sheet exposures		
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	162	3,063
OTC derivative transactions	9	356
Securitisation	–	71
Total capital requirements for exposures under the standardised (credit risk) approach	1,605	51,859
Total capital requirements for credit risk exposures	46,341	51,859

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

3. Credit risk under the internal ratings-based approach

3.1 The internal rating systems and risk components

The Group adopts the foundation internal ratings-based approach (“FIRB”) 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 different capital calculation approaches to each asset class.

Classes and sub-classes of exposures by capital calculation approach are as below:

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 corporate	FIRB Approach
	Other corporate	FIRB Approach
Sovereign exposures	Sovereigns	Standardised (credit risk) Approach
	Sovereign foreign public sector entities	
	Multilateral development banks	
Bank exposures	Banks	FIRB Approach
	Securities firms	FIRB Approach
	Public sector entities (excluding sovereign foreign public sectors entities)	Standardised (credit risk) Approach
Retail exposures	Residential mortgages to individuals	Retail IRB Approach
	Residential mortgages to property-holding shell companies	
	Qualifying revolving retail	
	Small business retail	
	Other retail to individuals	
Equity exposures		Standardised (credit risk) Approach
Other exposures	Cash items	Specific Risk-weight Approach
	Other items	

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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 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 reflects exclusively the risk of borrower default and the facility rating reflects transaction specific factors that affect the loss severity in the case of borrower default. Expected Losses are also calculated in the retail IRB portfolios to reflect the risk of loss in credit transactions.

The corporate and bank borrowers are assigned into eight broad obligor ratings including seven grades for non-defaulted obligors with sub-divisions into 26 minor credit grades and one grade for defaulted obligors. All credit transactions for corporates and banks are assigned into 21 facility grades. 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 Group uses internal rating system to assess the borrower's likelihood of default for all IRB portfolios. Probability of default ("PD") is measured to reflect the risk of borrower default over a one-year period. A borrower rating means a category of credit-worthiness to which borrowers are assigned on the basis of a specified and distinct set of rating criteria, from which estimates of PD are derived.

In the process of obligor rating assignment, variables of latest financial performance, management quality, industry risks and group connection of each obligor are assessed as critical factors to predict borrower's ability and willingness to meet with the contractually obligations under different economic conditions. The internal rating tools employ statistical and analytical techniques for the final rating assignment.

The Group developed statistical models to provide own estimated PD, loss given default ("LGD") and exposure at default ("EAD") 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. The PD reflects the risk of borrower default over a one-year period, while the EAD and LGD estimates reflect the loss severity of its credit exposures. Each of retail exposures is pooled by nature of obligors, facility types, collateral types and delinquency status. This grouping process provides the basis of accurate and consistent estimation for PD, LGD and EAD at the pool level.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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	1A	The obligors in grades 1A, 2A, 2B and 2C have extremely low default risk.	AAA
2	2A	The obligor's capacity to meet its financial commitment on the obligation is extremely strong.	AA+
	2B		AA
	2C		AA-
3	3A	The obligors in grades 3A, 3B and 3C have low default risk but are somewhat susceptible to the adverse effects of changes in circumstances and economic conditions.	A+
	3B		A
	3C	However, the obligor's capacity to meet its financial commitment on the obligation is very strong.	A-
4	4A	The obligors in grades 4A, 4B and 4C have relatively low default risk and are currently under adequate protection.	BBB+
	4B		BBB
	4C	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-
5	5A	The obligors in grades 5A, 5B, 5C, 5D, 5E and 5F 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+
	5B		BB+
	5C		BB
	5D		BB
	5E		BB-
	5F		BB-
6	6A	The obligors in grades 6A, 6B, 6C, 6D, 6E, 6F and 6G have high default risk and are vulnerable to nonpayment.	B+
	6B		B+
	6C	The obligors currently 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
	6D		B
	6E		B-
	6F		B-
	6G		B-
7	7A	The obligors in grades 7A, 7B and 7C 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, or 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
	7B		CC
	7C		C
8	8	Obligors rated "8" are in payment default.	D

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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

The estimates of risk components derived from applying the IRB approach are not only used in the calculation of regulatory capital, but also in many other areas including credit approval, credit monitoring, reporting and analysis of credit risk information, etc.

(C) Process of managing and recognising credit risk mitigation

For those collaterals 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 credit exposures adopting FIRB approach for capital calculation purpose, the recognised eligible guarantees include the guarantees provided by banks and securities firms with a lower risk weights than the counterparty, and corporate with internal credit ratings which is equivalent to external credit rating A- or above. The Group takes into account the credit risk mitigation effect of recognised collaterals 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 collaterals 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, the Group has not used any recognised credit derivative contracts, on- or off-balance sheet recognised netting for credit risk mitigation yet.

(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 estimation processes for the risk components.

All of IRB risk measurement models are approved by RC of the Board at the recommendation of the Group's designated Basel II Implementation Steering Committee ("SC"). The SC supervises the use of these internal rating models for risk identification and assessments in the Bank's day-to-day credit decisions.

To achieve reasonably accurate risk ratings assignment, the Group has established the rating approval process which is independent from the sales and marketing units. Since the internal ratings is one of the key inputs to the making of credit decisions, a control mechanism is in place to ensure the integrity, accuracy and consistency of the rating assignment. For the wholesale (corporate and bank) portfolio, internal ratings are normally approved by credit officers who are functionally separated from sales and marketing units. In some cases where the transactions are small amount or low risk, ratings can be assigned and approved by staff within the sales and marketing units subject to post-approval review of ratings by Credit Risk Management Unit.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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)

The rating assignment and risk quantification process of retail portfolio is highly automated. As an integral part of the daily credit assessment process, the accuracy and completeness of the data input for automatic rating assignment is verified by units independent from business development function.

The performance of internal rating system is 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 (including model maintenance unit and validation unit) and internal audit. 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 based on both qualitative and quantitative analysis. Model acceptance standards are established to ensure the discriminatory power, accuracy and stability of the rating systems. Reviews of rating models are triggered if the performance of a model deteriorates materially against predetermined tolerant limits.

The obligor rating assignment 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 process is designed to allow the credit analyst to include any other relevant credit information that has not yet been captured in the rating process. The overrides are unlimited in terms of downgrades, for reasons of conservatism and prudential consideration. Overrides to better grades (upgrades) are, however, more confined. All upgrades will be limited to a maximum of two sub-grades with 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 maximum limit of 10% of rating cases for overrides. The use of overrides and override reasons are analysed as part of rating system performance review.

(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 in this Annual Report.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

3. Credit risk under the internal ratings-based approach (continued)

3.2 Exposures by IRB calculation approach

The table below shows 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.

	2011				
	Foundation IRB 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	540,672	2,875	–	–	543,547
Bank	438,956	–	–	–	438,956
Retail					
Residential mortgages to individuals and property-holding shell companies	–	–	193,566	–	193,566
Qualifying revolving retail exposures	–	–	50,856	–	50,856
Other retail exposures to individuals and small business retail exposures	–	–	30,899	–	30,899
Others	–	–	–	133,623	133,623
Total	979,628	2,875	275,321	133,623	1,391,447

3.3 Exposures subject to supervisory estimates under the IRB approach

By definition, amounts reported under the supervisory slotting criteria approach continue to be subject to supervisory estimates. The table below shows the total EAD of the Group's exposures subject to supervisory estimates under the use of IRB approach.

	2011 HK\$m
Corporate	543,547
Bank	438,956
Others	133,623
	1,116,126

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

3. Credit risk under the internal ratings-based approach (continued)

3.4 Exposures by credit risk mitigation used

(A) Exposures covered by recognised collateral

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 collateral after the application of haircuts required under the Banking (Capital) Rules. These exposures exclude OTC derivative transactions and repo-style transactions.

	2011 HK\$m
Corporate	89,764
Bank	318
Others	–
	90,082

(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 OTC derivative transactions and repo-style transactions.

	2011 HK\$m
Corporate	18,660
Bank	20,360
Retail	–
Others	–
	39,020

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 2011.

The EAD and PD disclosed below in respect of corporate and bank exposures have taken into account the effect of recognised netting and recognised guarantees.

For definition of each obligor grade, please refer to page 242.

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3. Credit risk under the internal ratings-based approach (continued)

3.5 Risk assessment for corporate and bank exposures under IRB approach (continued)

(A) Corporate exposures (other than specialised lending under supervisory slotting criteria approach)

Internal Credit Grades	2011		
	Exposure at default HK\$'m	Exposure-weighted average risk-weight %	Exposure-weighted average PD %
Grade 1	–	–	–
Grade 2	17,031	15.25	0.03
Grade 3	145,987	24.55	0.07
Grade 4	128,251	43.87	0.25
Grade 5	183,532	82.03	1.23
Grade 6	62,308	118.60	5.34
Grade 7	2,982	205.70	21.13
Grade 8/Default	581	193.31	100.00
	540,672		

(B) Corporate exposures (specialised lending under supervisory slotting criteria approach)

Supervisory Rating Grades	2011	
	Exposure at default HK\$'m	Exposure-weighted average risk-weight %
Strong	243	70.00
Good	2,001	83.13
Satisfactory	577	115.00
Weak	54	250.00
Default	–	–
	2,875	

The supervisory rating grades and risk-weights of specialised lending are determined in accordance with section 158 of the Banking (Capital) Rules.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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

Internal Credit Grades	2011		
	Exposure at default HK\$'m	Exposure-weighted average risk-weight %	Exposure-weighted average PD %
Grade 1	–	–	–
Grade 2	56,964	16.54	0.04
Grade 3	296,602	23.87	0.07
Grade 4	81,028	41.91	0.20
Grade 5	4,348	64.55	0.75
Grade 6	14	23.68	7.46
Grade 7	–	–	–
Grade 8/Default	–	–	–
	438,956		

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 2011.

Residential mortgages

	2011 HK\$'m
Up to 1%	192,602
>1%	850
Default	114
	193,566

Qualifying revolving retail

	2011 HK\$'m
Up to 10%	50,218
>10%	620
Default	18
	50,856

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

3. Credit risk under the internal ratings-based approach (continued)

3.6 Risk assessment for retail exposures under IRB approach (continued)

Other retail

	2011 HK\$'m
Up to 2%	19,390
>2%	479
Default	83
	19,952

Small business retail

	2011 HK\$'m
Up to 1%	10,676
>1%	218
Default	53
	10,947

3.7 Analysis of actual loss and estimates

The table below shows the actual losses which represent the net charges (including write-offs and individually assessed impairment loss allowances) made by each class of exposures under the internal ratings-based approach during the year.

	2011 HK\$'m
Corporate	(12)
Bank	3
Residential mortgages to individuals and property-holding shell companies	–
Qualifying revolving retail	93
Other retail to individuals	27
Small business retail	8
	119

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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 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 2010 HK\$'m
Corporate	2,539
Bank	149
Residential mortgages to individuals and property-holding shell companies	97
Qualifying revolving retail	268
Other retail to individuals	126
Small business retail	33
	3,212

The table below sets out the actual default rate for the year 2011 compared against the estimated PD at 31 December 2010 of the respective portfolio.

	Actual default rate during 2011 %	Estimated PD at 31 December 2010 %
Corporate	0.37	1.73
Bank	0.22	0.44
Residential mortgages to individuals and property-holding shell companies	0.03	0.69
Qualifying revolving retail	0.18	0.60
Other retail to individuals	0.72	1.86
Small business retail	0.48	1.40

It should be noted that actual loss and expected loss are measured and calculated using different methodologies compliant to relevant regulatory and accounting standards, which are therefore not directly comparable. The limitation arises mainly from the fundamental differences in the definition of "loss". The expected loss under Basel II 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, while actual loss is the net individually assessed impairment charges and write-offs made during the year in accordance with the accounting standards.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

3. Credit risk under the internal ratings-based approach (continued)

3.7 Analysis of actual loss and estimates (continued)

The actual default rate (actual PD) is measured by using the number of obligors (for wholesale exposures) or number of accounts (for retail exposures) defaulted whereas the estimated probability of default (estimated PD) is the long run average default rate over an economic cycle and is the estimated one-year forward-looking PD estimated from the beginning of the reporting period.

Hence, actual PD 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 Ratings from External Credit Assessment Institutions (“ECAI”)

The ECAs recognised by the Group include Standard & Poor’s, Moody’s and Fitch. The Group continues to adopt standardised (credit risk) (“STC”) approach based on external rating to determine the risk weight of 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 the banking book in accordance with Part 4 of the Banking (Capital) Rules.

4.2 Credit risk mitigation

For credit exposures adopting STC approach, the main types of recognised collaterals include cash deposits, debt securities and shares 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 includes the guarantee given by sovereigns, public sector entities, multilateral development banks with a lower risk weight than the counterparty, and corporate with external rating of A– or above.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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

	2011						
	Total Exposures HK\$'m	Exposures after CRM*		Risk-weighted amount		Total exposures covered by recognised collateral HK\$'m	Total guarantees or recognised credit derivative contracts HK\$'m
		Rated	Unrated	Rated	Unrated		
		HK\$'m	HK\$'m	HK\$'m	HK\$'m		
On-balance sheet exposures							
Sovereign	285,206	290,546	–	1,172	–	–	–
Public sector entity	23,204	23,020	–	448	–	–	193
Multilateral development bank	22,491	22,491	–	–	–	–	–
Bank	210	210	–	43	–	–	–
Securities firm	–	–	–	–	–	–	–
Corporate	18,268	6,188	6,615	3,118	6,615	318	5,147
Regulatory retail	4,644	–	4,514	–	3,385	130	–
Residential mortgage loans	4,346	–	4,337	–	2,168	–	9
Other exposures which are not past due	1,078	–	946	–	946	132	–
Past due exposures	15	–	15	–	23	–	–
Total for on-balance sheet exposures	359,462	342,455	16,427	4,781	13,137	580	5,349
Off-balance sheet exposures							
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	3,871	1,954	1,917	226	1,797	556	218
OTC derivative transactions	177	58	119	1	117	–	–
Total for off-balance sheet exposures	4,048	2,012	2,036	227	1,914	556	218
Total for non-securitisation exposures	363,510	344,467	18,463	5,008	15,051	1,136	5,567
Exposures deducted from Core Capital or Supplementary Capital	84						

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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)

	2010						
	Total Exposures HK\$m	Exposures after CRM*		Risk-weighted amount		Total exposures covered by recognised collateral HK\$m	Total guarantees or recognised credit derivative contracts HK\$m
		Rated	Unrated	Rated	Unrated		
		HK\$m	HK\$m	HK\$m	HK\$m		
On-balance sheet exposures							
Sovereign	418,944	431,867	–	1,483	–	–	–
Public sector entity	18,731	35,726	–	3,995	–	–	190
Multilateral development bank	29,849	29,849	–	–	–	–	–
Bank	307,558	303,090	28,248	97,518	10,233	–	–
Securities firm	517	–	420	–	210	146	–
Corporate	445,600	90,389	309,145	48,713	309,145	12,222	47,713
Cash items	54,262	–	54,262	–	–	–	–
Regulatory retail	33,379	–	29,369	–	22,027	1,290	2,683
Residential mortgage loans	182,567	–	165,334	–	65,164	49	17,184
Other exposures which are not past due	46,407	–	45,571	–	45,571	835	–
Past due exposures	449	–	449	–	560	162	25
Total for on-balance sheet exposures	1,538,263	890,921	632,798	151,709	452,910	14,704	67,795
Off-balance sheet exposures							
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	41,920	7,552	34,368	4,477	33,809	7,062	8,537
OTC derivative transactions	9,910	7,619	2,291	2,345	2,104	–	–
Total for off-balance sheet exposures	51,830	15,171	36,659	6,822	35,913	7,062	8,537
Total for non-securitisation exposures	1,590,093	906,092	669,457	158,531	488,823	21,766	76,332
Exposures deducted from Core Capital or Supplementary Capital	38						

* Recognised credit risk mitigation satisfying the requirements and conditions set out in the Banking (Capital) Rules.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

5. Counterparty credit risk-related exposures

The Group's counterparty credit risk arising from over-the-counter ("OTC") derivative transactions, repo-style transactions both in trading and banking book is subject to the same risk management framework as mentioned in Note 4 to the Financial Statements in this Annual Report. The Group establishes credit limit through formal credit approval procedures to control the pre-settlement credit risk arising from OTC derivatives transactions and settlement limit to control the settlement risk arising from foreign exchange-related transactions 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 credit risk management units.

Currently, the Group uses the Current Exposure Method to measure and monitor the counterparty credit exposures, which comprises current exposures and potential future exposures.

The Group establishes prudent eligibility criteria and haircut policy of debt securities being pledged as collateral for repo-style transactions.

The Group formulates policy for classification of credit assets according to the PD of individual counterparty 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.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

5. Counterparty credit risk-related exposures (continued)

5.1 Counterparty credit risk exposures

The following tables summarise the Group's exposures to counterparty credit risk arising from OTC derivative and repo-style transactions.

(A) Counterparty credit risk exposures under the internal ratings-based approach

	2011 HK\$'m
OTC derivative:	
Gross total positive fair value	7,435
Credit equivalent amounts	14,680
Less: Value of recognised collateral by type	
– debt securities	–
– others	–
Net credit equivalent amounts	14,680
Exposure at default by counterparty type	
Corporate	1,521
Banks	13,159
Retail	–
Others	–
	14,680
Risk weighted amounts by counterparty type	
Corporate	1,402
Banks	2,906
Retail	–
Others	–
	4,308
Repo-style transactions:	
Net credit exposures	3,488
Exposure at default by counterparty type	
Corporate	–
Banks	3,488
Retail	–
Others	–
	3,488
Risk weighted amounts by counterparty type	
Corporate	–
Banks	1,852
Retail	–
Others	–
	1,852

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

5. Counterparty credit risk-related exposures (continued)

5.1 Counterparty credit risk exposures (continued)

(B) Counterparty credit risk exposures under the standardised (credit risk) approach

	2011 HK\$'m	2010 HK\$'m
OTC derivative:		
Gross total positive fair value	83	3,715
Credit equivalent amounts	177	9,910
Less: Value of recognised collateral by type		
– debt securities	–	–
– others	–	–
Net credit equivalent amounts	177	9,910
Credit equivalent amounts net of recognised collateral by counterparty type		
Sovereign	57	–
Public sector entity	–	–
Bank	2	7,992
Corporate	107	1,917
Regulatory retail	6	–
Other exposures which are not past due exposures	5	1
Past due exposures	–	–
	177	9,910
Risk weighted amounts by counterparty type		
Sovereign	–	–
Public sector entity	–	–
Bank	1	2,531
Corporate	107	1,917
Regulatory retail	5	–
Other exposures which are not past due exposures	5	1
Past due exposures	–	–
	118	4,449

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

5. Counterparty credit risk-related exposures (continued)

5.1 Counterparty credit risk exposures (continued)

(B) Counterparty credit risk exposures under the standardised (credit risk) approach (continued)

	2010 HK\$'m
Repo-style transactions:	
Net credit exposures	1,650
Net credit exposures net of recognised collateral by counterparty type	
Sovereign	–
Public sector entity	–
Bank	1,650
Corporate	–
Regulatory retail	–
Other exposures which are not past due exposures	–
Past due exposures	–
	1,650
Risk weighted amounts by counterparty type	
Sovereign	–
Public sector entity	–
Bank	825
Corporate	–
Regulatory retail	–
Other exposures which are not past due exposures	–
Past due exposures	–
	825

There are no outstanding repo-style transactions under the standardised (credit risk) approach as at 31 December 2011.

There is no effect of valid bilateral netting agreement on the credit equivalent amounts of the derivative transactions as at 31 December 2011 (2010: Nil).

There are no outstanding credit derivative contracts as at 31 December 2011 and 2010.

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6. Assets securitisation

The Group has not acted as an originating institution for the issuance of securitisation transactions business during the year. Securitisation exposures arising from the Group's investing activities, and the related exposures are residential mortgage loans, commercial mortgage loans and student loans.

As an investing institution, the Group has adopted the IRB approach to calculate the credit risk for asset securitisations in 2011. In prior years, the Group adopted the standardised (securitisation) approach to calculate the credit risk for securitisation exposures.

The ECAs used by the Group include Standard & Poor's, Moody's and Fitch.

Securitisation exposures arising from the Group's investing activities are analysed as follows:

6.1 Securitisation exposures

	2011 HK\$'m	2010 HK\$'m
Residential mortgage loans	1,780	2,783
Commercial mortgage loans	5	82
Student loans	467	850
	2,252	3,715

6.2 Breakdown by risk-weights of the securitisation exposures under internal ratings-based (securitisation) approach

	2011		
	Securitisation exposures HK\$'m	Risk-weighted amount HK\$'m	Capital requirements HK\$'m
7%	1,817	134	11
8%	61	5	1
10%	111	12	1
12%	100	13	1
35%	34	13	1
60%	105	67	5
100%	24	26	2
Deducted from capital	–	–	–
	2,252	270	22

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

6. Assets securitisation (continued)

6.3 Breakdown by class of underlying exposure of the securitisation exposures under standardised (securitisation) approach

	2010		
	Securitisation exposures HK\$'m	Risk-weighted amount HK\$'m	Capital requirements HK\$'m
Residential mortgage loans	2,783	696	56
Commercial mortgage loans	82	16	1
Student loans	850	170	14
	3,715	882	71

There is no securitisation exposures deducted from core capital and supplementary capital as at 31 December 2011 and 2010.

During the year, the Group has no credit derivative contracts which are treated as part of synthetic securitisation transactions (2010: Nil).

7. Capital requirements for market risk

	2011 HK\$'m	2010 HK\$'m
Under the standardised (market risk) approach		
Foreign exchange exposures (net)	432	445
Interest rate exposures	240	994
Equity exposures	36	22
Commodity exposures	9	5
Under the internal models approach		
General foreign exchange and interest rate exposures	908	–
Capital charge for market risk	1,625	1,466

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

8. Capital requirements for operational risk

	2011 HK\$'m	2010 HK\$'m
Capital charge for operational risk	4,065	3,832

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, jointly controlled entities or subsidiaries, are classified as available-for-sale securities and are reported in the balance sheet as investments in securities.

For equity exposures in banking book other than associates, jointly controlled entities or subsidiaries, the Group applies the same accounting treatment and valuation methodologies as detailed in the Notes 2.8(4) and 2.11 to the Financial Statements. If additional investment is made subsequently such that an investee becomes an associate, jointly controlled entity 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:

	2011 HK\$'m	2010 HK\$'m
Realised gains from sales	36	2
Unrealised gains on revaluation recognised in reserves but not through profit or loss	526	322
Unrealised gains included in supplementary capital	237	145

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10. Connected transactions

In 2011, 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.

The transactions fell into the following two categories:

1. exempted transactions entered into in the usual course of business and under normal commercial terms. Such transactions were exempted from disclosure and independent shareholder approval by virtue of Rules 14A.31, 14A.33 and 14A.65 of the Listing Rules;
2. certain regular banking transactions entered into on a continual basis which are subject to the announcement requirement throughout the year. On 30 December 2010 the Company made an announcement (the "Announcement") in accordance with Rule 14A.47 of the Listing Rules, and has got the approval from the independent shareholders on 25 May 2011. 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 2011-2013. These transactions were conducted in the ordinary course of its business and on normal commercial terms. 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.

Type of Transaction	2011 Cap (HK\$'m)	2011 Actual Amount (HK\$'m)
Information Technology Services	1,000	47
Property Transactions	1,000	129
Bank-note Delivery	1,000	97
Provision of Insurance Cover	1,000	115
Card Services	1,000	101
Custody Business	1,000	32
Call Center Services	1,000	43
Securities Transactions	3,500	319
Fund Distribution Transactions	3,500	35
Insurance Agency	3,500	646
Foreign Exchange Transactions	3,500	106
Trading of Financial Assets	100,000	5,638
Inter-bank Capital Markets	100,000	2,601

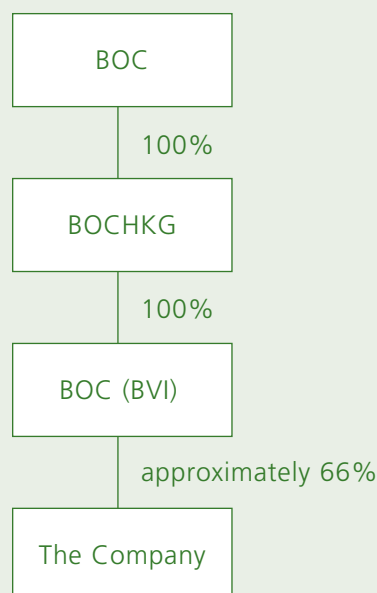
UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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. CAS is the new set of PRC accounting standards that has been effective for annual periods beginning on or after 1 January 2007 for companies publicly listed in PRC. 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 HK GAAP prior to 1 January 2005 and as from 1 January 2005 onwards in accordance with HKFRSs; whereas the consolidated financial information reported to BOC is prepared in accordance with IFRS and CAS respectively. Despite the fact that HKFRSs have converged with IFRS, there is a timing difference in the initial adoption of HKFRSs and IFRS by the Group and by BOC respectively.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

11. Reconciliation between HKFRSs vs IFRS/CAS (continued)

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 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.

The major differences between HKFRSs and IFRS/CAS, which arise from the difference in measurement basis in IFRS or CAS and the timing difference in the initial adoption of HKFRSs and IFRS relate to the following:

- re-measurement of carrying value of treasury products;
- restatement of carrying value of bank premises;
- deferred taxation impact arising from the above different measurement basis; and
- early adoption of the amendment to HKAS 12.

(a) *Re-measurement of carrying value of treasury products*

Due to the difference in the timing of first adoption of HKFRSs and IFRS, classification and measurement of certain investment securities under HKFRSs and IFRS were different. Therefore, investment securities were reclassified and re-measured to align with the accounting policies of BOC for the relevant periods. Classification and measurement under IFRS and CAS is basically the same.

(b) *Restatement of carrying value of bank premises*

The Company has elected for a revaluation basis rather than cost basis to account for bank premises and investment properties under HKFRSs. On the contrary, BOC has elected for the cost convention for bank premises and revaluation basis 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.

(c) *Deferred tax adjustments*

These represent the deferred tax effect of the aforesaid adjustments.

(d) *Early adoption of the amendment to HKAS 12*

The Company has early adopted the amendment to HKAS 12 while BOC has not elected to early adopt the amendment under IFRS and CAS. Therefore, adjustments have been made to remove the effects from the early adoption of the amendment to HKAS 12.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

11. Reconciliation between HKFRSs vs IFRS/CAS (continued)

Profit after tax/net assets reconciliation

HKFRSs vs IFRS/CAS

	Profit after tax		Net assets	
	2011 HK\$'m	2010 HK\$'m	2011 HK\$'m	2010 HK\$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	20,813	16,690	133,183	118,289
Add: IFRS/CAS adjustments				
Re-measurement of carrying value of treasury products	(27)	(35)	–	(3)
Restatement of carrying value of bank premises	488	323	(26,124)	(17,726)
Deferred tax adjustments	(33)	(44)	4,305	2,931
Effect of early adoption of HKAS 12 (Amendment)	(323)	(153)	(1,778)	(1,449)
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRS/CAS	20,918	16,781	109,586	102,042

APPENDIX

Subsidiaries of the Company

The particulars of our subsidiaries are as follows:

Name of company	Place and date of incorporation/ operation/ registration	Issued and fully paid up share capital/ registered capital/ units in issue	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\$3,038,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited*	Cayman Islands 7 October 2010	Ordinary shares HK\$30,000,000	100.00%	Investment holding
Indirectly held:				
Nanyang Commercial Bank, Limited	Hong Kong 2 February 1948	Ordinary shares HK\$700,000,000	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
BNPP Flexi III China Fund	Luxembourg 15 Dec 2009	Units in issue HK\$2,739,672,164	51.00%	Investment
BOC Group Trustee Company Limited*	Hong Kong 1 December 1997	Ordinary shares HK\$200,000,000	64.20%	Trustee services
BOC Travel Services Limited*	Hong Kong 24 August 1982	Ordinary shares HK\$2,000,000	100.00%	Travel services
BOCG Life Aggressive Growth Fund	Hong Kong 8 Nov 2002	Units in issue US\$1,960,000	51.00%	Investment
BOCG Life Moderate Growth Fund	Hong Kong 8 Nov 2002	Units in issue US\$1,350,000	51.00%	Investment
BOCG Life Stable Growth Fund	Hong Kong 8 Nov 2002	Units in issue US\$190,000	51.00%	Investment
BOCG Life Money Market Fund	Hong Kong 8 Nov 2002	Units in issue US\$370,000	51.00%	Investment
BOCHK Asset Management Limited*	Hong Kong 28 October 2010	Ordinary shares HK\$29,500,000	100.00%	Asset management

APPENDIX

Subsidiaries of the Company (continued)

Name of company	Place and date of incorporation/operation/registration	Issued and fully paid up share capital/registered capital/units in issue	Interest held	Principal activities
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
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
Chung Chiat Company Limited	Hong Kong 9 April 1980	Ordinary shares HK\$200	100.00%	Property holding and investment
Dwell Bay Limited	Hong Kong 19 December 1980	Ordinary shares HK\$100,000	100.00%	Property holding and investment
Grace Charter Limited*	Hong Kong 4 May 2001	Ordinary shares HK\$2	70.49%	Investment holding
G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd.*	PRC 24 September 1993	Registered capital HK\$40,000,000	100.00%	Property holding and investment
Kincheng Finance (H.K.) Limited	Hong Kong 30 March 1979	Ordinary shares HK\$100	100.00%	Loan financing
Kincheng Investments & Developments (H.K.) Limited	Hong Kong 15 May 1981	Ordinary shares HK\$6,000	100.00%	Property holding and investment
Kincheng (Nominees) Limited*	Hong Kong 12 December 1980	Ordinary shares HK\$100,000	100.00%	Nominee services
Kiu Nam Investment Corporation Limited	Hong Kong 9 November 1963	Ordinary shares HK\$2,000,000	100.00%	Property holding and investment
Kwong Li Nam Investment Agency Limited*	Hong Kong 25 May 1984	Ordinary shares HK\$3,050,000	100.00%	Investment agency
Nan Song Company, Limited*	Hong Kong 13 April 1965	Ordinary shares HK\$1,000,000	100.00%	Property investment and investment holding
Nanyang Commercial Bank (China), Limited	PRC 14 December 2007	Registered capital RMB4,100,000,000	100.00%	Banking business

Subsidiaries of the Company (continued)

Name of company	Place and date of incorporation/ operation/ registration	Issued and fully paid up share capital/ registered capital/ units in issue	Interest held	Principal activities
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
Nanyang Finance Company Limited	Hong Kong 16 March 1979	Ordinary shares HK\$50,000,000	100.00%	Financial services
Patson (HK) Limited*	Hong Kong 18 August 1970	Ordinary shares HK\$1,000,000	100.00%	Property investment
Perento Limited	Hong Kong 27 September 1983	Ordinary shares HK\$10,000	100.00%	Property holding and investment
Po Hay Enterprises Limited	Hong Kong 2 October 1979	Ordinary shares HK\$100,000	100.00%	Property holding and investment
Po Sang Financial Investment Services Company Limited*	Hong Kong 23 September 1980	Ordinary shares HK\$25,000,000	100.00%	Gold trading and investment holding
Po Sang Futures Limited*	Hong Kong 19 October 1993	Ordinary shares HK\$25,000,000	100.00%	Commodities brokerage
Seng Sun Development Company, Limited*	Hong Kong 11 December 1961	Ordinary shares HK\$2,800,000	70.49%	Investment holding
Shenstone Limited	Hong Kong 4 September 1979	Ordinary shares HK\$2	100.00%	Property holding and investment
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
Sin Mei (Nominee) Limited*	Hong Kong 27 April 1982	Ordinary shares HK\$100,000	100.00%	Nominee services
Sin Yeh Shing Company Limited	Hong Kong 28 November 1980	Ordinary shares HK\$100,000	100.00%	Property holding and investment
Sino Information Services Company Limited*	Hong Kong 11 February 1993	Ordinary shares HK\$7,000,000	100.00%	Information services
The China-South Sea (Nominees) Services Limited*	Hong Kong 13 February 1981	Ordinary shares HK\$100,000	100.00%	Nominee services
Track Link Investment Limited	Hong Kong 8 February 1994	Ordinary shares HK\$2	100.00%	Property holding and investment

APPENDIX

Subsidiaries of the Company (continued)

Glory Cardinal Limited was deregistered on 7 January 2011.

Glister Company Limited was disposed of its entire equities to a third party on 18 March 2011.

Dwell Bay Limited, Perento Limited and Shenstone Limited commenced members' voluntary winding up on 30 June 2011.

Pacific Trend Profits Corporation was deregistered on 12 September 2011.

Sin Mei (Nominee) Limited, Kincheng (Nominees) Limited, Sin Yeh Shing Company Limited and Track Link Investment Limited commenced members' voluntary winding up on 31 October 2011.

Po Hay Enterprises Limited, Chung Chiat Company Limited and Kiu Nam Investment Corporation Limited commenced members' voluntary winding up on 21 November 2011.

The China-South Sea (Nominees) Services Limited commenced members' voluntary winding up on 28 November 2011.

G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd. commenced winding up on 26 December 2011.

Nanyang Finance Company Limited and Nan Song Company, Limited have been dissolved on 16 February 2012.

Patson (HK) Limited has been dissolved on 19 March 2012.

Remarks:

Name of subsidiaries which are not included in the consolidation group for regulatory purposes in respect of capital adequacy is marked with * in the above table. BOCHK and its subsidiaries specified by the HKMA form the basis of consolidation for its regulatory purposes in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with the accounting standards issued by the HKICPA pursuant to section 18A of the Professional Accountants Ordinance.

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
"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
"BOC-CC"	BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK
"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
"BOC Insurance"	Bank of China Group Insurance Company 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
"BOC Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOC Insurance hold equity interests of 51% and 49% respectively
"Board" or "Board of Directors"	the Board of Directors of the Company

DEFINITIONS

Terms	Meanings
"CAR"	Capital Adequacy Ratio, computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules
"CAS"	China Accounting Standards
"CBS"	Corporate Banking Services
"CE"	Chief Executive
"CFO"	Chief Financial Officer
"CIC"	China Investment Corporation
"CRM"	Credit Risk Mitigation
"CRO"	Chief Risk Officer
"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
"EAD"	Exposure at Default
"ECAI(s)"	External Credit Assessment Institution(s)
"EURIBOR"	Euro Interbank Offered Rate
"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)
"HK GAAP"	Generally Accepted Accounting Principles in Hong Kong
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HK(IFRIC)-Int"	Hong Kong (IFRIC) Interpretation
"HKMA"	Hong Kong Monetary Authority
"HK(SIC)-Int"	Hong Kong (SIC) Interpretation
"Hong Kong" or "Hong Kong SAR"	Hong Kong Special Administrative Region
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standards
"IPO"	Initial Public Offering
"IRB"	Internal Ratings-Based
"IT"	Information Technology

DEFINITIONS

Terms	Meanings
"LGD"	Loss Given Default
"LIBOR"	London Interbank Offered Rate
"LSC"	Legal Services Centre
"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
"MSCI Index"	Morgan Stanley Capital International Index
"Mainland" or "Mainland 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
"NCB (China)"	Nanyang Commercial Bank (China), Limited, a company incorporated under the laws of the PRC and a wholly-owned subsidiary of Nanyang
"Nanyang"	Nanyang Commercial Bank, Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK
"OR&CD"	the Operational Risk & Compliance Department
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"PBOC"	People's Bank of China
"PD"	Probability of Default
"PRC"	the People's Republic of China
"QDII's"	Qualified Domestic Institutional Investors
"RC"	the Risk Committee
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMD"	the Risk Management Department
"RQFII(s)"	Renminbi Qualified Foreign Institutional Investor(s)
"SC"	Steering Committee
"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)

DEFINITIONS

Terms	Meanings
"Share Option Scheme"	the Share Option Scheme conditionally approved and adopted by the shareholders of the Company on 10 July 2002
"Sharesave Plan"	the Sharesave Plan conditionally approved and adopted by the shareholders of the Company on 10 July 2002
"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
"UK"	United Kingdom
"US" or "U.S." or "USA"	the United States of America
"VAR"	Value at Risk

BRANCH NETWORK & CORPORATE BANKING CENTRES

Bank of China (Hong Kong) – Branch Network Hong Kong Island

Branch	Address	Telephone
Central & Western District		
Bank of China Tower Branch	1 Garden Road, Hong Kong	2826 6888
Sheung Wan Branch	252 Des Voeux Road Central, Hong Kong	2541 1601
Queen's Road West (Sheung Wan) Branch	2-12 Queen's Road West, Sheung Wan, Hong Kong	2815 6888
Connaught Road Central Branch	13-14 Connaught Road Central, Hong Kong	2841 0410
Central District Branch	2A Des Voeux Road Central, Hong Kong	2160 8888
Central District (Wing On House) Branch	71 Des Voeux Road Central, Hong Kong	2843 6111
Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui, Hong Kong	2819 7277
Western District Branch	386-388 Des Voeux Road West, Hong Kong	2549 9828
Shun Tak Centre Branch	Shop 225, 2/F, Shun Tak Centre, 200 Connaught Road Central, Hong Kong	2291 6081
Queen's Road Central Branch	81-83 Queen's Road Central, Hong Kong	2588 1288
Bonham Road Branch	63 Bonham Road, Hong Kong	2517 7066
Kennedy Town Branch	Harbour View Garden, 2-2F Catchick Street, Kennedy Town, Hong Kong	2818 6162
Caine Road Branch	57 Caine Road, Hong Kong	2521 3318
First Street Branch	55A First Street, Sai Ying Pun, Hong Kong	2517 3399
United Centre Branch	Shop 1021, United Centre, 95 Queensway, Hong Kong	2861 1889
Wyndham Street Branch	1-3 Wyndham Street, Central, Hong Kong	2843 2888
Des Voeux Road West Branch	111-119 Des Voeux Road West, Hong Kong	2546 1134
Gilman Street Branch	136 Des Voeux Road Central, Hong Kong	2135 1123
Wan Chai District		
409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai, Hong Kong	2835 6118
Johnston Road Branch	152-158 Johnston Road, Wan Chai, Hong Kong	2574 8257
Harbour Road Branch	Shop 4, G/F, Causeway Centre, 28 Harbour Road, Wan Chai, Hong Kong	2827 8407
Jardine's Bazaar Branch	G/F, Siki Centre, No.23 Jardine's Bazaar, Causeway Bay, Hong Kong	2882 1383
Happy Valley Branch	11 King Kwong Street, Happy Valley, Hong Kong	2838 6668
Causeway Bay Branch	18 Percival Street, Causeway Bay, Hong Kong	2572 4273
Wan Chai (China Overseas Building) Branch	139 Hennessy Road, Wan Chai, Hong Kong	2529 0866
Wan Chai (Wu Chung House) Branch	213 Queen's Road East, Wan Chai, Hong Kong	2892 0909
Hennessy Road (Wan Chai) Branch	310-312 Hennessy Road, Wan Chai, Hong Kong	2923 5628
Eastern District		
Siu Sai Wan Branch	Shop 19, Cheerful Garden, Siu Sai Wan, Hong Kong	2505 2399
Taikoo Shing Branch	Shop P1025-1026, Chi Sing Mansion, Taikoo Shing, Hong Kong	2967 9128
Taikoo Shing Branch Safe Box Service Centre	Shop G1006, Hoi Shing Mansion, Taikoo Shing, Hong Kong	2885 4582
North Point Branch	Roca Centre, 464 King's Road, North Point, Hong Kong	2811 8880
North Point (King's Centre) Branch	193-209 King's Road, North Point, Hong Kong	2286 2000
North Point (Hang Ying Building) Branch	Shop B1, 318-328 King's Road, North Point, Hong Kong	2887 1199
North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point, Hong Kong	2562 6108
Sai Wan Ho Branch	142-146 Shau Kei Wan Road, Sai Wan Ho, Hong Kong	2886 3344
Lee Chung Street Branch	29-31 Lee Chung Street, Chai Wan, Hong Kong	2557 3283
Heng Fa Chuen Branch	Shop 205-208, East Wing Shopping Centre, Heng Fa Chuen, Chai Wan, Hong Kong	2897 1131
Kam Wa Street Branch	3 Kam Wa Street, Shau Kei Wan, Hong Kong	2885 9311
City Garden Branch	233 Electric Road, North Point, Hong Kong	2571 2878
King's Road Branch	131-133 King's Road, North Point, Hong Kong	2887 0282
Chai Wan Branch	Block B, Walton Estate, 341-343 Chai Wan Road, Chai Wan, Hong Kong	2558 6433
Chai Wan Branch Safe Box Service Centre	27 Gold Mine Building, 345 Chai Wan Road, Chai Wan, Hong Kong	2557 0248
Healthy Village Branch	Shop 1&2, Healthy Village Phase II, 668 King's Road, North Point, Hong Kong	2563 2278
Sheung On Street Branch	77 Sheung On Street, Chai Wan, Hong Kong	2897 0923
Aldrich Garden Branch	Shop 58, Aldrich Garden, Shau Kei Wan, Hong Kong	3196 4956
Quarry Bay Branch	Parkvale, 1060 King's Road, Quarry Bay, Hong Kong	2564 0333
Shau Kei Wan (Po Man Building) Branch	260-262 Shau Kei Wan Road, Shau Kei Wan, Hong Kong	3550 5000

Branch	Address	Telephone
Southern District		
Tin Wan Branch	2-12 Ka Wo Street, Tin Wan, Hong Kong	2553 0135
Aberdeen Branch	25 Wu Pak Street, Aberdeen, Hong Kong	2553 4165
South Horizons Branch	G38, West Centre Marina Square, South Horizons, Ap Lei Chau, Hong Kong	2580 0345
South Horizons Branch Safe Box Service Centre	Shop 118, Marina Square East Centre, Ap Lei Chau, Hong Kong	2555 7477
Wah Kwai Estate Branch	Shop 17, Shopping Centre, Wah Kwai Estate, Hong Kong	2550 2298
Chi Fu Landmark Branch	Shop 510, Chi Fu Landmark, Pok Fu Lam, Hong Kong	2551 2282
Ap Lei Chau Branch	13-15 Wai Fung Street, Ap Lei Chau, Hong Kong	2554 6487
Stanley Branch	Shop No. 301B, Stanley Plaza, Hong Kong	3982 8188

Kowloon

Branch	Address	Telephone
Kowloon City District		
Prince Edward Road (Kowloon City) Branch	382-384 Prince Edward Road, Kowloon City, Kowloon	2926 6038
To Kwa Wan Branch	80N To Kwa Wan Road, To Kwa Wan, Kowloon	2364 4344
Pak Tai Street Branch	4-6 Pak Tai Street, To Kwa Wan, Kowloon	2760 7773
Hung Hom Wealth Management Centre	37-39 Ma Tau Wai Road, Hung Hom, Kowloon	2170 0888
Hung Hom (Eldex Industrial Building) Branch	21 Ma Tau Wai Road, Hung Hom, Kowloon	2764 8363
OCHK Branch	The Open University of Hong Kong, 30 Good Shepherd Street, Ho Man Tin, Kowloon	2760 9099
Ma Tau Kok Road Branch	39-45 Ma Tau Kok Road, To Kwa Wan, Kowloon	2714 9118
Ma Tau Wai Road Branch	47-49 Ma Tau Wai Road, Hung Hom, Kowloon	2926 5123
Site 11 Whampoa Garden Branch	Shop G6, Site 11 Whampoa Garden, Hung Hom, Kowloon	2363 3982
Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom, Kowloon	2764 7233
Nga Tsin Wai Road Branch	25 Nga Tsin Wai Road, Kowloon City, Kowloon	2383 2316
Waterloo Road Branch	Shop A2, Man Kee Mansion, 86 Waterloo Road, Kowloon	2363 9231
Wong Tai Sin District		
Tai Yau Street Branch	35 Tai Yau Street, San Po Kong, Kowloon	2328 0087
Chuk Yuen Estate Branch	Shop S1, Chuk Yuen Shopping Centre, Chuk Yuen South Estate, Kowloon	2325 5261
Choi Hung Branch	19 Clear Water Bay Road, Ngau Chi Wan, Kowloon	2327 0271
Choi Hung Road Branch	58-68 Choi Hung Road, San Po Kong, Kowloon	2927 6111
Choi Wan Estate Branch	A3-18 Commercial Complex, Choi Wan Estate, Kowloon	2754 5911
Wong Tai Sin Branch	Shop G13, Wong Tai Sin Plaza, Wong Tai Sin, Kowloon	2327 8147
San Po Kong (Wing Lok Building) Branch	28-34 Tseuk Luk Street, San Po Kong, Kowloon	2328 7915
Yuk Wah Street Branch	46-48 Yuk Wah Street, Tsz Wan Shan, Kowloon	2927 6655
Lok Fu Branch	Shop 2, Lok Fu Plaza II, Lok Fu, Kowloon	2337 0271
Tseuk Luk Street Wealth Management Centre	86 Tseuk Luk Street, San Po Kong, Kowloon	2326 2883
Diamond Hill Branch	G107 Plaza Hollywood, Diamond Hill, Kowloon	2955 5088
Kwun Tong District		
169 Ngau Tau Kok Road Branch	169 Ngau Tau Kok Road, Ngau Tau Kok, Kowloon	2750 7311
177 Ngau Tau Kok Road Branch	177 Ngau Tau Kok Road, Ngau Tau Kok, Kowloon	2927 4321
Wang Kwun Road Branch	Unit G1, Nan Fung Commercial Centre, Wang Kwun Road, Kowloon Bay, Kowloon	2755 0268
Sau Mau Ping Branch	Shop 214, Sau Mau Ping Shopping Centre, Sau Mau Ping, Kowloon	2772 0028
Hip Wo Street Branch	195-197 Hip Wo Street, Kwun Tong, Kowloon	2345 0102
Yau Tong Branch	Shop G1-G27, Ka Fu Arcade, Yau Tong Centre, Kowloon	2349 9191
Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong, Kowloon	2763 2127
Tsui Ping Estate Branch	Shop 116, 1/F Shopping Circuit, Tsui Ping Estate, Kwun Tong, Kowloon	2345 3238
26 Fu Yan Street Branch	26-32 Fu Yan Street, Kwun Tong, Kowloon	2342 5262

BRANCH NETWORK & CORPORATE BANKING CENTRES

Bank of China (Hong Kong) – Branch Network (continued)

Branch	Address	Telephone
Telford Gardens Wealth Management Centre	Shop P8A, Telford Gardens, Kowloon Bay, Kowloon	2758 3987
Telford Gardens Branch	Shop P2, Telford Gardens, Kowloon Bay, Kowloon	2796 1551
Lam Tin Branch	Shop 12, 49 Kai Tin Road, Lam Tin, Kowloon	2347 1456
Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong, Kowloon	2344 4116
Ngau Tau Kok Road (Kwun Tong) Branch	327 Ngau Tau Kok Road, Kwun Tong, Kowloon	2389 3301
Kwun Tong Plaza Branch	G1 Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong, Kowloon	2342 4295
Kowloon Bay Branch	Shop 2, Telford House, 16 Wang Hoi Road, Kowloon Bay, Kowloon	2759 9339
Yau Tsim Mong District		
Tai Kok Tsui Branch	73-77 Tai Kok Tsui Road, Tai Kok Tsui, Kowloon	2395 3269
Shan Tung Street Branch	42-48 Shan Tung Street, Mong Kok, Kowloon	2332 5461
China Hong Kong City Branch	Shop 28, UG/F, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon	2367 6164
Shanghai Street (Prince Edward) Branch	689-693 Shanghai Street, Mong Kok, Kowloon	2391 0502
Prince Edward Branch	774 Nathan Road, Kowloon	2399 3000
Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui, Kowloon	2721 6242
Tsim Sha Tsui East Branch	Shop G02-03, Inter-Continental Plaza, 94 Granville Road, Tsim Sha Tsui, Kowloon	2739 0308
Jordan Branch	328-330 Nathan Road, Kowloon	2928 6111
Jordan Road Branch	1/F, Sino Cheer Plaza, 23-29 Jordan Road, Kowloon	2730 0883
Shanghai Street (Mong Kok) Branch	611-617 Shanghai Street, Mong Kok, Kowloon	2394 4181
Mong Kok Branch	589 Nathan Road, Mong Kok, Kowloon	2332 0111
Prince Edward Road West (Mong Kok) Branch	116-118 Prince Edward Road West, Mong Kok, Kowloon	2928 4138
Mong Kok Road Branch	50-52 Mong Kok Road, Mong Kok, Kowloon	2395 3263
Mong Kok (Silvercorp Int'l Tower) Branch	Shop B, 707-713 Nathan Road, Mong Kok, Kowloon	2391 6677
Mong Kok (President Commercial Centre) Branch	608 Nathan Road, Mong Kok, Kowloon	2384 7191
Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei, Kowloon	2780 2307
Kimberley Road Branch	37 Kimberley Road, Tsim Sha Tsui, Kowloon	2739 1886
Cameron Road Wealth Management Centre	30 Cameron Road, Tsim Sha Tsui, Kowloon	2312 0010
Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui, Kowloon	2311 3822
Olympian City Branch	Shop 133, 1/F, Olympian City 2, 18 Hoi Ting Road, Kowloon	2749 2110
Fuk Tsun Street Branch	32-40 Fuk Tsun Street, Tai Kok Tsui, Kowloon	2391 8468
Canton Road Branch	60 Canton Road, Tsim Sha Tsui, Kowloon	2730 0688
Sham Shui Po District		
Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road, Kowloon	2370 8928
Festival Walk Branch	Unit LG256, Festival Walk, Kowloon Tong, Kowloon	2265 7288
Yu Chau Street Branch	42-46 Yu Chau Street, Sham Shui Po, Kowloon	2397 1123
Dragon Centre Branch	Shop 206A, Dragon Centre, 37K Yen Chow Street, Sham Shui Po, Kowloon	2788 3238
Lei Cheng Uk Estate Branch	Shop 108, Lei Cheng Uk Commercial Centre, Lei Cheng Uk Estate, Kowloon	2729 8251
Castle Peak Road (Cheung Sha Wan) Branch	365-371 Castle Peak Road, Cheung Sha Wan, Kowloon	2728 3311
108 Cheung Sha Wan Road Branch	108 Cheung Sha Wan Road, Sham Shui Po, Kowloon	2779 0157
194 Cheung Sha Wan Road Branch	194-196 Cheung Sha Wan Road, Sham Shui Po, Kowloon	2728 9389
Cheung Sha Wan Plaza Branch	Shop G08, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road, Kowloon	2745 7088
223 Nam Cheong Street Branch	223 Nam Cheong Street, Sham Shui Po, Kowloon	2928 2088
Stage 2 Mei Foo Sun Chuen Branch	19 Glee Path, Mei Foo Sun Chuen, Kowloon	2370 8382
Mei Foo VIP Centre	Shop N47-49, Mount Sterling Mall, Mei Foo Sun Chuen, Kowloon	2742 8003
Mei Foo Mount Sterling Mall Branch	17-8 Mount Sterling Mall, Mei Foo Sun Chuen, Kowloon	2742 6611
Sham Shui Po Branch	207-211 Nam Cheong Street, Sham Shui Po, Kowloon	2777 0171
Sham Shui Po (On Ning Building) Branch	147-149 Castle Peak Road, Sham Shui Po, Kowloon	2708 3678

New Territories & Outlying Islands

Branch	Address	Telephone
Sha Tin District		
41 Tai Wai Road Branch	41-45 Tai Wai Road, Sha Tin, New Territories	2929 4288
74 Tai Wai Road Branch	74-76 Tai Wai Road, Sha Tin, New Territories	2699 9523
Fo Tan Branch	No 2, 1/F Shatin Galleria, 18-24 Shan Mei Street, Fo Tan, New Territories	2691 7193
Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Sha Tin, New Territories	2605 6556
Sha Tin VIP Centre	Shop 18, L1, Shatin Plaza, Sha Tin, New Territories	2688 7668
Sha Kok Estate Branch	Shop 39, Sha Kok Shopping Centre, Sha Kok Estate, Sha Tin, New Territories	2648 0302
Heng On Estate Branch	Shop 203, Commercial Centre, Heng On Estate, Ma On Shan, New Territories	2642 0111
Ma On Shan Plaza Branch	Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan, New Territories	2631 0063
Lung Hang Estate Branch	103 Lung Hang Commercial Centre, Sha Tin, New Territories	2605 8618
New Town Plaza Branch	Shop 608, Level 6 Phase One, New Town Plaza, Sha Tin, New Territories	2606 6163
Lek Yuen Branch	No 1, Fook Hoi House, Lek Yuen Estate, Sha Tin, New Territories	2605 3021
City One Sha Tin Branch	Shop Nos. 24-25, Ngan Shing Commercial Centre, City One, Sha Tin, New Territories	2648 8083
Tai Po District		
Tai Po Branch	68-70 Po Heung Street, Tai Po Market, New Territories	2657 2121
Tai Po Plaza Branch	Unit 4, Level 1 Tai Po Plaza, 1 On Tai Road, Tai Po, New Territories	2665 5890
On Chee Road Branch	Shop 10-11, Jade Plaza, 3 On Chee Road, Tai Po, New Territories	2665 1966
Fu Heng Estate Branch	Shop 1-2, Fu Heng Shopping Centre, Tai Po, New Territories	2661 6278
Fu Shin Estate Branch	Shop G11, Fu Shin Shopping Centre, Tai Po, New Territories	2663 2788
Kwong Fuk Road Branch	40-50 Kwong Fuk Road, Tai Po Market, New Territories	2658 2268
Sai Kung District		
East Point City Branch	Shop 101, East Point City, Tseung Kwan O, New Territories	2628 7238
HKUST Branch	The Hong Kong University of Science & Technology, Clear Water Bay Road, New Territories	2358 2345
Tseung Kwan O Plaza Branch	Shop 112-125, Level 1, Tseung Kwan O Plaza, Tseung Kwan O, New Territories	2702 0282
Metro City Branch	Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O, New Territories	2701 4962
Hau Tak Estate Branch Securities Services Centre	Shop 15, Hau Tak Shopping Centre, Tseung Kwan O, New Territories	2703 5749
Sai Kung Branch	Shop No. 56 & 58, Sai Kung Town Centre, 22-40 Fuk Man Road, Sai Kung, New Territories	2792 1465
Tsuen Wan District		
Clague Garden Branch	Shop 1-3, Commercial Complex, Clague Garden Estate, 24 Hoi Shing Road, Tsuen Wan, New Territories	2412 2202
Citywalk Branch	Shop 65, G/F, Citywalk, 1 Yeung Uk Road, Tsuen Wan, New Territories	2920 3211
Tsuen Wan Branch	297-299 & 313 Sha Tsui Road, Tsuen Wan, New Territories	2411 1321
Castle Peak Road (Tsuen Wan) Branch	201-207 Castle Peak Road, Tsuen Wan, New Territories	2416 6577
Sham Tseng Branch	Shop G1 & G2, Rhine Garden, Sham Tseng, New Territories	2491 0038
Texaco Road Branch	Shop A112, East Asia Gardens, 36 Texaco Road, Tsuen Wan, New Territories	2414 4287
Castle Peak Road (Tsuen Wan) Branch Securities Services Centre	167 Castle Peak Road, Tsuen Wan, New Territories	2406 1746
Kwai Tsing District		
Ha Kwai Chung Branch	192-194 Hing Fong Road, Kwai Chung, New Territories	2424 9823
Sheung Kwai Chung Branch	7-11 Shek Yi Road, Sheung Kwai Chung, New Territories	2480 6161
Cheung Hong Estate Branch	201-202 Commercial Centre No 2, Cheung Hong Estate, Tsing Yi Island, New Territories	2497 7718

BRANCH NETWORK & CORPORATE BANKING CENTRES

Bank of China (Hong Kong) – Branch Network (continued)

Branch	Address	Telephone
Cheung Fat Estate Branch	Shop 317, Cheung Fat Shopping Centre, Tsing Yi Island, New Territories	2433 1689
Cheung Hong Estate Commercial Centre Branch	2 G/F, Commercial Centre, Cheung Hong Estate, Tsing Yi Island, New Territories	2497 0325
Maritime Square Branch	Shop 115, Maritime Square, Tsing Yi Island, New Territories	2436 9298
Lei Muk Shue Branch	Shop 22, Lei Muk Shue Shopping Centre, Kwai Chung, New Territories	2428 5731
Metroplaza Branch	Shop 260-265, Metroplaza, 223 Hing Fong Road, Kwai Chung, New Territories	2420 2686
Kwai Cheong Road Branch	40 Kwai Cheong Road, Kwai Chung, New Territories	2480 3311
Kwai Chung Road Branch	1009 Kwai Chung Road, Kwai Chung, New Territories	2424 3021
Kwai Chung Plaza Branch	A18-20, G/F Kwai Chung Plaza, 7-11 Kwai Foo Road, Kwai Chung, New Territories	2920 2468
Tuen Mun District		
Tuen Mun Wealth Management Centre	Shop 5, Level 1, North Wing, Trend Plaza, Tuen Mun, New Territories	2404 9777
Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza phase II, Tuen Mun, New Territories	2450 8877
Tuen Mun Fa Yuen Branch	Shop G & H, 6 Tsing Hoi Circuit, Tuen Mun, New Territories	2458 1033
Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun, New Territories	2457 3501
Siu Hong Court Branch	226 Commercial Centre, Siu Hong Court, Tuen Mun, New Territories	2466 6703
Kin Wing Street Branch	24-30 Kin Wing Street, Tuen Mun, New Territories	2465 2212
Venice Gardens Branch	Shop 13-15, G/F Venice Gardens, Leung Tak Street, Tuen Mun, New Territories	2455 1288
Butterfly Estate Branch	Shop 123-130, Tip Ling House, Butterfly Estate, Tuen Mun, New Territories	2920 5188
Leung King Estate Branch	Shop No. L221 and L222, Level 2, Leung King Shopping Centre, Leung King Estate, 31 Tin King Road, Tuen Mun, New Territories	2463 3855
Yuen Long District		
Tai Tong Road Branch	Shop A135, 1/F Hop Yick Plaza, 23 Tai Tong Road, Yuen Long, New Territories	2479 2113
Yuen Long Branch	102-108 Castle Peak Road, Yuen Long, New Territories	2474 2211
Castle Peak Road (Yuen Long) Branch	162 Castle Peak Road, Yuen Long, New Territories	2476 2193
Yuen Long (Hang Fat Mansion) Branch	8-18 Castle Peak Road, Yuen Long, New Territories	2475 3777
Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long, New Territories	2473 2833
Kingswood Villas Branch	A189 Kingswood Richly Plaza, Tin Shui Wai, New Territories	2448 3313
Kingswood Ginza Branch	Shop G64, Phase 1 Kingswood Ginza, Tin Shui Wai, New Territories	2616 4233
Tin Shui Estate Branch	Shop No. G30, Tin Shui Shopping Centre, Tin Shui Wai, New Territories	2445 8728
North District		
Sheung Shui Centre Branch	Shop 1007-1009, Level 1, Sheung Shui Centre, Sheung Shui, New Territories	2670 3131
Sheung Shui Branch	61 San Fung Avenue, Sheung Shui, New Territories	2671 0155
Sha Tau Kok Branch	Block 16-18, Sha Tau Kok Chuen, Sha Tau Kok, New Territories	2674 4011
Flora Plaza Branch	Shop 28, Flora Plaza, 88 Pak Wo Road, Fanling, New Territories	2675 6683
Fanling Centre Branch	Shop 2D-E & H, Fanling Centre, Fanling, New Territories	2669 7899
Luen Wo Market Branch	17-19 Wo Fung Street, Luen Wo Market, Fanling, New Territories	2675 5113
Luen Wo Market Branch Safe Box Service Centre	Shop B, 10-16 Luen Wo Market, Fanling, New Territories	2683 1662
Sheung Shui Branch Securities Services Centre	136 San Fung Avenue, Sheung Shui, New Territories	2672 3738
Choi Yuen Plaza Branch	Shop 3, 3/F, Choi Yuen Plaza, Sheung Shui, New Territories	2671 6783
Outlying Island District		
Cheung Chau Branch	53-55 Tai Sun Street, Cheung Chau, New Territories	2981 0021
Hong Kong International Airport Branch	Unit 77075, Passenger Terminal Building, Hong Kong International Airport	2326 1883

Corporate Banking Centres & SME Centres

Network & Centres	Address	Telephone
Corporate Finance	10/F, Bank of China Tower, 1 Garden Road, Hong Kong	3982 7078
Corporate Business I	10/F, Bank of China Tower, 1 Garden Road, Hong Kong	2826 6889
Corporate Business II	9/F, Bank of China Tower, 1 Garden Road, Hong Kong	3982 6509
Commercial Business I	Unit 701-706, The Gateway Tower 3 (Prudential Tower), 21 Canton Road, Tsim Sha Tsui, Kowloon	3982 7300
Commercial Business II	9/F, Bank of China Tower, 1 Garden Road, Hong Kong	3982 6555
Hong Kong Central and West Commercial Centre Hong Kong Central and West SME Centre	24/F, Bank of China Tower, 1 Garden Road, Hong Kong	3982 6513
Hong Kong East Commercial Centre	13/F, Cambridge House, Taikoo Place, 981 King's Road, Island East, Hong Kong	3982 7398
Hong Kong East SME Centre		
Kowloon East Commercial Centre	25/F, Millennium City 5, 418 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong	3982 7600
Kowloon East SME Centre		
Kowloon West Commercial Centre	9/F, BOC Mongkok Commercial Centre, 589 Nathan Road, Mongkok, Kowloon	3982 7700
Kowloon West SME Centre		
New Territories East Commercial Centre	3/F, 68-70 Po Heung Street, Tai Po Market, New Territories	3982 7888
New Territories East SME Centre		
Fo Tan Commercial Centre Fo Tan SME Centre	Room 1408, 14/F, Shatin Galleria, 18-24 Shan Mei Street, Fo Tan, Shatin, New Territories	3982 7800
New Territories West Commercial Centre	Unit 1316-1325, Level 13, Metroplaza Tower 1, 223 Hing Fong Road, Kwai Chung, New Territories	3982 7900
New Territories West SME Centre		
Financial Institutions	33/F, Bank of China Tower, 1 Garden Road, Hong Kong	2903 6666
Trade Product	5/F, Bank of China Centre, Olympian City, 11 Hoi Fai Road, West Kowloon	3198 3544
Shun Tak Centre Commercial Services Centre	Shop 225, 2/F, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong	2291 6081
Cheung Sha Wan Commercial Services Centre	Unit 1, Kowloon Plaza, 485 Castle Peak Road, Kowloon	2370 8928

Nanyang Commercial Bank – Branch Network

Branch	Address	Telephone
Head Office	151 Des Voeux Road, Central, Hong Kong	2852 0888
Hong Kong Island		
Western Branch	1/F & 2/F, 359-361 Queen's Road Central, Hong Kong	2851 1100
Causeway Bay Branch	472 Hennessy Road, Causeway Bay, Hong Kong	2832 9888
Happy Valley Branch	29 Wong Nei Chung Road, Happy Valley, Hong Kong	2893 3383
Kennedy Town Branch	86 Belcher's Street, Kennedy Town, Hong Kong	2817 1946
Quarry Bay Branch	1014 King's Road, Quarry Bay, Hong Kong	2563 2286
Des Voeux Road West Branch	334 Des Voeux Road West, Hong Kong	2540 4532
Aberdeen Branch	Shop A, 171 Aberdeen Main Road, Aberdeen, Hong Kong	2553 4115
North Point Branch	351 King's Road, North Point, Hong Kong	2566 8116
Sai Wan Ho Branch	63 Shaukeiwan Road, Sai Wan Ho, Hong Kong	2567 0315
Wanchai Branch	123 Johnston Road, Wanchai, Hong Kong	2574 8118
Causeway Centre Branch	Shop Nos 9-10, Ground Floor, Causeway Centre, 28 Harbour Road, Wanchai, Hong Kong	2827 6338
Central District Branch	2/F Century Square, 1-13 D'Aguilar Street, Central, Hong Kong	2522 5011
Sunning Road Branch	8 Sunning Road, Causeway Bay, Hong Kong	2882 7668
Kowloon		
Mongkok Branch	727 Nathan Road, Mongkok, Kowloon	2394 8206
Yaumati Branch	309 Nathan Road, Yaumati, Kowloon	2782 9888
Ferry Point Branch	Offices B-D, 10/F and Shops D-F, G/F, Best-O-Best Commercial Centre, 32-36 Ferry Street, Yaumati, Kowloon	2332 0738
Homantin Branch	G/F-2/F, 67B Waterloo Road, Homantin, Kowloon	2715 7518
Nathan Road Branch	570 Nathan Road, Mongkok, Kowloon	2780 0166
Laichikok Road Branch	236 Laichikok Road, Shamshuipo, Kowloon	2396 4164
Jordan Road Branch	20 Jordan Road, Yaumati, Kowloon	2735 3301
Tokwawan Branch	62 Tokwawan Road, Kowloon	2764 6666
Kwun Tong Branch	G/F Shop 1, 1/F Shop 2, 410 Kwun Tong Road, Kowloon	2389 6266

BRANCH NETWORK & CORPORATE BANKING CENTRES

Nanyang Commercial Bank – Branch Network (continued)

Branch	Address	Telephone
Tsimshatsui Branch	Shop A, 1/F, Hong Kong Pacific Centre, 28 Hankow Road, Tsimshatsui, Kowloon	2376 3988
Hungghom Branch	69A Wuhu Street, Hungghom, Kowloon	2362 2301
Shamshuipo Branch	198-200 Tai Po Road, Shamshuipo, Kowloon	2777 0147
Yee On Street Branch	Shops 4-6, G/F, Yee On Centre, 45 Hong Ning Road, Kowloon	2790 6688
Peninsula Centre Branch	Shop G48 Peninsula Centre, 67 Mody Road, Tsimshatsui, Kowloon	2722 0823
San Po Kong Branch	41-45, Yin Hing Street, San Po Kong, Kowloon	2328 5555
Kowloon City Branch	86 Nga Tsin Wai Road, Kowloon City, Kowloon	2716 6033
Laguna City Branch	Shop No. 26, Phase 1 Laguna City, Cha Kwo Ling Road, Kowloon	2772 3336
Kowloon Bay Branch	Shop 2, G/F, Shun Fat Industrial Building, 17 Wang Hoi Road, Kowloon Bay, Kowloon	2769 6268
New Territories		
Kwai Chung Branch	100 Lei Muk Road, Kwai Chung, New Territories	2480 1118
Tai Po Branch	Shop No. 11, G/F, Treasure Garden, 1 On Chee Road, Tai Po, New Territories	2656 5201
Yuen Long Branch	G/F, Tung Yik Building Tai Tong Road, Yuen Long, New Territories	2479 0231
Ha Kwai Chung Branch	180 Hing Fong Road, Kwai Chung, New Territories	2429 4242
Tsuen Wan Branch	78 Chung On Street, Tsuen Wan, New Territories	2492 0243
Sheung Shui Branch	31 Fu Hing Street, Sheung Shui, New Territories	2679 4333
NCB MTR Sheung Shui Station Service Centre	MTR Station Shop SHS 13, Sheung Shui Station, New Territories	2679 3622
Tuen Mun Branch	Forward Mansion, Yan Ching Circuit, Tuen Mun, New Territories	2459 8181
Shatin Branch	Shop 7-8, Lucky Plaza, Shatin, New Territories	2605 9188
Fou Wah Centre Branch	Shop A, 2/F, Fou Wah Centre, 210 Castle Peak Road, Tsuen Wan, New Territories	2498 4411
Sai Kung Branch	Shop 11-12 Sai Kung Garden, Man Nin Street, New Territories	2791 1122
Offshore		
Shanghai Branch	Block A, F6, Nanyang Commercial Bank Building, No. 800 Century Avenue, Shanghai, China	(86-21) 6887 9801
San Francisco Branch	31/F, 50 California Street, San Francisco, CA94111, USA	(1-415) 398 8866

Chiyu Banking Corporation – Branch Network

Branch	Address	Telephone
Hong Kong Island		
Central Branch	78, Des Voeux Road Central, Hong Kong	2843 1861
North Point Branch	390-394 King's Road, North Point, Hong Kong	2570 6381
Wanchai Branch	325 Hennessy Road, Wanchai, Hong Kong	2572 2823
Sheung Wan Branch	Shop 3, G/F, Lee Fung Building, 315-319 Queen's Road Central, Hong Kong	2544 1678
Western Branch	443 Queen's Road West, Hong Kong	2548 2298
Quarry Bay Branch	967-967A, King's Road, Quarry Bay, Hong Kong	2811 3131
Aberdeen Branch	G/F, 138-140, Aberdeen Main Road, Aberdeen, Hong Kong	2553 0603
Kowloon		
Hung Hom Branch	23-25 Gillies Avenue, Hung Hom, Kowloon	2362 0051
Kwun Tong Branch	42-44 Mut Wah Street, Kwun Tong, Kowloon	2343 4174
Sham Shui Po Branch	235-237 Laichikok Road, Kowloon	2789 8668
San Po Kong Branch	61-63 Hong Keung Street, San Po Kong, Kowloon	2328 5691
Yau Ma Tei Branch	117-119 Shanghai Street, Yau Ma Tei, Kowloon	2332 2533
Castle Peak Road Branch	G/F, 226-228 Castle Peak Road, Kowloon	2720 5187
Kowloon Bay Branch	Shop10, G/F, Kai Lok House, Kai Yip Estate, Kowloon Bay, Kowloon	2796 8968
Tokwawan Branch	G/F, Shop11-13, 78 Tokwawan Road, Kowloon	2765 6118
Tsz Wan Shan Branch	Shop 703A, 7/F, Tsz Wan Shan Shopping Centre, 23 Yuk Wah Street, Tsz Wan Shan, Kowloon	2322 3313
New Territories		
Yau Oi Estate Branch	Shop 103-104, G/F, Restaurant Block, Yau Oi Estate, Tuen Mun, New Territories	2452 3666
Kwai Hing Estate Branch	Shop 1, G/F, Hing Yat House, Kwai Hing Estate, Kwai Chung, New Territories	2487 3332
Tai Wo Estate Branch	Shop 112-114, G/F, On Wo House, Tai Wo Estate, Tai Po, New Territories	2656 3386
Belvedere Garden Branch	Shop 5A, G/F, Belvedere Square, Tsuen Wan, New Territories	2411 6789

Branch	Address	Telephone
Tsuen Wan Branch	Shop 1 & 1D, Level 2, Discovery Park Commercial Centre, Tsuen Wan, New Territories	2413 8111
Sui Wo Court Branch	Shop F7, Commercial Centre, Sui Wo Court, Shatin, New Territories	2601 5888
Ma On Shan Branch	Shop 313, Level 3, Ma On Shan Plaza, Bayshore Tower, Ma On Shan, New Territories	2640 0733
Sheung Tak Estate Branch	Shop 238, Sheung Tak Shopping Centre, Sheung Tak Estate, Tseung Kwan O, New Territories	2178 2278
The Mainland of China		
Xiamen Branch	1/F, Unit 111-113, No 861 Xiahe Road, Xiamen, Fujian Province, China	(86-592) 5857 690
Fuzhou Branch	1/F, International Building, 210 Wusi Road, Fuzhou, Fujian Province, China	(86-591) 8781 0078
Xiamen Jimei Sub-branch	No.88 Jiyuan Road, Jimei, Xiamen, China	(86-592) 6193 302

Nanyang Commercial Bank (China) – Branch Network

Branch	Address	Telephone
The Mainland of China		
Head Office	Nanyang Commercial Bank Building, No.800 Century Avenue, Pudong New Area, Shanghai, China	(86-21) 3856 6666
Shenzhen Branch	G/F, 2/F, Block C, Nanyang Mansion, No.2002 Jian She Road, Luohu District, Shenzhen, China	(86-755) 2515 6333
Shenzhen Shekou Sub-Branch	G/F, Finance Centre, No.22 Taizi Road, Shekou, Nanshan District, Shenzhen, China	(86-755) 2682 8788
Shenzhen Luohu Sub-Branch	G/F, The Kwangtung Provincial Bank Building, No.1013 Ren Min Nan Road, Luohu District, Shenzhen, China	(86-755) 8233 0230
Shenzhen Baoan Sub-Branch	Unit 108 Xushida Garden, Xin An Si Road, Baoan District 34-2, Shenzhen, China	(86-755) 2785 3302
Shenzhen Futian Sub-Branch	1/F, Shen Ye Garden Club House, Caitian Road, Futian District, Shenzhen, China	(86-755) 8294 2929
Haikou Branch	1/F, Time Square, No.2 Guomao Road, Haikou, Hainan, China	(86-898) 6650 0038
Guangzhou Branch	Room 402 & R03-04, Skygalleria CITIC Plaza, No.233 Tianhe North Road, Guangzhou, China	(86-20) 3891 2668
Guangzhou Panyu Sub-Branch	C001-C008 & C101-C106, No.2 Fuhua West Road, Shiqiao, Panyu, Guangzhou, China	(86-20) 3451 0228
Foshan Sub-Branch	Ground Floor P5-P6 & Room 403-405, Jinhai Plaza, No.21 Jihua Wu Road, Chancheng District, Foshan, China	(86-757) 8290 3368
Dalian Branch	1/F, Anho Building, No.87 Renmin Road, Dalian, China	(86-411) 3984 8888
Beijing Branch	G/F, Business No.2 Fortune Time Plaza, No.11 Fenghui Garden, Xicheng District, Beijing, China	(86-10) 5839 0888
Beijing Jianguomen Sub-Branch	Level 1A · 2A, No.88 Jianguomen Wai Dajie, Chaoyang District, Beijing, China	(86-10) 6568 4728
Beijing Zhongguancun Sub-Branch	Room 105&106, Ground Floor, No.8 Haidian North Second Street, Haidian District, Beijing	(86-10) 5971 8565
Shanghai Branch	1F, 2F & MF, Nanyang Commercial Bank Building, No.800 Century Avenue, Pudong New Area, Shanghai, China	(86-21) 2033 7500
Shanghai Xuhui Sub-Branch	Huafucheng Mansion, No.2 Lane 498 Tianyaoqiao Road, Xuhui District Shanghai, China	(86-21) 6468 1999
Shanghai Lujiazui Sub-Branch	Unit 103, No.166 Lujiazui Ring Road, Pudong New Area, Shanghai, China	(86-21) 3856 6566
Shanghai Hongqiao Sub-Branch	Unit 105-106, No.107 Zunyi Road, Changning District, Shanghai, China	(86-21) 6237 5000
Shanghai Huangpu Sub-Branch	Room A103-A107, Tomorrow Square, No.389 Nanjing West Road, Huangpu District, Shanghai, China	(86-21) 6375 5858
Hangzhou Branch	1/F, Guo Mao Da Sha, 195-1 Qingchun Road, Hangzhou, Zhejiang, China	(86-571) 8778 6000
Nanning Branch	1/F, Kings Wealth CBD Modern Town, No.63 Jinhua Road, Nanning, Guangxi, China	(86-771) 555 8333
Shantou Branch	G/F, No.3 Yingbin Road, Shantou, Guangdong, China	(86-754) 8826 8266
Qingdao Branch	South Door, No.66 Nanjing Road, Qingdao, China	(86-532) 6670 7676
Qingdao Economic & Technical Development Zone Sub-Branch	NO.218 Changjiang Middle Road, Economic & Technical Development Zone, Qingdao, Shandong, China	(86-532) 6805 5618
Chengdu Branch	M & 1/F, Dong Du INTL, 70 Section 2, Mid Renmin Road, Chengdu, China	(86-28) 8628 2777
Wuxi Branch	Vanke Homes, No.28 Changjiang North Road, Wuxi New District, Wuxi, China	(86-510) 8119 1666



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