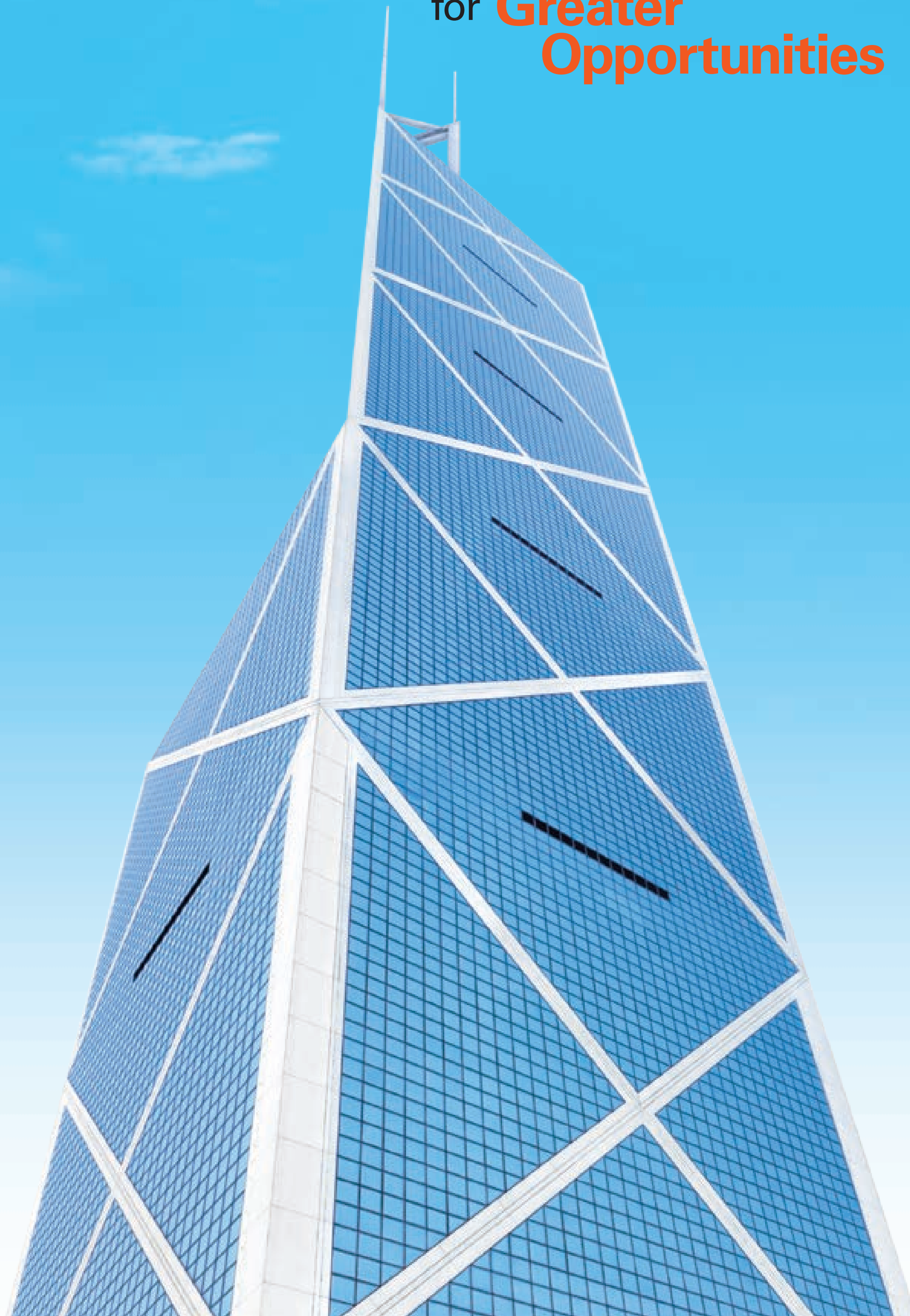
中銀香港(控股)有限公司
BOC HONG KONG (HOLDINGS) LIMITED

Stock Code: 2388

# 2013
# Annual Report

# Exploring New Frontiers for Greater Opportunities



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

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

**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 600 ATMs and other delivery channels in Hong Kong, BOCHK and its subsidiaries offer a comprehensive range of financial products and services to personal 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 41 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

During the year, the Group's performance reached a new high. We continued to enhance our competitiveness and maintain leading market positions in various business areas. Through stronger collaboration with our parent bank, BOC, we were able to capture the business opportunities on the Mainland and overseas.

Symbolising our aspirations for growth is the Bank of China Tower, our headquarters and a landmark in Hong Kong. Looking forward, we are deeply committed to our vision to be our stakeholders' premier bank. We will continue to maximise the shareholder value by exploring new frontiers for greater opportunities.

Rooted in Hong Kong, we care for the community that we serve. This year, we invited Mr Jack Li of the Arts with the Disabled Association Hong Kong to take photo of the Bank of China Tower for our report cover. In spite of his hearing impairment, Jack displays fully his artistic talent.

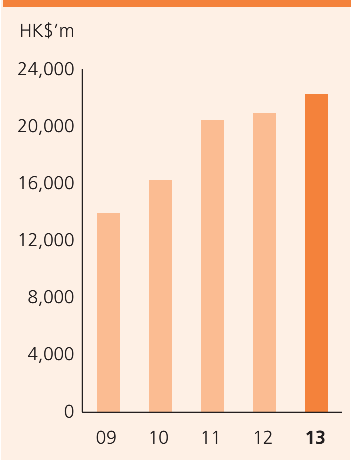
# Contents

# FINANCIAL HIGHLIGHTS

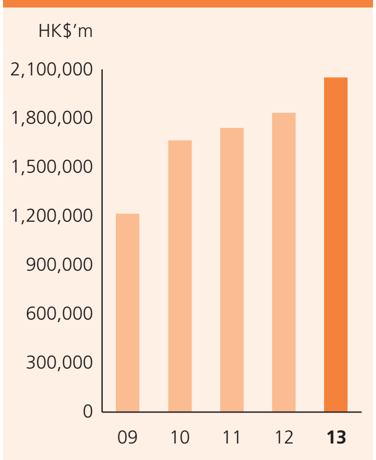
| For the year | 2013 HK$'m | 2012[6] HK$'m | Change +/(-)% |
|---|---|---|---|
| Net operating income before impairment allowances | **40,313** | 35,617 | 13.18 |
| Operating profit | **27,493** | 23,499 | 17.00 |
| Profit before taxation | **27,793** | 25,521 | 8.90 |
| Profit for the year | **23,075** | 21,547 | 7.09 |
| Profit attributable to the equity holders of the Company | **22,252** | 20,930 | 6.32 |
| **Per share** | **HK$** | HK$ | +/(-)% |
| Basic earnings per share | **2.1046** | 1.9796 | 6.32 |
| Dividend per share | **1.0100** | 1.2380 | (18.42) |
| **At year-end** | **HK$'m** | HK$'m | +/(-)% |
| Capital and reserves attributable to the equity holders of the Company | **158,813** | 150,969 | 5.20 |
| Issued and fully paid share capital | **52,864** | 52,864 | – |
| Total assets | **2,046,936** | 1,830,763 | 11.81 |
| **Financial ratios** | **%** | % | |
| Return on average total assets[1] | **1.22** | 1.24 | |
| Return on average shareholders' equity[2] | **14.37** | 14.91 | |
| Cost to income ratio | **29.97** | 31.61 | |
| Loan to deposit ratio[3] | **64.63** | 63.32 | |
| Average liquidity ratio[4] | **37.93** | 41.20 | |
| Total capital ratio/capital adequacy ratio[5] | **15.80** | 16.80 | |

1. Return on average total assets = $\dfrac{\text{Profit for the year}}{\text{Daily average balance of total assets}}$
2. Return on average shareholders' equity
   $= \dfrac{\text{Profit attributable to the equity holders of the Company}}{\text{Average of the beginning and ending balance of capital and reserves attributable to the equity holders of the Company}}$
3. 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".
4. Average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the year.
5. Total capital ratio/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 adoption of Banking (Capital) (Amendment) Rules 2012 and Banking (Capital) (Amendment) Rules 2013 since 1 January 2013 and 30 June 2013 respectively, the ratio for 2013 is not directly comparable to that of 2012.
6. Certain comparative amounts have been reclassified to conform with the current year's presentation.

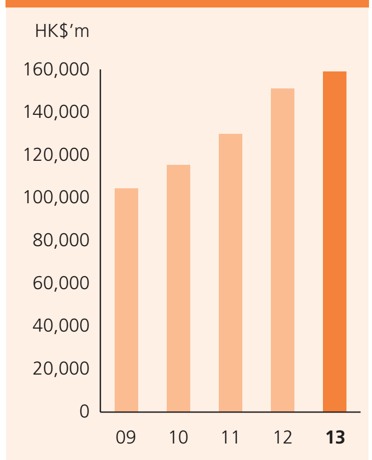
**Profit attributable to the equity holders of the Company**




**Total assets**




**Capital and reserves attributable to the equity holders of the Company**



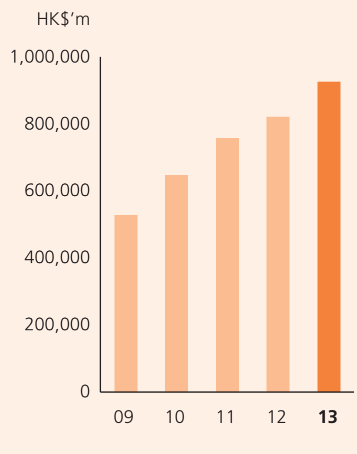
# FIVE-YEAR FINANCIAL SUMMARY

The financial information of the Group for the last five years commencing from 1 January 2009 is summarised below:

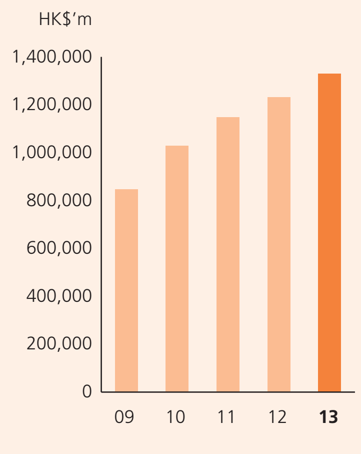
| For the year | **2013**<br>**HK$'m** | 2012[3]<br>HK$'m | 2011<br>HK$'m | 2010<br>HK$'m | 2009[2]<br>HK$'m |
|---|---|---|---|---|---|
| Net operating income before impairment allowances | **40,313** | 35,617 | 30,846 | 27,508 | 26,055 |
| Operating profit | **27,493** | 23,499 | 22,478 | 18,239 | 15,104 |
| Profit before taxation | **27,793** | 25,521 | 24,680 | 19,742 | 16,724 |
| Profit for the year | **23,075** | 21,547 | 20,813 | 16,690 | 14,251 |
| Profit attributable to the equity holders of the Company | **22,252** | 20,930 | 20,430 | 16,196 | 13,930 |
| **Per share** | **HK$** | HK$ | HK$ | HK$ | HK$ |
| Basic earnings per share | **2.1046** | 1.9796 | 1.9323 | 1.5319 | 1.3175 |
| **At year-end** | **HK$'m** | HK$'m | HK$'m | HK$'m | HK$'m |
| Advances and other accounts | **924,943** | 819,739 | 755,229 | 645,424 | 527,135 |
| Total assets | **2,046,936** | 1,830,763 | 1,738,510 | 1,661,040 | 1,212,794 |
| Daily average balance of total assets | **1,890,403** | 1,734,388 | 1,823,989 | 1,382,121 | 1,177,294 |
| Deposits from customers[1] | **1,327,980** | 1,229,131 | 1,146,590 | 1,027,267 | 844,453 |
| Total liabilities | **1,883,928** | 1,675,689 | 1,605,327 | 1,542,751 | 1,105,879 |
| 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 | **158,813** | 150,969 | 129,765 | 115,181 | 104,179 |
| **Financial ratios** | **%** | % | % | % | % |
| Return on average total assets | **1.22** | 1.24 | 1.14 | 1.21 | 1.21 |
| Cost to income ratio | **29.97** | 31.61 | 25.49 | 34.84 | 46.60 |
| Loan to deposit ratio | **64.63** | 63.32 | 61.00 | 59.69 | 60.98 |

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 adoption of HKAS 12 (Amendment) "Income Taxes".
3. Certain comparative amounts have been reclassified to conform with the current year's presentation.

**Advances and other accounts**




**Deposits from customers**



# *EFFICIENT* E-BANKING SERVICE

# CHAIRMAN'S STATEMENT

2013 has proven to be a year of moderate recovery in the global economy. Despite weak external trade, steady economic development in the Mainland of China and a resilient local labour market created conditions for robust expansion of private consumption to be the driver of GDP growth in Hong Kong. Locally, the operating environment for the banking sector remained challenging. Banks faced headwinds from volatile financial markets, sluggish property transactions and intense competition. In the period, the Group acted on business opportunities in a timely manner and optimised its assets and liabilities proactively. Conscious efforts were put into maintaining loan quality and enhancing competitiveness, which enabled us to secure a leading position in various business areas and achieve satisfactory results.

It gives me great pleasure to report that the Group's profitability reached another record high in 2013, thanks to double-digit increases in core revenues. Commendable performance was witnessed in all business segments with earnings quality improvement. Net operating income before impairment allowances increased by 13.2% year-on-year to HK$40,313 million. Operating profit before impairment allowances increased by 15.9% year-on-year to HK$28,230 million. Our profit attributable to the equity holders increased by 6.3% year-on-year to HK$22,252 million. Earnings per share were HK$2.1046. The Board has recommended a final dividend of HK$0.465 per share. Together with the interim dividend of HK$0.545 per share, this will bring the full-year dividend to HK$1.010 per share, translating into a dividend payout ratio of 48.0%.

As of 31 December 2013, the Group's total assets reached HK$2,046.9 billion, representing an increase of 11.8% year-on-year. During the period, we employed stringent risk management controls while taking an active approach to managing liquidity. Advances to customers grew by 10.3%, with a healthy increase in loan to deposit ratio. For the ninth consecutive year, we held the top ranking in the Hong Kong-Macau syndicated loan market. Our trade finance business increased at a favourable pace despite our prudent policy of conducting background checks on customers' transactions. Amidst low property market turnover levels, we developed products with special features to suit our customers' needs. This strategy helped us to maintain our lead in the underwriting of new mortgage loans in Hong Kong. On the back of our flexible deposit taking approach to cope with market changes, our deposits from customers increased by 8.0%. Furthermore, capitalising on market interest rate trends, we proactively optimised asset-liability structure and enhanced control on funding cost as well as loan pricing. Our net interest margin widened by 8 basis points to 1.68% as a result.

Banks in Hong Kong are required to follow Basel III standards in phases with higher capital requirements since 1st January 2013. The Group's solid capital base provided firm footing for us to capture business growth. At the end of December 2013, our total capital ratio under Basel III rules was 15.80%. Average liquidity ratio was 37.93%. During the year, we strengthened risk management in industries that required closer monitoring. Asset quality remained benign with a classified or impaired loan ratio of 0.28%.

Adhering to its customer centric principle, the Group continuously looks for new ways to serve its customers better as it grows with them. In 2013, we refined customer segmentation and launched a new wealth management service to facilitate the optimisation of customer mix. In addition, we made further improvements in customer experience through enhanced online banking functions and by providing more convenient payment methods via the "BOCHK e-Wallet Mobile Payment Services". We also promoted the sales and service capabilities of business platforms. While our credit card and securities brokerage businesses recorded steady growth in commission income, our funds distribution and insurance businesses delivered even stronger growth. Moreover, our cash management business expanded its customer base through continuous enhancement of products and services. To support the relevant measures under the "SME Financing Guarantee Scheme", the Group launched a

# CHAIRMAN'S STATEMENT

privileged guarantee fee subsidy for SME customers to meet their financing needs and foster their business development. BOCHK is the recipient of the "Best SME's Partner Award" for six consecutive years.

Globally, the usage of Renminbi in trade, investment and transaction increased markedly in 2013, reflecting its rising importance in the world economy. The establishment of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, China (Shanghai) Pilot Free Trade Zone and the emergence of other offshore RMB hubs further fuelled offshore RMB business momentum. This will bring banks in Hong Kong both opportunities and challenges. During the year, the RMB liquidity requirement was optimised by the HKMA, injecting new life into local offshore RMB centre. As the sole RMB Clearing Bank in Hong Kong, BOCHK has been constantly upgrading its infrastructure. For example, we extended the service hours for cross-border RMB clearing service and introduced measures to offer participating banks more options to manage their RMB funds, enabling the RMB business to thrive locally.

The Group reinforced its leading position in the offshore RMB business. We continued to bolster integrated capabilities for RMB business and remained a key player in the offshore RMB market by developing new products and enhancing professional service platforms. During the period, we witnessed steady growth in both RMB loans and deposits, while sustaining our leadership in the local RMB insurance market. Our newly launched high-yield RMB bond fund products were well received by the market. The Group's new Offshore RMB Bond Index Series offers a unique benchmark to meet increasing demand for RMB fixed rate products. Benefiting from the opportunity offered by RQFII policy relaxation, we were well placed to grow custody business as the market leader in this segment.

In 2013, we capitalised on the business potential arising from Mainland enterprises going abroad and foreign companies investing on the Mainland, through stronger collaboration with our parent bank, BOC, and its overseas branches. With our synergies and product advantages, we jointly completed significant acquisition-related syndication and debt issuances, fulfilling the financing needs of customers with tailor-made solutions. In the meantime, a wide array of promotional events was held to market our private banking service to Mainland customers. We also provided more convenience to our customers by making our BOC Remittance Plus service available in all domestic branches of BOC. By fully leveraging the competitive edge of the BOC group, we successfully enlarged our customer base worldwide.

BOCHK was named "the Bank of the Year in Hong Kong 2013" by "The Banker" magazine, in recognition of the Group's success in enhancing its business capabilities and for solid development. On the other hand, we took the initiative to assimilate the values of corporate social responsibility into our growth strategy, effectively establishing a positive reputation. During the year, we launched the first voice navigation ATM in Hong Kong, expanding further our obstacle-free facilities. We also cancelled the service charges on dormant accounts, fulfilling our pledge to support the "Treat Customers Fairly Charter". These actions demonstrate the Group's commitment to serve the community of Hong Kong where we have established deep roots.

Heading into 2014, prospects for the banking sector appear to be more favourable as the global economic recovery is expected to remain on track. We will embrace new business opportunities arising from the Renminbi's increasing role as an international currency, reforms in China gradually taking shape and steady developments in regional financial reform pilots. However, we must stay highly vigilant of the liquidity movements in the banking system given uncertain capital outflows weighing on emerging markets as the United States tapers its quantitative easing measures.

Mr XIAO Gang resigned from his position as Chairman of the Company on 17 March 2013 due to the need of the state financial work. With his leadership, the Group achieved outstanding results through a decade of extraordinary development. This has built a strong foundation for the Group's long-term prosperity. I was honoured to be appointed as the Chairman of the Company on 4 June 2013. On behalf of the Board, I would like to take this opportunity to thank Mr XIAO again for his remarkable contribution to the Group. I also extend sincere thanks to Mr TUNG Chee Chen, who retired last May as an Independent Non-executive Director, for his valuable advice to the Group over the years. Finally, I would like to express my heart-felt appreciation to our shareholders for their support and trust in our Group, to each of our Board members for their wisdom and counsel, as well as to all our staff for their diligence in the past year. Their collective efforts were essential to keeping the Group on a path of solid progress.

In the face of a changing market environment and heightening capital requirements, we will continue to manage asset-liability, capital and liquidity of the Group proactively with stringent control over risks. Leveraging our robust financial strength, the Group always puts innovation and customer experience at the heart of its business philosophy. We will stay abreast of the latest trends in information technology and provide banking products and services that suit the needs of our customers. We strive to achieve long-term goals by strengthening and deepening full-scale collaboration with our parent bank, BOC, with a view to writing a new page for BOCHK and bringing higher value to our shareholders.

**TIAN Guoli**
*Chairman*

Hong Kong, 26 March 2014

# CHIEF EXECUTIVE'S REPORT

The Group achieved a set of respectable results in 2013, driven by solid growth of our core businesses. Our profit attributable to the equity holders reached a new high. This is a particularly remarkable achievement after taking into account the substantial drop in the property revaluation gain during the period. The satisfactory growth was fuelled by higher net interest income and fee income as well as effective cost control. The Group's financial position remained strong with healthy growth in loans and deposits. We continued to deliver on our strategic objectives and build our customer franchise.

Our performance was well recognised by various industry awards across our major businesses. We were also named as the Bank of the Year in Hong Kong 2013 by The Banker in recognition of our consistently sound performance and the continuous success in building our franchise, particularly in the development of offshore RMB business.

## Operating Environment

In 2013, banks in Hong Kong faced a mixed operating environment as characterised by modest economic growth in Hong Kong, a sluggish property market and volatile financial markets. At the same time, banks needed to comply with more stringent regulatory requirements in running their businesses.

In terms of opportunities, the offshore RMB business in Hong Kong grew steadily with a number of new initiatives introduced to promote the use of RMB in trade and investment activities. The development of RMB business was further supported by HKMA's new measures to enhance the operation of the RMB liquidity facility. While competition remained keen, there continued to be good opportunities for lending business driven by strong demand from the Mainland.

## Our Strategy and Achievements

### *Strive to enhance customer experience*

The Group is committed to becoming customers' premier bank with comprehensive solutions and professional services. One of our key competitive advantages is a robust customer base. Our sophisticated customer segmentation strategy enables us to better cater for the diverse needs of our customers and to attract new customers.

During the year, we strengthened our wealth management platform with a three-tier structure, for more targeted sales and services. The Group re-packaged its i-Free Banking Service to meet the basic banking and financial planning needs of general customers, especially the younger segment. As part of our customer segmentation strategy, Enrich Banking Service was launched in late 2013 to the busy mid-segment working population, offering all-round financial management solutions. We continued to enhance our Wealth Management Service, targeting high-end customers with personalised services and professional financial solutions. Launched in late 2012, our Private Banking service provides affluent customers with a one-stop integrated service model encompassing investment management, liquidity management and estate planning. During the period, it worked closely with business units of the Group, BOC and our Mainland operation on a series of client acquisition and referral activities. Overall, our customer segmentation strategy made good progress for the period by growing the customer base and assets under management. It also enabled us to conduct more effective marketing and cross-selling activities.

For our corporate customers, we continued to deepen our industry expertise to better serve targeted customers of different industries. A Corporate Services Centre was set up to further improve service efficiency and quality. We also worked to enhance our service for SME customers. The corporate internet banking platform, CBS Online, was upgraded with a modern and user-friendly interface. In terms of products, we continued to broaden our offerings in areas such as trade finance, custody service and cash management service.

### *Extend our reach to drive growth*

The Group is a leading banking group in Hong Kong with strong market positions in all major businesses. Over the past few years, we saw considerable opportunities arise from the development of the offshore RMB business and increasing demand for cross-border banking services, especially on the back of the international expansion of our major customers. Capitalising on these opportunities, we have successfully expanded our presence outside Hong Kong. This is also attributable to our close collaboration with BOC, our parent bank, which enhances our global service capabilities.

During the period, we continued to work in conjunction with BOC across a wide range of areas to explore business opportunities. We established a business referral channel with BOC's branches on the Mainland and overseas for both onshore and offshore businesses. BOCHK is not only the top mandated arranger in the Hong Kong-Macau syndicated loan market, but also acts as the Asia-Pacific Syndicated Loan Centre of BOC Group. In 2013, we successfully helped arrange a syndicated loan led by the BOC Group to finance a renowned acquisition. This enhanced the Group's reputation internationally as an arranger bank in both M&A finance and the syndicated loan market. Collaborating with BOC, we have also further strengthened our cross-border banking services for both personal and corporate customers.

As the Clearing Bank of the offshore RMB business in Hong Kong, we continued to enhance our clearing service platform to cater for the needs of both local and global participating banks. During the period, we extended the operating hours for cross-border RMB payments involving Mainland counterparts, introduced time deposit products, launched a tiered interest rate offering for participating banks' settlement accounts and adjusted RMB intra-day repo limits.

The offshore RMB business, as our key strategic focus, enables us to capture more business opportunities and enhance customer relationships. The Group maintains its leadership in this business, riding on its strong RMB franchise and experience. We have successfully secured new customer groups, including international companies, public organisations and global financial institutions. In 2013, BOCHK was also designated as a market maker for USD/CNH (offshore RMB) futures by the Chicago Mercantile Exchange Group, being the sole bank among the first group of market makers. BOCHK partnered with FTSE Group to develop the new FTSE-BOCHK Offshore RMB Bond Index Series. This landmark partnership combines BOCHK's unique position in the offshore RMB business with FTSE's leading index expertise. We launched concerted marketing campaigns globally with BOC to promote the RMB services of BOC Group. During the year, BOCHK was appointed by Clearstream Banking S.A. as its cash correspondent bank for offshore RMB in Hong Kong. This appointment reinforced the Group's leading position in the RMB business. All these developments have helped raise the international profile of the Group significantly and extend our reach outside Hong Kong, enabling us to capture more business opportunities.

### *Maintain a strong financial position for sustainable development*

Our top priority continues to be to maintain a strong financial position, which gives us the flexibility to grow and manage our business amid fluctuating market conditions. During the period, the Group maintained its proactive yet prudent approach in managing its balance sheet and driving business development. All key financial ratios were maintained at healthy levels.

# CHIEF EXECUTIVE'S REPORT

Starting from 1 January 2013, the Basel III requirement came into effect. We continued to manage our capital and liquidity proactively. As at the end of 2013, the Group maintained its solid capital and liquidity position.

We continued to adopt stringent risk management and credit control to deliver quality growth. Overall loan quality remained healthy with our classified or impaired loan ratio staying at a low level. Our investment book was prudently managed to optimise risk and return.

Under the persistently low interest rate environment and intense competition, we took proactive measures to allocate our assets, enhance the deployment of offshore RMB funds, improve loan pricing and control deposit costs. In terms of asset allocation, we reduced securities investments in lower yielding government-related securities. New debt securities investments were made in high-quality financial institutions and corporations. Average yields for our interbank balances and placements, debt securities investments and customer loans all improved from last year's levels. As a result of these conscious efforts, the Group's net interest margin improved further both year-on-year and half-on-half.

While we remain focused on investing in our business platform, we believe that maintaining cost discipline is also critical to our long-term success. During the period, we judiciously managed expenditure to ensure cost efficiency while allowing sufficient resources to drive business growth. In addition, we took measures to improve operational efficiency by streamlining and centralising business processes. Our cost to income ratio further improved in 2013 on the back of our cost control measures and stronger income growth.

## Financial Performance

For the period under review, the Group's net operating income before impairment allowances was HK$40,313 million, up by 13.2% as compared to 2012. The growth was mainly driven by the increase in net interest income and net fee and commission income. Operating expenses rose by 7.3% to HK$12,083 million due to business expansion. Cost to income ratio improved to 29.97% from 31.61%. The net gain from fair value adjustments on investment properties fell considerably by 86.0% or HK$1,621 million. Despite the drop in this non-operating income, profit attributable to the equity holders still reached a new high of HK$22,252 million, up 6.3% year-on-year. Return on average total assets and return on average shareholders' equity were 1.22% and 14.37% respectively compared to 1.24% and 14.91% in 2012.

Net interest income rose by 13.0% year-on-year to HK$27,916 million. The increase was driven by the growth in average interest-earning assets and the widening of net interest margin. Average interest-earning assets expanded by 7.4%, mainly supported by the increase in customer deposits, partly offset by the decrease in RMB funds from the clearing bank business. Net interest margin was 1.68%, up 8 basis points compared to 2012. The increase was mainly attributable to the widening of loan and deposit spread.

Net fee and commission income grew by 15.5% year-on-year to HK$8,965 million. The increase was broad-based, reflecting the Group's continuous efforts in expanding its service capabilities. Fee and commission income from funds distribution, insurance and securities brokerage increased substantially by 52.0%, 33.2% and 15.0% respectively.

Net trading gain decreased 5.5% year-on-year to HK$2,957 million. The decrease was mainly due to the mark-to-market changes of certain debt securities.

As at 31 December 2013, total assets increased by 11.8% to HK$2,046.9 billion compared with end-2012. The Group maintained a flexible deposit strategy to support business growth with cautious control of funding costs in response to market changes. Deposits from customers expanded by 8.0% to HK$1,328.0 billion. Advances to customers grew by 10.3% to a total of HK$858.3 billion. Loan to deposit ratio increased to 64.63%, up 1.31 percentage points from the end of 2012. Overall loan quality remained sound with the classified or impaired loan ratio at a low level of 0.28%.

Effective 1 January 2013, the calculation of the capital ratios was in compliance with the Basel III Accord. The total capital ratio as at 31 December 2013 was 15.80%. The average liquidity ratio for 2013 was 37.93%.

## Business Review

**Personal Banking** business performed strongly in 2013 with broad-based income growth. Net operating income before impairment allowances and profit before taxation increased by 18.3% to HK$13,699 million and 25.6% to HK$6,926 million respectively.

Investment and insurance businesses saw an encouraging performance with strong growth of commission income from securities brokerage, funds distribution and insurance. Credit card business also made good progress with growth in related fee income. It maintained its leadership in the UnionPay International merchant acquiring business and card issuing business in Hong Kong. We also launched an innovative and convenient mobile payment service, BOCHK e-Wallet. Customers can make contactless credit card transactions with mobile phones equipped with BOC SD card and the BOCHK e-Wallet application.

The residential mortgage business was affected by the cooling down of the local residential property market. The market remained fairly upbeat at the beginning of the year but faced a slowdown following the introduction of further prudential measures by the government in February. Transaction volumes declined significantly from 2012. Competition was intense. The Group's residential mortgage loans grew by 1.8% while it maintained its market leadership in the underwriting of new mortgage loans during the year.

**Corporate Banking** business continued its growth momentum in 2013. Net operating income before impairment allowances increased by 16.7% to HK$15,842 million while profit before taxation increased by 21.8% to HK$11,844 million.

The strong performance was mainly led by higher net interest income. Corporate loan book grew 11.9% with sound loan quality. While growing our loan business, we continued to strengthen our know-your-customer process and close monitoring measures were put in place to ensure that timely precautionary measures can be taken to contain risks.

By stepping up business initiatives and cooperation with BOC, we captured more business opportunities and reinforced our competitive edge. In collaboration with BOC, the Group has increased its stature in the international syndicated loan market, while it has made good progress in the cross-border direct loan business. In the custody business, the Group continued to expand its client base in different geographical locations and successfully secured mandates to provide custody services for RQFII-ETFs and various types of RQFII and QDII products. The service capabilities of our cash management business were enhanced to reinforce its competitive position as the cross-border fund centre for customers in Hong Kong.

**Treasury** segment's performance was down slightly compared to 2012 although its second half performance showed a pick-up from the first half. Net operating income before impairment allowances decreased by 1.3% year-on-year to HK$9,497 million while profit before taxation decreased by 0.4% to HK$8,347 million.

The Group prudently managed its banking book investments. We shortened the average portfolio duration and selectively increased investments in high-quality financial institutions, corporate bonds and RMB-denominated bonds.

On the product development front, with timely response to market conditions, we promoted products suited to customer needs. We also made encouraging progress in underwriting bonds in different denominated currencies. The Group continued to pioneer the launch of RMB treasury products. We completed the first CNH/USD cross-currency swap transaction using CNH HIBOR as the pricing benchmark. The Group also successfully acted as the arranger for the issuance of the first certificate of deposit using CNH HIBOR as the benchmark rate, offering the market more choice of floating rate debt instruments.

Our **Mainland** business delivered a remarkable performance in a tough banking environment. Net operating income increased by 28.5% driven by higher net interest income and fee income. Deposits and loans recorded satisfactory growth of 16.0% and 12.8% respectively.

# CHIEF EXECUTIVE'S REPORT

Product offerings and distribution channels in our Mainland operation were further enhanced. A new series of wealth management products was introduced. During the period, NCB (China) commenced its credit card issuing business on the Mainland. The Group's SME business platform was reinforced by the development of tailor-made products to support targeted SME customers. With our branch network expanding to 41 and more features added to our personal and corporate e-Banking platform, the Group's distribution capabilities on the Mainland were strengthened.

**Insurance** business achieved a robust performance in 2013. Net operating income before impairment allowances grew by 66.5% year-on-year to HK$1,404 million. Profit before taxation jumped by 87.8% to HK$1,144 million.

The Group continued to broaden its product offerings to meet customers' diverse needs. It continued to do well, in particular, in RMB products and maintained its leading position in the Hong Kong RMB insurance market. The Group also actively developed new distribution channels and established partnerships with brokerage houses to promote insurance products. This enabled the Group to reach a wider range of customers.

## Outlook

For 2014, we expect to see modest growth in major economies. While the US economy continues its gradual recovery, the Mainland economy is expected to slow down but in a managed manner. Hong Kong's economy is likely to be relatively stable and may expand moderately in 2014. However, uncertainties still exist in the macro environment that could lead to unexpected market volatility and need to be monitored closely. The US economic recovery and the tapering of the quantitative easing programme will have important implications for the global markets in relation to the normalisation of the interest rate trend.

On the positive side, acceleration in economic reform and the structural balancing process on the Mainland will provide Hong Kong with many opportunities. Exploring new patterns in cross-border cooperation and the continuous expansion of the offshore RMB markets will continue to provide banks with emerging business opportunities going forward. Nevertheless, banks in Hong Kong are also facing a tougher environment with regard to the tighter regulatory environment in terms of capital, liquidity and risk management. The Basel III regulatory regime has come into effect with more stringent capital and liquidity requirements. In addition, the supervisory requirements on the maintenance of liquidity cushions against a range of liquidity stress scenarios will become effective at the end of March 2014. Amid concerns over rising household leverage, HKMA has also set out requirements on the risk management of personal lending business. Banks, therefore, need to review prudently their business strategies and be prepared for a changing industry landscape.

The proactive strategies that we have implemented have put us in a strong position to continue our growth trajectory. We see considerable growth opportunities ahead for the Group, especially from the increasing use of RMB globally. This year is the tenth anniversary of BOCHK operating as the RMB Clearing Bank in Hong Kong. Over the past years, we witnessed the robust development of the offshore RMB markets with RMB transactions becoming more prevalent around the world. The Group has also made great strides in its business development and firmly established its market leadership in the offshore RMB business. Capitalising on our strong RMB franchise, we will continue to expand and deepen our customer base. We will also continue to drive product and service innovation to strengthen our market position.

In 2013, RMB cross-border trade settlement cleared via Hong Kong's clearing platform continued to see remarkable growth. As the Clearing Bank of the offshore RMB business in Hong Kong, we are committed to promoting the development of Hong Kong as a major offshore RMB hub. We endeavour to enhance our service capabilities and efficiency to cope with the growing clearing volume.

Our increasing collaboration with BOC has enabled us to strengthen our service capabilities, expand our customer base and extend our geographical reach. Over the past few years, the Group has substantially enhanced its product and service capabilities. This will enable us to better fulfil our role as the product manufacturing and service support centre for BOC Group. Major collaboration and business referral mechanisms have also been established. We are working closely together in a number of business areas, including RMB business, cash management, custody service, private banking and cross-border services to enhance BOC Group's total solution capabilities to cater for the international needs of our customers. This strategy has proved to be successful in capturing new business and securing quality customers. Our Chairman, Mr TIAN Guoli, who joined the Company in June 2013, is very supportive of this strategy. He has shared with the Management much insight on how to further enhance the synergies within BOC Group going forward. We see many areas where we could further deepen and expand our collaboration for mutual benefits.

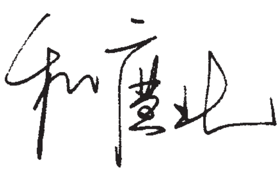
Cross-border business and offshore RMB business are the two key strategic focuses of BOC Group and also where our strengths lie. Last year, a number of favourable market initiatives were introduced, covering the RQFII scheme, cross-border RMB business, the introduction of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone and the China (Shanghai) Pilot Free Trade Zone. Leveraging BOC Group's overall service capabilities and strong franchise, we are strongly positioned to capture these opportunities.

To cater for the global needs of our leading corporate customers, we will continue to upgrade our global service platform in areas such as cross-regional cash management, custody, treasury products, and trade products and services. We also see great demand for cross-border wealth management solutions from our personal customers, not only in Hong Kong, but also from the Mainland and overseas. We will increase our collaboration in product innovation and distribution. The Group's asset management arm, though it was only set up in 2010, has already established a very strong market position and is well recognised by a number of industry awards. It will endeavour to offer personal and institutional investors with comprehensive investment solutions.

Maintaining a strong financial position will continue to be a key priority of the Group, especially in view of the considerable opportunities we have going forward. We will proactively manage our capital and liquidity. To support the Group's mid-to-long-term growth, we need to be more forward looking and take proactive measures to enhance our capital base and ensure the efficient use of our capital when implementing our business strategies. This also includes our strategy to invest in areas that boost the development of less capital-driven businesses. Riding on our customer segmentation strategy, we will continue to explore business opportunities with target customer groups. We will strive to develop primary banking relationships with our customers through product and service differentiation.

We will continue to focus our investments on areas that will enhance our total solution capabilities and drive future growth. We will also make use of fast-developing technology to drive efficiency and innovation, introducing new business capabilities to meet the evolving needs of our customers and enhancing the overall customer experience.

We are pleased with our progress to date. This achievement is attributable to the continuous support of customers and shareholders, the dedication of our staff, as well as the wisdom and counsel of the Board. Mr TUNG Chee Chen, who had been the Company's Independent Non-executive Director since 2002, retired last May. On behalf of the Group, I would like to take this opportunity to thank him for his valuable contributions to the Group during his tenure. Looking forward, I truly believe that the Group will continue to be well positioned to capture quality growth opportunities ahead. My colleagues and I are deeply committed to our vision to be our stakeholders' premier bank and to strive for continual improvement.



**HE Guangbei**
*Vice Chairman & Chief Executive*

Hong Kong, 26 March 2014

# *INNOVATIVE* RMB SERVICE

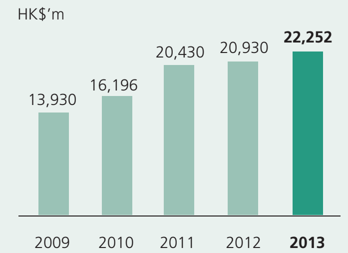
# MANAGEMENT'S DISCUSSION AND ANALYSIS

## FINANCIAL PERFORMANCE AND CONDITION AT A GLANCE

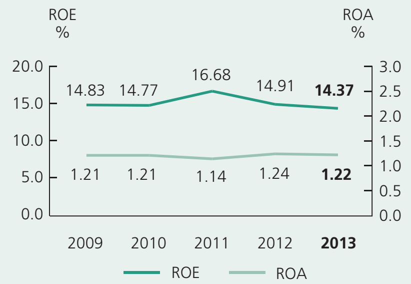
The Group delivered once again a set of satisfactory financial results in 2013. Both net operating income before impairment allowances and profit attributable to the equity holders achieved a record high since listing while the Group's financial position remained solid.

**Key Performance Trends**

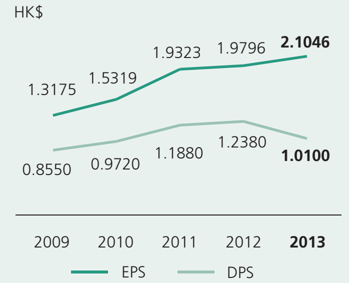
**Profit Attributable to the Equity Holders**




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




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




**Profit attributable to the equity holders**

- Profit attributable to the equity holders increased by 6.3% year-on-year to HK$22,252 million, a record high since listing. The increase was driven by the 17.0% growth of operating profit after impairment allowances, partly offset by a drop in net gain from fair value adjustments on investment properties.

**Solid return with sustainable growth in core income**

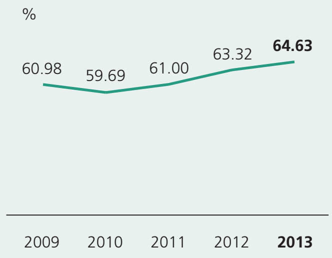
- ROE was 14.37%, down 0.54 percentage point year-on-year, as the increase in average equity outpaced that of the profit. Higher average equity was mainly caused by additions of retained earnings and the higher average premises revaluation reserve.
- ROA was 1.22%.

**Return to shareholders**

- EPS was HK$2.1046. DPS was HK$1.01.

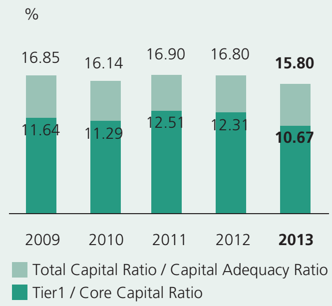
## Financial Position

### Loan to Deposit Ratio[3]



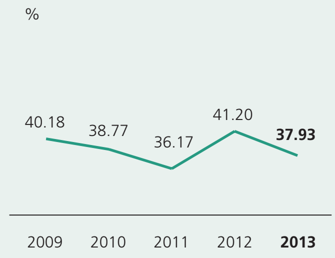

as at 31 December

### Capital Ratio[4]




as at 31 December

### Average Liquidity Ratio[5]



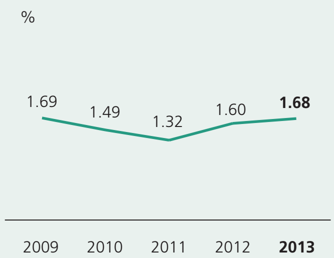

**Loan and deposit growth at a steady pace**
- Advances to customers increased by 10.3% while deposits from customers rose by 8.0%. Loan to deposit ratio was 64.63%.

**Solid capital position to support business growth**
- Total capital ratio was 15.80% while Tier 1 capital ratio was 10.67%. Starting from 1 January 2013, the calculation of the capital ratios was in compliance with the Basel III Accord.

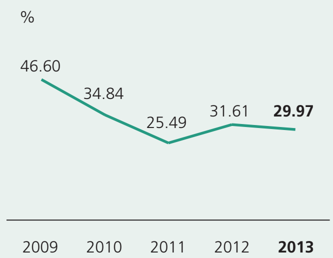
**Sound liquidity position**
- Average liquidity ratio stood at a sound level of 37.93%.

## Key Operating Ratios

### Net Interest Margin ("NIM")




### Cost to Income Ratio[6]




### Classified or Impaired Loan Ratio[7]


as at 31 December

**Solid improvement in NIM**
- NIM was 1.68%, up 8 basis points year-on-year, mainly attributable to the improvement in loan and deposit spread.

**Cautious cost control**
- Cost to income ratio was 29.97%, down 1.64 percentage points year-on-year, among the lowest in the industry.

**Classified or impaired loan ratio at a low level**
- Classified or impaired loan ratio stood at a sound level of 0.28%, below the market average.

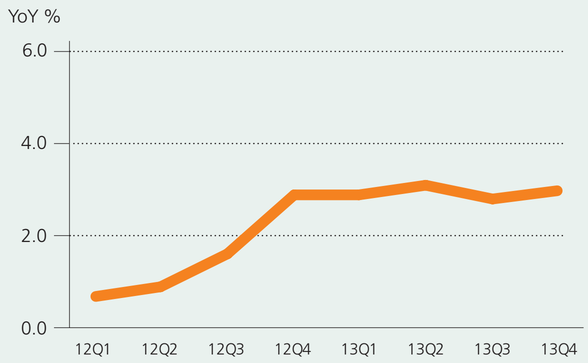
1. Return on Average Shareholders' Equity as defined in "Financial Highlights".
2. Return on Average Total Assets as defined in "Financial Highlights".
3. The deposit base also includes structured deposits reported as "Financial liabilities at fair value through profit or loss".
4. The capital ratios 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 Banking (Capital) (Amendment) Rules 2012 and the Banking (Capital) (Amendment) Rules 2013 came into operation on 1 January 2013 and 30 June 2013 respectively. 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.
5. The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the year.
6. Certain comparative amounts in 2012 have been reclassified to conform with the current year's presentation.
7. Classified or impaired loans represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## ECONOMIC BACKGROUND AND OPERATING ENVIRONMENT

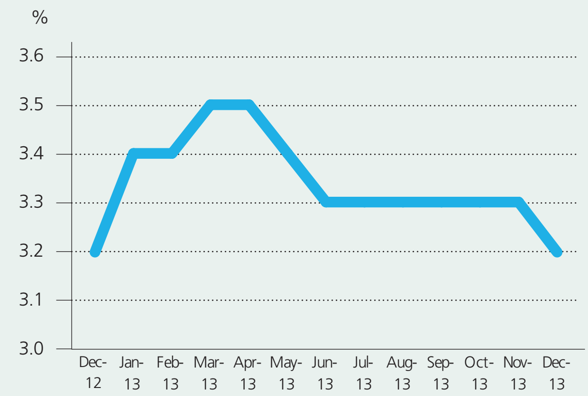
In 2013, the global economic recovery continued on a modest growth trajectory. In the US, with the unemployment rate trending downward and property prices climbing steadily, the prospects for economic growth look brighter relative to other developed economies although momentum remains mild. The economy in the Eurozone emerged from an 18-month recession with modest GDP growth rates. However, elevated unemployment rates and fiscal tightening continued to hinder economic recovery. In the Mainland, economic growth slowed owing to sluggish external demand but the introduction of a series of micro stimulus measures by the Central Government helped the economy regain momentum in the second half of the year. Meanwhile, financial markets were susceptible to volatility since May as there were uncertainties regarding the timing and the pace of tapering of the bond purchase programme by the Federal Reserve ("the Fed").

**Hong Kong Real GDP Growth Rate**




Source: HKSAR Census and Statistics Department

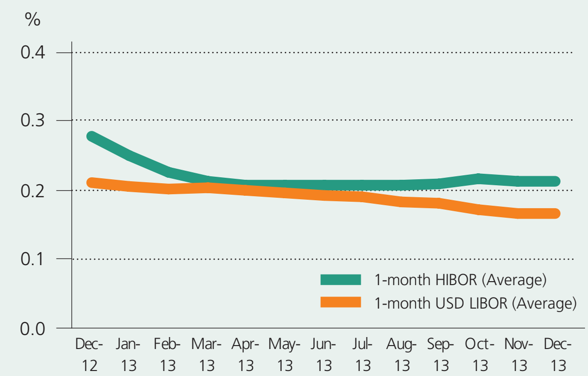
**Hong Kong Unemployment Rate**




Source: HKSAR Census and Statistics Department

Notwithstanding sluggish external demand, the Hong Kong economy continued to grow at a moderate pace as private consumption remained buoyant. Domestic demand continued to be the major driver of Hong Kong's economic growth. GDP rose by 2.9% in 2013. The unemployment rate stayed at a low level. Inflationary pressure softened with the Composite CPI rising by 4.3% year-on-year in 2013.

**HIBOR and USD LIBOR**




Source: Bloomberg

The low interest rate environment continued to prevail in Hong Kong. Average 1-month HIBOR and USD LIBOR fell from 0.28% and 0.21% in December 2012 to 0.21% and 0.17% respectively in December 2013. Meanwhile, long-term interest rates rose. The average 10-year HKD Swap rate and USD Swap rate rose from 1.38% and 1.76% in December 2012 to 2.79% and 2.96% respectively in December 2013, with concerns of the Fed's tapering.

The Hong Kong stock market saw increased volatility during the year. In the first half, market sentiment weakened with uncertainty about the Fed's exit strategy for monetary stimulus and the slowdown of economic growth in the Mainland, resulting in the sharp sell-off in June. Nevertheless, stock prices rebounded in the second half with improvement in the Mainland economy and the Fed's decision to start tapering, which was greeted by markets as a sign of improvement in the US economy. The Hang Seng Index reached the lowest point of the year at 19,814 in June and closed at 23,306 at the end of 2013, up 2.9% on a yearly basis.

The local residential property market remained fairly upbeat in early 2013 but cooled following the introduction of further prudential measures by the government in February. As a result, transaction volumes in 2013 plunged compared to 2012. Meanwhile, there was a year-on-year increase in the prices of private domestic properties.

In 2013, the offshore RMB business in Hong Kong grew steadily in terms of market depth and breadth. The total balance of RMB deposits in Hong Kong reached a record high at the end of 2013, representing an increase of 42.7% from 2012. A number of initiatives were introduced to promote the global use of RMB in trade and investment activities. These included the further relaxation of investment restrictions relating to the RQFII scheme, the simplification of operating procedures for cross-border RMB business, and the introduction of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone and the China (Shanghai) Pilot Free Trade Zone. Furthermore, the HKMA announced two enhancements to the operation of the RMB liquidity facility to provide additional short-term liquidity to support the offshore RMB market. It also removed the RMB net open position limits and the requirement on the RMB liquidity ratio. All these initiatives helped boost the further development of offshore and cross-border RMB business and gave banks more flexibility to conduct RMB business.

With respect to the regulatory environment, the HKMA issued a guidance paper in December 2013 on sound practices for transaction screening, transaction monitoring and suspicious transaction reporting. Banks are expected to give due consideration to the adoption of the recommended practices set out in the paper, where appropriate, or otherwise adopt control measures that are equally effective. The HKMA also set out requirements in January 2014 on the risk management of personal lending business by banks in Hong Kong amid concerns over rising household leverage. With regard to liquidity management, the supervisory requirements on the maintenance of liquidity cushions against a range of liquidity stress scenarios will become effective by the end of March 2014.

Overall, the operating environment for the banking industry remained challenging in 2013. While the offshore RMB market continued to provide the banking sector with more business opportunities, the low interest rate environment, weak external demand and keen market competition hindered banks' profitability.

## Outlook for 2014

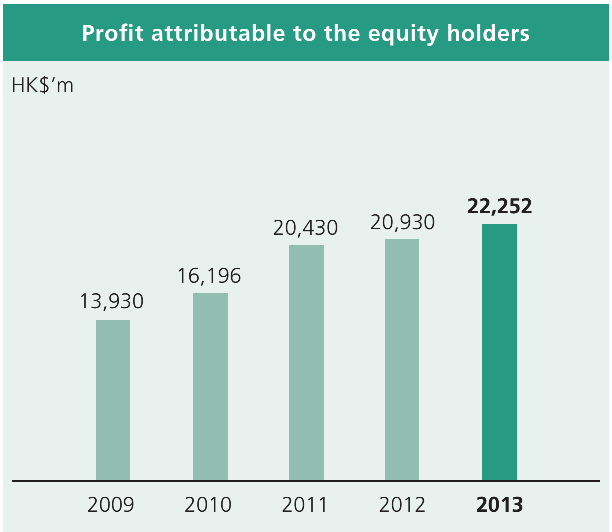
Going into 2014, the overall operating environment for banks in Hong Kong looks mixed as both opportunities and challenges coexist. Global economic recovery is expected to gain strength and provide a stable environment and stronger demand for financial services from the banking sector. With the gradual internationalisation of RMB and wider acceptance of RMB as the transaction currency, banks will have more opportunities to develop RMB-related products and services. The implementation of economic and financial reform measures in the Mainland will provide banks in Hong Kong, in particular, with more business opportunities.

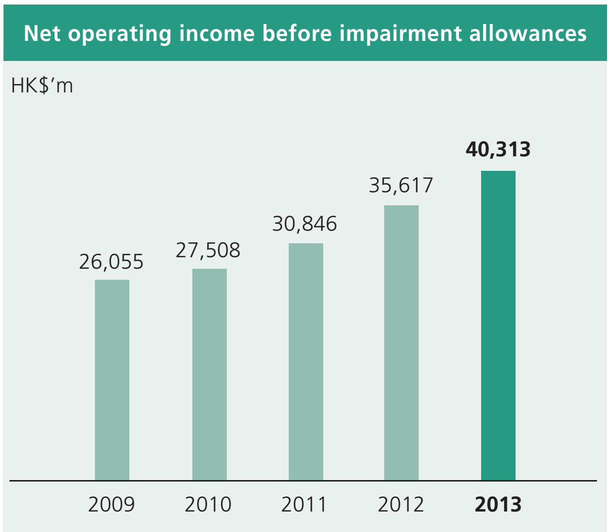
However, the Fed's tapering of stimulus measures, which started in early 2014, and tightened liquidity in the Mainland may lead to increasing volatility in financial markets and risk of capital outflows in emerging markets. With the loan to deposit ratio of the Hong Kong banking sector reaching a relatively high level, banks may face greater challenges in deposit taking and liquidity management. While the asset quality of local banks remained benign in 2013, the upward trend in the volume of non-performing loans in the Mainland may put pressure on Mainland-related exposures of Hong Kong banks.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## CONSOLIDATED FINANCIAL REVIEW

### Financial Highlights




| HK$'m, except percentages | **2013** | 2012 | Change (%) |
|---|---|---|---|
| Net operating income before impairment allowances | **40,313** | 35,617 | 13.2 |
| Operating expenses | **(12,083)** | (11,259) | 7.3 |
| Operating profit before impairment allowances | **28,230** | 24,358 | 15.9 |
| Operating profit after impairment allowances | **27,493** | 23,499 | 17.0 |
| Profit before taxation | **27,793** | 25,521 | 8.9 |
| Profit attributable to the equity holders of the Company | **22,252** | 20,930 | 6.3 |

Note: Certain comparative amounts in 2012 have been reclassified to conform with the current year's presentation.

Against the backdrop of a challenging operating environment, the Group closely monitored market changes and proactively managed its assets and liabilities. It continued to adopt stringent risk management principles and policies to safeguard its asset quality. In 2013, the Group achieved encouraging financial results with solid growth in core businesses. Key financial ratios stayed at healthy levels.

The Group's net operating income before impairment allowances increased by HK$4,696 million or 13.2% to HK$40,313 million. This was underpinned by the growth in net interest income and net fee and commission income. The Group's insurance business saw improved income growth. The increase was partially offset by the lower net gain on other financial assets. Operating expenses rose by 7.3%, as a result of the business expansion. Net charge of loan impairment allowances decreased. Operating profit after impairment allowances grew by HK$3,994 million or 17.0%. Meanwhile, the net gain from fair value adjustments on investment properties fell considerably by HK$1,621 million year-on-year. As a result, profit attributable to the equity holders rose by HK$1,322 million or 6.3% compared to 2012.

As compared to the first half of 2013, the Group's net operating income before impairment allowances increased by HK$731 million or 3.7% in the second half. The increase in net interest income was partly offset by the decrease in net fee and commission income. The Group recorded a lower net gain from fair value adjustments on investment properties in the second half of the year. As a result, profit attributable to the equity holders decreased by HK$252 million or 2.2% on a half-on-half basis.

## Factors Affecting the Group's Performance in 2013

The key positive factors that contributed to the Group's 2013 financial performance are outlined below:

- The Group's proactive asset and liability management achieved a ***healthy growth in both loans and deposits*** with ***effective control of deposit costs and improved loan pricing***.
- The Group's ongoing efforts to enhance its service platform and broaden its product offerings have resulted in an encouraging growth of fee and commission income. Fee income from ***funds distribution***, ***insurance*** and ***securities brokerage*** performed strongly with double-digit growth.
- The Group further expanded its ***offshore RMB business*** and enhanced the income contribution from its RMB business as a ***participating bank***. The better deployment of RMB funds is one of the key factors contributing to the rise in profit.
- The Group further improved its ***operational efficiency*** with the ***cost to income ratio among the lowest in the industry***.
- Contribution from the ***Mainland business*** increased strongly with optimisation of its asset and liability structure.

The Group's financial performance in 2013 was also subject to the following key negative factors:

- The low market interest rates and intense market competition constrained enhancement of the Group's ***asset yield***.
- In contrast to the strong uptrend in 2012, commercial property prices in Hong Kong only rose mildly in 2013. This has resulted in a lower ***net gain from fair value adjustments on investment properties*** in 2013.
- The sluggish ***residential property market*** constrained the growth of the Group's mortgage business.

## INCOME STATEMENT ANALYSIS

### Net Interest Income and Margin

| HK$'m, except percentages | **2013** | 2012 | Change (%) |
|---|---|---|---|
| Interest income | **39,379** | 35,413 | 11.2 |
| Interest expense | **(11,463)** | (10,705) | 7.1 |
| Net interest income | **27,916** | 24,708 | 13.0 |
| Average interest-earning assets | **1,657,215** | 1,542,565 | 7.4 |
| Net interest spread | **1.58%** | 1.49% | |
| Net interest margin* | **1.68%** | 1.60% | |

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

The Group's net interest income increased by HK$3,208 million or 13.0% year-on-year, driven by both the growth in average interest-earning assets and the widening of net interest margin. Average interest-earning assets expanded by HK$114,650 million or 7.4%, mainly supported by the increase in deposits from customers, partly offset by the decrease in RMB funds from the clearing bank business. Net interest margin was 1.68%, up 8 basis points compared to 2012, mainly attributed to the widening of loan and deposit spread. The average yield of corporate loans improved, while deposit costs were stable through cautious pricing control. Average asset yield was also enhanced with the increase in higher-yielding assets such as loans to customers, RMB bonds as well as balances and placements with banks.

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

| ASSETS | Year ended 31 December 2013 Average balance HK$'m | Year ended 31 December 2013 Average yield % | Year ended 31 December 2012 Average balance HK$'m | Year ended 31 December 2012 Average yield % |
|---|---|---|---|---|
| Balances and placements with banks and other financial institutions | **330,475** | **2.60** | 335,842 | 2.43 |
| Debt securities investments | **498,493** | **2.15** | 471,662 | 2.07 |
| Loans and advances to customers | **813,964** | **2.44** | 720,488 | 2.38 |
| Other interest-earning assets | **14,283** | **1.48** | 14,573 | 1.71 |
| Total interest-earning assets | **1,657,215** | **2.38** | 1,542,565 | 2.29 |
| Non interest-earning assets | **233,188** | **–** | 191,823 | – |
| Total assets | **1,890,403** | **2.08** | 1,734,388 | 2.04 |

| LIABILITIES | 2013 Average balance HK$'m | 2013 Average rate % | 2012 Average balance HK$'m | 2012 Average rate % |
|---|---|---|---|---|
| Deposits and balances from banks and other financial institutions | **155,896** | **0.67** | 143,219 | 0.68 |
| Current, savings and time deposits | **1,206,583** | **0.82** | 1,112,820 | 0.81 |
| Subordinated liabilities | **24,150** | **0.49** | 28,678 | 1.09 |
| Other interest-bearing liabilities | **52,375** | **0.89** | 44,012 | 0.92 |
| Total interest-bearing liabilities | **1,439,004** | **0.80** | 1,328,729 | 0.80 |
| Non interest-bearing deposits | **86,504** | **–** | 83,588 | – |
| Shareholders' funds* and non interest-bearing liabilities | **364,895** | **–** | 322,071 | – |
| Total liabilities | **1,890,403** | **0.61** | 1,734,388 | 0.62 |

* Shareholders' funds represent capital and reserves attributable to the equity holders of the Company.

*Second Half Performance*

Compared to the first half of the year, net interest income increased by HK$1,254 million, or 9.4%, to HK$14,585 million. The increase was mainly driven by the 6.2% growth in average interest-earning assets, supported by the increase in deposits from customers and RMB funds from the clearing bank business.

Net interest margin was 1.70%, widening by 3 basis points half-on-half. Net interest spread and contribution from net free fund rose by 1 basis point and 2 basis points respectively. Average yield of balances and placements with banks rose with the rising RMB market interest rates. Increase in higher-yielding assets such as RMB bonds as well as balances and placements with banks also contributed to the widening of net interest margin. Meanwhile, the positive impact was partly offset by the narrowing of loan and deposit spread as the average yield of corporate loans lowered while deposit costs rose, both of which were affected by keen market competition.

## Net Fee and Commission Income

| HK$'m, except percentages | 2013 | 2012 | Change (%) |
|---|---|---|---|
| Credit card business | **3,516** | 3,161 | 11.2 |
| Securities brokerage | **2,432** | 2,114 | 15.0 |
| Loan commissions | **1,900** | 1,774 | 7.1 |
| Insurance | **1,285** | 965 | 33.2 |
| Funds distribution | **821** | 540 | 52.0 |
| Bills commissions | **819** | 736 | 11.3 |
| Payment services | **665** | 667 | (0.3) |
| Trust and custody services | **387** | 360 | 7.5 |
| Safe deposit box | **244** | 228 | 7.0 |
| Currency exchange | **197** | 156 | 26.3 |
| Others | **450** | 409 | 10.0 |
| Fee and commission income | **12,716** | 11,110 | 14.5 |
| Fee and commission expenses | **(3,751)** | (3,347) | 12.1 |
| Net fee and commission income | **8,965** | 7,763 | 15.5 |

Note: Certain comparative amounts of fee and commission income, fee and commission expense and operating expenses have been reclassified to conform with the current year's presentation.

Net fee and commission income grew by HK$1,202 million, or 15.5%, to HK$8,965 million in 2013. The increase was broad-based, reflecting the results of the Group's continuous effort in building up its service capabilities. Strong growth of fee and commission income was recorded from funds distribution, insurance and securities brokerage. Income from funds distribution rose substantially by 52.0% as the Group rolled out a range of products and effective segmentation to meet targeted customers' needs. Income from insurance grew by 33.2%, with the rise in business volume. Securities brokerage income increased by 15.0%, supported by the Group's effort in enhancing its business platform and the increased volume of transactions in the stock market. Fee income from the credit card business also grew by 11.2%, driven by the growth in cardholder spending and merchant acquiring volume. Commission income from bills and currency exchange recorded solid growth. The increase in fee and commission expenses was mainly caused by higher credit card and insurance related expenses.

*Second half performance*

Compared to the first half of 2013, net fee and commission income decreased by HK$397 million or 8.5% in the second half. Fee and commission income from currency exchange, trust and custody services as well as bills saw continued growth momentum from the first half. Income from payment services registered a satisfactory growth. However, commission income from loans and insurance dropped from the high level in the first half.

## Net Trading Gain

| HK$'m, except percentages | 2013 | 2012 | Change (%) |
|---|---|---|---|
| Foreign exchange and foreign exchange products | **1,952** | 1,988 | (1.8) |
| Interest rate instruments and items under fair value hedge | **573** | 900 | (36.3) |
| Equity instruments | **341** | 120 | 184.2 |
| Commodities | **91** | 121 | (24.8) |
| Net trading gain | **2,957** | 3,129 | (5.5) |

Net trading gain was HK$2,957 million, down HK$172 million or 5.5% year-on-year, mainly due to the mark-to-market changes of certain debt securities. During the year, income from currency exchange transactions increased, but was offset by net trading loss from foreign exchange swap contracts*. The growth in net trading gain from equity instruments was mainly attributable to the higher mark-to-market gain on certain equity securities and the increased gain from equity-linked products, which were well received by customers. The decrease in net trading gain from commodities was due to the decline in bullion transactions.

*Second Half Performance*

Compared to the first half of 2013, net trading gain was up HK$75 million or 5.2%. This was mainly due to the mark-to-market gain of certain debt securities caused by market interest rate movements, compared to a mark-to-market loss in the first half.

* 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 with minimal 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, except percentages | **2013** | 2012 | Change (%) |
|---|---|---|---|
| Net (loss)/gain on financial instruments designated at fair value through profit or loss | **(159)** | 747 | N/A |

In 2013, the Group recorded a net loss of HK$159 million on financial instruments designated at FVTPL. The net loss was mainly due to the mark-to-market changes of debt securities investments of BOCG Life, caused by market interest rate movements. The changes in market value of its securities portfolio were offset by the corresponding changes in policy reserves, as reflected in the changes in net insurance benefits and claims which were attributable to the movement of market interest rates.

*Second Half Performance*

A net gain of HK$361 million was recorded in the second half of the year, compared to a net loss in the first half. The net gain was mainly attributable to the mark-to-market changes of BOCG Life's debt securities investments.

## Net Charge of Loan Impairment Allowances

| HK$'m, except percentages | **2013** | 2012 | Change (%) |
|---|---|---|---|
| Net charge of allowances before recoveries | | | |
| – individual assessment | **(313)** | (512) | (38.9) |
| – collective assessment | **(705)** | (606) | 16.3 |
| Recoveries | **288** | 264 | 9.1 |
| Net charge of loan impairment allowances | **(730)** | (854) | (14.5) |

The net charge of loan impairment allowances decreased by HK$124 million, or 14.5% from the previous year, owing to the decrease in the net charge of individually assessed impairment allowances.

Net charge of individually assessed impairment allowances amounted to HK$313 million, down HK$199 million or 38.9%, mainly due to the decrease in the amount of new classified or impaired loans in 2013.

Net charge of collectively assessed impairment allowances amounted to HK$705 million, up HK$99 million or 16.3%, primarily due to the loan growth and the periodic update of the parameter values in the assessment model.

Recoveries amounted to HK$288 million, up HK$24 million or 9.1% from 2012.

*Second Half Performance*

Net charge of loan impairment allowances decreased mildly by HK$6 million or 1.6% from the first half. The higher net charge of individually assessed impairment allowances was offset by the lower net charge of collectively assessed impairment allowances. Recoveries also reduced.

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

| | At 31 December 2013 | At 31 December 2012 |
|---|---|---|
| Loan impairment allowances | | |
| – individual assessment | **0.10%** | 0.10% |
| – collective assessment | **0.39%** | 0.38% |
| Total loan impairment allowances | **0.49%** | 0.48% |

### Operating Expenses

| HK$'m, except percentages | 2013 | 2012 | Change (%) |
|---|---|---|---|
| Staff costs | **6,819** | 6,406 | 6.4 |
| Premises and equipment expenses (excluding depreciation) | **1,576** | 1,456 | 8.2 |
| Depreciation on owned fixed assets | **1,663** | 1,493 | 11.4 |
| Other operating expenses | **2,025** | 1,904 | 6.4 |
| Total operating expenses | **12,083** | 11,259 | 7.3 |

| | At 31 December 2013 | At 31 December 2012 | Change (%) |
|---|---|---|---|
| Staff headcount measured in full-time equivalents | **14,647** | 14,638 | 0.1 |

Note: Certain comparative amounts of operating expenses have been reclassified to fee and commission expense to conform with the current year's presentation.

Total operating expenses increased by HK$824 million, or 7.3%, to HK$12,083 million, as a result of the Group's business expansion. The Group continued to invest in new business platforms and the Mainland business to support long-term business growth. At the same time, it adhered to conscious cost control to enhance operational efficiency.

Staff costs increased by 6.4%, reflecting higher salaries following the annual salary increment and the increase in headcount in the Mainland business. Performance-related remuneration also increased.

Premises and equipment expenses rose by 8.2% with higher rental for branches in Hong Kong and new branches in the Mainland.

Depreciation on owned fixed assets rose by 11.4% due to larger depreciation charge on premises following the upward property revaluation in Hong Kong.

Other operating expenses were up 6.4%, mainly due to higher business expenses incurred by NCB (China) and the Group's credit card business.

At the end of 2013, the total headcount measured in full-time equivalents rose slightly to 14,647.

*Second Half Performance*
Compared to the first half of 2013, operating expenses rose by HK$699 million. The increase was due to higher staff costs, depreciation, IT, maintenance and rental expenses in the second half of the year.

## BALANCE SHEET ANALYSIS

### Asset Deployment

| | At 31 December 2013 | | At 31 December 2012 | |
|---|---|---|---|---|
| HK$'m, except percentages | **Amount** | **% of total** | Amount | % of total |
| Cash and balances with banks and other financial institutions | **353,741** | **17.3** | 198,748 | 10.9 |
| Placements with banks and other financial institutions maturing between one and twelve months | **46,694** | **2.3** | 66,025 | 3.6 |
| Hong Kong SAR Government certificates of indebtedness | **99,190** | **4.8** | 82,930 | 4.5 |
| Securities investments[1] | **484,213** | **23.6** | 531,696 | 29.0 |
| Advances and other accounts | **924,943** | **45.2** | 819,739 | 44.8 |
| Fixed assets and investment properties | **66,955** | **3.3** | 63,107 | 3.4 |
| Other assets[2] | **71,200** | **3.5** | 68,518 | 3.8 |
| Total assets | **2,046,936** | **100.0** | 1,830,763 | 100.0 |

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

As at 31 December 2013, the Group's total assets amounted to HK$2,046,936 million, increasing by HK$216,173 million or 11.8% from the end of 2012. The Group maintained its proactive asset and liability management for sustainable growth and enhanced profitability. It focused on optimising asset allocation, enhancing loan pricing and funding cost management.

Key changes in the Group's total assets include:

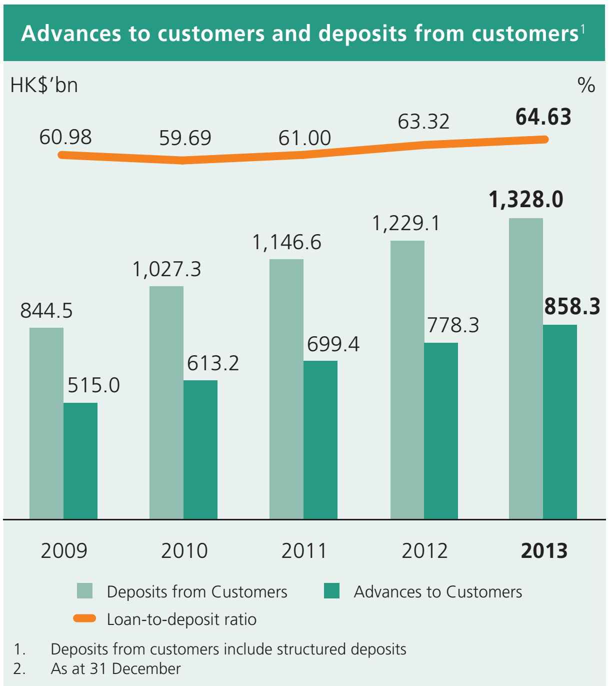
- Cash and balances with banks and other financial institutions increased by 78.0%, mainly due to the increase in RMB funds placed with the People's Bank of China by BOCHK's clearing business as participating banks increased their RMB deposits with the clearing bank. Balances and placements with banks relating to the RMB business in Hong Kong also increased.

- Placements with banks and other financial institutions maturing between one and twelve months decreased by 29.3% as the Group redeployed its funds in higher-yielding assets such as advances to customers.

- Securities investments decreased by 8.9% with the reduction mainly in lower yielding government-related securities. Meanwhile, new investments were made in high-quality financial institutions and corporate bonds.

- Advances and other accounts rose by 12.8%, mainly attributable to the growth in advances to customers by 10.3% and trade bills by 56.8%.

- Other assets grew by 3.9%, which was led by the increase in reinsurance assets.




## Advances to Customers

| HK$'m, except percentages | At 31 December 2013 Amount | At 31 December 2013 % of total | At 31 December 2012 Amount | At 31 December 2012 % of total |
|---|---|---|---|---|
| Loans for use in Hong Kong | **507,971** | **59.2** | 480,753 | 61.8 |
| Industrial, commercial and financial | **267,632** | **31.2** | 252,877 | 32.5 |
| Individuals | **240,339** | **28.0** | 227,876 | 29.3 |
| Trade finance | **85,413** | **9.9** | 67,137 | 8.6 |
| Loans for use outside Hong Kong | **264,948** | **30.9** | 230,374 | 29.6 |
| Total advances to customers | **858,332** | **100.0** | 778,264 | 100.0 |

The Group continued to focus on customer selection to achieve quality and sustainable growth. Advances to customers grew by HK$80,068 million or 10.3% to HK$858,332 million in 2013.

Loans for use in Hong Kong grew by HK$27,218 million or 5.7%.

- Lending to the industrial, commercial and financial sectors increased by HK$14,755 million, or 5.8%. Lending to the property development, transport and transport equipment sectors as well as stockbrokers grew by 29.3%, 26.0% and 267.8% respectively.

- Lending to individuals increased by HK$12,463 million, or 5.5%. Residential mortgage loans (excluding those under the Government-sponsored home purchasing schemes) grew by 1.8%. Credit card advances rose by 6.0%.

Trade finance rose significantly by HK$18,276 million, or 27.2%. Meanwhile, loans for use outside Hong Kong grew by HK$34,574 million or 15.0%.

*Second Half Performance*

The Group's advances to customers increased by HK$27,589 million or 3.3%, mainly driven by growth in loans for use outside Hong Kong and trade finance.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

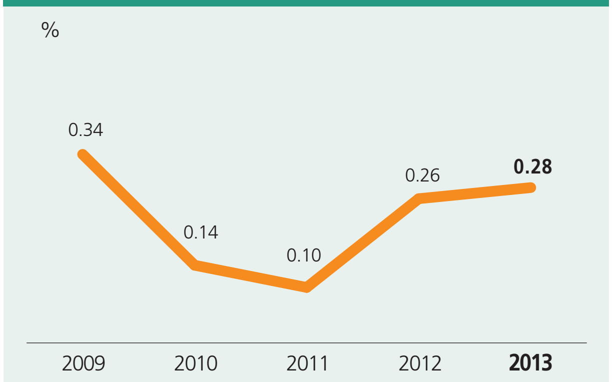
## Loan Quality

| HK$'m, except percentages | **At 31 December 2013** | At 31 December 2012 |
|---|---|---|
| Advances to customers | **858,332** | 778,264 |
| Classified or impaired loan ratio | **0.28%** | 0.26% |
| Impairment allowances | **4,235** | 3,705 |
| Regulatory reserve for general banking risks | **8,994** | 7,754 |
| Total allowances and regulatory reserve | **13,229** | 11,459 |
| Total allowances as a percentage of advances to customers | **0.49%** | 0.48% |
| Impairment allowances[1] on classified or impaired loan ratio | **36.09%** | 37.44% |
| Residential mortgage loans[2] – delinquency and rescheduled loan ratio[3] | **0.02%** | 0.02% |
| Card advances – delinquency ratio[3] | **0.18%** | 0.17% |

| | **2013** | 2012 |
|---|---|---|
| Card advances – charge-off ratio[4] | **1.43%** | 1.24% |

1. 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.
2. Residential mortgage loans exclude those under the Home Ownership Scheme and other government-sponsored home purchasing schemes.
3. Delinquency ratio is measured by a ratio of total amount of overdue loans (more than three months) to total outstanding loans.
4. Charge-off ratio is measured by a ratio of total write-offs made during the year to average card receivables during the year.

**Classified or impaired loan ratio**




as at 31 December

The Group's credit quality remained solid. The classified or impaired loan ratio was at 0.28%. Classified or impaired loans rose by HK$379 million, or 18.5% to HK$2,433 million, due to the downgrade of a few corporate loans. Formation of new classified or impaired loans in 2013 represented approximately 0.15% of total loans outstanding.

Total impairment allowances, including both individual assessment and collective assessment, amounted to HK$4,235 million. Total impairment allowances on classified or impaired loans as a percentage of total classified or impaired loans was at 36.09%.

The credit quality of the Group's residential mortgage loans and credit cards remained sound. The combined delinquency and rescheduled loan ratio of residential mortgage loans stood at 0.02% at the end of 2013. The charge-off ratio of card advances remained low at 1.43%, amid an upward trend in the market.

### Deposits from Customers*

| | At 31 December 2013 | | At 31 December 2012 | |
|---|---|---|---|---|
| HK$'m, except percentages | **Amount** | **% of total** | Amount | % of total |
| Demand deposits and current accounts | **104,784** | **7.9** | 97,295 | 7.9 |
| Savings deposits | **636,137** | **47.9** | 603,565 | 49.1 |
| Time, call and notice deposits | **583,227** | **43.9** | 525,430 | 42.8 |
| | **1,324,148** | **99.7** | 1,226,290 | 99.8 |
| Structured deposits | **3,832** | **0.3** | 2,841 | 0.2 |
| Deposits from customers | **1,327,980** | **100.0** | 1,229,131 | 100.0 |

* Including structured deposits

The Group maintained a flexible deposit strategy to support its business growth with cautious control of funding costs in response to market changes. Its deposit base was up HK$98,849 million, or 8.0%, to HK$1,327,980 million in 2013. Demand deposits and current accounts grew by 7.7% while savings deposits increased by 5.4%. Time, call and notice deposits also increased by 11.0%. The Group's loan to deposit ratio was 64.63% at the end of 2013, up 1.31 percentage points from the end of last year.

*Second Half Performance*

Total deposits from customers increased by HK$63,690 million or 5.0% in the second half of 2013. Demand deposits and current accounts increased by 5.1% while savings deposits went up by 12.7%. Time, call and notice deposits declined by 2.1%.

### Capital and Reserves Attributable to the Equity Holders of the Company

| HK$'m | **At 31 December 2013** | At 31 December 2012 |
|---|---|---|
| Share capital | **52,864** | 52,864 |
| Premises revaluation reserve | **34,682** | 31,259 |
| Reserve for fair value changes of available-for-sale securities | **488** | 5,510 |
| Regulatory reserve | **8,994** | 7,754 |
| Translation reserve | **1,051** | 771 |
| Retained earnings | **60,734** | 52,811 |
| Reserves | **105,949** | 98,105 |
| Capital and reserves attributable to the Equity Holders of the Company | **158,813** | 150,969 |

Capital and reserves attributable to the equity holders increased by HK$7,844 million, or 5.2% to HK$158,813 million at 31 December 2013. Retained earnings rose by 15.0%, reflecting the 2013 profit after the appropriation of dividends. Premises revaluation reserve increased by 11.0%, which was attributable to the increase in property prices in 2013. Regulatory reserve rose by 16.0%, mainly due to loan growth. Reserve for fair value changes of available-for-sale securities decreased to HK$488 million, due to rising market interest rates.

### Capital and Liquidity Ratio

| HK$'m, except percentages | At 31 December 2013 |
|---|---|
| **Capital ratios under Basel III** | |
| Consolidated capital after deductions | |
| Common Equity Tier 1 capital | **92,112** |
| Additional Tier 1 capital | **894** |
| Tier 1 capital | **93,006** |
| Tier 2 capital | **44,683** |
| Total capital | **137,689** |
| Total risk-weighted assets | **871,618** |
| Common Equity Tier 1 capital ratio | **10.57%** |
| Tier 1 capital ratio | **10.67%** |
| Total capital ratio | **15.80%** |

| | At 31 December 2012 |
|---|---|
| **Capital ratios under Basel II** | |
| Consolidated capital base after deductions | |
| Core capital | 89,096 |
| Supplementary capital | 32,452 |
| Total capital base | 121,548 |
| Total risk-weighted assets | 723,699 |
| Core capital ratio | 12.31% |
| Capital adequacy ratio | 16.80% |

| | **2013** | 2012 |
|---|---|---|
| Average liquidity ratio | **37.93%** | 41.20% |

The Banking (Capital) (Amendment) Rules 2012 and the Banking (Capital) (Amendment) Rules 2013 ("the rules") came into operation on 1 January 2013 and 30 June 2013 respectively. The rules mainly addressed the revision to both the minimum capital ratio requirement and the definition of regulatory capital. The rules also included enhancements to the counterparty credit risk framework and amendments on the capital treatment for certain trade financing activities and securities financing transactions. For information on the components of total capital and type of capital instruments used, please refer to Note 4.5 and Note 41 to the Financial Statements in this Annual Report. As a result of the adoption of the rules, the capital ratios shown above are not directly comparable.

Total capital ratio at 31 December 2013 was 15.80%.

Risk-weighted assets increased by 20.4%, mainly from changes in risk-weighted assets for credit risk as a result of loan growth and increase in interbank exposures. The increase in risk-weighted assets was also attributable to changes introduced by Basel III.

The average liquidity ratio in 2013 remained solid at 37.93%.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### 2013 Business Highlights

**Personal Banking**

- Maintained leading position in residential mortgages and the UnionPay card business
- Strengthened the wealth management platform with introduction of the brand new Enrich Banking Service
- Launched Virtual Securities Investment Platform and various marketing campaigns to appeal to younger clientele
- Good progress seen in Private Banking service with increased number of customers and assets under management
- Received the "Outstanding Retail Banking Business – Internet Banking Business" award of the "RMB Business Outstanding Awards 2013"

**Corporate Banking**

- Remained the top mandated arranger in the Hong Kong-Macau syndicated loan market
- Set up the Corporate Services Centre to further improve service efficiencies
- Notable performance in cross-border direct loan business and introduced offshore import finance service
- Received "Best SME's Partner Award" for the sixth consecutive year
- Further expanded client base for custody services and awarded "Best QFII Custodian" by The Asset Magazine
- Cash management services was presented with the "Achievement Award for Best Cash Management Bank in Hong Kong" in the "Asian Banker Transaction Banking Awards 2013"

**Treasury**

- Proactively adjusted portfolio mix to enhance return and shortened portfolio duration while staying attuned to risk
- Increased investments in high-quality financial institutions and corporate bonds as well as RMB-denominated bonds
- Timely response to market conditions and successful launch of treasury products

**Insurance**

- Maintained leading position in Hong Kong RMB insurance market
- Enriched product offerings to meet customers' needs and enhanced distribution channels to recruit new customers
- Recognised as "Best Life Insurance Company, Hong Kong" in the "Insurance Award 2013" by World Finance, a UK finance magazine

**Mainland Business**

- Achieved encouraging profit growth with satisfactory increases in loans and deposits
- Expanded product and service offerings with launch of credit card issuing business
- Further expanded branch network to 41 branches and sub-branches

**RMB Business in Hong Kong**

- Completed the Group's first RMB cross-border loan in Qianhai
- Collaborated with BOC to promote RMB business and establish closer relationship with overseas customers
- BOCHK appointed by Clearstream Banking S.A. as its cash correspondent bank for offshore RMB in Hong Kong
- Completed the first CNH/USD cross-currency swap transaction using the CNH HIBOR as the pricing benchmark
- Acted as the arranger for the issuance of the first RMB certificate of deposit with the CNH HIBOR as the benchmark rate
- Designated as the market maker of the USD/CNH futures for the Chicago Mercantile Exchange Group and Hong Kong Futures Exchange
- Introduced RMB time deposit service and tiered interest rates scheme and adjusted RMB intra-day Repo limits for participating banks to better manage their RMB funds
- Extended operating hours of RMB cross-border payments to better serve participating banks in different time zones
- Jointly launched the FTSE-BOCHK Offshore RMB Bond Index Series with FTSE Group

**Others – BOCHK Asset Management Limited**

- Launched two retails funds, both of which received overwhelming response from customers
- Granted an RQFII status and received an investment quota to invest in onshore equity securities
- Named the "Best Offshore RMB Manager" by Asia Asset Management for its "Best of the Best Awards" in two consecutive years since 2012
- Launched in 2012, the BOCHK-World Bank Emerging Markets Bond Fund was awarded the "Best-in-Class for Technology and Innovation" in the BENCHMARK Fund of the Year Award 2013

## Business Segment Performance

### Profit before Taxation by Business Segments

| HK$'m, except percentages | 2013 Amount | 2013 % of total | 2012 Amount | 2012 % of total |
|---|---|---|---|---|
| Personal Banking | **6,926** | **24.9** | 5,513 | 21.6 |
| Corporate Banking | **11,844** | **42.6** | 9,725 | 38.1 |
| Treasury | **8,347** | **30.0** | 8,382 | 32.8 |
| Insurance | **1,144** | **4.1** | 609 | 2.4 |
| Others | **(468)** | **(1.6)** | 1,292 | 5.1 |
| Total profit before taxation | **27,793** | **100.0** | 25,521 | 100.0 |

Note: For additional segmental information, see Note 49 to the Financial Statements.

## PERSONAL BANKING

### Financial Results

Personal Banking achieved a strong increase of HK$1,413 million, or 25.6%, in profit before taxation in 2013 compared with the previous year. The growth was mainly attributable to the increase in net interest income and net fee and commission income.

Net interest income increased by 14.1%. This was mainly driven by the growth in average balance of loans and deposits coupled with the improvement in loan spread. Personal loans and deposits grew by 6.6% and 3.2% respectively compared with the end of 2012.

Net fee and commission income rose by 23.4%. The notable growth was attributable to the higher income from securities brokerage, funds distribution, insurance and credit cards.

Net trading gain increased by 31.3%, due to higher gains from equity instruments and foreign exchange related products.

### Business operation

The Group's personal lending business continued its steady growth in 2013. It remained the market leader in new mortgage loans and the UnionPay card business. The Group's investment and insurance businesses registered broad-based growth with strong performance in fee and commission income from funds distribution, insurance and securities brokerage. The wealth management platform was further strengthened by the launch of the Enrich Banking Service while the Private Banking service showed encouraging results. Distribution channels were further optimised to enhance customer experience.

### *Residential mortgages – reinforcing market leadership*

The Group continued to innovate to provide customers with the widest range of mortgage products and services across all channels. New products and services such as the Fixed-Rate Mortgage Scheme, Portable Fixed-Rate Mortgage Scheme, Instant Mortgage Assessment Service and Premium Mortgage Service were launched. The Group also partnered with the Hong Kong Mortgage Corporation Limited to actively promote reverse mortgages. During the year, it worked in close partnership with major property developers and participated in joint promotions of prime property development projects. The extensive range of products and services enabled the Group to remain as the market leader of new mortgage loans underwritten during the year.

### *Investment and insurance businesses – registering broad-based growth*

Investment and insurance businesses registered encouraging performance with strong growth of commission income from securities brokerage, funds distribution and insurance. IPO shares placement services, traditionally offered to Private Banking customers only, were introduced to selected personal banking customers. The new educational Virtual Securities Investment Platform and the revamped Warrants/Callable Bull/Bear Contracts Information Webpage were rolled out to serve the needs of young investors as well as sophisticated traders respectively. Meanwhile, the innovative Family Securities Accounts service provides a brand new platform for parents to manage their various securities portfolios. The new Securities Club provides preferential services suited to customers of various membership tiers.

In the funds distribution business, the Group continued to broaden its product offerings. Two retail funds, the BOCHK All Weather RMB High Yield Bond Fund and the BOCHK All Weather HK & China Equity Fund, were launched and well received by customers. The Group continued to deepen relationships with existing customers and actively pursued new customers. Themed marketing campaigns and investment seminars were conducted to help customers further diversify their investment portfolios. The online fund webpage was enhanced with integrated information such as the latest market trends and fund information. As a result, commission income from funds distribution surged by 52.0% over last year. For bonds distribution, the Group continued to leverage its competitive edge and became one of the largest placing banks of the third iBond issuance and the RMB Sovereign Bonds issuance during the year.

With regards to the Bancassurance business, the Group maintained its leading position in the Hong Kong RMB insurance market. During the year, the direct sales team was centralised to enhance overall sales capabilities.

### *Credit card business – recognised leader in UnionPay card business*

The Group's credit card business achieved success on a number of fronts in 2013. It maintained its leadership in the UnionPay International ("UPI") merchant acquiring business and card issuing business in Hong Kong. During the year, the Group partnered with UPI to pioneer the RMB settlement service of UnionPay card for merchants in Hong Kong. The launch of BOCHK e-Wallet – Mobile Payment Services brought an innovative and convenient mobile payment experience to customers. Through mobile phones equipped with BOC SD card and BOCHK e-Wallet application, customers can make credit card contactless transactions.

### *Wealth management service – one-stop wealth management solutions*

Following the consolidation of its Wealth Management Service platform in 2012, the Group continued to provide personalised services and professional financial solutions to meet the banking and investment needs of high-end customers locally and across the border. A series of marketing programmes were launched to enhance brand image and to increase penetration with targeted customers. The Group also introduced its brand new Enrich Banking Service, to fulfil the lifestyle needs of the busy mid-segment working population with all-round financial management solutions, including the first-ever 24-hour Online Chat service in banking industry and a suite of electronic alerts.

The Group's Private Banking business made good progress after its launch in late 2012. In collaboration with business units of the Group as well as BOC, it expanded its customer base through a series of client acquisition and referral activities. Based on the one-stop, holistic service model, a wide range of tailor-made products and services in the area of investment management, liquidity management and estate planning were offered to meet the needs of Private Banking clients. Consequently, the business recorded encouraging results in terms of both the number of Private Banking customers and the assets under management.

### *Mass retail customers – appealing to younger clientele*

The Group continued to implement its customer segmentation strategy to provide customers with the appropriate sales and service models. The Group re-packaged its i-Free Banking Service to cater for the basic banking and financial planning needs of general customers. In addition, a selection of savings plans together with lower-risk savings and investment products were launched to appeal to mass clientele. To target the youth segment, the Group used social media as the main channel to promote BOCHK's new investment learning platform.

### *Cross-border business – full coverage of attestation service in the Mainland*

As the leading cross-border service provider in the market, the Group provides comprehensive and seamless solutions to customers in both Hong Kong and in the Mainland with banking needs across the border. The Group extended attestation account opening services at BOC's branches in all major cities and all branches of NCB (China). Referral services were enhanced with the support of a new dedicated team.

### *Distribution channels – strengthening automated banking channels*

The Group continued to optimise its distribution channels to meet the needs of customers. At the end of 2013, the Group's service network in Hong Kong comprised 266 branches, including 133 wealth management centres. The continuous introduction of new concept branches was intended to enhance the customer experience and the Group's brand image. Automated banking channels were upgraded to provide customers with a comprehensive range of self-service banking services. Voice navigation ATM machines were also introduced to aid visually impaired customers with automated banking services. Furthermore, the Group launched the first HKD/RMB Cash Deposit Machine in Hong Kong, giving customers added convenience with the cash deposit functions in both currencies.

In recognition of its well-received electronic platform and outstanding services, the Group received the "Outstanding Retail Banking Business – Internet Banking" award of the "RMB Business Outstanding Awards 2013" organised by Metro Finance, Metro Finance Digital and Hong Kong Wen Wei Po. The Group was also recognised for "Best Personal Internet Banking" and the "Best Mobile Banking" under the e-brand Awards 2013 organised by the e-Zone Magazine. Financial planners of the Group won the Gold Award and the Best Performance Award in the "7th HKIB Outstanding Financial Management Planner Awards" presented by The Hong Kong Institute of Bankers.

## CORPORATE BANKING

### Financial Results

Corporate Banking recorded an encouraging growth of HK$2,119 million, or 21.8%, in profit before taxation in 2013.

Net interest income rose by 20.6%, mainly driven by the increase in average balance of loans and deposits coupled with the increase in loan spread. The growth was partly offset by the decrease in deposit spread. Corporate loans and deposits grew by 11.9% and 13.5% respectively compared with the end of 2012.

Net fee and commission income increased by 7.1%, largely led by the growth of loans and bills commissions. The increase was, however, partly offset by the decline in commissions from payment services.

### Business operation

The Group's Corporate Banking business made important headway with business development in 2013. It continued to provide comprehensive banking services to better serve customers' needs and strengthen customer relationships. It stepped up initiatives and collaboration with BOC in various business areas to enhance its competitive advantages and the overall synergy of the BOC Group. In collaboration with BOC, the Group's status in the international syndicated loan market has been elevated, while it registered a notable performance in the cross-border direct loan business. In the custody business, the Group further expanded its client base from different geographical locations. Service capabilities of the cash management business were enhanced to reinforce its competitive edge as the cross-border fund centre for customers.

### *Corporate lending business – Top mandated arranger in the Hong Kong-Macau syndicated loan market*

The Group continued to work closely with BOC to provide a distinctive service offering. A two-way information exchange and business referral channel was established with BOC's branches in the Mainland and overseas for both onshore and offshore business. In cooperation with BOC, the Group successfully conducted conference presentations in various overseas countries, promoting its RMB business and establishing relationships with overseas customers. The Group strives to enhance service quality through continuous improvement of expertise in different industries. The Corporate Services Centre was set up to further improve service efficiencies. In 2013, the Group successfully completed its first RMB cross-border loan to an enterprise in Qianhai. It also made significant progress in the cross-border direct loan business and remained the top mandated arranger in the Hong Kong-Macau syndicated loan market. Acting as the Asia-Pacific Syndicated Loan Centre of BOC Group, the Group successfully helped arrange a syndicated loan led by the BOC Group to finance a renowned acquisition, enhancing the Group's reputation as an arranger bank in both M&A finance and syndicated loan market in the international arena. The Group also worked closely with BOC to explore new business opportunities from the China (Shanghai) Pilot Free Trade Zone.

### *SME business – "Best SME's Partner Award" for the sixth consecutive year*

The Group strives to enhance customer experience for SME customers. Further to the launch of the Integrated Branches for Commercial Business and Business Integrated Account in 2012, the Group optimised the corporate internet banking platform CBS Online, featuring a modern and user-friendly interface which encourages transaction flow to consolidate customer relationships and attract new customers. The Group also launched a privileged guarantee fee subsidy to support the Special Concessionary Measures of the SME Financing Guarantee Scheme of the Hong Kong Mortgage Corporation Limited. Furthermore, the BOC Small Business Loan was launched to offer the vast majority of small businesses in the market a prompt and flexible financing solution to facilitate their business growth. In recognition of its long-standing support of SMEs in Hong Kong, the Group received for the sixth consecutive year the "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business.

### *Trade finance – enhanced product features*

The Group continued to enhance product features to meet customer needs in a changing business environment. During the year, the Group launched the offshore import finance service. Meanwhile, there was considerable growth in the offshore export finance business. The Group focused on doing business that have a genuine trade background, arranging services in forfeiting, risk participation and offshore import finance. At the end of 2013, the Group's balance of trade finance had grown by 27.2% from the end of 2012.

### *Custody service – further expansion of customer base*

The Group continued to expand its custody services in 2013. In addition to those institutions with Mainland background, the Group established business relationships with a number of new RQFII applicants from Hong Kong, Taiwan and other overseas countries or regions. It continued to expand its client base and successfully secured mandates to provide custody services for RQFII-ETFs and various types of RQFII and QDIIs products. Continuous and closer cooperation have been fostered with BOC branches to enhance the overall service capacity. In recognition of its outstanding QFII-related performance, BOCHK was awarded the "Best QFII Custodian" under Regional Specialist in the Asset Servicing Awards 2013 by The Asset Magazine. At the end of 2013, excluding the RMB fiduciary account for participating banks, total assets under the Group's custody were valued at HK$690 billion.

### *Cash management service – further strengthening of service capabilities*

The Group continued to strengthen its cross-border cash management service capabilities. The remittance points of BOC Remittance Plus have been extended to cover all BOC's branches in the Mainland and its Taipei Branch, providing customers with greater convenience. In addition, the Group successfully completed the linkage of domestic liquidity management functions with the cross-border liquidity management services of BOC to strengthen its competitive edge as a cross-border fund centre for customers in Hong Kong. The new Electronic Bill Presentment and Payment service was launched to provide one-stop bill collection and payment services to customers. During the year, BOCHK was appointed by Clearstream Banking S.A. as its cash correspondent bank for offshore RMB in Hong Kong. This appointment reinforced the Group's leading position in the offshore RMB business. In recognition of its outstanding cash management services, BOCHK was presented the "Achievement Award for Best Cash Management Bank in Hong Kong" in the "Asian Banker Transaction Banking Awards 2013".

### *Risk management – proactive measures to contain risks*

The Group remained focused on managing its asset quality through strict adherence to prudent credit policy. It continued to strengthen its know-your-customer process and closely monitored customers and industries that could be adversely affected by the volatile economic environment, including the possible slowdown of economic growth in the Mainland and the withdrawal of stimulus in the US. Mainland customers in certain vulnerable industries with over-capacities have been closely monitored. Rigorous pre- and post-lending monitoring measures were put in place to track early negative signs, with ad hoc credit review and precautionary measures taken in a timely manner. In view of the rapid growth in the offshore RMB business, the Group also enhanced risk measurements and control standards of RMB exposure to support the healthy growth of RMB businesses.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## MAINLAND BUSINESS

### *Financial performance – encouraging growth*

The Group's Mainland business recorded encouraging growth with optimisation of assets and liabilities to improve return. Net operating income increased by 28.5% while operating expenses rose by 28.4% with further investment in the Mainland. Deposits from customers and loans registered satisfactory growth of 16.0% and 12.8% respectively from the end of last year. Loan quality remained sound.

### *Product and service offerings – continuous enhancement in capabilities*

The Group continued to enrich its product and service offerings. During the year, the Group launched a series of structured wealth management products, including the equity-linked Preferred Equity and the crude oil-linked Global Energy. Another series of wealth management products, Yixiang II, was also launched and well received by customers, making significant contribution to commission income. During the year, NCB (China) commenced its credit card issuing business in the Mainland. The SME business platform was further enhanced with the launch of the Small Micro-Enterprises Loan Programme as well as financing programmes that were tailor-made to support SMEs in certain industries. In close collaboration with BOC's branches in the Mainland and overseas, NCB (China) reinforced its competitiveness in the trade finance business.

### *Distribution channels – further expansion of branch network and enhanced e-Banking function*

The Group further expanded its branch network in the Mainland with the opening of one main branch and four sub-branches of NCB (China) in the year. The Group's total number of branches and sub-branches in the Mainland increased to 41 by the end of 2013. Meanwhile, the Group continued to enhance both its personal and corporate e-Banking platforms with the introduction of new services, extension of service hours and sharing of the payment platform of BOC. The Group also conducted several projects to streamline business processes, in order to shorten turnaround time and enhance customer experience.

## TREASURY

### Financial Results

Treasury recorded a mild decrease of 0.4% in profit before taxation from the previous year.

Net interest income increased by 0.8%. This was mainly due to the increase in the average balance of debt securities investments coupled with the improved yield on interbank placements. The increase was, however, partly offset by the decrease in the average balance of interbank placements and the lower spread on debt securities investments.

Net trading gain was up 17.5%. The increase was mainly attributable to the income from currency exchange transactions and the mark-to-market gain of certain interest rate instruments.

Net gain on other financial assets was down 71.3%. This was mainly due to the higher gain recorded in 2012 as the Group captured market opportunities to realise gain on certain debt securities investments.

### Business Operation

### *Proactive investment strategy – staying attuned to risk*

The Group continued to take a proactive yet prudent approach in managing its banking book investments. It closely monitored market changes and adjusted its investment portfolio to enhance return while staying vigilant of risks. In 2013, the Group shortened portfolio duration and selectively increased its investments in high-quality financial institutions and corporate bonds. The Group also increased its holdings in RMB-denominated bonds issued by policy banks and high-quality Mainland corporates.

### *Product sales – responding to market demand*

In line with its customer-centric approach, the Group continued to focus on its strengths in deal origination, client marketing and product management. During the year, the Group was an active participant in the market, providing timely response to customer demand. It focused on promoting products and services, including structured deposit, equity-linked investment and foreign exchange margin trading, which were well-received by customers. In the bond underwriting business, the Group achieved success in business diversification with underwriting of bond issuance in different denominated currencies.

### *RMB-related business – the leading CNH (offshore RMB) market player*

As the leading market player in the offshore RMB treasury business in Hong Kong, the Group completed the first CNH/USD cross-currency swap transaction using the CNH HIBOR as the pricing benchmark. This transaction served as a tool to hedge against interest rate risks and marked a new milestone in the development of the offshore RMB business. The Group also successfully acted as the arranger for the issuance of the first RMB certificate of deposit with the CNH HIBOR as the benchmark rate, offering the market a wider choice of floating rate debt instruments. BOCHK has been designated as the market maker of the USD/CNH futures for the Chicago Mercantile Exchange Group and Hong Kong Futures Exchange, becoming the only bank to play such a role in both exchanges.

### *RMB clearing service – continuous service enhancement*

The Group continued to develop better infrastructure to ensure the stable operation and continuous improvement of RMB clearing services in Hong Kong. A number of measures, including the introduction of RMB time deposit service, tiered interest rates scheme and the adjustment of RMB intra-day Repo limits, have been introduced for participating banks to better manage their RMB funds. The extension of operating hours for RMB cross-border payments allows participating banks in different time zones to enjoy the convenience of the Group's settlement service.

## INSURANCE

### Financial Results

The Group's Insurance segment registered a strong growth of 87.8% in its profit before taxation to HK$1,144 million in 2013.

Net insurance premium income grew robustly by 42.1%, as a result of the Group's continuous efforts in product enhancement as well as marketing and promotional campaigns. Policy reserves were lower, as reflected in the changes in net insurance benefits and claims on the back of higher long-term interest rates. This outweighed the mark-to-market changes of debt securities, which were affected by market interest rate movements.

### Business Operation

### *Driving growth through product enhancement and diversified distribution channels*

The Group continued to broaden its product offerings to meet the diverse needs of customers. The UltiChoice Universal Life Insurance Plan was launched to help customers with financial planning and provide whole life protection. The Group also actively developed new distribution channels and established partnerships with brokerage houses to promote insurance products. The optimisation of distribution channels enabled the Group to reach a wider range of customers.

In recognition of its distinctive achievements in the year, BOCG Life was awarded the"Best Life Insurance Company, Hong Kong" in the "Insurance Award 2013" by World Finance, a UK finance magazine, and the "Outstanding Brand Award 2013 – Life Insurance Category" by Economic Digest.

### *RMB insurance products – a prominent provider*

The Group continued to maintain its leading position in the Hong Kong RMB insurance market. Products such as IncomeGrowth Annuity Insurance Plan, Target 5 Years Insurance Plan Series, and RMB Universal Life Insurance Plan were well received by customers. Two new products Wealth Conquer Universal Life Insurance Plan and Forever Glorious Universal Life Insurance Plan were launched and tailored for distribution through brokerage houses.

In recognition of its outstanding performance in RMB services, BOCG Life was granted for two consecutive years the award of "RMB Business Outstanding Awards – Outstanding Insurance Business" organised by Metro Finance, Metro Finance Digital and Hong Kong Wen Wei Po.

## OTHERS

### *Asset management service – making solid progress*

BOCHK Asset Management Limited ("BOCHK AM") saw solid progression in its business in 2013. With strong impetus to focus on developing RMB products and being a competent equity fund house, it launched two retail funds BOCHK All Weather RMB High Yield Bond Fund and BOCHK All Weather HK & China Equity Fund. Both of these funds received an overwhelming response from customers. BOCHK AM was granted an RQFII status by the China Securities Regulatory Commission in July and received an RQFII equity quota from the State Administration of Foreign Exchange in August. It plans to launch an RQFII fund investing in onshore equity securities in 2014.

With respect to its investment advisory services, BOCHK AM continued to expand its geographical foothold by offering its advisory services to overseas financial institutions. This includes acting as the investment advisor for two RMB bond funds launched in Taiwan by a local asset management company. BOCHK AM also acts as the advisor for the new FTSE-BOCHK Offshore RMB Bond Index Series (the "Index Series") launched in partnership with BOCHK and FTSE Group in October. The Index Series combines BOCHK's unique positioning in offshore RMB business and FTSE's global innovative expertise in index benchmarks, allowing investors to benchmark offshore RMB bond market performance and supports market demand for related fixed income investment products.

In recognition of its outstanding offshore RMB bond performance, BOCHK AM has been named the Best Offshore RMB Manager by Asia Asset Management for its Best of the Best Awards in two consecutive years since 2012. In addition, the BOCHK-World Bank Emerging Markets Bond Fund was awarded for "Best-in-Class for Technology and Innovation" in the BENCHMARK Fund of the Year Award 2013. These awards demonstrate BOCHK AM's strengths and capabilities in RMB related investment product innovation and leadership.

### 2014 Business Focuses

In 2014, there will be opportunities and challenges in the operating environment for banks in Hong Kong. The Group will continue to ensure the efficient use of its capital to support growth and drive sustainable return, while adhering to rigorous risk management to safeguard its financial strength and asset quality.

The Group will further explore potential business opportunities with existing customers and expand its market penetration as customers' main bank. It will capitalise on its personal customer segmentation strategy and produce differentiated product propositions to strengthen customer relationships and increase loyalty among different customer segments. The advisory service capability of frontline staff will be further enhanced to encourage cross-selling.

With regards to infrastructure, the Group will further optimise its service platforms to appeal to key targeted customers. It will emphasise product innovation and channel establishment as well as integrate innovative technology with customer experience to pave the way for the Group's future developments.

Leveraging on opportunities from continuing economic reform of the Mainland economy and its strength in the offshore RMB business, the Group will focus on expanding its customer base and enhancing its product development capabilities to optimise its customer and business mix. At the same time, it will continue to improve products and services of the RMB clearing bank with the aim to expand the clearing network globally and consolidate the clearing bank's strong market position in both offshore and cross-border RMB clearing services.

The Group will pursue a strategy of seamless service delivery within the BOC Group. Through closer collaboration with BOC, it will capitalise on its RMB clearing network and competitive advantages to expand beyond Hong Kong. At the same time, it will increase cooperation with BOC to enhance the service coverage and overall synergy of the BOC Group.

## TECHNOLOGY AND OPERATIONS

In 2013, the Group continued to strengthen its information technology and business operation infrastructure to support business growth and operational efficiency. The revamp and expansion of the Group's data centre have been carried out to cater for the business expansion of the Group. Some of the major operations of the Group's subsidiary companies were centralised to enhance both operational synergies and risk management. Meanwhile, a series of services was introduced to enhance customer relationships and support the growth of Personal Banking business. The BOCHK e-Wallet – Mobile Payment Services was launched to provide customers with a new way of conducting payments. The first-ever 24-hour Online Chat Platform was established to provide customers of Enrich Banking service with immediate feedback and assistance. HKD/RMB Cash Deposit machines, the first of their kind in Hong Kong, were made available to provide customers with added convenience in performing cash deposit functions in both currencies. In addition, the paperless branch teller model and electronic account opening platform have been implemented in over 80 local branches.

## CREDIT RATINGS

| As at 31 December 2013 | Long-term | Short-term |
|---|---|---|
| Standard & Poor's | A+ | A-1 |
| Moody's | Aa3 | P-1 |
| Fitch | A | F1 |

On 28 October 2013, Standard & Poor's affirmed the 'A+' long-term and 'A-1' short-term issuer credit ratings for BOCHK. The outlook is stable.

On 7 May 2013, Moody's Investors Service affirmed 'Aa3' long-term and 'P-1' short-term local and foreign currency bank deposit ratings; and 'C+' bank financial strength rating for BOCHK. The outlook is stable.

On 30 October 2013, Fitch Ratings affirmed 'A' long-term and 'F1' short-term foreign currency issuer default ratings for BOCHK. The outlook is stable.

## RISK MANAGEMENT

### *Banking Group*

### Overview

The Group believes that sound risk management is crucial to the success of any organisation. In its daily operation, the Group attaches a high degree of importance to risk management and emphasises that a balance must be struck between risk control and business development. The principal types of 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, which is an expression of the types and level of risk that the Group is willing to take in a controllable way in order to achieve its business goals and to meet the expectations of its stakeholders. For details of the Group's risk management governance structure, please refer to Note 4 to the Financial Statements in this Annual Report.

### Credit Risk Management

Credit risk is the risk of loss arising from a customer or counterparty that 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.

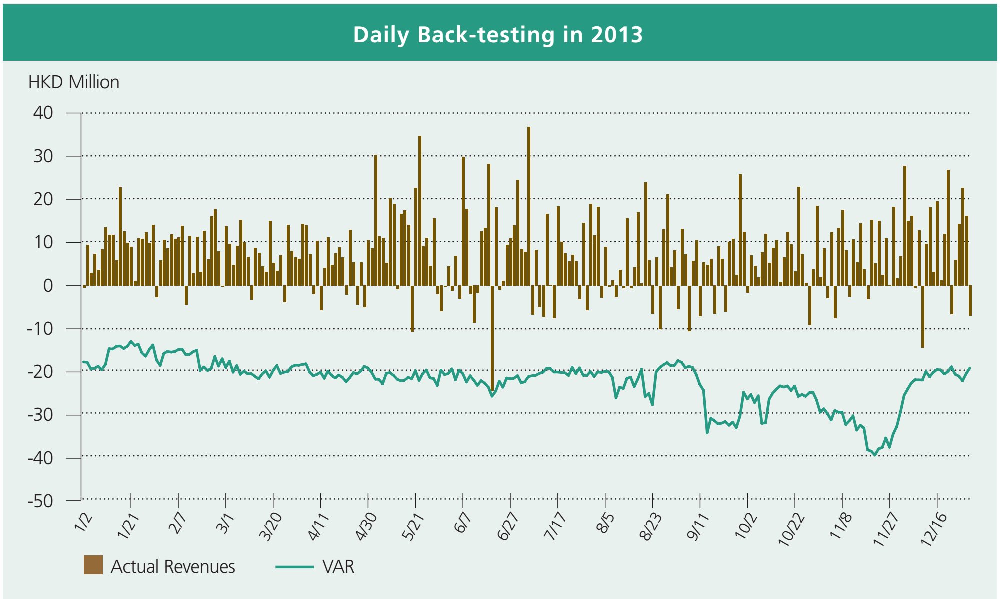
# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Market Risk Management

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

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

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




There were no actual losses exceeding the VAR for the Group in 2013 as shown in the back-testing results.

## Interest Rate Risk Management

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

## Liquidity Risk Management

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

## Operational Risk Management

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

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

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

## Reputation Risk Management

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

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

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

### Legal and Compliance Risk Management

Legal risk is the risk that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operations or financial conditions of the Group. Compliance risk is the risk of legal or regulatory sanctions, financial losses or losses in reputation the Group may suffer as a result of its failure to comply with all applicable laws and regulations. Legal and compliance risks are managed by the OR&CD, which reports directly to the CRO. All legal matters are handled by the Legal Services Centre ("LSC"), which reports to the Chief Operating Officer. The 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 the RC as delegated by the Board.

### Strategic Risk Management

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

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

### Capital Management

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

The Banking (Capital) (Amendment) Rules 2012 and the Banking (Capital) (Amendment) Rules 2013 came into operation on 1 January 2013 and 30 June 2013 respectively. The rules mainly addressed the revision to both the minimum capital ratio requirement (in terms of expanding the existing capital adequacy ratio into three ratios, namely, a Common Equity Tier 1 capital ratio, a Tier 1 capital ratio and a Total capital ratio) and the definition of regulatory capital. In addition, the rules included the enhancements to the counterparty credit risk framework and amendments on the capital treatment for certain trade financing activities and securities financing transactions. The Group's capital position remains strong after the implementation of the rules.

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

### Stress Testing

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

### *BOCG Life*

BOCG Life's principal business is the underwriting of long-term insurance business in life and annuity (Class A), linked long term business (Class C) and retirement scheme management category III (Class I) in Hong Kong. Major types of risk arising from BOCG Life's insurance business are insurance risk, interest rate risk, liquidity risk and credit risk. BOCG 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:

## Insurance Risk Management

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

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

The reinsurance arrangement helps transfer the insurance risk associated with the insurance contracts to the third party. It does not, however, discharge BOCG Life's liability as the primary insurer. If a reinsurer fails to pay a claim for any reasons, BOCG Life remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by reviewing the reinsurers' financial strength prior to finalisation of any reinsurance contract. BOCG Life directs its reinsurance placement policy and assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. BOCG Life also monitors the 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 BOCG 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. BOCG Life manages the matching of assets and liabilities 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. BOCG Life's asset and liability management framework includes cash flow management to preserve liquidity to match policy payout from time to time. In the normal course of BOCG Life's business, new business and in-force policies premiums generate constant cash inflows and, as a result, the portfolios also grow gradually to meet future liquidity requirements.

## Credit Risk Management

BOCG Life has exposure to credit 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 BOCG 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)
– Reinsurers' share of insurance unpaid liabilities
– Amounts due from reinsurers in respect of claims already paid
– Amount due from insurance contract holders
– Amount due from insurance intermediaries

BOCG 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, BOCG 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.

# *NEW* CUSTOMER EXPERIENCE


BANK OF CHINA (HONG KONG)

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

*Chairman*
**TIAN Guoli**# (appointment effective from 4 June 2013)
**XIAO Gang**# (resignation effective from 17 March 2013)

*Vice Chairmen*
**LI Lihui**# (resignation effective from 25 March 2014)
**CHEN Siqing**# (appointment as Vice Chairman effective from 25 March 2014)
**HE Guangbei**

*Directors*
**LI Zaohang**#
**ZHOU Zaiqun**# (retirement effective from 25 March 2014)
**GAO Yingxin**
**FUNG Victor Kwok King***
**KOH Beng Seng***
**NING Gaoning***
**SHAN Weijian***
**TUNG Savio Wai-Hok***
**TUNG Chee Chen*** (retirement effective from 28 May 2013)

# Non-executive Directors
* Independent Non-executive Directors

## SENIOR MANAGEMENT

*Chief Executive*
**HE Guangbei**

*Deputy Chief Executive*
**GAO Yingxin**

*Chief Financial Officer*
**ZHUO Chengwen**

*Deputy Chief Executive*
**YEUNG Jason Chi Wai**

*Chief Risk Officer*
**LI Jiuzhong**

*Chief Operating Officer*
**LEE Alex Wing Kwai**

*Deputy Chief Executives*
**ZHU Yanlai** (appointment effective from 15 April 2013)
**HUANG Hong** (appointment effective from 1 July 2013)

## COMPANY SECRETARY

**CHAN Chun Ying**

## REGISTERED OFFICE

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

## AUDITOR

Ernst & Young

## SHARE REGISTRAR

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

## ADR DEPOSITARY BANK

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

## WEBSITE

www.bochk.com

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

*Mr TIAN Guoli*

*Mr LI Lihui*

*Mr CHEN Siqing*

*Mr HE Guangbei*

## Directors

### Mr TIAN Guoli
*Chairman*

Aged 53, is the Chairman of the Board of Directors of the Company and BOCHK. He is currently the Chairman and Executive Director of Bank of China and also a Director of BOC (BVI) and BOCHKG. Prior to joining Bank of China, Mr TIAN served as Vice Chairman of the Board of Directors and General Manager of China CITIC Group from December 2010 to April 2013. During this period, he served as Chairman of the Board of Directors and Non-executive Director of China CITIC Bank. From April 1999 to December 2010, Mr TIAN successively served as Vice President and President of China Cinda Asset Management Company, and Chairman of the Board of Directors of China Cinda Asset Management Corporation Limited. From July 1983 to April 1999, Mr TIAN held various positions in China Construction Bank ("CCB"), including General Manager of sub-branch, Deputy Branch General Manager, Department General Manager of CCB Head Office and Assistant Executive President of CCB. Mr TIAN graduated from Hubei Institute of Finance and Economics in 1983 and was awarded a Bachelor's Degree in Economics.

### Mr LI Lihui
*Vice Chairman (resignation effective from 25 March 2014)*

Born in 1952, was the Vice Chairman of the Board of Directors and a member of the Nomination and Remuneration Committee of the Company and BOCHK during the year. He was also a Director of BOC (BVI) and BOCHKG during the year. Mr LI was the Vice Chairman and the President of BOC from August 2004 to January 2014. 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.

On 25 March 2014, Mr LI resigned as the Vice Chairman, Non-executive Director and a member of the Nomination and Remuneration Committee of the Company and BOCHK.

### Mr CHEN Siqing
*Non-executive Director (appointment as Vice Chairman effective from 25 March 2014)*

Aged 53, is a Non-executive Director and a member of the Risk Committee and the Strategy and Budget Committee of the Company and BOCHK during the year. He has been serving as Executive Vice President of BOC since June 2008 and was appointed as President of BOC in January 2014. 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 has been serving as the Chairman of the Board of Directors of BOC Aviation Private Limited since December 2011, the Chairman of the Board of Directors of China Culture Industrial Investment Fund Co., Ltd. since December 2010, a Director of Trade Finance Committee of China Banking Association since April 2011 and the Vice Chairman of China Chamber of International Commerce since August 2012. Mr CHEN graduated from Hubei College of Finance and Economics in 1982 and obtained an MBA from Murdoch University, Australia in 1999. He is a Certified Public Accountant.

On 25 March 2014, Mr CHEN was appointed as the Vice Chairman and a member of the Nomination and Remuneration Committee of the Company and BOCHK, and has ceased to be a member of each of the Risk Committee and the Strategy and Budget Committee of the Company and BOCHK.

### Mr HE Guangbei
*Vice Chairman and Chief Executive*

Aged 59, 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, BOCG Life and BOCHK Charitable Foundation. He is Director of each of Hong Kong Interbank Clearing Limited and HKICL Services Limited, a Director of 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 and a council member of Hong Kong Trade Development Council in 2014. He holds various public positions which include member of 12th National Committee of the Chinese People's Political Consultative Conference, non-official member of Economic Development Commission, member of the HKMA Exchange Fund Advisory Committee, member of the Banking Advisory Committee, member of General Committee of Hong Kong General Chamber of Commerce, member of Hong Kong-United States Business Council, member of Advisory Committee of Qianhai Shenzhen-Hong Kong Modern Service Industry Corporation Zone, deputy officer of the Finance Committee of Guangdong's Association for promotion of cooperation between Guangdong, Hong Kong & Macau and Honorary President of the Hong Kong Chinese Enterprises Association. 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.

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT


*Mr LI Zaohang*


*Mr ZHOU Zaiqun*


*Mr GAO Yingxin*


*Dr FUNG Victor Kwok King*

## Directors

### Mr LI Zaohang
*Non-executive Director*

Aged 58, is a Non-executive Director and a member of the Risk Committee and the Nomination and Remuneration Committee of the Company and BOCHK during the year. He joined 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.

On 25 March 2014, Mr LI was appointed as the Chairman of the Strategy and Budget Committee and ceased to be a member of the Risk Committee of the Company and BOCHK. He remains as a member of the Nomination and Remuneration Committee of the Company and BOCHK.

### Mr ZHOU Zaiqun
*Non-executive Director (retirement effective from 25 March 2014)*

Aged 61, was a Non-executive Director, Chairman of the Strategy and Budget Committee and a member of the Audit Committee of the Company and BOCHK during the year. He is the Chairman of NCB 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.

On 25 March 2014, Mr ZHOU retired as a Non-executive Director and ceased to be the Chairman of the Strategy and Budget Committee and a member of the Audit Committee of the Company and BOCHK.

### Mr GAO Yingxin
*Executive Director and Deputy Chief Executive*

Aged 51, 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 NCB and BOCG 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 of China. He was also in charge of BOC's major financing projects. From 1995 to 1996, he worked for the Finance Department of Northern Telecom (Nortel) Head Office in Canada. Mr GAO graduated from the East China University of Science and Technology in Shanghai with a Master's Degree in Engineering in 1986.

### Dr FUNG Victor Kwok King
*Independent Non-executive Director*

Aged 68, 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 Group Chairman of the Fung Group (formerly known as Li & Fung Group), a Hong Kong-based multinational which comprises major subsidiaries in trading, logistics, distribution and retailing. They include publicly listed Li & Fung Limited, Convenience Retail Asia Limited and Trinity Limited. Dr Fung has become Honorary Chairman of Li & Fung Limited after stepping down as its Group Chairman since May 2012. He is also an Independent Non-executive Director of Chow Tai Fook Jewellery Group Limited (Hong Kong), China Petrochemical Corporation (PRC) and Koc Holding A.S. (Turkey). He was an Independent Non-executive Director of Baosteel Group Corporation (October 2005 – January 2013). Dr FUNG is the Founding Chairman of the Fung Global Institute, an independent and non-profit think-tank based in Hong Kong. He completed his term as the Honorary Chairman of the International Chamber of Commerce ("ICC") end of June 2013, but continues to chair the World Trade Agenda Initiative of ICC's G20 Advisory Group. In public service, Dr FUNG is a member of the Chinese People's Political Consultative Conference and a Vice Chairman of China Centre for International Economic Exchanges. He has also been appointed as a member of the Economic Development Commission of the Hong Kong Government since January 2013. Dr FUNG 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), Chairman of the Hong Kong-Japan Business Co-operation Committee (2004-2010), Chairman of the Greater Pearl River Delta Business Council (2004-February 2013), a member of the Commission on Strategic Development of the Hong Kong Government (2005-June 2012) and a member of WTO Panel on Defining the Future of Trade (2012 – April 2013). 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 NING Gaoning*


*Mr SHAN Weijian*


*Mr TUNG Savio Wai-Hok*

## Directors

### Mr KOH Beng Seng
*Independent Non-executive Director*

Aged 63, is an Independent Non-executive Director, Chairman of the Risk Committee and a member of the Audit Committee and the Nomination and Remuneration 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, Great Eastern Holdings Limited and United Engineers Limited (since October 2013), and also a Director of Sing Han International Financial Services Limited and a Director of Hon Sui Sen Endowment CLG Limited (since September 2013). He was formerly an Independent Non-executive Director of Fraser and Neave Limited, a company listed in Singapore. Mr KOH was Deputy President of United Overseas Bank ("UOB") and a member of UOB's Executive Committee from 2000 to 2004. During this period, he was in charge of UOB's operations, delivery channels, information technology, corporate services, risk management and compliance functions and played a key role in driving the successful integration of Overseas Union Bank and UOB in 2001. Prior to that, Mr KOH has spent over 24 years at the Monetary Authority of Singapore where he made significant contributions to the development and supervision of the Singapore financial sector in his capacity as Deputy Managing Director, Banking & Financial Institutions Group. He has also served as a Director of Chartered Semiconductor Manufacturing and as a part-time adviser to the International Monetary Fund. Mr KOH holds a Bachelor's Degree in Commerce from Nanyang University in Singapore and a Master's Degree in Business Administration from Columbia University in the United States.

### Mr NING Gaoning
*Independent Non-executive Director*

Aged 55, is an Independent Non-executive Director and a member of the Strategy and Budget Committee of the Company and BOCHK. Mr NING is currently the Chairman of COFCO Corporation and COFCO (Hong Kong) Limited. Mr NING is also a Non-executive Director of China Foods Limited, a Non-executive Director of China Agri-Industries Holdings Limited, a Non-executive Director of CPMC Holdings Limited, Chairman and Non-executive Director of China Mengniu Dairy Company Limited, all of which are companies listed in Hong Kong. In addition, Mr NING is an Independent Director of Huayuan Property Co., Ltd. (a company listed in Shanghai) and a Director of BOCI. Mr NING was a Director of Smithfield Foods, Inc. (a company listed in New York) until March 2011. Before joining COFCO Corporation, Mr NING held various positions including Vice Chairman, Director and General Manager of China Resources (Holdings) Company Limited and certain of its subsidiaries. Mr NING has over 20 years of experience in corporate management, investment and corporate finance, business restructurings and governmental relations. Mr NING obtained a Bachelor's Degree in Economics from Shandong University, China in 1983 and obtained a Master's Degree in Business Administration from University of Pittsburgh, United States in 1985.

### Mr SHAN Weijian
*Independent Non-executive Director*

Aged 60, is an Independent Non-executive Director, 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 also a director of TCC International Holdings Limited, a company listed on the Stock Exchange. Mr SHAN is also a Governor of China Venture Capital and Private Equity Association Limited. Mr SHAN resigned as a Director of Taishin Financial Holding Co., Ltd. and Taiwan Cement Corporation, both are companies listed in Taiwan, in May 2012 and June 2012 respectively. He was Senior Partner of TPG, Co-Managing Partner of Newbridge Capital, Managing Director of JP Morgan, an assistant professor at the Wharton School of the University of Pennsylvania and an Investment Officer at the World Bank in Washington DC. Mr SHAN graduated from the Beijing Institute of Foreign Trade with a major in English in 1979. He obtained a Master's Degree in Business Administration from the University of San Francisco in 1981, and received a Master of Arts Degree in Economics and a PhD Degree in Business Administration from the University of California at Berkeley in 1984 and 1987 respectively.

### Mr TUNG Savio Wai-Hok
*Independent Non-executive Director*

Aged 62, is an Independent Non-executive Director, Chairman of the Nomination and Remuneration Committee and a member of the Audit 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, a member of the Audit Committee and the Governance and Nominating Committee of Tech Data Corporation, a company listed on NASDAQ, in June 2010. Before joining Investcorp in 1984, he worked for Chase Manhattan Bank for about 11 years, holding various positions in its front, middle and back offices and served in its offices in New York, Bahrain, Abu Dhabi and London. Mr TUNG has served on the boards of many of Investcorp portfolio companies, including Club Car, Circle K, Saks Fifth Avenue, Simmons Mattresses, Star Market, and Stratus Computer. He is also a board member and treasurer of the Aaron Diamond AIDS Research Center, an affiliate of Rockefeller University and a board member of the Committee of 100, a Chinese-American organisation in the U.S. Mr TUNG holds a BSc in Chemical Engineering from Columbia University of New York, where he is also a trustee emeritus and a member of the Columbia University Medical Center Board of Visitors.

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

*Mr ZHUO Chengwen*

*Mr YEUNG Jason Chi Wai*

*Mr LI Jiuzhong*

## Senior Management

### Mr ZHUO Chengwen

*Chief Financial Officer*

Aged 43, is the Chief Financial Officer of the Group. He is also the Chairman of 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 YEUNG Jason Chi Wai

*Deputy Chief Executive*

Aged 59, 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. He is the Vice Chairman of BOCCC and a Director of BOCG Life. 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.

### Mr LI Jiuzhong

*Chief Risk Officer*

Aged 51, 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 NCB, NCB (China), BOCCC and BOCG Life. Mr LI has over 30 years' experience in the banking industry. Mr LI joined BOC in 1983 and, since then, he has assumed various positions at BOC Head Office and overseas branch. He served as Assistant General Manager and became Deputy General Manager of BOC London Branch from 1996 to 2002, Deputy General Manager of Corporate Banking Department of BOC Head Office from 2002 to 2004, and also General Manager of Corporate Banking Department, Risk Management Department, and Global Markets Department of BOC Head Office from 2004 to 2009. Mr LI graduated from Northeast Petroleum University in 1983 with a Bachelor's Degree in Science in Oilfield Development and Management and obtained a Master's Degree in Science in International Banking and Financial Studies from Heriot-Watt University (UK) in 1993.

*Mr LEE Alex Wing Kwai*

*Mdm ZHU Yanlai*

*Mr HUANG Hong*

## Senior Management

### Mr LEE Alex Wing Kwai

*Chief Operating Officer*

Aged 55, is the Chief Operating Officer of the Group. He is also a Director of BOCCC. 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 major financial institutions for over 28 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

*Deputy Chief Executive*

Aged 59, is the Deputy Chief Executive of the Group in charge of overall leadership for the planning and implementation of the Group's strategy, business direction, market positioning, sustainable development, and also take charge of the Chief Executive's Office and Renminbi business. Mdm ZHU is currently a Director of NCB. She was the Assistant Chief Executive from May 2010 to April 2013, and the General Manager of Economics and Strategic Planning Department of BOCHK since the merger of the Group in October 2001. 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.

### Mr HUANG Hong

*Deputy Chief Executive*

Aged 54, is the Deputy Chief Executive of the Group with overall responsibility for the financial market businesses which include Global Transaction Banking, Global Markets, Investment Management, Insurance, Asset Management and other capital market-related businesses. He is also a Director of BOCG Life, a Director and Chairman of BOCI-Prudential Trustee Limited and BOC Group Trustee Company Limited. Mr HUANG joined BOC in February 1981 and, since then, he has assumed various positions in Foreign Exchange Department of BOC London Branch and Treasury Department of BOC Shanghai Branch. He used to be the Department Head of Capital Planning Department, BOC Shanghai Branch since June 1999. From March 2002, he served as the Deputy General Manager of BOC Shanghai Branch. From February 2007 to June 2013, Mr HUANG was the General Manager of BOC Luxembourg Branch, Executive Director and Chief Executive Officer of Bank of China (Luxembourg) S.A. He was the Chairman of the Board of Bank of China (Suisse) S.A. from April 2010 to September 2012 and the Chairman of the Board of BOC (Suisse) Fund Management S.A. from April 2010 to December 2010. With over 30 years' working experience in banking industry, Mr HUANG possesses comprehensive banking knowledge and solid experience in management. Mr HUANG obtained a MBA Degree co-organised by the East China University of Science and Technology and the University of Canberra, Australia.

# REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

## 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 98.

The Board has recommended a final dividend of HK$0.465 per share, amounting to approximately HK$4,917 million, subject to the approval of shareholders at the forthcoming annual general meeting to be held on Wednesday, 11 June 2014. If approved, the final dividend will be paid on Friday, 27 June 2014 to shareholders whose names appear on the Register of Members of the Company on Friday, 20 June 2014. Together with the interim dividend of HK$0.545 per share declared in August 2013, the total dividend payout for 2013 would be HK$1.010 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 Friday, 6 June 2014 to Wednesday, 11 June 2014 (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 Thursday, 5 June 2014. The Annual General Meeting of the Company will be held at 2:00 p.m. on Wednesday, 11 June 2014.

## 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 Tuesday, 17 June 2014 to Friday, 20 June 2014 (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 Monday, 16 June 2014. Shares of the Company will be traded ex-dividend as from Friday, 13 June 2014.

## Reserves

Details of movements in the reserves of the Group are set out in the consolidated statement of changes in equity on page 103.

## Donations

Charitable and other donations made by the Group during the year amounted to approximately HK$11 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 2013, calculated under section 79B of the Hong Kong Companies Ordinance (Chapter 32), amounted to approximately HK$11,058 million.

## Five-year Financial Summary

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

## Directors

The list of Directors of the Company is set out on page 46. The biographical details of the Directors and senior management are set out on pages 47 to 51 of this Annual Report. The term of office for each Non-executive Director is approximately three years.

Mr XIAO Gang resigned as Chairman and Non-executive Director with effect from 17 March 2013. Mr TUNG Chee Chen retired as an Independent Non-executive Director after the conclusion of the 2013 annual general meeting held on 28 May 2013. Mr TIAN Guoli was appointed as Chairman and Non-executive Director with effect from 4 June 2013. As at the date of this report, Mr LI Lihui resigned as Vice Chairman and Non-executive Director, Mr ZHOU Zaiqun retired as Non-executive Director and Mr CHEN Siqing was appointed as Vice Chairman, all changes effective from 25 March 2014. The Board would like to express its sincere gratitude and the highest respect to Mr XIAO, Mr LI, Mr ZHOU and Mr TUNG for their valuable contributions in all aspects during their tenure of office.

In accordance with Article 98 of the Articles of Association and pursuant to Code A.4.2 of the Corporate Governance Code, the terms of office of Mr HE Guangbei, Mr LI Zaohang and Dr FUNG Victor Kwok King will expire at the forthcoming annual general meeting. Dr FUNG Victor Kwok King has notified the Company that he has decided not to stand for re-election at the forthcoming annual general meeting. The other two Directors being eligible, will 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, and shall then be eligible for re-election at such meeting. Accordingly, the term of office of Mr TIAN Guoli, who had been appointed on 4 June 2013, will expire at the forthcoming annual general meeting and, being eligible, will offer himself 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

Mr TIAN Guoli and Mr LI Zaohang are Executive Directors of BOC. Mr CHEN Siqing is a President of BOC. During the year, Mr LI Lihui was an Executive Director of BOC.

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

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

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

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

As at 31 December 2013, 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:

| | Number of shares/underlying shares held | | | | | |
|---|---|---|---|---|---|---|
| Name of Director | Personal interests | Family interests | Corporate interests | Other interests | Total | Approximate % of the total issued shares |
| HE Guangbei | 100,000 | – | – | – | 100,000 | 0.0009% |
| NING Gaoning | – | 25,000 Note | – | – | 25,000 | 0.0002% |
| Total | 100,000 | 25,000 | – | – | 125,000 | 0.0011% |

Note: Such shares are held by the spouse of Mr NING Gaoning.

Save as disclosed above, as at 31 December 2013, none of the Directors or the Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

## Substantial Interests in Share Capital

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31 December 2013, 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 | Approximate % of the 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. Apart from the disclosure above, according to the register maintained by the Company pursuant to section 336 of the SFO, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such amount of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 31 December 2013.

## 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.

## Purchase, Sale or Redemption of the Company's Shares

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

## Major Customers

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

## Connected Transactions

The Independent Non-executive Directors have reviewed the transactions which the Company disclosed in a public announcement on 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 Listing Rules, the Board of Directors engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "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.

## Budgetary Discipline and Reporting

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

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

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

## Auditor

At the close of 2013 annual general meeting held on 28 May 2013, PricewaterhouseCoopers retired as auditor of the Company upon expiration of its term of office and Ernst & Young ("EY") was appointed as new auditor of the Company to hold office until the conclusion of the 2014 annual general meeting.

The financial statements for the year 2013 have been audited by EY who will retire and offer themselves for re-appointment at the 2014 annual general meeting.

On behalf of the Board

**TIAN Guoli**
*Chairman*

Hong Kong, 26 March 2014

# 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 HKMA, Hong Kong Securities and Futures Commission and the Stock Exchange of Hong Kong. The Company from time to time reviews the corporate governance practices as adopted and strives to comply with the relevant requirements of international and local corporate governance best practices.

**The Company has been in full compliance with all code provisions as set out in the Corporate Governance Code** contained in Appendix 14 of the Listing Rules. **It also complies with nearly all the recommended best practices set out in the Corporate Governance Code.** In particular, **the Company publishes quarterly financial and business reviews** so that shareholders and investors can be better updated of the performance, financial positions and prospects of the Company on a timely basis. BOCHK, the Company's wholly-owned and principal operating subsidiary, is in full compliance with the guidelines as set out in the Supervisory Policy Manual module CG-1 entitled "Corporate Governance of Locally Incorporated Authorized Institutions" ("SPM CG-1") issued by HKMA. During the year, the Company has made reference to guidelines and requirements issued by regulatory authorities, coupled with the experience drawn from daily best practice to formulate "Succession Policy for Directors", "Board Diversity Policy", "Policy on Managing Conflicts of Interest of Directors" and relevant measurements in order to ensure the system is in line with the regulatory requirements and further enhance corporate governance standard.

In 2013, the Company was awarded "Asia's Outstanding Company" which was organised by Corporate Governance Asia Magazine with an aim to recognise those companies with excellent and outstanding achievement in upholding aspects of shareholders' rights, information disclosure and board function. This was the second consecutive year for the Company to be granted with such recognised awards. Besides, the Company was also awarded Platinum Winner of Excellence in Management and Corporate Governance Awards 2013 by The Asset. The Company will continue to maintain sound corporate governance standards and procedures to ensure the completeness, transparency and quality of our information disclosure.

## Corporate Governance Policy

### *Policy Statement*

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

### *Essential Principles*

**(1) Eminent Board**

*Authority*

The Board is responsible for supervising the management of the business and affairs of the Group with due regard to maximising shareholder value and enhancing corporate governance standard of the Group. The Board is obliged to act honestly and in good faith and to make decisions objectively in the best interests of the Group and its shareholders as a whole.

*Structure*

The Company is led by a high caliber Board with strong representation of Independent Non-executive Directors. The Board has a well-balanced composition of Executive Directors, Non-executive Directors and Independent Non-executive Directors. Both the number and percentage of the Independent Non-executive Directors are well above the requirements set by relevant rules and regulations. All Directors are eminent individuals from diverse disciplines with extensive professional experience and are able to make objective judgement.

*Roles of Chairman and Chief Executive*

In order to promote balance of power, the roles of Chairman and Chief Executive are segregated. The Company may benefit from the segregation as the Chairman can focus on leading the Board and monitoring corporate governance and shareholder issues, while the Chief Executive leading the Management to perform the day-to-day operations and affairs of the Company.

*Board Committees*

The Board has established 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.

**(2) Prudent Risk Management**

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

**(3) Fair Remuneration System**

The Company ensures that Directors' remuneration should be appropriate and reflect their duty and responsibility to fulfil the expectations of the shareholders and meet regulatory requirements. Directors' fees are subject to the approval of the shareholders. The Board, based on the recommendations of the 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, price sensitive and inside information. It encourages and takes necessary steps to disclose information in a timely manner and to ensure the information concerning the Group is expressed and communicated in a clear and objective manner that enables the shareholders and the public to appraise the position of the Group to make informed investment decisions.

**(5) Upholding Shareholders' Rights**

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

**(6) 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.

# CORPORATE GOVERNANCE

### *Policy Goal*

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

## Corporate Governance Framework

**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.

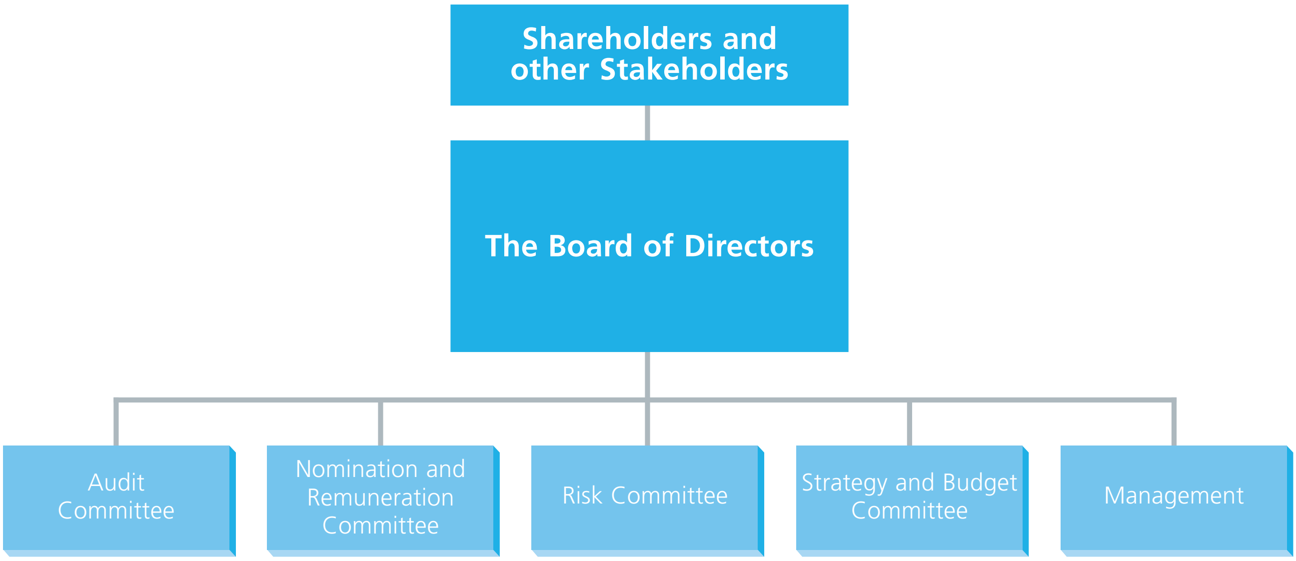
The Board authorises the Management to implement the strategies as approved by the Board. The Management is responsible for the day-to-day operations of the Group and reports to the Board. **For this purpose, the Board has formulated clear written guidelines which stipulate the circumstances whereas 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. Leaded by the Chief Executive, the Management Committee fulfils responsibilities including management of the Group's routine operation, implementation of business development strategies and realisation of the Group's long-term targets and strategies.

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 ensure and enhance the services provided and ensure that adequate and efficient supports are provided to the Board and Board Committees. In addition, according to their respective Mandates, **the Board and each of the Board Committees will evaluate and review their work process and effectiveness annually, with a view to identifying areas for further improvements.**

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




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

## Board of Directors

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

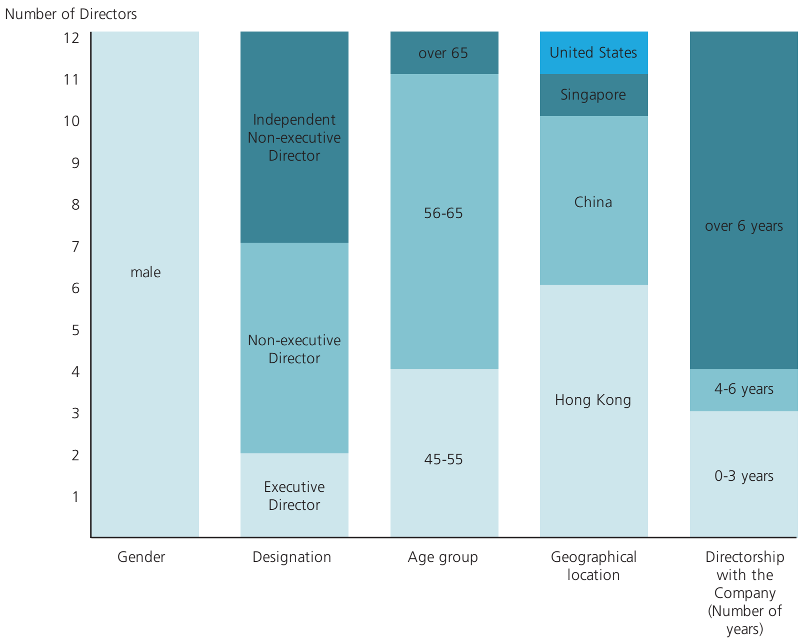
The Board has twelve members during the year, comprising five Independent Non-executive Directors, five Non-executive Directors and two Executive Directors. Mr XIAO Gang resigned as Chairman and Non-executive Director of the Company with effect from 17 March 2013; Mr TUNG Chee Chen retired as an Independent Non-executive Director of the Company after the conclusion of the annual general meeting held on 28 May 2013; and Mr TIAN Guoli was appointed as Chairman and Non-executive Director of the Company with effect from 4 June 2013. As at the date of this report, Mr LI Lihui resigned as Vice Chairman and Non-executive Director of the Company; Mr ZHOU Zaiqun retired as Non-executive Director of the Company; and Mr CHEN Siqing was appointed as Vice Chairman of the Company, all changes effective from 25 March 2014. Save as disclosed above, there were no other changes to the composition of the Board in 2013 and up to the date of this Annual Report.

The Company recognises the importance and benefits of board diversity and formulated a Board Diversity Policy in August 2013 with a view to promoting the Board efficiency and standards of corporate governance of the Company and to be in line with the new Corporate Governance Code on board diversity came into effect in September 2013. In identifying suitable and qualified candidates to be a Board member, Board diversity will be considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills and knowledge, etc., in order to have an appropriate proportion in the Board composition from various aspects as afore-mentioned. At the same time, all Board appointments are made on merit, in the context of the skills and experience the Board as a whole required and the various perspectives of Board diversity elements as mentioned above shall also be adequately considered.

# CORPORATE GOVERNANCE

**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 strategic development, financial and/or risk management.** The Board has formulated 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 professional experience, skills and knowledge of the Directors during the year 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.

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




All the existing **Non-executive Directors and Independent Non-executive Directors of** the Company have been **appointed for a fixed term of approximately 3 years, with formal letters of appointment** setting out the key terms and conditions of their appointment. In accordance with Article 98 of the Articles of Association and pursuant to Code A.4.2 of the Corporate Governance Code, the terms of office of Mr HE Guangbei, Mr LI Zaohang and Dr FUNG Victor Kwok King will expire at the forthcoming annual general meeting. Dr FUNG Victor Kwok King, has notified the Company that he has decided not to stand for re-election at the forthcoming annual general meeting. The other two Directors, being eligible, will 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, and shall then be eligible for re-election at such meeting. Accordingly, the term of office of Mr TIAN Guoli, who had been appointed on 4 June 2013, will expire 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 TIAN Guoli and Mr LI Zaohang are Executive Directors of BOC. Mr CHEN Siqing is President of BOC and was proposed to be appointed as Executive Director of BOC subject to the shareholders' approval at an extraordinary general meeting of BOC scheduled 25 March 2014 and the subsequent approval by the China Banking Regulatory Commission. Mr LI Lihui was a former Vice Chairman, Executive Director and President of BOC (he resigned such positions with effect from 28 January 2014). Mr ZHOU Zaiqun was a former Executive Director and Executive Vice President of BOC (he resigned such positions with effect from 28 May 2011). **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 the Company's expense.

During the year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills in accordance with Code A.6.5 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules. In 2013, the Company invited experts to deliver a seminar to the Directors and senior management with regard to the director's ongoing disclosure obligations of inside information, and the relationship between the information technology and future development of banks. Each of the Directors received a series of training locally or overseas as he thought fit, hosted or attended briefings, meetings, seminars and conferences organised by the Company, professional bodies or regulatory institutions. Relevant training included, among others:

- development of national and global economy;
- national policy outlook;
- corporate governance;
- regulatory updates; and
- banking industry development trend, etc.

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

| **Directors** *(Note 1)* | **Corporate Governance** | **Regulatory updates** | **Banking industry development trend and global/national economy and policy outlook** |
|---|---|---|---|
| *Non-executive Directors* | | | |
| Mr TIAN Guoli *(Chairman) (Note 2)* | ✓ | ✓ | ✓ |
| Mr LI Lihui *(Vice Chairman) (Note 3)* | ✓ | ✓ | ✓ |
| Mr LI Zaohang | ✓ | ✓ | ✓ |
| Mr CHEN Siqing *(Note 4)* | ✓ | ✓ | ✓ |
| Mr ZHOU Zaiqun *(Note 5)* | ✓ | ✓ | ✓ |
| *Independent Non-executive Directors* | | | |
| Dr FUNG Victor Kwok King | ✓ | ✓ | ✓ |
| Mr KOH Beng Seng | ✓ | ✓ | ✓ |
| Mr NING Gaoning | ✓ | ✓ | ✓ |
| Mr SHAN Weijian | ✓ | ✓ | ✓ |
| Mr TUNG Savio Wai-Hok | ✓ | ✓ | ✓ |
| *Executive Directors* | | | |
| Mr HE Guangbei *(Vice Chairman and Chief Executive)* | ✓ | ✓ | ✓ |
| Mr GAO Yingxin | ✓ | ✓ | ✓ |

Note 1: Mr XIAO Gang resigned as Chairman and Non-executive Director of the Company on 17 March 2013; Mr TUNG Chee Chen retired as Independent Non-executive Director of the Company after the conclusion of the annual general meeting held on 28 May 2013 and their training records have not been included therein.

Note 2: Mr TIAN Guoli was appointed as Chairman and Non-executive Director of the Company with effect from 4 June 2013.

Note 3: Mr LI Lihui resigned as Vice Chairman and Non-executive Director of the Company with effect from 25 March 2014.

Note 4: Mr CHEN Siqing was appointed as Vice Chairman of the Company with effect from 25 March 2014.

Note 5: Mr ZHOU Zaiqun retired as Non-executive Director of the Company with effect from 25 March 2014.

**Six Board meetings were held during 2013 with an average attendance rate of 90%.** 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.

Details of respective Directors' attendance at the Board meetings in 2013 are set out as follows:

| Directors | Number of Board meetings attended | Attendance rate |
|---|---|---|
| *Non-executive Directors* | | |
| Mr TIAN Guoli *(Chairman) (Note 1)* | 3 out of 3 | 100% |
| Mr LI Lihui *(Vice Chairman) (Note 2)* | 6 out of 6 | 100% |
| Mr LI Zaohang | 6 out of 6 | 100% |
| Mr ZHOU Zaiqun *(Note 3)* | 6 out of 6 | 100% |
| Mr CHEN Siqing *(Note 4)* | 5 out of 6 | 83% |
| *Independent Non-executive Directors* | | |
| Dr FUNG Victor Kwok King | 3 out of 6 | 50% |
| Mr KOH Beng Seng | 6 out of 6 | 100% |
| Mr NING Gaoning | 3 out of 6 | 50% |
| Mr SHAN Weijian | 6 out of 6 | 100% |
| Mr TUNG Chee Chen *(Note 5)* | 3 out of 3 | 100% |
| Mr TUNG Savio Wai-Hok | 6 out of 6 | 100% |
| *Executive Directors* | | |
| Mr HE Guangbei *(Vice Chairman and Chief Executive)* | 6 out of 6 | 100% |
| Mr GAO Yingxin | 6 out of 6 | 100% |

Note 1: Mr TIAN Guoli was appointed as Chairman and Non-executive Director of the Company with effect from 4 June 2013.
Note 2: Mr LI Lihui resigned as Vice Chairman and Non-executive Director of the Company with effect from 25 March 2014.
Note 3: Mr ZHOU Zaiqun retired as Non-executive Director of the Company with effect from 25 March 2014.
Note 4: Mr CHEN Siqing was appointed as Vice Chairman of the Company with effect from 25 March 2014.
Note 5: Mr TUNG Chee Chen retired as an Independent Non-executive Director of the Company with effect from 28 May 2013.

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

## Audit Committee

The Audit Committee comprised five members during the year, including four Independent Non-executive Directors, namely Mr SHAN Weijian, Dr FUNG Victor Kwok King, Mr KOH Beng Seng, and Mr TUNG Savio Wai-Hok, and one Non-executive Director, Mr ZHOU Zaiqun. Independent Non-executive Directors make up 80% of the Committee members. The Audit Committee is chaired by Mr SHAN Weijian, an Independent Non-executive Director. With effect from 28 May 2013, Mr TUNG Chee Chen retired as a member of the Audit Committee. The Independent Non-executive Directors nevertheless make up the majority of the Committee members. Mr ZHOU Zaiqun ceased to be its member with effect from 25 March 2014.

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 2013 included the review and, where applicable, approval of:

- the Company's Directors' Report and financial statements for the year ended 31 December 2012 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 2013 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 2013 and 30 September 2013 that were recommended to the Board for approval;
- the audit reports and report on internal control recommendations submitted by external auditor, and the on-site examination reports issued by regulators;
- the appointment of external auditor, the fees payable to external auditor for the annual audit, interim review and other non-audit services;
- the Group's audit plan for next year and key issues identified;
- the deployment of human resources and pay level of the Internal Audit and its budget for next year; and
- the 2012 performance appraisal and key performance indicators for the Head of Group Audit and the Group Audit for next year.

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 Corporate Governance Code, the Audit Committee conducted an annual review of the effectiveness of the internal control systems of the Group in 2013. 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 sub-section headed "Internal Control".

**Five Audit Committee meetings were held during 2013 with an average attendance rate of 85%.** Individual attendance records of the relevant Directors are set out as follows:

| Directors | Number of committee meetings attended | Attendance rate |
|---|---|---|
| Mr SHAN Weijian *(Chairman)* | 5 out of 5 | 100% |
| Mr ZHOU Zaiqun *(Note)* | 5 out of 5 | 100% |
| Dr FUNG Victor Kwok King | 3 out of 5 | 60% |
| Mr KOH Beng Seng | 5 out of 5 | 100% |
| Mr TUNG Chee Chen *(Note)* | 1 out of 2 | 50% |
| Mr TUNG Savio Wai-Hok | 4 out of 5 | 80% |

Note: With effect from 28 May 2013, Mr TUNG Chee Chen retired as a member of Audit Committee; and with effect from 25 March 2014, Mr ZHOU Zaiqun ceased to be its member.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee comprised five members during the year, including two Non-executive Directors, namely Mr LI Lihui and Mr LI Zaohang, and three Independent Non-executive Directors, namely Mr TUNG Savio Wai-Hok, Mr SHAN Weijian and Mr KOH Beng Seng. It is chaired by Mr TUNG Savio Wai-Hok, an Independent Non-executive Director. With effect from 28 May 2013, Mr TUNG Chee Chen, an Independent Non-executive Director, retired as the Chairman of the Nomination and Remuneration Committee; Mr TUNG Savio Wai-Hok was appointed as the Chairman and Mr KOH Beng Seng was appointed as a member. With effect from 25 March 2014, Mr LI Lihui ceased to be a member of the Nomination and Remuneration Committee and Mr CHEN Siqing was appointed as its member. Prior and subsequent to such changes, 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:

- 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 (defined as "Senior Management");
- structure, size and composition (including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills and knowledge, etc.) of the Board and Board Committees. 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 in line with the requirements set by relevant rules and regulations;
- remuneration of Directors, Board Committee members, Senior Management and Key Personnel;
- effectiveness of the Board and Board Committees;
- training and continuous professional development of Directors and Senior Management; and
- code of conduct applicable to employees.

Key tasks performed by the Nomination and Remuneration Committee during 2013 included the approval, review and proposal to the Board on the following according to the responsibilities and authorities:

- formulation, review and amendment on the major human resources and remuneration policies, including formulation of the succession policy for Senior Management, review of the performance appraisal and remuneration management mechanism of the Senior Management as well as the bonus funding mechanics of NCB (China);
- performance appraisal result of the Executive Directors and Senior Management for year 2012;
- proposal on staff bonus for year 2012 and salary adjustment for year 2013 for the Group, including the Senior Management;
- key performance indicators of the Group and the Senior Management for year 2014;
- proposal on human resources budget of the Group for year 2014;
- formulation of the Board Diversity Policy, and corresponding amendment on the Mandate of the Nomination and Remuneration Committee, as well as the Nomination and Appointment Procedure, to take into account the Board Diversity Policy;
- formulation of the succession policy for Directors;
- monitoring the implementation progress of the Group's medium-term human resources strategies and other major human resources policies;
- analysis and report of self-evaluation results of the Board and Board Committees, put forward recommendations to the Board to further enhance the functions and effectiveness of the Board and Board Committees;
- consideration of the matters relating to the adjustment and appointment of Senior Management; and
- consideration of the matters relating to the adjustment and appointment of directors in the Company and major subsidiaries of the Group.

Pursuant to the "**Policy on Directors' Remuneration**" adopted by the Company, when recommending the remuneration of Directors, the Committee should benchmark against companies of comparable business type or scale, and job nature and workload at both the Board and Board Committee levels (including frequency of meetings and nature of agenda items) in order to compensate Directors fairly. **No individual Director is allowed to participate in the procedures for deciding his/her individual remuneration package.** Information relating to the remuneration of each Director for 2013 is set out in Note 21 to the Financial Statements of this 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 2013, all Non-executive Directors waived their Directors' fee as mentioned above.

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

**Six Nomination and Remuneration Committee meetings were held during 2013 with an average attendance rate of 83%.** Attendance records of relevant Directors are set out as follows:

| Directors | Number of committee meetings attended | Attendance rate |
|---|---|---|
| Mr TUNG Savio Wai-Hok *(Chairman) (Note 1)* | 5 out of 6 | 83% |
| Mr TUNG Chee Chen *(Note 1)* | 3 out of 3 | 100% |
| Mr LI Lihui *(Note 2)* | 5 out of 6 | 83% |
| Mr LI Zaohang | 6 out of 6 | 100% |
| Mr SHAN Weijian | 4 out of 6 | 67% |
| Mr KOH Beng Seng *(Note 1)* | 2 out of 3 | 67% |

Note 1: With effect from 28 May 2013, Mr TUNG Chee Chen retired as the Chairman of the Nomination and Remuneration Committee; Mr TUNG Savio Wai-Hok was appointed as its Chairman and Mr KOH Beng Seng was appointed as its member.

Note 2: With effect from 25 March 2014, Mr LI Lihui resigned as a member of the Nomination and Remuneration Committee and Mr CHEN Siqing was appointed as its member.

## Risk Committee

The Risk Committee comprised four members during the year, including two Non-executive Directors, namely Mr LI Zaohang and Mr CHEN Siqing, and two Independent Non-executive Directors, namely Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok. The Risk Committee is chaired by Mr KOH Beng Seng. With effect from 25 March 2014, Mr LI Zaohang and Mr CHEN Siqing ceased to be its members.

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 and approval 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 and approval of significant or high risk exposures or 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 2013 included the following:

- review/approval of policies, including the "BOCHK Group Operating Principles", the "Risk Management Policy Statement of BOCHK Group", the "Capital Management Policy", the "BOCHK Group Financial Instruments Valuation Policy", the "Staff Code of Conduct", the "BOCHK Information Security Policy", the "Policy for Validating Internal Rating Systems", the "Connected Transactions Management Policy", the "Stress Test Policy of BOCHK" and stress test scenarios, and a range of risk management policies covering strategic risk, credit risk, market risk, liquidity risk, interest rate risk, operational risk, legal, compliance and reputation risk, etc.;
- review of the risk adjustment method for group bonus funding mechanics and the approval of the results of risk adjustment of BOCHK Group for 2012;
- review/approval of the Group's operating plans, including the Group's target balance sheets, the BOCHK's banking book investment plans and portfolio key risk indicators, as well as risk management limits;
- review and monitoring of Basel Accord implementation, including review of model validation reports, and receiving the implementation progress reports of IRB and of Basel III Accord, as well as the status reports of the allocation of risk-weighted assets;
- review of various risk management reports; and
- review/approval of significant high risk exposures or transactions.

**Six Risk Committee meetings were held during 2013 with an average attendance rate of 88%.** Attendance records of relevant Directors are set out as follows:

| Directors | Number of committee meetings attended | Attendance rate |
|---|---|---|
| Mr KOH Beng Seng *(Chairman)* | 6 out of 6 | 100% |
| Mr LI Zaohang *(Note)* | 5 out of 6 | 83% |
| Mr CHEN Siqing *(Note)* | 5 out of 6 | 83% |
| Mr TUNG Savio Wai-Hok | 5 out of 6 | 83% |

Note: Mr LI Zaohang and Mr CHEN Siqing ceased to be members of Risk Committee with effect from 25 March 2014.

## Strategy and Budget Committee

The Strategy and Budget Committee comprised six members during the year, including two Non-executive Directors, namely Mr ZHOU Zaiqun and Mr CHEN Siqing, and three Independent Non-executive Directors, namely Dr FUNG Victor Kwok King, Mr NING Gaoning, Mr TUNG Savio Wai-Hok and Mr HE Guangbei, the Chief Executive as well as the Executive Director of the Company. The Strategy and Budget Committee was chaired by Mr ZHOU Zaiqun, a Non-executive Director. With effect from 25 March 2014, Mr ZHOU Zaiqun ceased to be the Chairman of the Strategy and Budget Committee, Mr CHEN Siqing ceased to be its member and Mr LI Zaohang was appointed as its Chairman.

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:

- prepare, with input from the Management, Group's medium to long-term strategic plans for Board approval;
- review, motion and monitor the Group's medium to long-term strategy;
- review the process for formulating the Group's medium to long-term strategy to ensure that they are sufficiently robust to take into account a range of alternatives;
- monitor implementation of the Group's medium to long-term strategy through pre-determined metrics and provide guidance to the Management;
- make recommendations to the Board on major investments, capital expenditure, and strategic commitments of the Group and monitor implementation of the same;
- review budget for Board approval and monitor performance against budgeted targets; and
- review and monitor the Group's regular/periodic (including annual) business plan and financial budget.

During the year, the Strategy and Budget Committee played a prominent role in providing guidance and monitoring the implementation of the Group's overall business strategies and driving the formulation and implementation of the Group's key business strategies, such as RMB business, IT Five Years' Strategic Plan, strategic directions of subsidiaries etc. In response to the new operating environment which posed new opportunities and challenges to the implementation of bank strategies, the Strategy and Budget Committee discussed the opportunities and development strategies of Qianhai and Shanghai free trade zone, strategies on mobile payment, E-commerce and implementation of social media. In addition, it reviewed and monitored the implementation of the Group's financial budgets and business plans for 2013, and also reviewed and endorsed the financial budgets and business plans submitted by the Management for the year 2014 and recommended the same to the Board for approval.

**Five Strategy and Budget Committee meetings were held during 2013 with an average attendance rate of 80%.** Attendance records of relevant Directors are set out as follows:

| Directors | Number of committee meetings attended | Attendance rate |
|---|---|---|
| Mr ZHOU Zaiqun *(Chairman) (Note)* | 5 out of 5 | 100% |
| Mr HE Guangbei | 5 out of 5 | 100% |
| Mr CHEN Siqing *(Note)* | 4 out of 5 | 80% |
| Dr FUNG Victor Kwok King | 4 out of 5 | 80% |
| Mr NING Gaoning | 1 out of 5 | 20% |
| Mr TUNG Savio Wai-Hok | 5 out of 5 | 100% |

Note: With effect from 25 March 2014, Mr ZHOU Zaiqun ceased to be its Chairman, Mr CHEN Siqing ceased to be its member and Mr LI Zaohang was appointed as its Chairman.

## Ad Hoc Committee

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

### *Search Committee*

The Search Committee was established in the end of 2012 to conduct an open recruitment to search for a suitably qualified candidate as a Deputy Chief Executive (financial market) of the Company. The Committee was chaired by Dr FUNG Victor Kwok King, an Independent Non-executive Director. Its members included Mr HE Guangbei, an Executive Director, Mr LI Lihui and Mr LI Zaohang, Non-executive Directors and Mr KOH Beng Seng, Mr NING Gaoning, Mr SHAN Weijian, Mr TUNG Chee Chen and Mr TUNG Savio Wai-Hok, all five Independent Non-executive Directors at that time. After several rounds of selection and with the recommendation of the Nomination and Remuneration Committee, the Board resolved to appoint Mr HUANG Hong as a Deputy Chief Executive (financial market) of the Company with effect from 1 July 2013.

### *Independent Board Committee*

An Independent Board Committee was set up in May 2013 to review and approve the continuing connected transactions and the new caps between the Group on the one hand and BOC and its associates on the other hand, for the three years ending 31 December 2016. The Committee comprised all the Independent Non-executive Directors and was chaired by Mr TUNG Savio Wai-Hok. The Committee has engaged Investec Capital Asia Limited as the independent financial adviser. On the basis of Investec Capital Asia Limited's advice and recommendations, the Committee has been satisfied that the continuing connected transactions have been conducted in the ordinary and usual course of business of the Group, on normal commercial terms, and the continuing connected transactions and the annual caps imposed on such transactions for the three years ending 31 December 2016 are in the interests of the Company and its shareholders as a whole and are fair and reasonable so far as the independent shareholders are concerned. As the annual caps for certain categories of continuing connected transactions represent more than 5% of the applicable percentage ratios as defined in the Listing Rules, such transactions are subject to the approval of the independent shareholders of the Company. For such purpose, an extraordinary general meeting is scheduled to be held immediately after the annual general meeting of the Company on 11 June 2014. Shareholders please refer to the circular issued by the Company dated 31 December 2013 and notice of the extraordinary general meeting to be issued by the Company in April 2014 for details on the continuing connected transactions and the extraordinary general meeting respectively. Shareholders can also view and download the aforesaid documents from the Company's website at www.bochk.com.

# CORPORATE GOVERNANCE

## Directors' Securities Transactions

The Company has established and implemented the "Code for Securities Transactions by Directors" (the "Company's Code") to govern the Directors' dealings in securities transactions of the Company. Terms of the Company's Code are more stringent than the mandatory standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" as contained in Appendix 10 of the Listing Rules. Apart from the securities of the Company, the Company's Code also applies to the Director's dealings in the securities of BOC which has been listed on the Stock Exchange of Hong Kong since June 2006. Upon specific enquiry by the Company, all Directors confirmed that they had strictly complied with the provisions as set out in both the Company's Code and the said Model Code throughout the year 2013.

## Remuneration and Incentive Mechanism

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

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

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

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

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

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

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

1. *Performance Management Mechanism*
   To reflect the "performance-driven" corporate culture, the Group has put in place a performance management mechanism to formalise the performance management at the levels of the Group, units and individuals. The annual targets of the Group will be cascaded down under the framework of balanced scorecard whereby the performance of the "Senior Management" and different units (including business units, risk control units and other units) would be assessed from the perspectives of financial, customer, building blocks/key tasks, human capital, risk management and compliance. For individual staff at different levels, annual targets of the Group will be tied to their job requirements through the performance management mechanism. Performance of individuals will be appraised on their achievement against targets, their contribution towards performance of their units and

fulfilment of risk management duties and compliance. Not only is target accomplishment taken into account, but the risk exposure involved during the course of work could also be evaluated and managed, ensuring security and normal operation of the Group. Core values are also assessed to facilitate the attainment of them.

2. *Risk Adjustment of Remuneration*
   To put the principle of aligning performance and remuneration with risk into practice, 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. Credit risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk, compliance risk and reputation risk form the framework of "The Risk Adjustment Method for Group Bonus Funding Mechanics". The size of the Variable Remuneration Pool of the Group is calculated according to the risk adjusted performance results approved by the Board and is subject to the Board's discretion. This method ensures the Group to fix the Group's Variable Remuneration Pool after considering risk exposures and changes and to maintain effective risk management through the remuneration mechanism.

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

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

   According to the Group Bonus Funding 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, and the assessment of which should include risk modifiers. The performance and remuneration arrangement of risk control personnel are determined by the achievement of their core job responsibilities, independent from the business they oversee; for front-line risk controllers, a 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. and McLagan Partners Asia, Inc. for independent consultation in areas of pay management mechanism and market remuneration data of Senior Management and key positions.

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

## External Auditor

Pursuant to the "Policy on External Auditor Management" adopted by the Board, the Audit Committee reviewed and monitored and was satisfied with the independence and objectivity of Ernst & Young, the Group's external auditor, and the effectiveness of its audit procedures, based on the principles and standards set out in the said Policy that were in line with international best practices. Upon the recommendation of the Audit Committee, the Board will propose that Ernst & Young be re-appointed as auditor of the Group at the Company's 2014 annual general meeting. Subject to shareholders' authorisation, the Board will authorise the Audit Committee to determine the remuneration of Ernst & Young. For 2013, the fee charged by Ernst & Young was HK$34 million, of which HK$26 million was for audit services and HK$8 million related to other services (mainly including the tax-related and advisory services). For 2012, the fee paid by the Group to preceding external auditor, PricewaterhouseCoopers, was HK$37 million, of which HK$33 million was for audit services and HK$4 million related to other services.

The Audit Committee was satisfied that the non-audit services in 2013 did not affect the independence of Ernst & Young. The amount paid to Ernst & Young for non-audit services in 2013 comprised mainly the tax-related services fee of approximately HK$2 million, advisory services fee on an ad hoc project of approximately HK$3 million, and other non-audit services fee of approximately HK$3 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 2013 review have been reported to the Audit Committee and the Board.

In addition, 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 39 to page 43 in this Annual Report);

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

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

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

The Group is committed to upholding good corporate governance practices and the internal control system of all subsidiaries are reviewed regularly. During the year of 2013, continuous improvements on the organisation structure and segregation of duty, the risk management policy and procedure, and the enhancement of disclosure transparency have been undertaken by the Group. In response to internal and external changes in global economic condition, operating environment, regulatory requirement and business development, the Group has implemented a series of measures and undertaken an on-going review on the effectiveness of the internal control mechanism. In 2013, areas for improvement have been identified and appropriate measures have been implemented.

## Communication with Shareholders

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

Mr LI Lihui (the Chairman of annual general meeting), Mr TUNG Chee Chen, the former Chairman of the Nomination and Remuneration Committee, Mr KOH Beng Seng, the Chairman of the Risk Committee, Mr ZHOU Zaiqun, the Chairman of the Strategy and Budget Committee, Mr SHAN Weijian, the Chairman of the Audit Committee, and PricewaterhouseCoopers, the preceding auditor were present at the Company's 2013 annual general meeting held on 28 May 2013 at Four Seasons Grand Ballroom, Level 2, Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong to respond to enquiries raised by shareholders. Mr NING Gaoning and Mr TUNG Savio Wai-Hok were unable to attend the meeting due to other business engagements. Save as disclosed above, all other Directors including Mr HE Guangbei, Mr LI Zaohang, Mr CHEN Siqing, Mr GAO Yingxin and Dr FUNG Victor Kwok King were also present at the meeting. Resolutions passed at the Company's 2013 annual general meeting included: adoption of the Company's 2012 financial statements, declaration of 2012 final dividend, re-election of Directors, appointment of auditor and the grant of general mandates to the Board to issue and buy back shares of the Company, relevant voting results are available under the sub-section "Stock Exchange Announcements" of the section headed "Investor Relations" on the Company's website at www.bochk.com.

As disclosed in the 2012 Annual Report of the Company, in view of the investors' concern regarding the potential dilution of the shareholder value arising from the exercise of power pursuant to the grant of a general mandate to issue shares to the Board, the Board has voluntarily reduced the general mandate to issue shares of up to 5% of the 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 2013 annual general meeting. The Board would also recommend the threshold of up to 5% of the number of shares in issue (subject to adjustment in case of any subdivision and consolidation of shares after the passing of the relevant resolution) at the 2014 annual general meeting for approval by shareholders. Further, given its commitment to high standards of corporate governance, the Board also adopted certain **internal policies for the exercise of the powers granted to the Board under the general mandates to issue shares solely for cash and buy back shares.** The relevant policies are summarised as follows:

- the Board will not exercise the mandate at a discount that will result in significant dilution of shareholder value. In the exercise of such power to issue shares for cash, the Board will have regard to factors such as the Group's total capital ratio, and in particular, its Tier 1 capital, cost and benefit of raising Tier 2 capital, need for cash for the Group's business development, the principle that shareholders should be treated equally and the alternative of conducting a rights issue; and

- the Board has set the triggering events for the exercise of the power to 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 2014 annual general meeting will be voted on by poll.** Accordingly, the Company will engage Computershare Hong Kong Investor Services Limited, the Company's Share Registrar, to act as the scrutineer for such purpose. The results of the poll voting will be posted on the Stock Exchange's website and the Company's website as soon as practicable following conclusion of the vote-counting for shareholders' information.

Besides, in order that shareholders can have a better understanding of the agenda items to be discussed at the 2014 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 2014 annual general meeting in a circular to shareholders** which includes introduction to the proposed resolutions to be approved at the annual general meeting, information on the retiring Directors who are eligible for re-election, proposed adoption of new Articles of Association, and information on voting and other issues relating to the 2014 annual general meeting in the form of "Frequently Asked Questions".

## Shareholders' Rights

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

- **the way in which shareholders can convene an extraordinary general meeting:**
  Any shareholder(s) holding not less than 5% of total voting rights of all the shareholders who have a relevant right to vote may request the Board to convene an extraordinary general meeting. The requisition, duly signed by the shareholder(s) concerned, must clearly state the objects of the meeting and must be deposited at the registered office of the Company, 52nd Floor, Bank of China Tower, 1 Garden Road, Hong Kong. The Company would take appropriate actions and make necessary arrangements in accordance with the requirements under Section 566 to 568 of the new Companies Ordinance (Chapter 622, which took effect on 3 March 2014) once a valid requisition is received.

- **the procedures for making proposals at shareholders' meetings:**
  The following shareholders are entitled to put forward a proposal (which may properly be put to the meeting) for consideration at a general meeting of the Company:

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

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

  The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement of not more than 1,000 words with respect to the matter referred to in the proposal must be deposited at the registered office of the Company (52nd Floor, Bank of China Tower, 1 Garden Road, Hong Kong), not less than six weeks before the general meeting. The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Section 581 to 583 of the new Companies Ordinance (Chapter 622) once valid documents are received.

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

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

Further shareholder information is set out in the section headed "Investor Relations" 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, 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 for the formulation of the Company's growth strategies to ensure its sustainable development and to enhance shareholder values.

## 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 management. The Investor Relations Division of the Board Secretariat, which reports directly to the Board, is responsible for the implementation of these strategies and acts as an intermediary between the Company and the investment community. Both the Board and the Committee evaluate the effectiveness of the investor relations programmes on a regular basis.

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

**Multi-communication channels**

- Annual General Meeting
- Results briefings
- Investor/Analyst feedback

- Corporate website
- Investor emails or inquiries
- Email alert service

- Global road-shows
- Investor conferences
- Company visits
- Investor/Analyst workshops

## Information Disclosure Policy

Relevant laws in respect of information disclosure of listed companies has become effective since 1 January 2013. The Company attaches high importance to the principles of information disclosure on timeliness, fairness and transparency, and in addition proactively discloses the information that may have impact on making investment decisions. In accordance with relevant legislations and statutory requirements, the Company formulates Information Disclosure Policy, which is available on the Company's website for public reference. Such policy contains clear guidelines to ensure:

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

### *Access to Corporate Information*

The Investor Relations section of the Company's website (www.bochk.com/ir) provides shareholders and investors with access to the Company's latest development according to the principles of Information Disclosure Policy. These include information in relation to the Company's key developments, interim and annual results as well as quarterly financial and business review updates. Public can also access such important announcements through the Stock Exchange of Hong Kong.

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.

# INVESTOR RELATIONS

## Overview of Investor Relations Activities in 2013

In 2013, the Company continued its efforts to provide effective channels for proactive communication with the investment community.

### *Annual General Meeting*

At the Annual General Meeting held in May 2013, the Vice Chairman of the Board, the Chairmen of the Audit Committee, the Nomination and Remuneration Committee, the Risk Committee and the Strategy and Budget Committee respectively, the Company's senior management as well as external auditor were present to respond to questions and comments from shareholders. A total of 1,160 registered shareholders, 345 authorised corporate representatives and 527 authorised proxies holding an aggregate of 10,343,713,602 shares, representing 97.83% of the total issued share capital of the Company were present at the 2013 Annual General Meeting. Minutes of the Annual General Meeting were available to shareholders on the Company's website.

### *Results Announcement*

At the Company's 2012 annual results announcement and 2013 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.

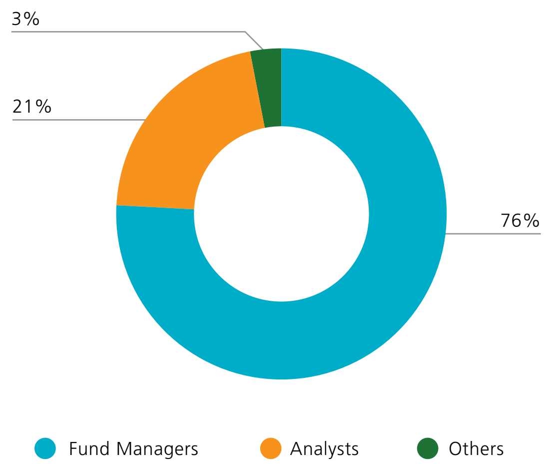
In addition to the interim and annual results announcements, the Company also published quarterly financial and business reviews to keep shareholders up to date about the Company's latest performance and financial position.

### *Communication with the Investment Community*

In 2013, the Company held about 140 meetings with investors and analysts across the world with total attendances of approximately 420. These meetings were conducted during global road-shows, investor conferences, company visits and conference calls in order 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 emails, direct dialogue with investors and investor feedback, the Company continued to promote two-way communication. The responses received from investors enabled the Company to better understand the market focus which helped formulate its investor relations plan and continually improved the investor relations practices.

**Investor Meetings by Category**




## Investor Relations Awards

During 2013, BOC Hong Kong (Holdings) was granted Platinum Award of Excellence in Corporate Governance and Investor Relations 2013 by The Asset magazine. The awards recognise the importance of sustainable growth for listed companies. The companies were invited to complete a questionnaire while The Asset also consulted institutional investors for their views to evaluate the quality of the companies' corporate governance and investor relations.

## Going Forward

Under the principles of timeliness, fairness and transparency, the Company will continue to pursue proactive investor relations practices. Effective investor relations programmes will be formulated 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 RELATIONS

## Shareholder Information

**Financial Calendar 2014**

| Major Events | Dates |
|---|---|
| Announcement of 2013 annual results | 26 March (Wednesday) |
| Latest time for lodging transfers for entitlement to attend and vote at the 2014 Annual General Meeting | 5 June (Thursday) 4:30 p.m. |
| Book closure period (both days inclusive) | 6 June (Friday) to 11 June (Wednesday) |
| Latest time for lodging proxy forms for the 2014 Annual General Meeting | 9 June (Monday) 2:00 p.m. |
| 2014 Annual General Meeting | 11 June (Wednesday) 2:00 p.m. |
| Last day in Hong Kong for dealing in the Company's shares with entitlement to final dividend | 12 June (Thursday) |
| Ex-dividend date | 13 June (Friday) |
| Latest time for lodging transfers for entitlement to final dividend | 16 June (Monday) 4:30 p.m. |
| Book closure period (both days inclusive) | 17 June (Tuesday) to 20 June (Friday) |
| Record date for final dividend | 20 June (Friday) |
| Final dividend payment date | 27 June (Friday) |
| Announcement of 2014 interim results | Mid to late August |

## Annual General Meeting

The 2014 Annual General Meeting will be held at 2:00 p.m. on Wednesday, 11 June 2014 at Grand Ballroom, The Lobby Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, 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 2013, the Company's market capitalisation was HK$262.7billion, among the top 20 leading stocks on the Main Board of Hong Kong Stock Exchange in terms of market capitalisation. Given the Company's market capitalisation and liquidity, its shares are a constituent of Hang Seng Index, MSCI Index and FTSE Index series. In addition, the Company is a constituent of Hang Seng Corporate Sustainability Index Series and Hang Seng High Dividend Yield Index, which recognises its performance in related areas.

## *Debt Securities*

| | | | |
|---|---|---|---|
| **Issuer** | : | **Bank of China (Hong Kong) Limited, a wholly-owned and principal subsidiary of the Company** | |
| **Listing** | : | **The Notes are listed and traded on The Stock Exchange of Hong Kong Limited ("HKEX")** | |
| **Subordinated Notes** | | | |
| Description | : | Bank of China (Hong Kong) Limited 5.55% Subordinated Notes due 2020 | |
| Issue size | : | US$2,500 million | |
| Stock codes | : | HKEX | 4316 |
| | | ISIN | USY1391CAJ00 (Regulation S) |
| | | | US061199AA35 (Rule 144A) |
| | | Bloomberg | EI1388897 |
| **Senior Notes** | | | |
| Description | : | Bank of China (Hong Kong) Limited 3.75% Senior Notes due 2016 issued under the Medium Term Note Programme of US$15 billion | |
| Issue size | : | US$750 million | |
| Stock codes | : | HKEX | 4528 |
| | | ISIN | USY1391CDU28 (Regulation S) |
| | | | US061199AB18 (Rule 144A) |
| | | Bloomberg | EI8623411 |

## *Share Price and Trading Information*

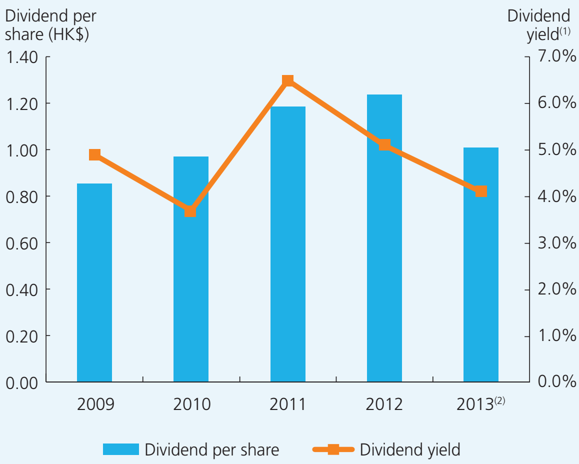
| Share price (HK$) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Closing price at year end | 24.85 | 24.10 | 18.40 |
| Highest trading price during the year | 28.00 | 25.00 | 28.35 |
| Lowest trading price during the year | 22.85 | 18.18 | 14.24 |
| Average daily trading volume (m shares) | 11.47 | 11.77 | 18.97 |
| Number of ordinary shares issued (shares) | 10,572,780,266 | | |
| Public float | Approximately 34% | | |
| Nominal value per share | HK$5.00 | | |

# INVESTOR RELATIONS

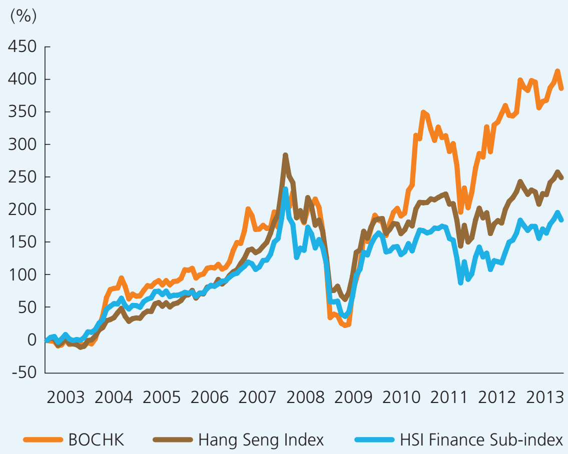
### *Dividends*

The Board of Directors has recommended a final dividend of HK$0.465 per share, which is subject to the approval of shareholders at the 2014 Annual General Meeting. With the interim dividend per share of HK$0.545 paid during 2013, the total dividend per share will amount to HK$1.010 for the full year.

**Dividend Per Share and Dividend Yield(1)**




**Total Shareholder Return since Initial Public Offering**




*Source: Bloomberg*

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

(2) 2013 proposed 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 2013, the Company had 10,572,780,266 shares in issue of which approximately 34% was held by the public and 0.55% was held in the form of ADSs. The Company's 84,222 registered shareholders were distributed in various parts of the world, including Asia, Europe, North America and Australia. Apart from BOC, the Company is not aware of any major shareholders with a shareholding of more than 5% which has to be reported under the SFO.

During the year, the shareholder structure of the Company remained stable. The following table shows the distribution of ownership according to the register of members which includes registered shareholders and shareholders recorded in the participant shareholding report generated from the Central Clearing and Settlement System as at 31 December 2013:

| Category | Number of registered shareholders | % of shareholders | Number of shares held by registered shareholders | % of total issued share capital |
|---|---|---|---|---|
| Individuals | 84,085 | 99.84 | 233,933,887 | 2.21 |
| Institutions, corporates and nominees Note | 136 | 0.16 | 3,397,768,623 | 32.14 |
| Bank of China Group Note | 1 | 0.00 | 6,941,077,756 | 65.65 |
| Total | 84,222 | 100.00 | 10,572,780,266 | 100.00 |

Note:
As recorded in the register maintained by the Company pursuant to section 336 of the SFO, the total number of shares held by Bank of China Group was 6,984,274,213 shares, representing 66.06% of the total issued share capital of the Company as at 31 December 2013. This figure included certain numbers of shares held for Bank of China Group in the securities account opened with BOCI Securities Limited, a participant of Central Clearing and Settlement System. Accordingly, these shares are included under the category of 'Institutions, corporates and nominees'.

## Shareholder Enquiries

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

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

*COMPREHENSIVE*

# CROSS-BORDER FINANCIAL SERVICE

# CORPORATE SOCIAL RESPONSIBILITY


As a leading bank offering the Reverse Mortgage Programme, BOCHK strives to offer customers flexible retirement financial solutions

As a leading banking group in Hong Kong, we realise the important role we play in supporting the sustainable development of the economy, society and environment. Corporate Social Responsibility ("CSR") is an integral part of our business operations and is incorporated into our strategy, helping us to achieve our vision of becoming the premier choice for customers, employees, shareholders and investors.

To ensure that CSR is woven into the fabric of our corporate culture, formal policies and procedures are in place to manage our CSR programmes. These include our Five-Year Stakeholder Engagement Strategy to encourage effective communications with our stakeholders and garner feedback on our performance. All these enable us to make improvements to meet the expectations of our stakeholders.

Introducing the first-ever Voice Navigation ATM in Hong Kong for the visually impaired, BOCHK has been included in HKCSS's inaugural List of Barrier-free Companies/Organisations


In 2013, the Group continued to make significant progress in our CSR initiatives. Our 2012 CSR Report was the second standalone report following the Global Reporting Initiative G3.1 Guidelines. This report was prepared with reference to the Environmental, Social and Governance ("ESG") Reporting Guide issued by the Hong Kong Exchanges and Clearing Limited and highlights the importance we place on disclosure and transparency in CSR.

The Group's outstanding performance with regard to sustainability has earned us wide recognition. For four years in a row, BOC Hong Kong (Holdings) Limited has been included as a constituent of the Hang Seng Corporate Sustainability Index Series. The Company ranked 12th in 2013 and our rating was upgraded from "AA-" to "AA". BOCHK has also been named as a Caring Company by the Hong Kong Council of Social Service ("HKCSS") for 11 consecutive years and included in its List of Barrier-free Companies/Organisations newly launched this year.

## Embracing Customer-centric Values

Providing access to banking and finance is both our core business and our responsibility to the community.

### *Caring Banking Services*

As part of our ongoing efforts to make our banking services more accessible to people from all walks of life, the Group has designed ATMs with special functions and features. We introduced the first-ever Voice Navigation ATM in Hong Kong while the protruding symbols on all our ATMs allow the visually impaired to use self-service banking more conveniently. In addition, around 93% of our ATMs have soft keypads on both sides of the screens for account/service selection. All our newly installed or replaced ATMs are located at a height where the keypads and screens are suitable for wheelchair access. Our newly renovated branches have sloping platforms giving disabled customers easy access to our branches.

We recognise the importance of providing basic account services for customers who might otherwise be underserved. Since 2003, we have included a HKD savings account service with no minimum balance requirements and a free ATM Card. Account holders aged 65 and above, or below 18, as well as recipients of Government Disability Allowances/Comprehensive Social Security Assistance can enjoy a service fee waiver for counter transactions. Those who have temporary special needs in terms of finances can also apply for such a fee waiver. In support of the Treat Customers Fairly Charter of the HKMA, the Group has cancelled its service fee on dormant accounts.

BOCHK strives to provide customers with flexible retirement financial solutions. As a leading bank offering the Reverse Mortgage Programme, we organised a roving exhibition and seminar series during the year to encourage and educate the soon-to-be retired to plan ahead for greater financial security.

To support the Portable Comprehensive Social Security Assistance Scheme and the new Guangdong Scheme for Old Age Allowance offered by the Social Welfare Department of the Hong Kong Special Administrative Region ("HKSAR") Government, we offer elderly customers preferential rates on remittances to the Mainland. Under both schemes, the elderly maintaining accounts with BOCHK can continue to receive cash assistance in Guangdong or Fujian.

Capitalising on our convenient banking platform, we offer NGOs a complete banking solution including counter and payroll services, with a view to reducing their banking expenses.

### *Access to Finance*

SMEs are an important pillar of our economic growth. To facilitate their business development, BOCHK launched the BOC Small Business Loan, which features a one-hour preliminary approval service for unsecured loan applications. The Group continued to support the SME Financing Guarantee Scheme of the Hong Kong Mortgage Corporation Limited ("HKMC") by offering a privileged guarantee fee subsidy. SMEs can utilise our financing services to fulfil their liquidity needs.

In addition, the Group provides HKMC's Microfinance Scheme, which helps small businesses ranging from start-ups to self-employed.

Apart from offering financing support, we endeavour to foster the growth of SMEs by continuing to sponsor the Young Industrialist Awards of Hong Kong and the Hong Kong Awards for Industries. These honours are set up to recognise the outstanding achievements of the local industrialists and manufacturers.


We have sponsored the Hong Kong Awards for Industries for a number of years in recognition of the outstanding achievements of the local industrialists

## Conserving Resources for Environmental Protection

Through implementation of our Environmental Policy, we endeavour to minimise our environmental impact by reducing our carbon footprint, using resources more efficiently and effectively as well as promoting environmentally responsible business practices.

### *Building a Green Bank*

The wider use of electronic services can help reduce paper use. In view of this, the Group provides sophisticated internet banking and other electronic service channels to customers.


With ongoing efforts to promote low-carbon living, BOCHK has sponsored the 1,000 Environment-Friendly Youth Ambassadors Action for two years in a row to help raise public awareness of energy saving on the Mainland and in Hong Kong


The University of Hong Kong's Rooftop Farming Project, sponsored by the Foundation, allows students to learn about and share the joy of organic farming

As the lead sponsor of the Green Monday School Programme, which organises a series of green activities for over 500 schools and 400,000 students, we help reduce carbon consumption by advocating a vegetarian diet

As at the end of 2013, the number of BOCHK mobile banking customers increased by 19.4% as compared with the previous year. In addition, those choosing to receive consolidated statements and investment statements in electronic form rose 35.8% and 14.1% respectively.

To ensure sustainable growth for both the Group and the community, we have incorporated ESG factors into our lending and credit policies. In 2013, we extended loans to a number of companies developing new energy sources and water conservation projects on the Mainland.

In renovating our branches, we incorporated environmental elements in designs, including the use of eco-friendly lighting and promotion of paperless transactions. While minimising environmental impact, this also helps enhance customer experience.

The Group has put into practice its Sustainable Procurement Policy and Supply Chain Code of Conduct since 2011. During the year, we requested 78 companies supplying goods and services to the Group to complete a Self-Assessment Questionnaire and conducted bi-yearly on-site visits of 21 selected suppliers. These initiatives help ensure that the content and packaging of their products can be recycled and environmental certification has been obtained. The furniture items we purchase are subject to the green specifications of the Environmental Protection Department of the HKSAR Government, while electronic appliances must bear the "grade 1" energy label.

We continue our efforts to increase energy efficiency and implement water saving measures in the Group's buildings in accordance with recognised certifications and standards. In addition to installing water-cooled chillers in our air conditioning systems, we replaced the lighting fixtures with T5 fluorescent tubes or LED lighting for higher energy efficiency. Bank of China Tower ("BOC Tower"), Bank of China Building ("BOC Building"), Bank of China Centre ("BOC Centre") and Bank of China Wanchai Commercial Centre have all been certified with UKAS's ISO 9001:2008 and ISO 14001:2004, the international frameworks for environmental performance.

The Group conducts in-house recycling programmes for batteries, compact fluorescent lamps, fluorescent tubes and toner cartridges on a continuous basis. A total of 6,300 computer equipment items and more than 241,460 kg of recycled paper were collected during the year. Since 2012, a food waste processing company has been appointed to process the food waste collected in our staff canteen at BOC Tower. A total of 960 litres of leftover food and oil generated in 2013 was processed, recycled and turned into animal feed and biodiesel fuel.

### *Promoting Carbon Reduction in the Community*

The BOCHK Charitable Foundation ("the Foundation") continued to sponsor various green campaigns with a view to encouraging carbon reduction in the community.

As the title sponsor of the Green Monday School Programme, we advocate a vegetarian diet to help reduce carbon consumption. A series of green seminars, roving exhibitions, carnivals and writing competitions have been organised for over 500 schools and 400,000 students. We encouraged active staff participation by serving green recipes in our staff canteen at BOC Tower on 22 April and organising a Green Recipe Competition.

With ongoing efforts to promote low-carbon living, we participated in the Eco Expo Asia for the third consecutive year and the 1,000 Environment-Friendly Youth Ambassadors Action for two years in a row. Over 3,300 participants have been appointed as Youth Ambassadors to raise public awareness of energy saving on the Mainland and in Hong Kong.

Under the Caritas BOCHK Computer Donation Scheme, we donated 2,000 refurbished computers to the Caritas Computer Workshop, with our volunteers providing computer set-up service and training to the beneficiaries

Following the Hong Kong Geopark Green Walk spearheaded by BOCHK in 2009, we launched Lohas Community – Eco Charity Walk & Photo Tour during the year. This initiative offers the public an opportunity to explore the natural wonders of the Hong Kong Global Geopark of China, encouraging environmental conservation through carbon reduction in daily lives. Over 110 eco-tours have been organised for 11,500 customers, citizens, staff members and their companions.

A green lifestyle helps minimise the carbon footprint. The Foundation sponsored the Rooftop Farming Project of The University of Hong Kong to introduce organic farming on the rooftop of the buildings in the campus. BOCHK volunteers have joined hands with students to be Green Farmers of the farm and provide the farm products to Bījas, a vegetarian restaurant in the campus, for offering green menus. During the year, we also sponsored the Carbon Pioneer Campaign organised by the Zonta Club which showcases a green and sustainable way of living to secondary students.

## Contributing to the Community We Serve

With our roots in Hong Kong, the Group attaches great importance to the community we serve. The Foundation contributed around HK$193 million to the community over the past 19 years through participation in a diverse range of charitable activities.

### *Caring for the Communities*

We facilitate the disadvantaged to access electronic devices through the launch of the Caritas BOCHK Computer Donation Scheme, in which 2,000 refurbished computers were donated to the Caritas Computer Workshop for use by underprivileged families. The Foundation also donated HK$1 million to the Workshop for the upgrade of both software and hardware. BOCHK volunteers have been invited to provide computer training to the beneficiaries.

BOCHK Private Banking sponsored the inaugural Hong Kong Art Gallery Week to help promote art appreciation

The Hong Kong Geopark Green Walk, spearheaded by the Foundation in 2009, has organised over 110 eco-tours for 11,500 customers, citizens, staff members and their companions to explore the local natural wonders

Through the Hong Kong Red Cross, the Foundation donated HK$1.6 million to the afflicted victims of the earthquake in the Yaan city in Sichuan province



BOCHK has been the lead sponsor of the Hong Kong Corporate Citizenship Programme for four consecutive years, successfully promoting CSR to over 370 enterprises and 9,800 participants through seminars and competitions

To promote cross-sector cooperation in fulfilling CSR, the Foundation sponsored the Ocean Park Halloween Fest BOCHK Charity Day for the Community Chest of Hong Kong ("The Chest") for the second consecutive year. This initiative brought together charity and entertainment, helping to raise HK$1.3 million for the Chest. We also offered 1,200 free tickets to underprivileged families, new immigrants and the physically disabled for them to enjoy a special day.

We were the lead sponsor of the Hong Kong Corporate Citizenship Programme organised by the Hong Kong Productivity Council for four consecutive years. This initiative has successfully promoted CSR to over 370 enterprises and 9,800 participants through a number of seminars and competitions.

In time of natural disasters, we provide timely financial assistance to communities in need. On 20 April 2013, a massive earthquake jolted Yaan city in Sichuan province of China. The Foundation promptly donated HK$1.6 million to the Hong Kong Red Cross to support the relief work. In addition to helping to collect donations through our extensive branch network, the Group made a donation of HK$2 million through the Hong Kong Chinese Enterprises Charitable Foundation to the victims in the afflicted areas.

In 2013, the Foundation made a total donation of over HK$10 million for charity cause. In recognition of our contributions to the community, we received the President Award from the Chest and ranked fifth among its donors. Through our credit card company, BOCCC, we continuously assist various social welfare organisations in collecting donations. Charitable organisations can enjoy waivers of the transaction processing fees for donations made through BOC credit cards.


To proactively spread the message of caring, the Group encourages employees to join the BOCHK Dynamic Volunteer Team, which helps those in need through various community and charitable activities


The Ocean Park Halloween Fest BOCHK Charity Day for the Chest, sponsored by the Foundation for the second consecutive year, saw 1,200 free tickets given to underprivileged families and the physically disabled to enjoy a special day

BOCG Life has also devoted considerable efforts to improving the livelihood of the local community. The three-year Health Engineer Programme and five-year Kids The Future Programme sponsored by our insurance arm have organised diversified health seminars and interests classes to benefit over 7,000 primary students, parents and teachers as well as the underprivileged.

### *Nurturing Future Talent*

We are committed to nurturing our younger generation to build a better society. The Foundation has awarded HK$16.565 million scholarships and bursaries to nine universities in Hong Kong since 1990, benefitting a total of 1,792 students. The Group also organises the Summer Internship Programme to offer university and tertiary institution students valuable internship opportunities.

Caring has no boundaries. In 2013, we joined the 8-day Walkathon of Sowers Action to the west of Hunan with a record number of over 200 participants. The team included our 54 existing and retired staff members. Over HK$1.24 million was raised by us to help improve rural education. The team also visited the Seeds of Hope Schools jointly with staff from BOC's Hunan Branch and donated basic necessities to the students. We have supported the Walkathon for the fifth consecutive year.

In addition, Chiyu donated RMB1 million to assist in the educational development of the Jimei district on the Mainland.

BOCG Life is the sponsor of the three-year Health Engineer Programme, which promotes a healthy lifestyle to primary students through diversified health seminars

BOCHK Dynamic Volunteer Team contributed more than 12,000 hours of service through participation in 73 community service activities during the year

We joined the 8-day Education Walkathon of Sowers Action, which saw a record number of over 200 participants help to improve rural education

The Group organises a wide variety of team building and training activities to encourage innovation among staff

A diverse range of recreational activities are organised to advocate work-life balance and strengthen the bonding among all levels of staff

## People-oriented with Team Spirit

People are the Group's most important asset and CSR has a positive impact on staff morale. We have laid a solid foundation for future business development with comprehensive talent management and training programmes.

### *Staff Training and Development*

The Group's staff of over 14,500 includes talented professionals with diverse background and experience. We recruit highly qualified management and business professionals, as well as graduates of tertiary institutions and universities.

To ensure the training and development plan is aligned with the Group's medium- and long-term business strategies, we introduced a Leadership Development Programme. The Programme is designed to enhance the leadership and strategic thinking capabilities of our management staff.

The Group offers multi-faceted training programmes, including in-house training, cross-posting, secondment and mentorship schemes. By making compliance training courses mandatory for every staff, we have strengthened our compliance culture throughout the Group. We also encourage continuous self-learning by staff, who can fulfil their learning objectives through our e-learning platform.

### *Promoting Sports Development*

The Group has been a patron of sports in the community. To facilitate the development of badminton, our key sports initiative, the Foundation donated a total of more than HK$15 million over the past 15 years to fund a diverse range of activities which saw more than 1.2 million participants. The activities include the World Class Seminar and Volunteer Service Team introduced in 2013.

To foster the talents of young athletes, the Foundation sponsored the Hong Kong Island & Kowloon Regional Inter-school Sports Competition for 11 consecutive years. It has been well received by students, with over 80,000 athlete enrolments from more than 270 schools, which participated in more than 8,000 matches in 2013. The BOCHK Inter-school Sports Volunteering Project is a new initiative to organise more sports activities among schools while educating students the concept of lending a helping hand.

Badminton is the key sports initiative of the Foundation. We invited Ms Yip Pui Yin (centre), an elite badminton athlete, to share her experience and techniques with students

To celebrate the 45th anniversary of the Chest, the Foundation fully supported the Chest BOCHK Cycling Challenge to raise funds for children and youth services

### *Employee Engagement*

The Group conducts an "online staff engagement survey" to garner staff opinion. This contributes to the continuous enhancement of our working environment, management policies and measures. We also place strong emphasis on work-life balance, with a diverse range of programmes organised for staff during the year. Outstanding staff and distinguished teams are recognised at an annual award presentation, which motivates staff to strive for excellence.

### *Employee Volunteering*

To proactively spread the message of caring, we encourage employee participation in various community and charitable activities. As at the end of 2013, over 1,400 employees have registered as members of our Dynamic Volunteer Team, contributing more than 12,000 hours of service through participation in 73 service activities. Some of these activities were organised jointly with a number of charitable organisations for children, the elderly, the underprivileged and mentally disabled. In recognition of our staff's enthusiasm for performing community services, BOCHK was presented the Gold Award for Volunteer Service by the Social Welfare Department of the HKSAR Government for four years in a row.

Going forward, we will continue to enhance our CSR practices to create greater value for our stakeholders.

Our 300 staff participated in the Chest's Stonecutters Bridge Walk for Millions and the Cycling Challenge, both sponsored by the Foundation. These two events helped raise over HK$7 million for the Chest

# AWARDS AND RECOGNITION

The outstanding performance of our major businesses has earned us various industry awards, reinforcing our leading market positions. We were also named the Bank of the Year in Hong Kong by The Banker in recognition of our consistently sound performance and continuous success in growing our franchise, particularly in the development of offshore RMB business. With the vision of becoming customers' premier bank, we are committed to driving continuous enhancement in our service capabilities, quality and efficiency. Our efforts not only won us the support from our customers but also numerous honours. These awards covered a wide range of areas including RMB business, asset management, custody, cash management, SME, mortgage, securities, credit card, internet and mobile banking services, etc. The Group's commitment to promote the sustainable development of the society also received a number of recognitions.

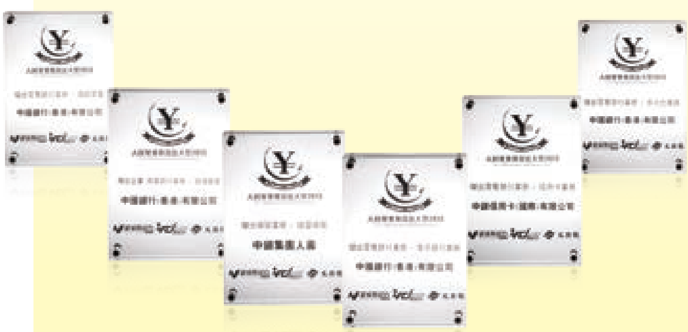
## Financial Strength and Corporate Governance

- The Bank of the Year in Hong Kong **(The Banker)**
- Asia's Outstanding Company on Corporate Governance for two consecutive years **(Corporate Governance Asia)**
- The Asset Excellence in Corporate Governance and Investor Relations – Platinum Award **(The Asset)**



## RMB Business

- Hong Kong Offshore RMB Centre – RMB Business Outstanding Awards **(Metro Finance, Metro Finance Digital and Wen Wei Po):**
  Outstanding Retail Banking Business – Traditional Retailing
  Outstanding Retail Banking Business – Diversified Businesses
  Outstanding Retail Banking Business – Credit Card Business
  Outstanding Retail Banking Business – E-Banking Business
  Outstanding Corporate/Commercial Banking Business – International Trade
  Outstanding Insurance Business – Savings Insurance
- Excellent Brand of RMB Banking Service in the Hong Kong Leaders' Choice Brand Awards **(Metro Finance)**
- The Distinguished RMB Business Service in the Distinguished Banking & Finance Awards **(Wen Wei Po)**
- The Best RMB Service in the 3rd Prime Awards for Banking & Finance Corporations **(MetroBox)**



**BOCHK Asset Management:**

- The Best Offshore RMB Manager in the Best of the Best Awards for two consecutive years **(Asia Asset Management)**

# AWARDS AND RECOGNITION



## Service Excellence

- The Best QFII Custodian in the Triple A Assets Servicing Awards **(The Asset)**
- The Best Domestic Cash Management Bank in Hong Kong **(The Asian Banker)**
- Top bank in the Hong Kong-Macau syndicated loan market for nine consecutive years **(Basis Point)**
- The Best SME's Partner Award for six consecutive years **(The Hong Kong General Chamber of Small and Medium Business)**
- Seven honours in the 7th HKIB Outstanding Financial Management Planner Awards, including two Gold Awards and two Best Presentation Awards **(The Hong Kong Institute of Bankers)**
- Three honours in the 11th Customer Service Excellence Awards, including two Gold Awards in the Team Category **(Hong Kong Association for Customer Service Excellence)**
- Six honours in the 14th HKCCA Awards, including the Mystery Caller Assessment Award – Gold for four consecutive years **(Hong Kong Call Centre Association)**
- In-house Team of the Year (Chinese Financial Institution) Award granted to the Legal Services Centre **(China Law & Practice, a subsidiary of Euromoney)**
- The Best of Consumer e-Banking Service Provider and the Best of Mobile Banking Service Provider in the e-Brand Awards **(e-zone)**
- Excellent Brands of Mortgage Service and Securities Service in the Hong Kong Leaders' Choice Brand Awards **(Metro Finance)**
- Sing Tao Service Awards – Mortgage Service **(Sing Tao Daily)**
- The Distinguished Wealth Management Service in the Distinguished Banking & Finance Awards **(Wen Wei Po)**
- The Best Retail Bank (Gold Award) in the 3rd Prime Awards for Banking & Finance Corporations **(MetroBox)**
- Quality Management System of ISO 9001:2008 Certification granted to the Information Processing Division of the Bank-wide Operation Department **(SGS Hong Kong)**
- Popular MTR Shops – Merit Award **(Mass Transit Railway Corporation)**


**BOCHK Asset Management:**

- The Best-in-Class Technology and Innovation Award in the Fund of the Year Awards **(Benchmark)**

# AWARDS AND RECOGNITION

**BOCG Life:**
- The Best Life Insurance Company in Hong Kong **(World Finance)**
- Outstanding Brand Award **(Economic Digest)**

**BOCCC:**
- Customer Complaint Management of ISO:10002 Certification for five consecutive years **(Hong Kong Quality Assurance Agency)**
- My Most Favourite Credit Card for Travelling Award in the U Magazine Travel Awards **(U Magazine)**

***UnionPay International:***
- Merchant RMB Settlement Service in Hong Kong and Macau - Innovative Award
- Largest Card Number (Credit Card) in Hong Kong – Gold Award
- Highest Acquiring Volume in Hong Kong – Gold Award
- Highest POS Number in Macau – Gold Award

***Visa International:***
- Largest Card Growth in Hong Kong
- Largest eCommerce Acquiring Volume Growth in Hong Kong
- Bank of the Year in Macau
- First Visa payWave Issuer in Macau

***MasterCard Worldwide:***
- Highest Market Share: e-Commerce Cardholder Spending Volume, Merchant Purchase Volume, Number of Open Cards & Cardholder Spending in Macau
- Highest Market Share: Number of Open Cards in Hong Kong – 1st Runner Up
- Highest Market Share: Premium Cards Spending, Merchant Purchase Volume & e-Commerce Cardholder Spending in Hong Kong – 2nd Runner Up

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## Social Responsibility

**i) Caring for the Community**
- Included as a constituent of the **Hang Seng Corporate Sustainability Index** and **Hang Seng (Mainland and HK) Corporate Sustainability Index** respectively for four consecutive years, and a constituent of the **Hang Seng Corporate Sustainability Benchmark Index** for three consecutive years
- Named the Caring Company for 11 consecutive years and included in the List of Barrier-free Companies/ Organisations **(The Hong Kong Council of Social Service)**
- President's Award and ranked 5th among the Top Donors **(The Community Chest of Hong Kong)**
- Gold Award for Volunteer Service for four consecutive years **(Social Welfare Department)**

**NCB, BOCG Life and BOCCC:**
- Named the Caring Company for a number of years **(The Hong Kong Council of Social Service)**


**BOCG Life:**

- Friend of Social Enterprise in the Friends of Social Enterprise Award Scheme **(Home Affairs Department and Social Enterprise Advisory Committee)**

**ii) Environmental Protection**

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

- Quality Management System of ISO 9001:2008 Certification and Environmental Management System of ISO 14001:2004 Certification **(UKAS)**
- Certificate of Quality Water Recognition Scheme for Building **(Water Supplies Department)**

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

- Energy Management System of ISO 50001:2011 Certification **(SGS Hong Kong)**

***BOC Tower and BOC Centre:***

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

- BOCHK's LOHAS Community – Hong Kong Charity Walk for Eco-geo-cultural Discovery: Bronze Award for Green Marketing: Earth Science **(International Astrid Awards)** and Honours for Special Events: Eco-Tour **(International Galaxy Awards)**


## Professional Training

- Qualified for operating training programmes at Qualifications Framework Level 3 **(Hong Kong Council for Accreditation of Academic and Vocational Qualifications)**
- Outstanding New Trainer Award in the Awards for Excellence in Training and Development **(Hong Kong Management Association)**

## Promotional Campaigns

- Annual Report 2012 of BOC Hong Kong (Holdings) Limited:
  – Silver Award for Interior Design and Silver Award for Financial Data under the category of Banking and Financial Services (Hong Kong/PRC) **(International ARC Awards)**
  – Bronze Award for Annual Reports: Overall Presentation: Banks (Asia/Pacific) **(International Galaxy Awards)**

- **International Astrid Awards**
  – Launch of RMB Sovereign Bonds in Hong Kong by Bank of China (Hong Kong): Gold Award for Promotion: Product Launch
  – Commemorative Banknote in Celebration of the Centenary of Bank of China: Bronze Award for Special Projects: Integrated Campaign
  – International Military Tattoo: Bronze Award for Campaigns: Multi-Media
  – Desk Top Calendar 2013: Honours for Calendars: Corporate

# INDEPENDENT AUDITORS' REPORT

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

**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 98 to 241, which comprise the consolidated and company balance sheets as at 31 December 2013, 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.

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 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 auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, 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.

Ernst & Young

**Ernst & Young**
*Certified Public Accountants*
Hong Kong, 26 March 2014

# CONSOLIDATED INCOME STATEMENT

| For the year ended 31 December | Notes | **2013 HK$'m** | (Restated) 2012 HK$'m |
|---|---|---|---|
| Interest income | | **39,379** | 35,413 |
| Interest expense | | **(11,463)** | (10,705) |
| **Net interest income** | 6 | **27,916** | 24,708 |
| Fee and commission income | | **12,716** | 11,110 |
| Fee and commission expense | | **(3,751)** | (3,347) |
| **Net fee and commission income** | 7 | **8,965** | 7,763 |
| Gross earned premiums | | **17,966** | 11,881 |
| Gross earned premiums ceded to reinsurers | | **(8,796)** | (5,430) |
| **Net insurance premium income** | | **9,170** | 6,451 |
| Net trading gain | 8 | **2,957** | 3,129 |
| Net (loss)/gain on financial instruments designated at fair value through profit or loss | | **(159)** | 747 |
| Net gain on other financial assets | 9 | **83** | 750 |
| Other operating income | 10 | **654** | 589 |
| **Total operating income** | | **49,586** | 44,137 |
| Gross insurance benefits and claims | | **(18,277)** | (14,147) |
| Reinsurers' share of benefits and claims | | **9,004** | 5,627 |
| **Net insurance benefits and claims** | 11 | **(9,273)** | (8,520) |
| **Net operating income before impairment allowances** | | **40,313** | 35,617 |
| Net charge of impairment allowances | 12 | **(737)** | (859) |
| **Net operating income** | | **39,576** | 34,758 |
| Operating expenses | 13 | **(12,083)** | (11,259) |
| **Operating profit** | | **27,493** | 23,499 |
| Net gain from disposal of/fair value adjustments on investment properties | 14 | **264** | 1,889 |
| Net gain from disposal/revaluation of properties, plant and equipment | 15 | **1** | 106 |
| Share of profits less losses after tax of associates and a joint venture | 29 | **35** | 27 |
| **Profit before taxation** | | **27,793** | 25,521 |
| Taxation | 16 | **(4,718)** | (3,974) |
| **Profit for the year** | | **23,075** | 21,547 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | | **22,252** | 20,930 |
| Non-controlling interests | | **823** | 617 |
| | | **23,075** | 21,547 |
| **Dividends** | 18 | **10,679** | 13,089 |
| | | **HK$** | HK$ |
| **Earnings per share for profit attributable to the equity holders of the Company** | | | |
| Basic and diluted | 19 | **2.1046** | 1.9796 |

The notes on pages 106 to 241 are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| For the year ended 31 December | Notes | 2013 HK$'m | 2012 HK$'m |
|---|---|---|---|
| **Profit for the year** | | **23,075** | 21,547 |
| Items that will not be reclassified subsequently to income statement: | | | |
| Premises: | | | |
| Revaluation of premises | | **4,129** | 9,796 |
| Deferred tax | 39 | **(666)** | (1,601) |
| | | **3,463** | 8,195 |
| Items that may be reclassified subsequently to income statement: | | | |
| Available-for-sale securities: | | | |
| Change in fair value of available-for-sale securities | | **(6,570)** | 5,398 |
| Release upon disposal of available-for-sale securities reclassified to income statement | | **(116)** | (644) |
| Net reversal of impairment allowances on available-for-sale securities reclassified to income statement | 12 | **–** | (2) |
| Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities reclassified to income statement | | **–** | (12) |
| Deferred tax | 39 | **1,203** | (730) |
| | | **(5,483)** | 4,010 |
| Change in fair value of hedging instruments under net investment hedges | | **(54)** | (7) |
| Currency translation difference | | **331** | 115 |
| | | **(5,206)** | 4,118 |
| **Other comprehensive income for the year, net of tax** | | **(1,743)** | 12,313 |
| **Total comprehensive income for the year** | | **21,332** | 33,860 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | **20,933** | 32,865 |
| Non-controlling interests | | **399** | 995 |
| | | **21,332** | 33,860 |

The notes on pages 106 to 241 are an integral part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

| For the year ended 31 December | Note | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|---|
| **Profit for the year** | 17 | **13,519** | 12,820 |
| Items that may be reclassified subsequently to income statement: | | | |
| Available-for-sale securities: | | | |
| Change in fair value of available-for-sale securities | | **273** | 22 |
| **Other comprehensive income for the year, net of tax** | | **273** | 22 |
| **Total comprehensive income for the year** | | **13,792** | 12,842 |

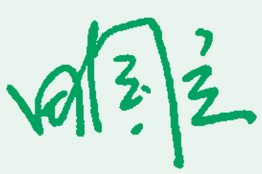
The notes on pages 106 to 241 are an integral part of these financial statements.

# CONSOLIDATED BALANCE SHEET

| As at 31 December | Notes | 2013 HK$'m | 2012 HK$'m |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with banks and other financial institutions | 22 | **353,741** | 198,748 |
| Placements with banks and other financial institutions maturing between one and twelve months | | **46,694** | 66,025 |
| Financial assets at fair value through profit or loss | 23 | **43,493** | 49,332 |
| Derivative financial instruments | 24 | **25,348** | 31,339 |
| Hong Kong SAR Government certificates of indebtedness | | **99,190** | 82,930 |
| Advances and other accounts | 25 | **924,943** | 819,739 |
| Investment in securities | 27 | **440,720** | 482,364 |
| Interests in associates and a joint venture | 29 | **292** | 259 |
| Investment properties | 30 | **14,597** | 14,364 |
| Properties, plant and equipment | 31 | **52,358** | 48,743 |
| Deferred tax assets | 39 | **304** | 89 |
| Other assets | 32 | **45,256** | 36,831 |
| Total assets | | **2,046,936** | 1,830,763 |
| **LIABILITIES** | | | |
| Hong Kong SAR currency notes in circulation | 33 | **99,190** | 82,930 |
| Deposits and balances from banks and other financial institutions | | **278,273** | 179,206 |
| Financial liabilities at fair value through profit or loss | 34 | **13,580** | 20,172 |
| Derivative financial instruments | 24 | **18,912** | 21,214 |
| Deposits from customers | 35 | **1,324,148** | 1,226,290 |
| Debt securities in issue at amortised cost | 36 | **5,684** | 5,923 |
| Other accounts and provisions | 37 | **48,149** | 47,983 |
| Current tax liabilities | | **2,562** | 1,873 |
| Deferred tax liabilities | 39 | **6,944** | 7,406 |
| Insurance contract liabilities | 40 | **66,637** | 53,937 |
| Subordinated liabilities | 41 | **19,849** | 28,755 |
| Total liabilities | | **1,883,928** | 1,675,689 |
| **EQUITY** | | | |
| Share capital | 42 | **52,864** | 52,864 |
| Reserves | 43 | **105,949** | 98,105 |
| Capital and reserves attributable to the equity holders of the Company | | **158,813** | 150,969 |
| Non-controlling interests | | **4,195** | 4,105 |
| Total equity | | **163,008** | 155,074 |
| Total liabilities and equity | | **2,046,936** | 1,830,763 |

The notes on pages 106 to 241 are an integral part of these financial statements.

Approved by the Board of Directors on 26 March 2014 and signed on behalf of the Board by:



**TIAN Guoli**
*Director*

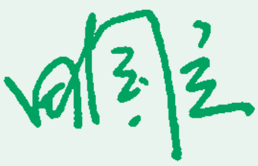
**HE Guangbei**
*Director*

# BALANCE SHEET

| As at 31 December | Notes | 2013 HK$'m | 2012 HK$'m |
|---|---|---|---|
| **ASSETS** | | | |
| Bank balances with a subsidiary | | **84** | 86 |
| Investment in securities | 27 | **2,801** | 2,528 |
| Investment in subsidiaries | 28 | **54,834** | 54,834 |
| Amounts due from a subsidiary | | **7,747** | 7,318 |
| Other assets | | **1** | 1 |
| Total assets | | **65,467** | 64,767 |
| **LIABILITIES** | | | |
| Amounts due to a subsidiary | | **–** | 2 |
| Other accounts and provisions | | **–** | 1 |
| Total liabilities | | **–** | 3 |
| **EQUITY** | | | |
| Share capital | 42 | **52,864** | 52,864 |
| Reserves | 43 | **12,603** | 11,900 |
| Total equity | | **65,467** | 64,764 |
| Total liabilities and equity | | **65,467** | 64,767 |

The notes on pages 106 to 241 are an integral part of these financial statements.

Approved by the Board of Directors on 26 March 2014 and signed on behalf of the Board by:



**TIAN Guoli**
*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 2012 | 52,864 | 23,150 | 1,787 | 6,967 | 674 | 44,323 | 129,765 | 3,418 | 133,183 |
| Profit for the year | – | – | – | – | – | 20,930 | 20,930 | 617 | 21,547 |
| Other comprehensive income: | | | | | | | | | |
| Premises | – | 8,126 | – | – | – | – | 8,126 | 69 | 8,195 |
| Available-for-sale securities | – | – | 3,715 | – | – | (12) | 3,703 | 307 | 4,010 |
| Change in fair value of hedging instruments under net investment hedges | – | – | – | – | (6) | – | (6) | (1) | (7) |
| Currency translation difference | – | 1 | 8 | – | 103 | – | 112 | 3 | 115 |
| Total comprehensive income | – | 8,127 | 3,723 | – | 97 | 20,918 | 32,865 | 995 | 33,860 |
| Release upon disposal of premises | – | (18) | – | – | – | 18 | – | – | – |
| Transfer from retained earnings | – | – | – | 787 | – | (787) | – | – | – |
| Dividends | – | – | – | – | – | (11,661) | (11,661) | (308) | (11,969) |
| At 31 December 2012 | 52,864 | 31,259 | 5,510 | 7,754 | 771 | 52,811 | 150,969 | 4,105 | 155,074 |
| At 1 January 2013 | **52,864** | **31,259** | **5,510** | **7,754** | **771** | **52,811** | **150,969** | **4,105** | **155,074** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **22,252** | **22,252** | **823** | **23,075** |
| Other comprehensive income: | | | | | | | | | |
| Premises | **–** | **3,420** | **–** | **–** | **–** | **–** | **3,420** | **43** | **3,463** |
| Available-for-sale securities | **–** | **–** | **(5,009)** | **–** | **–** | **–** | **(5,009)** | **(474)** | **(5,483)** |
| Change in fair value of hedging instruments under net investment hedges | **–** | **–** | **–** | **–** | **(50)** | **–** | **(50)** | **(4)** | **(54)** |
| Currency translation difference | **–** | **3** | **(13)** | **–** | **330** | **–** | **320** | **11** | **331** |
| Total comprehensive income | **–** | **3,423** | **(5,022)** | **–** | **280** | **22,252** | **20,933** | **399** | **21,332** |
| Transfer from retained earnings | **–** | **–** | **–** | **1,240** | **–** | **(1,240)** | **–** | **–** | **–** |
| Dividends | **–** | **–** | **–** | **–** | **–** | **(13,089)** | **(13,089)** | **(309)** | **(13,398)** |
| At 31 December 2013 | **52,864** | **34,682** | **488** | **8,994** | **1,051** | **60,734** | **158,813** | **4,195** | **163,008** |
| Representing: | | | | | | | | | |
| 2013 final dividend proposed (Note 18) | | | | | | **4,917** | | | |
| Others | | | | | | **55,817** | | | |
| Retained earnings as at 31 December 2013 | | | | | | **60,734** | | | |

* 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 106 to 241 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 2012 | 52,864 | 1,250 | 9,469 | 63,583 |
| Profit for the year | – | – | 12,820 | 12,820 |
| Other comprehensive income: | | | | |
| Available-for-sale securities | – | 22 | – | 22 |
| Total comprehensive income | – | 22 | 12,820 | 12,842 |
| Dividends | – | – | (11,661) | (11,661) |
| At 31 December 2012 | 52,864 | 1,272 | 10,628 | 64,764 |
| At 1 January 2013 | **52,864** | **1,272** | **10,628** | **64,764** |
| Profit for the year | **–** | **–** | **13,519** | **13,519** |
| Other comprehensive income: | | | | |
| Available-for-sale securities | **–** | **273** | **–** | **273** |
| Total comprehensive income | **–** | **273** | **13,519** | **13,792** |
| Dividends | **–** | **–** | **(13,089)** | **(13,089)** |
| At 31 December 2013 | **52,864** | **1,545** | **11,058** | **65,467** |

The notes on pages 106 to 241 are an integral part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

| For the year ended 31 December | Notes | 2013 HK$'m | 2012 HK$'m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating cash inflow/(outflow) before taxation | 44(a) | **145,223** | (75,946) |
| Hong Kong profits tax paid | | **(3,766)** | (4,243) |
| Overseas profits tax paid | | **(401)** | (264) |
| **Net cash inflow/(outflow) from operating activities** | | **141,056** | (80,453) |
| **Cash flows from investing activities** | | | |
| Purchase of properties, plant and equipment | 31 | **(1,096)** | (1,045) |
| Purchase of investment properties | 30 | **(2)** | (2) |
| Proceeds from disposal of properties, plant and equipment | | **4** | 266 |
| Proceeds from disposal of investment properties | | **–** | 66 |
| Dividend received from associates and a joint venture | 29 | **2** | 2 |
| **Net cash outflow from investing activities** | | **(1,092)** | (713) |
| **Cash flows from financing activities** | | | |
| Dividend paid to the equity holders of the Company | | **(13,089)** | (11,661) |
| Dividend paid to non-controlling interests | | **(309)** | (308) |
| Repayment of subordinated loans | | **(6,668)** | – |
| Interest paid for subordinated liabilities | | **(494)** | (604) |
| **Net cash outflow from financing activities** | | **(20,560)** | (12,573) |
| Increase/(decrease) in cash and cash equivalents | | **119,404** | (93,739) |
| Cash and cash equivalents at 1 January | | **242,955** | 340,446 |
| Effect of exchange rate changes on cash and cash equivalents | | **842** | (3,752) |
| **Cash and cash equivalents at 31 December** | 44(b) | **363,201** | 242,955 |

The notes on pages 106 to 241 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, precious metals at fair value, investment properties which are carried at fair value and premises which are carried at fair value or revalued amount less accumulated depreciation and accumulated impairment losses.

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.

## 2. Summary of significant accounting policies (continued)

### *2.1 Basis of preparation (continued)*

**(a) Standards, amendments and interpretation already mandatorily effective for accounting periods beginning on 1 January 2013**

| Standard/ Interpretation | 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 |
| HKFRS 1 (Amendment) | First Time Adoption of Hong Kong Financial Reporting Standards – Government Loans | 1 January 2013 | No |
| HKFRS 7 (Amendment) | Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities | 1 January 2013 | 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 10, 11 and 12 (Amendment) | Transition Guidance | 1 January 2013 | Yes |
| HKFRS 13 | Fair Value Measurement | 1 January 2013 | Yes |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine | 1 January 2013 | No |

- 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 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 affects the presentation of the Group's statement of comprehensive income.

- 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".

## 2. Summary of significant accounting policies (continued)

### *2.1 Basis of preparation (continued)*

#### (a) Standards, amendments and interpretation already mandatorily effective for accounting periods beginning on 1 January 2013 (continued)

- HKFRS 7 (Amendment), "Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities". The amendments require new disclosures to include information that enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. New disclosure for the adoption of this amended standard is presented in Note 50.

- 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 as 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 users to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. New disclosure for the adoption of this standard is presented in Note 29.

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 supersede HKAS 27 (Revised), HKAS 28, HKAS 31, HK(SIC)-Int 12 and HK(SIC)-Int 13. The adoption of these standards does not have a material impact on the Group's financial statements.

## 2. Summary of significant accounting policies (continued)

### *2.1 Basis of preparation (continued)*

**(a) Standards, amendments and interpretation already mandatorily effective for accounting periods beginning on 1 January 2013 (continued)**

- HKFRS 10, 11 and 12 (Amendment), on transition guidance. The amendments provide additional transition relief to HKFRS 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The adoption of this amendment does not affect the disclosure of the Group's financial statements.

- 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. It also requires extensive disclosures which allow users of financial statements to assess the methods and inputs used by the entities when developing the fair value measurements. The new disclosure is presented in Note 5.

**(b) Standards, amendments and interpretation issued that are not yet mandatorily effective and have not been early adopted by the Group in 2013**

The following standards, amendments and interpretation have been issued and are mandatory for accounting periods beginning on or after 1 January 2014:

| Standard/ Interpretation | Content | Applicable for financial years beginning on/after | Currently relevant to the Group |
|---|---|---|---|
| HKAS 19 (2011) (Amendment) | Employee Benefits: Defined Benefit Plans | 1 July 2014 | No |
| HKAS 32 (Amendment) | Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities | 1 January 2014 | Yes |
| HKAS 36 (Amendment) | Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets | 1 January 2014 | Yes |
| HKAS 39 (Amendment) | Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting | 1 January 2014 | Yes |
| HKFRS 7 (Amendment) | Financial Instruments: Disclosures – Transition to HKFRS 9 | 1 January 2015 | Yes |
| HKFRS 9 | Financial Instruments | To be determined | Yes |
| HKFRS 10, 12 and HKAS 27 (Amendments) | Investment Entities | 1 January 2014 | No |
| HK(IFRIC) – Int 21 | Levies | 1 January 2014 | Yes |

## 2. Summary of significant accounting policies (continued)

### *2.1 Basis of preparation (continued)*

**(b) Standards, amendments and interpretation issued that are not yet mandatorily effective and have not been early adopted by the Group in 2013 (continued)**

- 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 adoption of this amendment does not have a material impact on the Group's financial statements.

- HKAS 36 (Amendment), "Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets". The amendment aligns the disclosure requirements with its original intention which does not intend to disclose at level of cash generating unit. It also requires additional disclosure about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The adoption of this amendment does not affect the disclosure of the Group's financial statements.

- HKAS 39 (Amendment), "Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting". The amendment introduces a relief to allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation. The adoption of this amendment does not have a material impact on 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.

- 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. In December 2013, the part related to hedge accounting was further added. 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.

## 2. Summary of significant accounting policies (continued)

### *2.1 Basis of preparation (continued)*

#### (b) Standards, amendments and interpretation issued that are not yet mandatorily effective and have not been early adopted by the Group in 2013 (continued)

*(i) Classification and Measurement (continued)*

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 the income statement. Once elected to be recognised through other comprehensive income, there will be no reclassification of fair value gains and losses to the income statement.

*(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 the income statement. If this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in the income statement. The determination of whether there will be a mismatch will need to be made at initial recognition of individual liabilities and will not be re-assessed. Amounts presented in other comprehensive income are not subsequently reclassified to the income statement but may be transferred within equity.

The standard also 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.

*(iii) Hedge accounting*

The requirements related to hedge accounting relaxes the requirements for assessing hedge effectiveness which more risk management strategies would be eligible for hedge accounting. It also relaxes the rules on using purchased options and non-derivative financial instruments as hedging instruments and allows greater flexibility on hedged items. Corresponding disclosures about risk management activity for applying hedge accounting are also introduced.

It is expected that the final part on impairment of financial assets will be pronounced in 2014. HKAS 39 will be replaced by HKFRS 9 in its entirety. The previous mandatory effective date of HKFRS 9 was removed and the new mandatory effective date will be determined upon the entire completion of HKFRS 9. Early adoption of HKFRS 9 is permitted but the part of classification and measurement and hedge accounting must be applied at the same time. The accounting for own credit risk can be early adopted in isolation without applying the other HKFRS 9 requirements at the same time. The Group is considering the financial impact of the standard and the timing of its application.

## 2. Summary of significant accounting policies (continued)

### *2.1 Basis of preparation (continued)*

#### (b) Standards, amendments and interpretation issued that are not yet mandatorily effective and have not been early adopted by the Group in 2013 (continued)

- HK(IFRIC) – Int 21, "Levies". The interpretation addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. For a levy that is triggered upon reaching a minimum threshold, no liability should be anticipated before the specified minimum threshold is reached. The adoption of this amendment does not have a material impact on the Group's financial statements.

#### (c) Improvements to HKFRSs

"Improvements to HKFRSs" contains numerous amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. The amendments are either effective and adopted for annual periods beginning on or after 1 January 2013 or will be effective on or after 1 July 2014. The adoption of these improvements does not have a material impact on the Group's financial statements.

### *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 entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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 the income statement as a bargain purchase gain. Subsequently, goodwill is subject to impairment testing.

## 2. Summary of significant accounting policies (continued)

### *2.2 Consolidation (continued)*

#### (1) Subsidiaries (continued)

*(i) Business combinations not under common control (continued)*

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.

*(ii) Business combinations under common control*

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

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

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

## 2. Summary of significant accounting policies (continued)

### *2.2 Consolidation (continued)*

#### (2) Transactions with non-controlling interests

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

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

#### (3) Associates and joint venture

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

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

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### *2.3 Segmental reporting*

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

### *2.4 Foreign currency translation*

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

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

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, 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. Summary of significant accounting policies (continued)

### *2.5 Derivative financial instruments and hedge accounting*

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

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

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.

## 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 the 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 in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the accumulated gain or loss that was reported in equity is immediately reclassified to the income statement.

#### (c) Net investment hedge

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

### *2.6 Offsetting financial instruments*

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

## 2. 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.

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 are held. All financial assets are recognised initially at fair value. Except for financial assets carried at fair value through profit or loss, all transaction costs of financial assets are included in their 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.

## 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 or net gain/loss on financial instruments designated at fair value through profit or loss when the Group's right to receive payment is established.

#### (2) Loans and receivables

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

#### (3) Held-to-maturity

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

## 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 derecognised or impaired at which time the accumulated gain or loss previously recognised in equity should be transferred to the income statement. However, interest income which includes the amortisation of premium and discount is calculated using the effective interest method and is recognised in the income statement. Dividends on equity instruments classified as available-for-sale are recognised in other operating income when the Group's right to receive payment is established.

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

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

### *2.9 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. Summary of significant accounting policies (continued)

### *2.9 Financial liabilities (continued)*

#### (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.

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

### *2.11 Recognition and derecognition of financial instruments*

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

## 2. Summary of significant accounting policies (continued)

### *2.11 Recognition and derecognition of financial instruments (continued)*

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 expires. If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of a liability and the consideration paid is included in net trading gain/loss.

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

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

### *2.12 Fair value measurement*

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

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

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

If the market for assets or liabilities is not active, the Group uses valuation techniques, 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, that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

### *2.13 Precious metals*

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

## 2. Summary of significant accounting policies (continued)

### *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

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

- adverse changes in the payment status of borrowers in the group; or

- national or local economic conditions that correlate with defaults on the assets in the group.

**(1) Assets carried at amortised cost**

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

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

## 2. Summary of significant accounting policies (continued)

### *2.14 Impairment of financial assets (continued)*

#### (1) Assets carried at amortised cost (continued)

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.

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

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

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

#### (2) Assets classified as available-for-sale

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

## 2. Summary of significant accounting policies (continued)

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

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

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

### *2.16 Investment properties*

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

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### *2.17 Properties, plant and equipment*

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

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

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

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

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

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### *2.18 Leases*

#### (1) Operating leases

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

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

#### (2) Finance leases

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

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

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

### *2.19 Insurance contracts*

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

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

The Group 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 issues long term business insurance contracts, which insure events covered by life policies (for example death, survival, or total permanent disability) over a long duration. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised.

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 the investment funds which the Group has invested with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

## 2. Summary of significant accounting policies (continued)

### *2.19 Insurance contracts (continued)*

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

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

Premiums are recognised as revenue when they become payable by the contract holders before the deduction of commissions. Benefits and claims are recorded as an expense when they are incurred.

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

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

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

#### (2) 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. Summary of significant accounting policies (continued)

### *2.22 Employee benefits*

#### (1) Retirement benefit costs

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

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

#### (2) Leave entitlements

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

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

#### (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.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Summary of significant accounting policies (continued)

### *2.23 Current and deferred income taxes (continued)*

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.

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 Repossessed assets*

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

### *2.25 Fiduciary activities*

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

### *2.26 Contingent liabilities and contingent assets*

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

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

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain 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. Summary of significant accounting policies (continued)

### *2.27 Related parties*

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

## 3. Critical accounting estimates and judgements in applying accounting policies

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

### *3.1 Impairment allowances on loans and advances*

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

Carrying amounts of loans and advances as at 31 December 2013 are shown in Note 25.

### *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.

Carrying amounts of investment in securities as at 31 December 2013 are shown in Note 27.

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

### *3.3 Fair values of derivative financial instruments*

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

Carrying amounts of derivative financial instruments as at 31 December 2013 are shown in Note 24.

### *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 2013 are shown in Note 27.

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

In determining the Group's long term business fund liabilities (a component of insurance contract liabilities), the Group follows the Insurance Companies (Determination of Long Term Liabilities) Regulation under the Insurance Companies Ordinance and makes prudent assumptions which include appropriate margins for adverse deviation of the relevant factors. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on Hong Kong Assured Lives Mortality Table HKA01 that 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$79 million (2012: approximately HK$103 million), which accounts for 0.14% (2012: 0.2%) of the liability. In this case, it is assumed there is no relief arising from reinsurance contracts held.

## 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)*

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

Estimates are also made as to future investment income arising from the assets backing long term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Were the average future investment returns to decrease by 50 basis points from the Management's estimates, the long term business fund liability would increase by approximately HK$941 million (2012: approximately HK$1,410 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.

A resilience reserve was set up and included in long term business fund liabilities in accordance with the Insurance Companies (Determination of Long Term Liabilities) Regulation to provide a prudent provision against the effects of possible future changes to the value of the assets to meet the liabilities. The resilience reserve was set up based on the appointed actuary's advice of a 35 basis points (2012: 16 basis points) change in market yield of the underlying assets and valuation interest rates. The amount of resilience reserve set up depends on the degree of change in interest rate assumed.

## 4. Financial risk management

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

### *Financial risk management framework*

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

The Board of Directors, representing the interests of shareholders, is the highest decision-making authority of the Group and has the ultimate responsibility for risk management. The Board, with the assistance of its committees, has the primary responsibility for the formulation of risk management strategies and ensuring that the Group has an effective risk management system to implement these strategies.

The RC, a standing committee established by the Board of Directors, is responsible for overseeing the Group's various types of risks, approving high-level risk-related policies and monitoring their implementation, reviewing significant or high risk exposures or transactions and exercising its power of veto if it considers that any transaction should not proceed. The Audit Committee assists the Board in fulfilling its role in overseeing the internal control system.

## 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 material risk exposures or transactions within his authority delegated by the Board of Directors. The Chief Risk Officer ("CRO") assists the CE in fulfilling his responsibilities for the day-to-day management of risks. The CRO is responsible for initiating new risk management strategies, projects and measures that will enable the Group to better monitor and manage new risk issues or areas that may arise from time to time from new businesses, products and changes in the operating environment. The CRO will also take appropriate initiatives in response to regulatory changes. The CRO is also responsible for reviewing material risk exposures or transactions within his delegated authority and exercising his power of veto if he believes that any transaction should not proceed.

Various units of the Group have their respective risk management responsibilities. Business units act as the first line of defence while risk management units, which are independent from the business units, are responsible for the day-to-day management of different kinds of risks. Risk management units have the primary responsibilities for drafting, reviewing and updating various risk management policies and procedures.

The Group's principal banking subsidiaries, NCB, 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 BOCG Life, are subject to the Group's risk management requirements. These subsidiaries are required to formulate their respective risk management policies based on the characteristics of their own industries, perform daily risk management responsibilities and report to BOCHK on a regular basis. Risk management units of BOCHK monitor the risk management status of these subsidiaries respectively.

The Group has put in place appropriate internal control systems, including establishment of an organisation structure that sets clear lines of authority and responsibility for monitoring compliance with policies, procedures and limits. Proper reporting lines also provide sufficient independence of the control functions from the business areas, as well as adequate segregation of duties throughout the organisation which helps to promote an appropriate internal control environment.

### *Product development and risk monitoring*

To ensure the effectiveness of risk assessment and monitoring, the Group has a comprehensive product development and risk monitoring system where roles and responsibilities of all related units are clearly defined and proper due diligence processes on product development are in place.

In accordance with the strategic objectives set by the Board and the Management, respective product management units are responsible for formulating business and product development plans, and proceeding to specific product development activities. The department of strategic development shall ensure the plans are aligned with the Group's overall strategies. Departments that are responsible for risk management, legal, compliance and finance etc. are accountable for risk assessment and review.

Apart from product development, respective product management units shall work closely with relevant risk evaluating departments to identify and assess the risks of new products. Risk evaluating departments shall conduct independent review on the risk assessment results and the corresponding risk management measures. Products can only be launched upon completion of the product due diligence process to the satisfaction of all risk evaluating departments.

A prudent approach is adopted in offering treasury products to our clients. All treasury products, regardless brand new or modified, require approval from a special committee before launching.

## 4. Financial risk management (continued)

### *4.1 Credit Risk*

Credit risk is the risk of loss arising from a customer or counterparty that 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 and updated to cope with changes in market conditions and business strategies.

The Group's organisation structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits.

The Chief Credit Officer, who reports directly to the CRO, takes charge of credit risk management and is also responsible for the control of credit risk 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, NCB, NCB (China) and Chiyu, have also formulated their own credit risk policies that are consistent with those of the Group. These subsidiaries execute their risk management strategies independently and report to the Group's Management on a regular basis.

The Board of Directors delegates credit approval authority to the CE. The CE can further delegate to the subordinates within his limit authorised by the Board of Directors. The Group sets the limits of credit approval authority according to the business nature, rating, the level of transaction risk, and the extent of the credit exposure.

## 4. Financial risk management (continued)

### *4.1 Credit Risk (continued)*

**Credit risk measurement and control**

In view of the rapidly changing market conditions, the Group has been continuously revisiting its credit strategies and conducting rigorous reviews on the concerned portfolios.

*Advances*

Different credit approval and control procedures are adopted according to the level of risk associated with the customer, counterparty or transaction. The Credit Risk Assessment Committee, comprising experts from credit and other functions, is responsible for making an independent assessment of material credit which require the approval of Deputy Chief Executives ("DCE") or above. Credit applications for non-retail exposures are independently reviewed and objectively assessed by risk management units. Obligor ratings (in terms of probability of default) and facility ratings (in terms of loss given default) are assigned to these portfolios to support credit approval. Retail internal rating systems are deployed in the risk assessment of retail credit transactions, including small business retail exposures, residential mortgage loans, personal loans and credit cards. Loan grades, obligor and facility ratings as well as loss estimates (if applicable) are used to support credit approval.

The Group also uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, reporting and analysis of credit risk information. For non-retail exposures, more frequent rating review and closer monitoring are required for higher-risk customers. For retail exposures, monthly updated internal ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools.

The Group employs a credit master scale for internal rating purpose that can be mapped to Standard & Poor's external credit ratings. The credit master scale for internal rating is in compliance with the Banking (Capital) Rules under the Hong Kong Banking Ordinance on internal rating structure.

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

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

In the year of 2013, 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.

"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.

## 4. Financial risk management (continued)

### *4.1 Credit Risk (continued)*

**Credit risk measurement and control (continued)**

*Debt securities and derivatives*

For investments in debt securities and securitisation assets, the obligor ratings or external credit ratings, assessment of the underlying assets and credit limits setting on customer/security issuer basis are used for managing credit risk associated with the investment. For derivatives, the Group sets customer limits to manage the credit risk involved and follows the same approval and control processes as applied for advances. On-going monitoring and stop-loss procedures are established.

The methodology and assumptions used for impairment assessments are reviewed regularly. In evaluating impairment of asset backed securities ("ABS") and mortgage backed securities ("MBS"), the Group continued to use a significant decline in market price and credit deterioration of the underlying assets to be the key indicators of impairment. The Group also considered other objective evidences of impairment, taking into account the impact of liquidity on market prices and the movement in loss coverage ratios of individual ABS and MBS held by the Group.

Settlement risk arises mainly from foreign exchange transactions with counterparties and also from derivatives transactions in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty or customer to cover all settlement risk arising from the Group's market transactions on any single day.

**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 2013 and 2012, the Group did not hold any collateral that it was permitted to sell or re-pledge in the absence of default by the borrower.

**(A) Credit exposures**

The maximum credit exposure is the worst case scenario of exposure to the Group without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the maximum exposure to credit risk equals their carrying amount. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the Group could be required to pay if the guarantees are called upon. For loan commitment and other credit related liabilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The nature of the collateral held and other credit enhancements and their financial effect to the different classes of the Group's financial assets are as follows.

## 4. Financial risk management (continued)

### *4.1 Credit Risk (continued)*

#### (A) Credit exposures (continued)

*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 of OTC products are conducted, and contractually bind both parties to apply close-out netting on 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 137. 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 145 to 146. 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. For contingent liabilities and commitments, 11.6% (2012: 11.4%) is covered by collateral as at 31 December 2013.

#### (B) Gross advances and other accounts

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

| | **2013**<br>**HK$'m** | 2012<br>HK$'m |
|---|---|---|
| Advances to customers | | |
| Personal | | |
| – Mortgages | **208,502** | 202,386 |
| – Credit cards | **12,678** | 11,534 |
| – Others | **33,365** | 24,782 |
| Corporate | | |
| – Commercial loans | **518,374** | 472,425 |
| – Trade finance | **85,413** | 67,137 |
| | **858,332** | 778,264 |
| Trade bills | **70,846** | 45,180 |
| Total | **929,178** | 823,444 |

## 4. Financial risk management (continued)

### *4.1 Credit Risk (continued)*

#### (B) Gross advances and other accounts (continued)

Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously outside the approved limit that was advised to the borrower.

Advances are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred and that loss event(s) has an impact on the estimated future cash flows of the advances that can be reliably estimated.

If there is objective evidence that an impairment loss on advances has been incurred, the amount of loss is measured as the difference between the carrying amount and the present value of estimated future cash flows generated by the advances. Objective evidence that advances are impaired includes observable data that comes to the attention of the Group about the loss events.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

– Significant financial difficulty incurred by the borrower;

– A breach of contract, such as a default or delinquency in principal or interest payment;

– For economic or legal reasons related to the borrower's financial difficulty, the Group has granted to the borrower a concession that it would not otherwise consider;

– Probable that the borrower will become bankrupt or undergo other financial reorganisation; or

– Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such advances.

# 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*

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

| | **2013** | | | |
|---|---|---|---|---|
| | **Pass HK$'m** | **Special mention HK$'m** | **Substandard or below HK$'m** | **Total HK$'m** |
| Advances to customers | | | | |
| Personal | | | | |
| – Mortgages | **205,805** | **178** | **45** | **206,028** |
| – Credit cards | **12,213** | **–** | **–** | **12,213** |
| – Others | **32,774** | **125** | **11** | **32,910** |
| Corporate | | | | |
| – Commercial loans | **510,777** | **4,908** | **119** | **515,804** |
| – Trade finance | **84,973** | **148** | **1** | **85,122** |
| | **846,542** | **5,359** | **176** | **852,077** |
| Trade bills | **70,846** | **–** | **–** | **70,846** |
| Total | **917,388** | **5,359** | **176** | **922,923** |

| | 2012 | | | |
|---|---|---|---|---|
| | Pass HK$'m | Special mention HK$'m | Substandard or below HK$'m | Total HK$'m |
| Advances to customers | | | | |
| Personal | | | | |
| – Mortgages | 199,838 | 242 | 37 | 200,117 |
| – Credit cards | 11,103 | – | – | 11,103 |
| – Others | 24,193 | 121 | 9 | 24,323 |
| Corporate | | | | |
| – Commercial loans | 465,123 | 4,693 | 65 | 469,881 |
| – Trade finance | 66,563 | 369 | – | 66,932 |
| | 766,820 | 5,425 | 111 | 772,356 |
| Trade bills | 45,172 | – | – | 45,172 |
| Total | 811,992 | 5,425 | 111 | 817,528 |

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

## 4. Financial risk management (continued)

### *4.1 Credit Risk (continued)*

#### (B) Gross advances and other accounts (continued)

*(b) Advances overdue but not impaired*

The gross amount of advances overdue but not impaired is analysed as follows:

| | **2013** | | | | |
|---|---|---|---|---|---|
| | **Overdue for three months or less HK$'m** | **Overdue for six months or less but over three months HK$'m** | **Overdue for one year or less but over six months HK$'m** | **Overdue for over one year HK$'m** | **Total HK$'m** |
| Advances to customers | | | | | |
| Personal | | | | | |
| – Mortgages | **2,407** | **9** | **14** | **16** | **2,446** |
| – Credit cards | **436** | **1** | **–** | **–** | **437** |
| – Others | **408** | **–** | **5** | **4** | **417** |
| Corporate | | | | | |
| – Commercial loans | **740** | **20** | **2** | **32** | **794** |
| – Trade finance | **32** | **–** | **1** | **–** | **33** |
| Total | **4,023** | **30** | **22** | **52** | **4,127** |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Overdue for three months or less HK$'m | Overdue for six months or less but over three months HK$'m | Overdue for one year or less but over six months HK$'m | Overdue for over one year HK$'m | Total HK$'m |
| Advances to customers | | | | | |
| Personal | | | | | |
| – Mortgages | 2,209 | 13 | 7 | 22 | 2,251 |
| – Credit cards | 403 | – | – | – | 403 |
| – Others | 417 | 2 | – | 9 | 428 |
| Corporate | | | | | |
| – Commercial loans | 960 | 6 | 15 | 19 | 1,000 |
| – Trade finance | 19 | – | – | – | 19 |
| | 4,008 | 21 | 22 | 50 | 4,101 |
| Trade bills | 8 | – | – | – | 8 |
| Total | 4,016 | 21 | 22 | 50 | 4,109 |

## 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:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **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 | **28** | **31** | 18 | 19 |
| – Credit cards | **28** | **–** | 28 | – |
| – Others | **38** | **6** | 31 | 6 |
| Corporate | | | | |
| – Commercial loans | **1,776** | **1,559** | 1,544 | 1,315 |
| – Trade finance | **258** | **183** | 186 | 86 |
| Total | **2,128** | **1,779** | 1,807 | 1,426 |
| Loan impairment allowances made in respect of such advances | **875** | | 768 | |

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

As at 31 December 2013 and 2012, there were no impaired trade bills.

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Current market value of collateral held against the covered portion of such advances to customers | **1,779** | 1,426 |
| Covered portion of such advances to customers | **1,550** | 1,177 |
| Uncovered portion of such advances to customers | **578** | 630 |

## 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:

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| Gross classified or impaired advances to customers | **2,433** | 2,054 |
| Gross classified or impaired advances to customers as a percentage of gross advances to customers | **0.28%** | 0.26% |
| Individually assessed loan impairment allowances made in respect of such advances | **840** | 736 |

Classified or impaired advances to customers represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

*(d) Advances overdue for more than three months*

The gross amount of advances overdue for more than three months is analysed as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **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 | **266** | **0.03%** | 153 | 0.02% |
| – one year or less but over six months | **97** | **0.01%** | 129 | 0.02% |
| – over one year | **314** | **0.04%** | 323 | 0.04% |
| Advances overdue for over three months | **677** | **0.08%** | 605 | 0.08% |
| Individually assessed loan impairment allowances made in respect of such advances | **406** | | 303 | |

# 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)*

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Current market value of collateral held against the covered portion of such advances to customers | **723** | 1,115 |
| Covered portion of such advances to customers | **245** | 253 |
| Uncovered portion of such advances to customers | **432** | 352 |

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 2013 and 2012, there were no trade bills overdue for more than three months.

*(e) Rescheduled advances*

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **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" | **1,012** | **0.12%** | 1,119 | 0.14% |

As at 31 December 2013 and 2012, 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 "Advances overdue for more than three months".

## 4. Financial risk management (continued)

### *4.1 Credit Risk (continued)*

#### (B) Gross advances and other accounts (continued)

*(f) Concentration of advances to customers*

(i) Sectoral analysis of gross advances to customers

The following analysis of the gross advances to customers by industry sector is based on the categories with reference to the Completion Instructions for the HKMA return of loans and advances.

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Gross advances to customers HK$'m | % Covered by collateral or other security | Classified or impaired HK$'m | Overdue HK$'m | Individually assessed impairment allowances HK$'m | Collectively assessed impairment allowances HK$'m |
| Loans for use in Hong Kong | | | | | | |
| Industrial, commercial and financial | | | | | | |
| – Property development | 40,596 | 37.02% | 1 | 1 | – | 173 |
| – Property investment | 79,103 | 87.88% | 54 | 275 | 4 | 416 |
| – Financial concerns | 7,748 | 11.42% | – | 2 | – | 46 |
| – Stockbrokers | 4,215 | 50.25% | – | – | – | 15 |
| – Wholesale and retail trade | 32,846 | 49.28% | 95 | 237 | 34 | 173 |
| – Manufacturing | 19,031 | 36.22% | 57 | 112 | 31 | 103 |
| – Transport and transport equipment | 34,327 | 31.95% | 971 | 4 | 271 | 157 |
| – Recreational activities | 492 | 10.99% | – | 1 | – | 2 |
| – Information technology | 10,852 | 1.55% | 2 | 2 | 1 | 37 |
| – Others | 38,422 | 38.08% | 42 | 164 | 24 | 172 |
| Individuals | | | | | | |
| – Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 9,773 | 99.97% | 26 | 241 | – | 7 |
| – Loans for purchase of other residential properties | 190,031 | 99.98% | 59 | 2,006 | – | 105 |
| – Credit card advances | 12,223 | – | 28 | 455 | – | 84 |
| – Others | 28,312 | 63.53% | 36 | 354 | 10 | 50 |
| Total loans for use in Hong Kong | 507,971 | 69.73% | 1,371 | 3,854 | 375 | 1,540 |
| Trade finance | 85,413 | 13.84% | 266 | 285 | 122 | 375 |
| Loans for use outside Hong Kong | 264,948 | 28.35% | 796 | 1,108 | 343 | 1,480 |
| Gross advances to customers | 858,332 | 51.39% | 2,433 | 5,247 | 840 | 3,395 |

# 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)

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Gross advances to customers HK$'m | % Covered by collateral or other security | Classified or impaired HK$'m | Overdue HK$'m | Individually assessed impairment allowances HK$'m | Collectively assessed impairment allowances HK$'m |
| Loans for use in Hong Kong | | | | | | |
| Industrial, commercial and financial | | | | | | |
| – Property development | 31,408 | 38.05% | 1 | 2 | – | 115 |
| – Property investment | 76,975 | 83.98% | 49 | 424 | 4 | 458 |
| – Financial concerns | 5,984 | 27.09% | – | 3 | – | 52 |
| – Stockbrokers | 1,146 | 45.39% | – | – | – | 11 |
| – Wholesale and retail trade | 30,031 | 57.89% | 70 | 175 | 33 | 173 |
| – Manufacturing | 21,758 | 32.25% | 53 | 158 | 24 | 125 |
| – Transport and transport equipment | 27,241 | 41.75% | 1,104 | 4 | 313 | 166 |
| – Recreational activities | 614 | 21.77% | 6 | – | 6 | 6 |
| – Information technology | 21,369 | 0.62% | 2 | 2 | 1 | 74 |
| – Others | 36,351 | 34.12% | 60 | 264 | 25 | 151 |
| Individuals | | | | | | |
| – Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 9,847 | 99.97% | 34 | 304 | – | 8 |
| – Loans for purchase of other residential properties | 186,601 | 99.98% | 68 | 1,835 | – | 110 |
| – Credit card advances | 11,534 | – | 28 | 431 | – | 79 |
| – Others | 19,894 | 62.98% | 31 | 290 | 11 | 29 |
| Total loans for use in Hong Kong | 480,753 | 69.92% | 1,506 | 3,892 | 417 | 1,557 |
| Trade finance | 67,137 | 14.94% | 186 | 202 | 151 | 294 |
| Loans for use outside Hong Kong | 230,374 | 26.45% | 362 | 720 | 168 | 1,118 |
| Gross advances to customers | 778,264 | 52.31% | 2,054 | 4,814 | 736 | 2,969 |

## 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:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **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 | **51** | **–** | 3 | – |
| – Property investment | **9** | **2** | 34 | 1 |
| – Financial concerns | **3** | **–** | 11 | – |
| – Stockbrokers | **4** | **–** | 8 | – |
| – Wholesale and retail trade | **19** | **11** | 29 | 6 |
| – Manufacturing | **8** | **19** | 22 | 5 |
| – Transport and transport equipment | **12** | **–** | 365 | – |
| – Recreational activities | **–** | **–** | 9 | – |
| – Information technology | **–** | **–** | 16 | – |
| – Others | **14** | **6** | 31 | 6 |
| Individuals | | | | |
| – Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | **–** | **–** | – | – |
| – Loans for purchase of other residential properties | **1** | **–** | 11 | – |
| – Credit card advances | **183** | **170** | 149 | 141 |
| – Others | **132** | **124** | 79 | 72 |
| Total loans for use in Hong Kong | **436** | **332** | 767 | 231 |
| Trade finance | **94** | **32** | 94 | 3 |
| Loans for use outside Hong Kong | **597** | **138** | 311 | 4 |
| Gross advances to customers | **1,127** | **502** | 1,172 | 238 |

## 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. For an advance to customer guaranteed by a party situated in a country different from the customer, the risk will be transferred to the country of the guarantor.

**Gross advances to customers**

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Hong Kong | **666,602** | 607,965 |
| Mainland of China | **153,201** | 138,345 |
| Others | **38,529** | 31,954 |
| | **858,332** | 778,264 |
| **Collectively assessed loan impairment allowances in respect of the gross advances to customers** | | |
| Hong Kong | **2,232** | 2,074 |
| Mainland of China | **946** | 729 |
| Others | **217** | 166 |
| | **3,395** | 2,969 |

**Overdue advances**

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Hong Kong | **4,010** | 3,937 |
| Mainland of China | **1,084** | 639 |
| Others | **153** | 238 |
| | **5,247** | 4,814 |
| **Individually assessed loan impairment allowances in respect of the overdue advances** | | |
| Hong Kong | **209** | 198 |
| Mainland of China | **323** | 175 |
| Others | **28** | 33 |
| | **560** | 406 |
| **Collectively assessed loan impairment allowances in respect of the overdue advances** | | |
| Hong Kong | **80** | 76 |
| Mainland of China | **6** | 6 |
| Others | **2** | 3 |
| | **88** | 85 |

## 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**

| | **2013**<br>**HK$'m** | 2012<br>HK$'m |
|---|---|---|
| Hong Kong | **1,743** | 1,631 |
| Mainland of China | **586** | 385 |
| Others | **104** | 38 |
| | **2,433** | 2,054 |
| **Individually assessed loan impairment allowances in respect of the classified or impaired advances** | | |
| Hong Kong | **488** | 526 |
| Mainland of China | **324** | 177 |
| Others | **28** | 33 |
| | **840** | 736 |
| **Collectively assessed loan impairment allowances in respect of the classified or impaired advances** | | |
| Hong Kong | **35** | 29 |
| Mainland of China | **1** | 3 |
| Others | **2** | 1 |
| | **38** | 33 |

## 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 these assets held as at 31 December are summarised as follows:

| | **2013** **HK$'m** | 2012 HK$'m |
|---|---|---|
| Industrial properties | **3** | 5 |
| Residential properties | **51** | 12 |
| | **54** | 17 |

The estimated market value of repossessed assets held by the Group as at 31 December 2013 amounted to HK$118 million (2012: HK$27 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 proprietors concerned) for release in full or in part of the obligations of the borrowers.

When the repossessed assets are not readily convertible into cash, the Group may consider the following alternatives:

– adjusting the selling prices

– selling the loans together with the assets

– arranging loan restructuring

## 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.

| | **2013** | | | |
|---|---|---|---|---|
| | **Aaa to A3 HK$'m** | **Lower than A3 HK$'m** | **Unrated HK$'m** | **Total HK$'m** |
| Central banks | **139,022** | **–** | **–** | **139,022** |
| Banks and other financial institutions | **170,716** | **61,737** | **19,504** | **251,957** |
| | **309,738** | **61,737** | **19,504** | **390,979** |

| | 2012 | | | |
|---|---|---|---|---|
| | Aaa to A3 HK$'m | Lower than A3 HK$'m | Unrated HK$'m | Total HK$'m |
| Central banks | 84,387 | – | – | 84,387 |
| Banks and other financial institutions | 125,082 | 31,918 | 16,698 | 173,698 |
| | 209,469 | 31,918 | 16,698 | 258,085 |

As at 31 December 2013 and 2012, there were no overdue or impaired balances and placements with banks and other financial institutions.

## 4. Financial risk management (continued)

### *4.1 Credit Risk (continued)*

#### (E) Debt securities and certificates of deposit

The following tables present an analysis of the carrying value of debt securities and certificates of deposit by issue rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | **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 | **73,321** | **150,393** | **133,961** | **28,205** | **25,169** | **411,049** |
| Held-to-maturity securities | **2,315** | **4,267** | **5,225** | **2,960** | **2,688** | **17,455** |
| Loans and receivables | **–** | **–** | **7,270** | **–** | **675** | **7,945** |
| Financial assets at fair value through profit or loss | **8,276** | **17,137** | **9,960** | **2,205** | **3,750** | **41,328** |
| Total | **83,912** | **171,797** | **156,416** | **33,370** | **32,282** | **477,777** |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 97,987 | 142,536 | 168,142 | 22,606 | 19,826 | 451,097 |
| Held-to-maturity securities | 4,828 | 6,173 | 5,569 | 1,319 | 509 | 18,398 |
| Loans and receivables | – | – | 8,277 | – | 957 | 9,234 |
| Financial assets at fair value through profit or loss | 16,977 | 13,842 | 11,420 | 1,669 | 3,351 | 47,259 |
| Total | 119,792 | 162,551 | 193,408 | 25,594 | 24,643 | 525,988 |

## 4. Financial risk management (continued)

### *4.1 Credit Risk (continued)*

#### (E) Debt securities and certificates of deposit (continued)

The following tables present an analysis of debt securities and certificates of deposit neither overdue nor impaired as at 31 December by issue rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Aaa<br>HK$'m | Aa1 to Aa3<br>HK$'m | A1 to A3<br>HK$'m | Lower than A3<br>HK$'m | Unrated<br>HK$'m | Total<br>HK$'m |
| Available-for-sale securities | **73,321** | **150,387** | **133,961** | **28,205** | **25,169** | **411,043** |
| Held-to-maturity securities | **2,271** | **4,267** | **5,224** | **2,960** | **2,688** | **17,410** |
| Loans and receivables | **–** | **–** | **7,270** | **–** | **675** | **7,945** |
| Financial assets at fair value through profit or loss | **8,276** | **17,137** | **9,960** | **2,205** | **3,750** | **41,328** |
| Total | **83,868** | **171,791** | **156,415** | **33,370** | **32,282** | **477,726** |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Aaa<br>HK$'m | Aa1 to Aa3<br>HK$'m | A1 to A3<br>HK$'m | Lower than A3<br>HK$'m | Unrated<br>HK$'m | Total<br>HK$'m |
| Available-for-sale securities | 97,987 | 142,536 | 168,133 | 22,606 | 19,826 | 451,088 |
| Held-to-maturity securities | 4,758 | 6,142 | 5,568 | 1,319 | 509 | 18,296 |
| Loans and receivables | – | – | 8,277 | – | 957 | 9,234 |
| Financial assets at fair value through profit or loss | 16,977 | 13,842 | 11,420 | 1,669 | 3,351 | 47,259 |
| Total | 119,722 | 162,520 | 193,398 | 25,594 | 24,643 | 525,877 |

## 4. Financial risk management (continued)

### *4.1 Credit Risk (continued)*

#### (E) Debt securities and certificates of deposit (continued)

The following tables present an analysis of impaired debt securities by issue rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying values | | | | | | Of which accumulated impairment allowances |
| | Aaa HK$'m | Aa1 to Aa3 HK$'m | A1 to A3 HK$'m | Lower than A3 HK$'m | Unrated HK$'m | Total HK$'m | HK$'m |
| Available-for-sale securities | – | 6 | – | – | – | 6 | – |
| Held-to-maturity securities | 44 | – | 1 | – | – | 45 | 3 |
| Total | 44 | 6 | 1 | – | – | 51 | 3 |
| Of which accumulated impairment allowances | 3 | – | – | – | – | 3 | |

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying values | | | | | | Of which accumulated impairment allowances |
| | Aaa HK$'m | Aa1 to Aa3 HK$'m | A1 to A3 HK$'m | Lower than A3 HK$'m | Unrated HK$'m | Total HK$'m | HK$'m |
| Available-for-sale securities | – | – | 9 | – | – | 9 | 1 |
| Held-to-maturity securities | 70 | 31 | 1 | – | – | 102 | 9 |
| Total | 70 | 31 | 10 | – | – | 111 | 10 |
| Of which accumulated impairment allowances | 6 | 3 | 1 | – | – | 10 | |

As at 31 December 2013 and 2012, there were no impaired certificates of deposit and no overdue debt securities and certificates of deposit.

## 4. Financial risk management (continued)

### *4.2 Market Risk*

Market risk refers to the risk of loss arising from movements in the value of foreign exchange, commodity, interest rate and equity positions held by the Group due to the volatility of financial market price (interest rate, foreign exchange rate, equity price, commodity price). The Group adopts a moderate market risk appetite to achieve a balance between risk and return. The Group's objective in managing market risk is to secure healthy growth of the treasury business, by effective management of potential market risk in the Group's business, according to the Group's overall risk appetite and strategy of treasury business on the basis of a well established risk management regime and related management measures.

In accordance with the Group's corporate governance principles in respect of risk management, the Board and RC, senior management and functional departments/units perform their duties and responsibilities to manage the Group's market risk. The Market Risk Management Division of the RMD is mainly responsible for managing market risk, assisting senior management to perform their day-to-day duties, independently monitoring the market risk profile and compliance of management policies and limits of the Group and BOCHK, and ensuring that the aggregate and individual market risks are within acceptable levels.

The Group's market risk management covers BOCHK and its subsidiaries. The Group establishes consistent market risk management policies to regulate BOCHK's and subsidiaries' market risk management; meanwhile, the Group sets up the Group VAR and stress test limits, which are allocated and monitored across the Group, according to the subsidiaries' business requirements and risk tolerance levels. In line with the requirements set in the Group policy, the management of subsidiaries may, subject to prior consent by BOCHK, formulate the detailed policies and procedures and are responsible for managing their daily market risk. The subsidiaries set up independent risk monitoring teams to monitor daily market risk and limit compliance, and submit management information and reports to BOCHK on a regular basis.

The Group sets up market risk indicators and limits to identify, measure, monitor and control market risk. Major risk indicators and limits include but are not limited to VAR, Stop Loss, Open Position, Stress Testing and Sensitivity Analysis (Basis Point Value, Greeks), etc. To meet management requirements, major risk indicators and limits are classified into four levels, and are approved by the RC, MC, CRO and the DCE in charge of the treasury business or the head of the respective business unit respectively. Treasury business units of BOCHK and subsidiaries (as for Group Limit) are required to conduct their business within approved market risk indicators and limits.

#### (A) VAR

The Group uses the VAR to measure and report general market risks to the RC and senior management on a periodic basis. The Group adopts a uniformed VAR calculation model, using historical simulation approach and 2-year historical market data, to calculate the VAR of the Group and subsidiaries over 1-day holding period with 99% confidence level, and sets up the VAR limit of the Group and subsidiaries.

## 4. Financial risk management (continued)

### *4.2 Market Risk (continued)*

#### (A) VAR (continued)

The following table sets out the VAR for all general market risk exposure[1] of the Group.

| | Year | At 31 December HK$'m | Minimum for the year HK$'m | Maximum for the year HK$'m | Average for the year HK$'m |
|---|---|---|---|---|---|
| VAR for all market risk | 2013 | 19.2 | 13.9 | 40.8 | 23.1 |
| | 2012 | 14.6 | 14.6 | 35.1 | 25.4 |
| VAR for foreign exchange risk | 2013 | 16.1 | 10.3 | 37.8 | 17.4 |
| | 2012 | 9.2 | 9.2 | 25.7 | 16.7 |
| VAR for interest rate risk | 2013 | 24.0 | 8.8 | 39.6 | 20.0 |
| | 2012 | 9.9 | 8.9 | 29.5 | 17.7 |
| VAR for equity risk | 2013 | 0.1 | 0.0 | 3.2 | 1.1 |
| | 2012 | 0.0 | 0.0 | 2.3 | 0.4 |
| VAR for commodity risk | 2013 | 0.0 | 0.0 | 0.7 | 0.1 |
| | 2012 | 0.0 | 0.0 | 1.7 | 0.2 |

Note:

1. Structural FX positions have been excluded. In 2013, all general market risk exposure are presented on the Group basis, comparative amounts are presented on the same basis accordingly.

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

– the use of historical market data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;

– the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk especially at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

– the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and

– VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Group recognises these limitations by formulating stress test indicators and limits to assess and manage the market risk uncovered by VAR. The stress testing programme of the market risk includes sensitivity testing on changes in risk factors with various degrees of severity, as well as scenario analysis on historical events including the 1987 Equity Market Crash, 1994 Bond Market Crash, 1997 Asian Financial Crisis, 2001 9-11 event and 2008 Financial Tsunami, etc.

#### (B) Currency risk

The Group's assets and liabilities are denominated in major currencies, particularly the HK dollar, the US dollar and Renminbi. To ensure the currency risk exposure of the Group is kept to an acceptable level, risk limits (e.g. Position and VAR limit) are used to serve as a monitoring tool. Moreover, the Group seeks to minimise the gap between assets and liabilities in the same currency. Foreign exchange contracts (e.g. FX swaps) are usually used to manage FX risk associated with foreign currency-denominated assets and liabilities.

## 4. Financial risk management (continued)

### *4.2 Market Risk (continued)*

#### (B) Currency risk (continued)

The 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.

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 296,496 | 38,476 | 14,273 | 1,264 | 230 | 259 | 2,743 | 353,741 |
| Placements with banks and other financial institutions maturing between one and twelve months | 35,264 | 10,442 | 476 | 107 | – | – | 405 | 46,694 |
| Financial assets at fair value through profit or loss | 7,261 | 11,508 | 24,563 | – | – | – | 161 | 43,493 |
| Derivative financial instruments | 722 | 4,598 | 20,006 | 2 | – | – | 20 | 25,348 |
| Hong Kong SAR Government certificates of indebtedness | – | – | 99,190 | – | – | – | – | 99,190 |
| Advances and other accounts | 105,008 | 259,236 | 549,916 | 3,792 | 459 | 205 | 6,327 | 924,943 |
| Investment in securities | | | | | | | | |
| – Available-for-sale securities | 84,103 | 211,684 | 89,717 | 6,024 | 296 | 515 | 22,981 | 415,320 |
| – Held-to-maturity securities | 4,334 | 9,956 | 1,646 | – | – | – | 1,519 | 17,455 |
| – Loans and receivables | 833 | 4,039 | 3,073 | – | – | – | – | 7,945 |
| Interests in associates and a joint venture | – | – | 292 | – | – | – | – | 292 |
| Investment properties | 135 | – | 14,462 | – | – | – | – | 14,597 |
| Properties, plant and equipment | 865 | 3 | 51,490 | – | – | – | – | 52,358 |
| Other assets (including deferred tax assets) | 24,821 | 1,287 | 18,367 | 487 | 111 | 10 | 477 | 45,560 |
| **Total assets** | 559,842 | 551,229 | 887,471 | 11,676 | 1,096 | 989 | 34,633 | 2,046,936 |
| **Liabilities** | | | | | | | | |
| Hong Kong SAR currency notes in circulation | – | – | 99,190 | – | – | – | – | 99,190 |
| Deposits and balances from banks and other financial institutions | 167,166 | 58,511 | 50,607 | 381 | 89 | 106 | 1,413 | 278,273 |
| Financial liabilities at fair value through profit or loss | 1,590 | 16 | 10,842 | – | – | 7 | 1,125 | 13,580 |
| Derivative financial instruments | 894 | 2,433 | 15,323 | 187 | 1 | – | 74 | 18,912 |
| Deposits from customers | 311,506 | 272,761 | 674,425 | 9,965 | 3,563 | 11,270 | 40,658 | 1,324,148 |
| Debt securities in issue at amortised cost | – | 5,684 | – | – | – | – | – | 5,684 |
| Other accounts and provisions (including current and deferred tax liabilities) | 14,382 | 9,974 | 30,276 | 981 | 148 | 600 | 1,294 | 57,655 |
| Insurance contract liabilities | 28,428 | 6,867 | 31,342 | – | – | – | – | 66,637 |
| Subordinated liabilities | – | 19,849 | – | – | – | – | – | 19,849 |
| **Total liabilities** | 523,966 | 376,095 | 912,005 | 11,514 | 3,801 | 11,983 | 44,564 | 1,883,928 |
| Net on-balance sheet position | 35,876 | 175,134 | (24,534) | 162 | (2,705) | (10,994) | (9,931) | 163,008 |
| Off-balance sheet net notional position* | (23,168) | (162,157) | 167,162 | (17) | 2,573 | 10,966 | 9,465 | 4,824 |
| Contingent liabilities and commitments | 73,056 | 146,235 | 293,677 | 4,069 | 501 | 1,244 | 4,223 | 523,005 |

## 4. Financial risk management (continued)

### *4.2 Market Risk (continued)*

#### (B) Currency risk (continued)

| | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 156,693 | 24,087 | 12,051 | 1,796 | 376 | 889 | 2,856 | 198,748 |
| Placements with banks and other financial institutions maturing between one and twelve months | 28,365 | 31,872 | 4,525 | 419 | – | 201 | 643 | 66,025 |
| Financial assets at fair value through profit or loss | 5,178 | 11,273 | 32,801 | – | – | – | 80 | 49,332 |
| Derivative financial instruments | 367 | 5,074 | 25,871 | – | – | – | 27 | 31,339 |
| Hong Kong SAR Government certificates of indebtedness | – | – | 82,930 | – | – | – | – | 82,930 |
| Advances and other accounts | 97,641 | 191,418 | 517,998 | 6,125 | 758 | 148 | 5,651 | 819,739 |
| Investment in securities | | | | | | | | |
| – Available-for-sale securities | 61,840 | 193,050 | 89,735 | 8,080 | 77,766 | 353 | 23,908 | 454,732 |
| – Held-to-maturity securities | 948 | 10,672 | 2,042 | – | 1,912 | – | 2,824 | 18,398 |
| – Loans and receivables | 1,157 | 5,846 | – | – | – | 2,231 | – | 9,234 |
| Interests in associates and a joint venture | – | – | 259 | – | – | – | – | 259 |
| Investment properties | 112 | – | 14,252 | – | – | – | – | 14,364 |
| Properties, plant and equipment | 855 | 4 | 47,884 | – | – | – | – | 48,743 |
| Other assets (including deferred tax assets) | 14,982 | 1,998 | 18,794 | 548 | 226 | 51 | 321 | 36,920 |
| **Total assets** | 368,138 | 475,294 | 849,142 | 16,968 | 81,038 | 3,873 | 36,310 | 1,830,763 |
| **Liabilities** | | | | | | | | |
| Hong Kong SAR currency notes in circulation | – | – | 82,930 | – | – | – | – | 82,930 |
| Deposits and balances from banks and other financial institutions | 82,762 | 48,667 | 45,710 | 102 | 50 | 26 | 1,889 | 179,206 |
| Financial liabilities at fair value through profit or loss | 776 | 48 | 18,525 | 7 | – | 6 | 810 | 20,172 |
| Derivative financial instruments | 382 | 3,682 | 16,621 | 337 | – | – | 192 | 21,214 |
| Deposits from customers | 234,719 | 246,065 | 683,270 | 11,156 | 3,393 | 12,127 | 35,560 | 1,226,290 |
| Debt securities in issue at amortised cost | – | 5,919 | 4 | – | – | – | – | 5,923 |
| Other accounts and provisions (including current and deferred tax liabilities) | 9,995 | 16,162 | 28,536 | 645 | 298 | 685 | 941 | 57,262 |
| Insurance contract liabilities | 17,550 | 6,400 | 29,987 | – | – | – | – | 53,937 |
| Subordinated liabilities | – | 22,006 | – | 6,749 | – | – | – | 28,755 |
| **Total liabilities** | 346,184 | 348,949 | 905,583 | 18,996 | 3,741 | 12,844 | 39,392 | 1,675,689 |
| Net on-balance sheet position | 21,954 | 126,345 | (56,441) | (2,028) | 77,297 | (8,971) | (3,082) | 155,074 |
| Off-balance sheet net notional position* | (12,217) | (105,886) | 190,779 | 1,917 | (77,231) | 8,714 | 3,305 | 9,381 |
| Contingent liabilities and commitments | 47,614 | 90,233 | 315,496 | 3,756 | 538 | 1,074 | 5,058 | 463,769 |

* 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.

## 4. Financial risk management (continued)

### *4.2 Market Risk (continued)*

#### (C) Interest rate risk

Interest rate risk means the risks to a bank's earnings and economic value arising from movements in interest rate and term structures of the bank's asset and liability positions. The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are:

– Repricing risk: mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income;

– Basis risk: different pricing basis for different transactions resulting that the yield on assets and cost of liabilities may change by different amounts within the same repricing period;

– Yield curve risk: non-parallel shifts in the yield curve that may have an adverse impact on net interest income or economic value; and

– Option risk: exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cash flows of assets and liabilities.

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

The Group sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk. The indicators and limits include, but are not limited to, repricing gap limits, basis risk, duration, price value of a basis point ("PVBP"), Greeks, net interest income sensitivity ratio ("NII"), economic value sensitivity ratio ("EV") (including sub-limit for AFS securities), etc. The indicators and limits are classified into three levels, which are approved by the CFO and CRO, ALCO, RC 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, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be submitted to RC for approval.

NII and EV assess the impact of interest rate movement on the Group's net interest income and capital base. They are the Group's key interest rate risk indicators. The former assesses the impact of interest rate movement on net interest income as a percentage to the projected net interest income for the year. The latter assesses the impact of interest rate movement on economic value (i.e. the net present value of cash flows of assets, liabilities and off-balance sheet items discounted using market interest rate) as a percentage to the latest capital base. Limits are set by the RC on these two indicators to monitor and control the Group's banking book interest rate risk.

## 4. Financial risk management (continued)

### *4.2 Market Risk (continued)*

#### (C) Interest rate risk (continued)

The Group uses scenario analyses and stress tests to assess the banking book interest rate risk that the Group would face under adverse circumstances. Scenario analyses and stress tests are also used to assess the impact on net interest income and economic value arising from the optionality of savings deposits, the prepayment of mortgage loans and the prepayment of debt securities with embedded options.

The Group is principally exposed to HK Dollar, US Dollar, onshore and offshore Renminbi in terms of interest rate risk. As at 31 December 2013, 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** | |
|---|---|---|---|---|
| | **2013 HK$'m** | 2012 HK$'m | **2013 HK$'m** | 2012 HK$'m |
| HK Dollar | **876** | 744 | **(505)** | (402) |
| US Dollar | **(486)** | (834) | **(6,425)** | (5,390) |
| Renminbi | **(691)** | (529) | **(1,288)** | (1,128) |

The overall negative impact on net interest income of the above currencies has decreased when compared with 2012 and is mainly because of the narrowed short term negative gaps in relevant currencies. Reserves would have been reduced because of the expected reduction in valuation of available-for-sale securities due to a parallel shift up of 100 basis point in the yield curve. The reduction of reserves is increased compared with 2012 because the size of available-for-sale securities in capital market 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, 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.

## 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.

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Up to 1 month HK$'m | 1 to 3 months HK$'m | 3 to 12 months HK$'m | 1 to 5 years HK$'m | Over 5 years HK$'m | Non-interest bearing HK$'m | Total HK$'m |
| **Assets** | | | | | | | |
| Cash and balances with banks and other financial institutions | 336,303 | – | – | – | – | 17,438 | 353,741 |
| Placements with banks and other financial institutions maturing between one and twelve months | – | 33,801 | 12,893 | – | – | – | 46,694 |
| Financial assets at fair value through profit or loss | 2,691 | 6,211 | 10,244 | 15,198 | 6,984 | 2,165 | 43,493 |
| Derivative financial instruments | – | – | – | – | – | 25,348 | 25,348 |
| Hong Kong SAR Government certificates of indebtedness | – | – | – | – | – | 99,190 | 99,190 |
| Advances and other accounts | 699,423 | 121,716 | 78,275 | 18,082 | 1,004 | 6,443 | 924,943 |
| Investment in securities | | | | | | | |
| – Available-for-sale securities | 47,934 | 58,235 | 78,309 | 146,099 | 80,472 | 4,271 | 415,320 |
| – Held-to-maturity securities | 1,325 | 460 | 4,009 | 5,250 | 6,411 | – | 17,455 |
| – Loans and receivables | 1,660 | 2,931 | 3,354 | – | – | – | 7,945 |
| Interests in associates and a joint venture | – | – | – | – | – | 292 | 292 |
| Investment properties | – | – | – | – | – | 14,597 | 14,597 |
| Properties, plant and equipment | – | – | – | – | – | 52,358 | 52,358 |
| Other assets (including deferred tax assets) | 608 | – | – | – | – | 44,952 | 45,560 |
| **Total assets** | 1,089,944 | 223,354 | 187,084 | 184,629 | 94,871 | 267,054 | 2,046,936 |
| **Liabilities** | | | | | | | |
| Hong Kong SAR currency notes in circulation | – | – | – | – | – | 99,190 | 99,190 |
| Deposits and balances from banks and other financial institutions | 240,026 | 3,768 | 671 | – | – | 33,808 | 278,273 |
| Financial liabilities at fair value through profit or loss | 5,451 | 5,406 | 2,071 | 382 | 270 | – | 13,580 |
| Derivative financial instruments | – | – | – | – | – | 18,912 | 18,912 |
| Deposits from customers | 951,236 | 169,169 | 124,513 | 10,589 | 39 | 68,602 | 1,324,148 |
| Debt securities in issue at amortised cost | – | – | – | 5,684 | – | – | 5,684 |
| Other accounts and provisions (including current and deferred tax liabilities) | 12,198 | 2,588 | 4,106 | 397 | – | 38,366 | 57,655 |
| Insurance contract liabilities | – | – | – | – | – | 66,637 | 66,637 |
| Subordinated liabilities | – | – | – | – | 19,849 | – | 19,849 |
| **Total liabilities** | 1,208,911 | 180,931 | 131,361 | 17,052 | 20,158 | 325,515 | 1,883,928 |
| Interest sensitivity gap | (118,967) | 42,423 | 55,723 | 167,577 | 74,713 | (58,461) | 163,008 |

# NOTES TO THE FINANCIAL STATEMENTS

## 4. Financial risk management (continued)

### *4.2 Market Risk (continued)*

#### (C) Interest rate risk (continued)

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Up to 1 month HK$'m | 1 to 3 months HK$'m | 3 to 12 months HK$'m | 1 to 5 years HK$'m | Over 5 years HK$'m | Non-interest bearing HK$'m | Total HK$'m |
| **Assets** | | | | | | | |
| Cash and balances with banks and other financial institutions | 188,266 | – | – | – | – | 10,482 | 198,748 |
| Placements with banks and other financial institutions maturing between one and twelve months | – | 24,152 | 41,873 | – | – | – | 66,025 |
| Financial assets at fair value through profit or loss | 11,403 | 4,853 | 6,732 | 17,257 | 7,014 | 2,073 | 49,332 |
| Derivative financial instruments | – | – | – | – | – | 31,339 | 31,339 |
| Hong Kong SAR Government certificates of indebtedness | – | – | – | – | – | 82,930 | 82,930 |
| Advances and other accounts | 620,505 | 118,455 | 64,651 | 9,495 | 22 | 6,611 | 819,739 |
| Investment in securities | | | | | | | |
| – Available-for-sale securities | 69,387 | 117,085 | 66,886 | 131,589 | 66,150 | 3,635 | 454,732 |
| – Held-to-maturity securities | 2,600 | 5,666 | 811 | 7,402 | 1,919 | – | 18,398 |
| – Loans and receivables | – | 1,558 | 7,676 | – | – | – | 9,234 |
| Interests in associates and a joint venture | – | – | – | – | – | 259 | 259 |
| Investment properties | – | – | – | – | – | 14,364 | 14,364 |
| Properties, plant and equipment | – | – | – | – | – | 48,743 | 48,743 |
| Other assets (including deferred tax assets) | – | – | – | – | – | 36,920 | 36,920 |
| **Total assets** | 892,161 | 271,769 | 188,629 | 165,743 | 75,105 | 237,356 | 1,830,763 |
| **Liabilities** | | | | | | | |
| Hong Kong SAR currency notes in circulation | – | – | – | – | – | 82,930 | 82,930 |
| Deposits and balances from banks and other financial institutions | 159,083 | 1,483 | 208 | – | – | 18,432 | 179,206 |
| Financial liabilities at fair value through profit or loss | 10,017 | 6,286 | 3,475 | 255 | 139 | – | 20,172 |
| Derivative financial instruments | – | – | – | – | – | 21,214 | 21,214 |
| Deposits from customers | 919,431 | 129,374 | 110,938 | 5,969 | 38 | 60,540 | 1,226,290 |
| Debt securities in issue at amortised cost | 4 | – | – | 5,919 | – | – | 5,923 |
| Other accounts and provisions (including current and deferred tax liabilities) | 13,990 | 1,710 | 3,350 | 25 | – | 38,187 | 57,262 |
| Insurance contract liabilities | – | – | – | – | – | 53,937 | 53,937 |
| Subordinated liabilities | – | – | 6,749 | – | 22,006 | – | 28,755 |
| **Total liabilities** | 1,102,525 | 138,853 | 124,720 | 12,168 | 22,183 | 275,240 | 1,675,689 |
| Interest sensitivity gap | (210,364) | 132,916 | 63,909 | 153,575 | 52,922 | (37,884) | 155,074 |

## 4. Financial risk management (continued)

### *4.3 Liquidity Risk*

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

The Group's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. 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 the interbank market or by issuing bills in the capital market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Group adjusts its asset structure (including loans, bonds investment, interbank placement, etc.) to maintain sufficient liquid assets which provides adequate funds in support of normal business needs and ensure its ability to raise funds at a reasonable cost to serve external claims in case of emergency. The Group is committed to diversify the source of funds and the use of funds to avoid excessive concentration of assets and liabilities and prevent triggering liquidity risk due to the break of funding strand when problem occurred in one concentrated funding source. The Group has established intragroup liquidity risk management guideline to manage the liquidity funding among different entities within the Group, and to restrict their reliance of funding on each other. The Group also pays attention to manage liquidity risk created by off-balance sheet activities, such as loan commitments, derivatives, options and other complex structured products. The Group has overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, collaterals, intra-day liquidity, intra-group liquidity, the liquidity risk arising from other risks, etc., and has formulated corresponding contingency plan.

The RC is the decision-making authority of liquidity risk management, and assumes the ultimate responsibility of liquidity risk management. As authorised by RC, ALCO exercises its oversight of liquidity risk and ensures the daily operations of the Group are in accordance with risk appetite and policies as set by RC. RMD (Interest Rate and Liquidity Risk Management) is responsible for overseeing the Group's liquidity risk. It cooperates with the Asset and Liability Management Division of Financial Management Department, Investment Management, etc. to assist the ALCO to perform liquidity management functions according to their specific responsibilities.

## 4. Financial risk management (continued)

### *4.3 Liquidity Risk (continued)*

The Group established liquidity risk management indicators and limits to identify, measure, monitor and control liquidity risk on daily basis. Such indicators and limits include, but are not limited to liquidity ratio, loan-to-deposit ratio, Maximum Cumulative Cash Outflow ("MCO") and liquidity buffer asset portfolio. The Group applies cash flow analysis to assess the Group's liquidity condition under normal conditions and also performs liquidity stress test (including institution specific, general market crisis and combined crisis) and other methods at least on monthly basis to assess the Group's capability to withstand various severe liquidity crises. Also, the Assets and Liabilities Management System is developed to provide data and the preparation for regular management reports to facilitate liquidity risk management duties.

In accordance with the requirements of Supervisory Policy Manual LM-2 "Sound Systems and controls for Liquidity Risk Management" issued by the HKMA in 2011, the Group has embarked on refining the behaviour model and assumptions of existing cash flow analysis and stress test to enhance the Group's cash flow analysis under both normal and stressed conditions which are implemented in 2013. In cash flow analysis under normal circumstances, refinements have been made to assumptions relating to on-balance sheet items (such as customer deposits) and off-balance sheet items (such as loan commitments). According to various characteristics of the assets, liabilities and off-balance sheet items, the Group forecasts the future cash flow based on contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The Group establishes MCO indicator which predicts the future 30 days maximum cumulative net cash outflow in normal situations based on the above assumptions, to assess if the Group has sufficient financing capacity to meet the cash flow gap in order to achieve the objective of continuing operation. As at 31 December 2013, before taking the cash inflow through the sale of outstanding marketable securities into consideration, BOCHK's 30 day cumulative cash flow was a net cash inflow, amounting to HK$27,090 million and was in compliant with the internal limit requirements.

In the liquidity stress test, a new combined scenario which is a combination of institution specific and general market crisis has been set up to assess the Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; drawdown rate of loan commitments and trade-related contingent liabilities; delinquency ratio and rollover rate of customer loan; and haircut of interbank placement and marketable securities. As at 31 December 2013, the Group was able to maintain a positive cash flow under the three stressed scenarios, indicating the Group has the ability to meet financing needs under stressed conditions. In addition, the Group has a policy in place to maintain an asset buffer portfolio which includes high quality marketable securities to ensure funding needs even under stressed scenarios. A contingency plan is being established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of various departments.

## 4. Financial risk management (continued)

### *4.3 Liquidity Risk (continued)*

In certain derivative contracts, the counterparties have right to request the Group for additional collateral if they have concerns on the Group's creditworthiness.

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 RMD (Interest Rate and Liquidity Risk Management) of BOCHK, which consolidates such information and evaluates group-wide liquidity risk.

#### (A) Liquidity ratio

| | **2013** | 2012 |
|---|---|---|
| Average liquidity ratio | **37.93%** | 41.20% |

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.

## 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.

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | On demand HK$'m | Up to 1 month HK$'m | 1 to 3 months HK$'m | 3 to 12 months HK$'m | 1 to 5 years HK$'m | Over 5 years HK$'m | Indefinite HK$'m | Total HK$'m |
| **Assets** | | | | | | | | |
| Cash and balances with banks and other financial institutions | 246,366 | 94,800 | – | – | – | – | 12,575 | 353,741 |
| Placements with banks and other financial institutions maturing between one and twelve months | – | – | 33,801 | 12,893 | – | – | – | 46,694 |
| Financial assets at fair value through profit or loss | | | | | | | | |
| – held for trading | | | | | | | | |
| – certificates of deposit | – | 18 | 13 | 78 | 30 | – | – | 139 |
| – debt securities | – | 2,118 | 6,166 | 6,210 | 6,754 | 4,967 | – | 26,215 |
| – designated at fair value through profit or loss | | | | | | | | |
| – certificates of deposit | – | – | – | 103 | 266 | – | – | 369 |
| – debt securities | – | 146 | 53 | 2,673 | 9,788 | 1,945 | – | 14,605 |
| – fund and equity securities | – | – | – | – | – | – | 2,165 | 2,165 |
| Derivative financial instruments | 13,672 | 2,127 | 1,287 | 2,789 | 1,833 | 3,640 | – | 25,348 |
| Hong Kong SAR Government certificates of indebtedness | 99,190 | – | – | – | – | – | – | 99,190 |
| Advances and other accounts | | | | | | | | |
| – advances to customers | 82,371 | 29,710 | 55,130 | 143,186 | 317,087 | 224,648 | 1,965 | 854,097 |
| – trade bills | 6 | 16,254 | 19,003 | 35,583 | – | – | – | 70,846 |
| Investment in securities | | | | | | | | |
| – available-for-sale | | | | | | | | |
| – certificates of deposit | – | 10,419 | 13,950 | 36,657 | 16,836 | 215 | – | 78,077 |
| – debt securities | – | 16,424 | 24,027 | 50,782 | 160,000 | 81,733 | 6 | 332,972 |
| – held-to-maturity | | | | | | | | |
| – certificates of deposit | – | – | – | – | 77 | 18 | – | 95 |
| – debt securities | – | 632 | 196 | 4,049 | 5,987 | 6,451 | 45 | 17,360 |
| – loans and receivables | | | | | | | | |
| – debt securities | – | 1,660 | 2,931 | 3,354 | – | – | – | 7,945 |
| – equity securities | – | – | – | – | – | – | 4,271 | 4,271 |
| Interests in associates and a joint venture | – | – | – | – | – | – | 292 | 292 |
| Investment properties | – | – | – | – | – | – | 14,597 | 14,597 |
| Properties, plant and equipment | – | – | – | – | – | – | 52,358 | 52,358 |
| Other assets (including deferred tax assets) | 13,631 | 13,884 | 88 | 394 | 10,172 | 7,303 | 88 | 45,560 |
| **Total assets** | 455,236 | 188,192 | 156,645 | 298,751 | 528,830 | 330,920 | 88,362 | 2,046,936 |
| **Liabilities** | | | | | | | | |
| Hong Kong SAR currency notes in circulation | 99,190 | – | – | – | – | – | – | 99,190 |
| Deposits and balances from banks and other financial institutions | 222,879 | 50,955 | 3,768 | 671 | – | – | – | 278,273 |
| Financial liabilities at fair value through profit or loss | – | 5,451 | 5,406 | 2,071 | 382 | 270 | – | 13,580 |
| Derivative financial instruments | 9,276 | 1,652 | 1,047 | 3,258 | 3,009 | 670 | – | 18,912 |
| Deposits from customers | 744,335 | 273,423 | 169,101 | 124,664 | 12,586 | 39 | – | 1,324,148 |
| Debt securities in issue at amortised cost | – | – | – | 32 | 5,652 | – | – | 5,684 |
| Other accounts and provisions (including current and deferred tax liabilities) | 25,358 | 14,003 | 4,038 | 6,426 | 7,819 | 11 | – | 57,655 |
| Insurance contract liabilities | 8,531 | 460 | 427 | 7,678 | 21,009 | 28,532 | – | 66,637 |
| Subordinated liabilities | – | – | 418 | – | – | 19,431 | – | 19,849 |
| **Total liabilities** | 1,109,569 | 345,944 | 184,205 | 144,800 | 50,457 | 48,953 | – | 1,883,928 |
| Net liquidity gap | (654,333) | (157,752) | (27,560) | 153,951 | 478,373 | 281,967 | 88,362 | 163,008 |

## 4. Financial risk management (continued)

### *4.3 Liquidity Risk (continued)*

#### (B) Maturity analysis (continued)

| | 2012 (Restated) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | On demand HK$'m | Up to 1 month HK$'m | 1 to 3 months HK$'m | 3 to 12 months HK$'m | 1 to 5 years HK$'m | Over 5 years HK$'m | Indefinite HK$'m | Total HK$'m |
| **Assets** | | | | | | | | |
| Cash and balances with banks and other financial institutions | 145,534 | 42,938 | – | – | – | – | 10,276 | 198,748 |
| Placements with banks and other financial institutions maturing between one and twelve months | – | – | 24,152 | 41,873 | – | – | – | 66,025 |
| Financial assets at fair value through profit or loss | | | | | | | | |
| – held for trading | | | | | | | | |
| – certificates of deposit | – | 67 | 64 | 14 | – | – | – | 145 |
| – debt securities | – | 11,075 | 3,855 | 3,454 | 6,585 | 4,159 | – | 29,128 |
| – designated at fair value through profit or loss | | | | | | | | |
| – certificates of deposit | – | – | 509 | 310 | 378 | – | – | 1,197 |
| – debt securities | – | 31 | 369 | 2,350 | 11,207 | 2,832 | – | 16,789 |
| – fund and equity securities | – | – | – | – | – | – | 2,073 | 2,073 |
| Derivative financial instruments | 17,690 | 2,535 | 2,032 | 3,421 | 1,600 | 4,061 | – | 31,339 |
| Hong Kong SAR Government certificates of indebtedness | 82,930 | – | – | – | – | – | – | 82,930 |
| Advances and other accounts | | | | | | | | |
| – advances to customers | 60,076 | 19,055 | 53,963 | 138,157 | 288,680 | 213,106 | 1,522 | 774,559 |
| – trade bills | 76 | 10,150 | 15,765 | 19,189 | – | – | – | 45,180 |
| Investment in securities | | | | | | | | |
| – available-for-sale | | | | | | | | |
| – certificates of deposit | – | 3,001 | 15,580 | 45,533 | 8,708 | 19 | – | 72,841 |
| – debt securities | – | 49,064 | 76,254 | 40,775 | 143,730 | 68,424 | 9 | 378,256 |
| – held-to-maturity | | | | | | | | |
| – certificates of deposit | – | 465 | – | 332 | 77 | – | – | 874 |
| – debt securities | – | 430 | 2,822 | 3,792 | 8,276 | 2,102 | 102 | 17,524 |
| – loans and receivables | | | | | | | | |
| – debt securities | – | – | 1,558 | 7,676 | – | – | – | 9,234 |
| – equity securities | – | – | – | – | – | – | 3,635 | 3,635 |
| Interests in associates and a joint venture | – | – | – | – | – | – | 259 | 259 |
| Investment properties | – | – | – | – | – | – | 14,364 | 14,364 |
| Properties, plant and equipment | – | – | – | – | – | – | 48,743 | 48,743 |
| Other assets (including deferred tax assets) | 10,563 | 13,904 | 73 | 47 | 8,857 | 3,452 | 24 | 36,920 |
| **Total assets** | 316,869 | 152,715 | 196,996 | 306,923 | 478,098 | 298,155 | 81,007 | 1,830,763 |
| **Liabilities** | | | | | | | | |
| Hong Kong SAR currency notes in circulation | 82,930 | – | – | – | – | – | – | 82,930 |
| Deposits and balances from banks and other financial institutions | 140,245 | 37,270 | 1,483 | 208 | – | – | – | 179,206 |
| Financial liabilities at fair value through profit or loss | – | 10,017 | 6,287 | 3,475 | 254 | 139 | – | 20,172 |
| Derivative financial instruments | 13,022 | 668 | 865 | 1,766 | 3,602 | 1,291 | – | 21,214 |
| Deposits from customers | 701,678 | 276,068 | 129,269 | 111,327 | 7,910 | 38 | – | 1,226,290 |
| Debt securities in issue at amortised cost | – | 4 | – | 32 | 5,887 | – | – | 5,923 |
| Other accounts and provisions (including current and deferred tax liabilities) | 28,005 | 14,148 | 2,999 | 4,545 | 7,559 | 6 | – | 57,262 |
| Insurance contract liabilities | 3,281 | 493 | 3,068 | 1,070 | 24,655 | 21,370 | – | 53,937 |
| Subordinated liabilities | – | – | 418 | – | – | 28,337 | – | 28,755 |
| **Total liabilities** | 969,161 | 338,668 | 144,389 | 122,423 | 49,867 | 51,181 | – | 1,675,689 |
| Net liquidity gap | (652,292) | (185,953) | 52,607 | 184,500 | 428,231 | 246,974 | 81,007 | 155,074 |

Certain comparative amounts have been reclassified to conform with the current year's presentation.

## 4. Financial risk management (continued)

### *4.3 Liquidity Risk (continued)*

#### (B) Maturity analysis (continued)

The above maturity classifications have been prepared in accordance with relevant provisions under the Banking (Disclosure) Rules. The Group has reported assets such as advances and debt securities which have been overdue for not more than one month as "On demand". In the case of an asset that is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as "Indefinite". The above assets are stated after deduction of provisions, if any.

The analysis of debt securities by remaining period to maturity is disclosed in order to comply with relevant provisions under the Banking (Disclosure) Rules. The disclosure does not imply that the securities will be held to maturity.

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet as at 31 December.

## 4. Financial risk management (continued)

### *4.3 Liquidity Risk (continued)*

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

*(a) Non-derivative cash flows*

The tables below summarise the cash flows of the Group as at 31 December for non-derivative financial liabilities by remaining contractual maturities.

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 1 month HK$'m** | **1 to 3 months HK$'m** | **3 to 12 months HK$'m** | **1 to 5 years HK$'m** | **Over 5 years HK$'m** | **Total HK$'m** |
| **Financial liabilities** | | | | | | |
| Hong Kong SAR currency notes in circulation | **99,190** | **–** | **–** | **–** | **–** | **99,190** |
| Deposits and balances from banks and other financial institutions | **273,850** | **3,795** | **674** | **–** | **–** | **278,319** |
| Financial liabilities at fair value through profit or loss | **5,457** | **5,419** | **2,079** | **406** | **304** | **13,665** |
| Deposits from customers | **1,017,914** | **169,662** | **126,314** | **13,781** | **52** | **1,327,723** |
| Debt securities in issue at amortised cost | **–** | **–** | **218** | **6,252** | **–** | **6,470** |
| Subordinated liabilities | **–** | **538** | **538** | **4,303** | **20,999** | **26,378** |
| Other financial liabilities | **33,495** | **2,843** | **4,396** | **412** | **11** | **41,157** |
| **Total financial liabilities** | **1,429,906** | **182,257** | **134,219** | **25,154** | **21,366** | **1,792,902** |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month HK$'m | 1 to 3 months HK$'m | 3 to 12 months HK$'m | 1 to 5 years HK$'m | Over 5 years HK$'m | Total HK$'m |
| **Financial liabilities** | | | | | | |
| Hong Kong SAR currency notes in circulation | 82,930 | – | – | – | – | 82,930 |
| Deposits and balances from banks and other financial institutions | 177,516 | 1,489 | 221 | – | – | 179,226 |
| Financial liabilities at fair value through profit or loss | 10,018 | 6,293 | 3,480 | 261 | 137 | 20,189 |
| Deposits from customers | 977,873 | 129,624 | 112,716 | 8,945 | 53 | 1,229,211 |
| Debt securities in issue at amortised cost | 4 | – | 218 | 6,467 | – | 6,689 |
| Subordinated liabilities | – | 538 | 618 | 4,622 | 28,854 | 34,632 |
| Other financial liabilities | 28,700 | 2,021 | 3,439 | 38 | 6 | 34,204 |
| **Total financial liabilities** | 1,277,041 | 139,965 | 120,692 | 20,333 | 29,050 | 1,587,081 |

## 4. Financial risk management (continued)

### *4.3 Liquidity Risk (continued)*

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

*(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;
- Commodity contracts: bullion margin contracts; and
- Equity contracts: exchange traded equity options and equity linked swaps.

The tables below summarise the cash flows of the Group as at 31 December for derivative financial liabilities that will be settled on a net basis by remaining contractual maturities.

| | **2013** | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 1 month HK$'m** | **1 to 3 months HK$'m** | **3 to 12 months HK$'m** | **1 to 5 years HK$'m** | **Over 5 years HK$'m** | **Total HK$'m** |
| Exchange rate contracts | **(9,106)** | **(47)** | **(91)** | **(1)** | **–** | **(9,245)** |
| Interest rate contracts | **(122)** | **(304)** | **(1,221)** | **(1,754)** | **(51)** | **(3,452)** |
| Commodity contracts | **(185)** | **–** | **–** | **–** | **–** | **(185)** |
| | **(9,413)** | **(351)** | **(1,312)** | **(1,755)** | **(51)** | **(12,882)** |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month HK$'m | 1 to 3 months HK$'m | 3 to 12 months HK$'m | 1 to 5 years HK$'m | Over 5 years HK$'m | Total HK$'m |
| Exchange rate contracts | (12,527) | (33) | (84) | – | – | (12,644) |
| Interest rate contracts | (134) | (343) | (1,299) | (3,153) | (55) | (4,984) |
| Commodity contracts | (487) | – | – | – | – | (487) |
| Equity contracts | (3) | – | – | – | – | (3) |
| | (13,151) | (376) | (1,383) | (3,153) | (55) | (18,118) |

## 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 summarise the cash flows of the Group as at 31 December for all derivative financial instruments that will be settled on a gross basis by remaining contractual maturities.

| | **2013** | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 1 month HK$'m** | **1 to 3 months HK$'m** | **3 to 12 months HK$'m** | **1 to 5 years HK$'m** | **Over 5 years HK$'m** | **Total HK$'m** |
| Exchange rate contracts: | | | | | | |
| – Outflow | **(353,496)** | **(160,768)** | **(305,611)** | **(51,339)** | **(1,699)** | **(872,913)** |
| – Inflow | **353,991** | **160,969** | **305,307** | **51,183** | **1,698** | **873,148** |
| **Total outflow** | **(353,496)** | **(160,768)** | **(305,611)** | **(51,339)** | **(1,699)** | **(872,913)** |
| **Total inflow** | **353,991** | **160,969** | **305,307** | **51,183** | **1,698** | **873,148** |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month HK$'m | 1 to 3 months HK$'m | 3 to 12 months HK$'m | 1 to 5 years HK$'m | Over 5 years HK$'m | Total HK$'m |
| Exchange rate contracts: | | | | | | |
| – Outflow | (284,426) | (180,744) | (292,998) | (37,187) | (1,200) | (796,555) |
| – Inflow | 286,321 | 181,986 | 294,599 | 37,191 | 1,201 | 801,298 |
| Commodity contracts: | | | | | | |
| – Outflow | (4,024) | – | – | – | – | (4,024) |
| – Inflow | – | – | – | – | – | – |
| Equity contracts: | | | | | | |
| – Outflow | – | – | – | – | – | – |
| – Inflow | 2 | – | – | – | – | 2 |
| **Total outflow** | (288,450) | (180,744) | (292,998) | (37,187) | (1,200) | (800,579) |
| **Total inflow** | 286,323 | 181,986 | 294,599 | 37,191 | 1,201 | 801,300 |

# 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 2013 that the Group commits to extend credit to customers and other facilities amounted to HK$436,252 million (2012: HK$392,508 million). Those loan commitments can be drawn within one year.

Financial guarantees and other financial facilities

Financial guarantees and other financial facilities of the Group as at 31 December 2013 amounting to HK$86,753 million (2012: HK$71,261 million) are maturing no later than one year.

### *4.4 Insurance Risk*

The Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. The Group manages these risks through the application of its underwriting policies and reinsurance arrangements.

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

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily on the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

For the in-force insurance contracts, most of the underlying insurance liabilities are related to endowment, whole life and unit-linked insurance products. For most of the insurance policies issued, the Group has a retention limit on any single life insured. The Group cedes the excess of the insured benefit over the limit to reinsurer under an excess of loss reinsurance arrangement. For some of the insurance liabilities denominated in Renminbi, the Group has entered into reinsurance arrangements that reinsure most of insurance risk.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality, morbidity and persistency. The Group conducted relevant experience studies. The results of the studies are considered in determining the assumptions which include appropriate level of prudential margins.

## 4. Financial risk management (continued)

### *4.5 Capital Management*

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

The Banking (Capital) (Amendment) Rules 2012 and the Banking (Capital) (Amendment) Rules 2013 came into operation on 1 January 2013 and 30 June 2013 respectively. The rules mainly addressed the revision to both the minimum capital ratio requirement (in terms of expanding the existing capital adequacy ratio into three ratios, namely, a Common Equity Tier 1 capital ratio, a Tier 1 capital ratio and a Total capital ratio) and the definition of regulatory capital. In addition, the rules included the enhancements to the counterparty credit risk framework and amendments on the capital treatment for certain trade financing activities and securities financing transactions. The Group has complied with the rules to calculate Capital Adequacy Ratio.

The Group has developed and maintained a sound framework of policies and controls on capital management to support the development of the Group's business and to meet the statutory capital adequacy ratio. The ALCO monitors the Group's capital adequacy. The Group has complied with all the statutory capital requirements of the HKMA for the reported periods in respect of banking operation as further elaborated below.

The Group has adopted the foundation internal ratings-based ("FIRB") approach to calculate the credit risk capital charge for majority of 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 remained under standardised (credit risk) ("STC") approach. The Group has adopted standardised credit valuation adjustment ("CVA") method to calculate the counterparty CVA capital charges for OTC derivative contracts and securities financing transactions under both banking book and trading book.

The Group continues to adopt the internal models ("IMM") approach to calculate general market risk capital charge for foreign exchange and interest rate exposures and, with the approvals of HKMA, exclude its structural FX positions arising from NCB and Chiyu in the calculation of the market risk capital charge. The Group continues to adopt the standardised (market risk) ("STM") approach to calculate the market risk capital charge for remaining exposures.

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

The Group has continued to adopt an internal capital adequacy assessment process ("ICAAP") to comply with the HKMA's requirements in the Supervisory Policy Manual "Supervisory Review Process" in 2013. Based on the HKMA's guidelines on Pillar II, ICAAP has been initiated to assess the extra capital needed to cover the material risks not captured or not adequately captured under Pillar I, and therefore minimum Common Equity Tier 1 capital ratio, minimum Tier 1 capital ratio and the minimum Total capital ratio are determined. The Group considers this ICAAP process as an on-going process for capital management and periodically reviews and adjusts its capital structure where appropriate in relation to the overall risk profile.

## 4. Financial risk management (continued)

### *4.5 Capital Management (continued)*

In addition, the capital plan of the Group is drawn up annually and then submitted to the Board for approval after endorsement of the ALCO. The plan is built up by assessing the implications of various factors upon capital adequacy such as the business strategies, return on equity, risk appetite, credit rating, as well as regulatory requirements. Hence, the future capital requirement is determined and capital sources are identified also. The plan is to ensure the Group maintains adequate capital and appropriate capital structure which align with its business development needs, thereby achieving an optimal balance among risk, return and capital adequacy.

As a result of the adoption of Banking (Capital) (Amendment) Rules 2012 and Banking (Capital) (Amendment) Rules 2013 since 1 January 2013 and 30 June 2013 respectively, the capital disclosures for 2013 are not directly comparable to those of 2012.

#### (A) Basis of regulatory consolidation

The consolidation basis for regulatory purposes comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with the accounting standards issued by the HKICPA pursuant to section 18A of the Professional Accountants Ordinance.

Subsidiaries which are included within the accounting scope of consolidation but not included within the regulatory scope of consolidation are set out below:

| | 2013 | |
|---|---|---|
| Name of company | Total assets HK$'m | Total equity HK$'m |
| BOC Group Life Assurance Company Limited | **79,579** | **4,404** |
| BOCHK Asset Management (Cayman) Limited | **50** | **50** |
| Bank of China (Hong Kong) Nominees Limited | **–** | **–** |
| Bank of China (Hong Kong) Trustees Limited | **9** | **9** |
| BNPP Flexi III China Fund | **1,862** | **1,862** |
| BOC Group Trustee Company Limited | **200** | **200** |
| BOC Travel Services Limited | **2** | **2** |
| BOCHK Asset Management Limited | **49** | **37** |
| BOCHK Information Technology (Shenzhen) Co., Ltd. | **193** | **172** |
| BOCHK Information Technology Services (Shenzhen) Ltd. | **281** | **241** |
| BOCI-Prudential Trustee Limited | **442** | **414** |
| Che Hsing (Nominees) Limited | **1** | **1** |
| Chiyu Banking Corporation (Nominees) Limited | **96** | **96** |
| Grace Charter Limited | **–** | **(11)** |
| G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd. | **68** | **68** |
| Kwong Li Nam Investment Agency Limited | **4** | **4** |
| Nanyang Commercial Bank (Nominees) Limited | **1** | **1** |
| Nanyang Commercial Bank Trustee Limited | **17** | **17** |
| Po Sang Financial Investment Services Company Limited | **121** | **105** |
| Po Sang Futures Limited | **219** | **171** |
| Seng Sun Development Company, Limited | **40** | **37** |
| Sin Chiao Enterprises Corporation, Limited | **135** | **135** |
| Sin Hua Trustee Limited | **4** | **4** |
| Sino Information Services Company Limited | **21** | **20** |

## 4. Financial risk management (continued)

### *4.5 Capital Management (continued)*

#### (A) Basis of regulatory consolidation (continued)

There are no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 31 December 2013.

There are also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the methods of consolidation differ as at 31 December 2013.

The principal activities of the above subsidiaries are set out in "Appendix – Subsidiaries of the Company" on pages 274 to 276.

#### (B) Capital ratio

| | **2013** |
|---|---|
| CET1 capital ratio | **10.57%** |
| Tier 1 capital ratio | **10.67%** |
| Total capital ratio | **15.80%** |

| | 2012 |
|---|---|
| Core capital ratio | 12.31% |
| Capital adequacy ratio | 16.80% |

## 4. Financial risk management (continued)

### *4.5 Capital Management (continued)*

#### (C) Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital ratios as at 31 December and reported to the HKMA is analysed as follows:

| | 2013<br>HK$'m |
|---|---|
| CET1 capital: instruments and reserves | |
| Directly issued qualifying CET1 capital instruments plus any related share premium | 43,043 |
| Retained earnings | 59,291 |
| Disclosed reserves | 43,025 |
| Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group) | 504 |
| CET1 capital before regulatory deductions | 145,863 |
| CET1 capital: regulatory deductions | |
| Valuation adjustments | (21) |
| Deferred tax assets net of deferred tax liabilities | (164) |
| Gains and losses due to changes in own credit risk on fair valued liabilities | (81) |
| Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) | (44,491) |
| Regulatory reserve for general banking risks | (8,994) |
| Total regulatory deductions to CET1 capital | (53,751) |
| CET1 capital | 92,112 |
| AT1 capital: instruments | |
| AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group) | 894 |
| AT1 capital | 894 |
| Tier 1 capital | 93,006 |
| Tier 2 capital: instruments and provisions | |
| Capital instruments subject to phase out arrangements from Tier 2 capital | 19,294 |
| Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group) | 321 |
| Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital | 5,047 |
| Tier 2 capital before regulatory deductions | 24,662 |
| Tier 2 capital: regulatory deductions | |
| Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital | 20,021 |
| Total regulatory deductions to Tier 2 capital | 20,021 |
| Tier 2 capital | 44,683 |
| **Total capital** | **137,689** |

## 4. Financial risk management (continued)

### *4.5 Capital Management (continued)*

#### (C) Components of capital base after deductions (continued)

| | 2012<br>HK$'m |
|---|---|
| Core capital: | |
| Paid-up ordinary share capital | 43,043 |
| Reserves | 38,987 |
| Profit and loss account | 5,820 |
| Non-controlling interests | 1,658 |
| Deductible item | (25) |
| | 89,483 |
| Deductions from core capital | (387) |
| Core capital | 89,096 |
| Supplementary capital: | |
| Fair value gains arising from holdings of available-for-sale securities | 2,067 |
| Fair value gains arising from holdings of securities designated at fair value through profit or loss | 35 |
| Collective loan impairment allowances | 192 |
| Regulatory reserve | 539 |
| Surplus provisions | 3,963 |
| Term subordinated debt | 26,043 |
| | 32,839 |
| Deductions from supplementary capital | (387) |
| Supplementary capital | 32,452 |
| Total capital base after deductions | 121,548 |

To comply with the Banking (Disclosure) Rules, a section "Regulatory Disclosures" is available on the Company's website at www.bochk.com and includes the following consolidated information of BOCHK:

– A detailed breakdown of the capital base and regulatory deductions, using the standard template as specified by the HKMA.

– A reconciliation of capital components to the balance sheet, using the standard template as specified by the HKMA.

– A description of the main features and the full terms and conditions of the issued capital instruments.

## 5. Fair values of assets and liabilities

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as defined in HKFRS 13, "Fair value measurement". The categorisation are determined with reference to the observability and significance of the inputs used in the valuation methods and based on the lowest level input that is significant to the fair value measurement as a whole:

– Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes listed equity securities on exchange, debt instruments issued by certain governments, certain exchange-traded derivative contracts and precious metals. As properties are unique in nature and not identical with another, they are not categorised in this level.

– Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly. This category includes majority of the OTC derivative contracts, debt securities and certificates of deposit with quote from pricing services providers and issued structured deposits. It also includes residential properties and shops with insignificant adjustments made to observable market inputs.

– Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investment and debt instruments with significant unobservable components. It also includes offices and shops with significant adjustments made to observable market inputs.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### *5.1 Financial instruments measured at fair value*

The Group has an established governance structure and controls framework to ensure that fair values are either determined or validated by control units independent of the front offices. Control units have overall responsibility for independent verification of valuation results from front line businesses and all other significant fair value measurements. Specific controls include verification of observable pricing inputs; review and approval for new models and changes to models; calibration and back-testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; review of significant unobservable inputs and valuation adjustments. Significant valuation issues are reported to senior management, Risk Committee and Audit Committee.

The Group uses valuation techniques or broker/dealer quotations to determine the fair value of financial instruments when unable to obtain the open market quotation in active markets.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, counterparty credit spreads and others, which are mostly observable and obtainable from open market.

## 5. Fair values of assets and liabilities (continued)

### *5.1 Financial instruments measured at fair value (continued)*

The technique used to calculate the fair value of the following financial instruments is as below:

**Debt securities and certificates of deposit**

The fair value of these instruments is determined by obtaining quoted market prices from exchange, dealer or independent pricing service vendors or using discounted cash flow technique. Discounted cash flow model is a valuation technique that measures present value using estimated expected future cash flows from the instruments and then discounts these flows using a discount rate or discount margin that reflects the credit spreads required by the market for instruments with similar risk. These inputs are observable or can be corroborated by observable or unobservable market data.

**Asset backed securities**

For this class of instruments, external prices are obtained from independent third parties. The valuation of these securities, depending on the nature of transaction, is estimated from market standard cash flow models with input parameter which include spreads to discount rates, default and recovery rates and prepayment rates that may be observable or compiled through matrix pricing for similar issues.

**Derivatives**

Over-the-counter derivative contracts include forward, swap and option contracts on foreign exchange, interest rate, equity or commodity. The fair values of these contracts are mainly measured using valuation techniques such as discounted cash flow models and option pricing models. The inputs can be observable or unobservable market data. Observable inputs include interest rate, foreign exchange rates, equity and stock prices, commodity prices and volatilities. Unobservable inputs such as volatility surface may be used for less commonly traded option products which are embedded in structured deposits. For certain complex derivatives contracts, the fair values are determined based on broker/dealer price quotations.

Credit valuation adjustments ("CVA") and debit valuation adjustments ("DVA") are applied to the Group's over-the-counter derivatives. These adjustments reflect interest rates, expectations of counterparty creditworthiness and the Group's own credit spread respectively. They are determined for each counterparty and are dependent on expected future values of exposures, default probabilities and recovery rates.

**Financial liabilities designated at fair value through profit or loss**

This class of instruments includes certain deposits received from customers that are embedded with derivatives. The plain vanilla contracts are valued in the similar way described in previous debt securities section. The fair value of structured deposits is derived from the fair value of the underlying deposit by using discounted cash flow analysis taking the Group's own credit risk into account, and the fair value of the embedded derivatives determined as described in the paragraph above on derivatives.

## 5. Fair values of assets and liabilities (continued)

### *5.1 Financial instruments measured at fair value (continued)*

#### (A) Fair value hierarchy

| | 2013 | | | |
|---|---|---|---|---|
| | Level 1 HK$'m | Level 2 HK$'m | Level 3 HK$'m | Total HK$'m |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss (Note 23) | | | | |
| – Trading securities | | | | |
| – Debt securities | – | 26,215 | – | 26,215 |
| – Certificates of deposit | – | 139 | – | 139 |
| – Equity securities | 3 | 355 | – | 358 |
| – Financial assets designated at fair value through profit or loss | | | | |
| – Debt securities | 343 | 13,877 | 385 | 14,605 |
| – Certificates of deposit | – | 369 | – | 369 |
| – Fund | 661 | – | – | 661 |
| – Equity securities | 1,146 | – | – | 1,146 |
| Derivative financial instruments (Note 24) | 13,685 | 11,663 | – | 25,348 |
| Available-for-sale securities (Note 27) | | | | |
| – Debt securities | 8,422 | 323,771 | 779 | 332,972 |
| – Certificates of deposit | – | 72,609 | 5,468 | 78,077 |
| – Equity securities | 2,801 | 1,220 | 250 | 4,271 |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss (Note 34) | | | | |
| – Trading liabilities | – | 9,748 | – | 9,748 |
| – Financial liabilities designated at fair value through profit or loss | – | 3,832 | – | 3,832 |
| Derivative financial instruments (Note 24) | 9,358 | 9,554 | – | 18,912 |

## 5. Fair values of assets and liabilities (continued)

### *5.1 Financial instruments measured at fair value (continued)*

#### (A) Fair value hierarchy (continued)

| | 2012 | | | |
|---|---|---|---|---|
| | Level 1<br>HK$'m | Level 2<br>HK$'m | Level 3<br>HK$'m | Total<br>HK$'m |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss (Note 23) | | | | |
| – Trading securities | | | | |
| – Debt securities | – | 29,128 | – | 29,128 |
| – Certificates of deposit | – | 145 | – | 145 |
| – Equity securities | 13 | 212 | – | 225 |
| – Financial assets designated at fair value through profit or loss | | | | |
| – Debt securities | 414 | 16,042 | 333 | 16,789 |
| – Certificates of deposit | – | 1,197 | – | 1,197 |
| – Fund | 636 | – | – | 636 |
| – Equity securities | 1,212 | – | – | 1,212 |
| Derivative financial instruments (Note 24) | 17,677 | 13,662 | – | 31,339 |
| Available-for-sale securities (Note 27) | | | | |
| – Debt securities | 98,350 | 278,457 | 1,449 | 378,256 |
| – Certificates of deposit | – | 71,653 | 1,188 | 72,841 |
| – Equity securities | 2,592 | 838 | 205 | 3,635 |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss (Note 34) | | | | |
| – Trading liabilities | – | 17,331 | – | 17,331 |
| – Financial liabilities designated at fair value through profit or loss | – | 2,070 | 771 | 2,841 |
| Derivative financial instruments (Note 24) | 13,004 | 8,210 | – | 21,214 |

During the years 2013 and 2012, there were no financial asset and liability transfers between level 1 and level 2 for the Group.

# NOTES TO THE FINANCIAL STATEMENTS

## 5. Fair values of assets and liabilities (continued)

### *5.1 Financial instruments measured at fair value (continued)*

#### (B) Reconciliation of level 3 items

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Financial assets | | | | Financial liabilities |
| | Financial assets designated at fair value through profit or loss | Available-for-sale securities | | | Financial liabilities designated at fair value through profit or loss |
| | Debt securities HK$'m | Debt securities HK$'m | Certificates of deposit HK$'m | Equity securities HK$'m | HK$'m |
| At 1 January 2013 | 333 | 1,449 | 1,188 | 205 | (771) |
| Gains/(losses) | | | | | |
| – Income statement | | | | | |
| – Net gain on financial instruments designated at fair value through profit or loss | 25 | – | – | – | – |
| – Other comprehensive income | | | | | |
| – Change in fair value of available-for-sale securities | – | (43) | (1) | 24 | – |
| Purchases | 192 | – | 4,947 | 21 | – |
| Sales | – | – | (506) | – | – |
| Settlements | – | – | – | – | 771 |
| Transfers into level 3 | – | – | 160 | – | – |
| Transfers out of level 3 | (165) | (171) | (320) | – | – |
| Reclassification | – | (456) | – | – | – |
| At 31 December 2013 | 385 | 779 | 5,468 | 250 | – |
| Total unrealised gain for the year included in income statement for financial assets and liabilities held as at 31 December 2013 | | | | | |
| – Net gain on financial instruments designated at fair value through profit or loss | 22 | – | – | – | – |

## 5. Fair values of assets and liabilities (continued)

### *5.1 Financial instruments measured at fair value (continued)*

#### (B) Reconciliation of level 3 items (continued)

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Financial assets | | | | Financial liabilities |
| | Financial assets designated at fair value through profit or loss | Available-for-sale securities | | | Financial liabilities designated at fair value through profit or loss |
| | Debt securities HK$'m | Debt securities HK$'m | Certificates of deposit HK$'m | Equity securities HK$'m | HK$'m |
| At 1 January 2012 | 134 | 625 | 2,197 | 184 | (203) |
| Gains/(losses) | | | | | |
| – Income statement | | | | | |
| – Net gain on financial instruments designated at fair value through profit or loss | 33 | – | – | – | – |
| – Other comprehensive income | | | | | |
| – Change in fair value of available-for-sale securities | – | (9) | (1) | 21 | – |
| Purchases | – | 993 | 867 | – | – |
| Issues | – | – | – | – | (771) |
| Sales | (5) | – | (179) | – | – |
| Settlements | – | – | – | – | 203 |
| Transfers into level 3 | 171 | 456 | – | – | – |
| Transfers out of level 3 | – | (616) | (1,696) | – | – |
| At 31 December 2012 | 333 | 1,449 | 1,188 | 205 | (771) |
| Total unrealised gain for the year included in income statement for financial assets and liabilities held as at 31 December 2012 | | | | | |
| – Net gain on financial instruments designated at fair value through profit or loss | 33 | – | – | – | – |

As at 31 December 2013 and 2012, financial instruments categorised as level 3 are mainly comprised of debt securities, certificates of deposit and unlisted equity shares.

Debt securities and certificates of deposit were transferred into and out of level 3 in the year of 2013 due to change of valuation observability. For certain illiquid debt securities, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. Therefore, these instruments have been classified by the Group as level 3. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

## 5. Fair values of assets and liabilities (continued)

### *5.1 Financial instruments measured at fair value (continued)*

#### (B) Reconciliation of level 3 items (continued)

The fair values of unlisted available-for-sale equity shares are determined with reference to multiples of comparable listed companies, such as average of the price/earning ratios of comparables or net asset value, if appropriate comparables are not available. The fair value is positively correlated to the price/earning ratios of appropriate comparables or net asset values. Had the net asset value of the underlying equity investments increased/decreased by 5%, the Group's other comprehensive income would have increased/decreased by HK$13 million.

Financial liabilities designated at fair value through profit or loss categorised in level 3 are deposits received from customers that are embedded with options bought by the Group. All deposits categorised as level 3 as at 31 December 2012 were matured in the year of 2013 and there were no deposits categorised as level 3 as at 31 December 2013.

### *5.2 Financial instruments not measured at fair value*

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instrument as far as practicable.

**Balances with banks and other financial institutions and trade bills**

Substantially all the financial assets and liabilities mature within one year from the balance sheet date and their carrying value approximates fair value.

**Advances to customers**

Substantially all the advances to customers are on floating rate terms, bear interest at prevailing market interest rates and their carrying value approximates fair value.

**Held-to-maturity securities**

The fair value of held-to-maturity securities is determined by using the same approach as those debt securities and certificates of deposit and asset backed securities measured at fair value as described in Note 5.1.

**Loans and receivables**

A discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

**Deposits from customers**

Substantially all the deposits from customers mature within one year from the balance sheet date and their carrying value approximates fair value.

**Debt securities 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.

**Subordinated liabilities**

Fair value for subordinated notes is based on market prices or broker/dealer price quotations.

## 5. Fair values of assets and liabilities (continued)

### *5.2 Financial instruments not measured at fair value (continued)*

The following tables set out the carrying values and fair values of the financial instruments not measured at fair value, except for the above with their carrying values being approximation of fair values.

| | **2013** | |
|---|---|---|
| | **Carrying value HK$'m** | **Fair value HK$'m** |
| **Financial assets** | | |
| Held-to-maturity securities (Note 27) | | |
| – Debt securities | **17,360** | **17,460** |
| – Certificates of deposit | **95** | **95** |
| Loans and receivables (Note 27) | **7,945** | **7,942** |
| **Financial liabilities** | | |
| Debt securities in issue at amortised cost (Note 36) | | |
| – Senior notes | **5,684** | **6,193** |
| Subordinated liabilities (Note 41) | | |
| – Subordinated notes | **19,849** | **21,224** |

| | 2012 | |
|---|---|---|
| | Carrying value HK$'m | Fair value HK$'m |
| **Financial assets** | | |
| Held-to-maturity securities (Note 27) | | |
| – Debt securities | 17,524 | 18,010 |
| – Certificates of deposit | 874 | 874 |
| Loans and receivables (Note 27) | 9,234 | 9,255 |
| **Financial liabilities** | | |
| Debt securities in issue at amortised cost (Note 36) | | |
| – Senior notes | 5,919 | 6,317 |
| – Other debt securities in issue | 4 | 4 |
| Subordinated liabilities (Note 41) | | |
| – Subordinated loans | 6,749 | 6,749 |
| – Subordinated notes | 22,006 | 22,261 |

## 5. Fair values of assets and liabilities (continued)

### *5.2 Financial instruments not measured at fair value (continued)*

The following table shows the fair value hierarchy for financial instruments with fair values disclosed.

| | 2013 | | | |
|---|---|---|---|---|
| | **Level 1 HK$'m** | **Level 2 HK$'m** | **Level 3 HK$'m** | **Total HK$'m** |
| **Financial assets** | | | | |
| Held-to-maturity securities | | | | |
| – Debt securities | – | **17,308** | **152** | **17,460** |
| – Certificates of deposit | – | **18** | **77** | **95** |
| Loans and receivables | – | **7,942** | – | **7,942** |
| **Financial liabilities** | | | | |
| Debt securities in issue at amortised cost | | | | |
| – Senior notes | – | **6,193** | – | **6,193** |
| Subordinated liabilities | | | | |
| – Subordinated notes | – | **21,224** | – | **21,224** |

### *5.3 Non-financial instruments measured at fair value*

The Group uses valuation techniques or quoted market prices in active market to determine the fair value of non-financial instruments.

**Investment properties and premises**

The Group's properties can be divided into investment properties and premises. All of the Group's investment properties and premises were revalued as at 31 December 2013. The valuations were carried out by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited, who have among their staff Fellow and Members of the Hong Kong Institute of Surveyors with recent experience in the locations and categories of properties being valued. The Group's Management had discussions with the surveyors on the valuation methods, valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date. There has been no change in valuation methods during the year ended 31 December 2013.

*Valuation methods and inputs used in Level 2 fair value measurements*

The fair value of properties classified as Level 2 is determined using either the market comparison approach by reference to recent sales price of comparable properties or the income capitalisation approach by reference to market rent and capitalisation rate, with appropriate adjustments to reflect the differences between the comparable properties and the subject properties. These adjustments are considered as insignificant to the entire measurement.

The Group's properties are located in Hong Kong and major cities in the PRC where the property markets are considered active and transparent. Sales price, market rent and capitalisation rate of comparable properties are generally observable either directly or indirectly in these markets.

## 5. Fair values of assets and liabilities (continued)

### *5.3 Non-financial instruments measured at fair value (continued)*

**Investment properties and premises (continued)**

*Information about Level 3 fair value measurements*

The fair value of all of the Group's properties classified as Level 3 except for the bank vault is determined using either the market comparison approach or the income capitalisation approach, adjusted for a premium or a discount specific to the features of the Group's properties compared to the comparable properties.

The fair value of the bank vault is determined using the depreciated replacement cost approach as no direct comparable is available given the specialised nature of the property. The major inputs are the market value of the existing land, the current cost of replacing the property and the depreciation rate. Appropriate adjustments are made to reflect the specialised nature of the property.

The valuation methods and significant unobservable inputs used in the fair value measurement of the Group's properties classified as Level 3 are as follows:

| | Valuation method | Significant unobservable inputs | Weighted average | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|
| Bank vault | Depreciated replacement cost approach | Depreciation rate | 2% per year | The higher the depreciation rate, the lower the fair value. |
| | | Premium on specialised nature of the property | +20% to building cost | The higher the premium, the higher the fair value. |
| Other properties | Market comparison approach or income capitalisation approach | Premium/(discount) on features of the property compared to comparable properties | -19% | The higher the premium, the higher the fair value.<br><br>The higher the discount, the lower the fair value. |

Premium/(discount) on features of the property are determined after taken into account various factors, such as time for market movement, location, accessibility, building age/condition, floor level, size, layout, etc., with reference to their differences in features with comparable properties.

**Precious metals**

The fair values of precious metals are determined by obtaining quoted market prices in active market.

## 5. Fair values of assets and liabilities (continued)

### *5.3 Non-financial instruments measured at fair value (continued)*

#### (A) Fair value hierarchy

| | 2013 | | | |
|---|---|---|---|---|
| | Level 1 HK$'m | Level 2 HK$'m | Level 3 HK$'m | Total HK$'m |
| **Non-financial assets** | | | | |
| Investment properties (Note 30) | – | 1,586 | 13,011 | 14,597 |
| Properties, plant and equipment (Note 31) | | | | |
| – Premises | – | 7,972 | 41,819 | 49,791 |
| Other assets (Note 32) | | | | |
| – Precious metals | 5,146 | – | – | 5,146 |

During the year 2013, there were no non-financial asset transfers between level 1 and level 2 for the Group.

#### (B) Reconciliation of level 3 items

| | 2013 | |
|---|---|---|
| | Non-financial assets | |
| | | Properties, plant and equipment |
| | Investment properties HK$'m | Premises HK$'m |
| At 1 January 2013 | 12,888 | 38,904 |
| Gains | | |
| – Income statement | | |
| – Net gain from disposal of/fair value adjustments on investment properties | 152 | – |
| – Net gain from disposal/revaluation of properties, plant and equipment | – | 10 |
| – Other comprehensive income | | |
| – Revaluation of premises | – | 3,316 |
| Depreciation | – | (803) |
| Additions | 2 | 347 |
| Reclassification | (32) | 32 |
| Exchange difference | 1 | 13 |
| At 31 December 2013 | 13,011 | 41,819 |
| Total unrealised gain for the year included in income statement for non-financial assets held as at 31 December 2013 | | |
| – Net gain from disposal of/fair value adjustments on investment properties | 152 | – |
| – Net gain from disposal/revaluation of properties, plant and equipment | – | 10 |
| | 152 | 10 |

## 6. Net interest income

| | 2013<br>HK$'m | 2012<br>HK$'m |
|---|---|---|
| **Interest income** | | |
| Due from banks and other financial institutions | **8,586** | 8,168 |
| Advances to customers | **19,878** | 17,222 |
| Listed investments | **4,845** | 4,542 |
| Unlisted investments | **5,858** | 5,231 |
| Others | **212** | 250 |
| | **39,379** | 35,413 |
| **Interest expense** | | |
| Due to banks and other financial institutions | **(1,039)** | (971) |
| Deposits from customers | **(9,840)** | (9,013) |
| Debt securities in issue | **(143)** | (161) |
| Subordinated liabilities | **(118)** | (313) |
| Others | **(323)** | (247) |
| | **(11,463)** | (10,705) |
| **Net interest income** | **27,916** | 24,708 |

Included within interest income is HK$6 million (2012: HK$10 million) of interest with respect to income accrued on advances classified as impaired for the year ended 31 December 2013. Interest income accrued on impaired investment in securities amounted to HK$5 million (2012: HK$9 million).

Included within interest income and interest expense are HK$39,595 million (2012: HK$35,254 million) and HK$12,081 million (2012: HK$11,278 million), before hedging effect, for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

## 7. Net fee and commission income

| | 2013 HK$'m | (Restated) 2012 HK$'m |
|---|---|---|
| **Fee and commission income** | | |
| Credit card business | **3,516** | 3,161 |
| Securities brokerage | **2,432** | 2,114 |
| Loan commissions | **1,900** | 1,774 |
| Insurance | **1,285** | 965 |
| Funds distribution | **821** | 540 |
| Bills commissions | **819** | 736 |
| Payment services | **665** | 667 |
| Trust and custody services | **387** | 360 |
| Safe deposit box | **244** | 228 |
| Currency exchange | **197** | 156 |
| Others | **450** | 409 |
| | **12,716** | 11,110 |
| **Fee and commission expense** | | |
| Credit card business | **(2,677)** | (2,392) |
| Securities brokerage | **(295)** | (299) |
| Payment services | **(93)** | (92) |
| Others | **(686)** | (564) |
| | **(3,751)** | (3,347) |
| **Net fee and commission income** | **8,965** | 7,763 |
| Of which arise from | | |
| – financial assets or financial liabilities not at fair value through profit or loss | | |
| – Fee and commission income | **1,993** | 1,770 |
| – Fee and commission expense | **(10)** | (7) |
| | **1,983** | 1,763 |
| – trust and other fiduciary activities | | |
| – Fee and commission income | **568** | 550 |
| – Fee and commission expense | **(34)** | (14) |
| | **534** | 536 |

Certain comparative amounts of fee and commission income, fee and commission expense and operating expenses have been reclassified to conform with the current year's presentation.

## 8. Net trading gain

| | 2013<br>HK$'m | 2012<br>HK$'m |
|---|---|---|
| Net gain from: | | |
| – foreign exchange and foreign exchange products | **1,952** | 1,988 |
| – interest rate instruments and items under fair value hedge | **573** | 900 |
| – commodities | **91** | 121 |
| – equity instruments | **341** | 120 |
| | **2,957** | 3,129 |

## 9. Net gain on other financial assets

| | 2013<br>HK$'m | 2012<br>HK$'m |
|---|---|---|
| Net gain on available-for-sale securities | **116** | 644 |
| Net gain on held-to-maturity securities | **–** | 108 |
| Others | **(33)** | (2) |
| | **83** | 750 |

## 10. Other operating income

| | 2013<br>HK$'m | 2012<br>HK$'m |
|---|---|---|
| Dividend income from investment in securities | | |
| – listed investments | **91** | 88 |
| – unlisted investments | **36** | 29 |
| Gross rental income from investment properties | **487** | 436 |
| Less: Outgoings in respect of investment properties | **(63)** | (56) |
| Others | **103** | 92 |
| | **654** | 589 |

Included in the "Outgoings in respect of investment properties" is HK$6 million (2012: HK$3 million) of direct operating expenses related to investment properties that were not let during the year.

# NOTES TO THE FINANCIAL STATEMENTS

## 11. Net insurance benefits and claims

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| **Gross insurance benefits and claims** | | |
| Claims, benefits and surrenders paid | **(6,243)** | (7,515) |
| Movement in liabilities | **(12,034)** | (6,632) |
| | **(18,277)** | (14,147) |
| **Reinsurers' share of benefits and claims** | | |
| Claims, benefits and surrenders recovered | **249** | 83 |
| Movement in assets | **8,755** | 5,544 |
| | **9,004** | 5,627 |
| **Net insurance benefits and claims** | **(9,273)** | (8,520) |

## 12. Net charge of impairment allowances

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| **Advances to customers** | | |
| Individually assessed | | |
| – new allowances | **(418)** | (566) |
| – releases | **105** | 54 |
| – recoveries | **254** | 234 |
| Net charge of individually assessed loan impairment allowances (Note 26) | **(59)** | (278) |
| Collectively assessed | | |
| – new allowances | **(709)** | (606) |
| – releases | **4** | – |
| – recoveries | **34** | 30 |
| Net charge of collectively assessed loan impairment allowances (Note 26) | **(671)** | (576) |
| Net charge of loan impairment allowances | **(730)** | (854) |
| **Available-for-sale securities** | | |
| Net reversal of impairment allowances on available-for-sale securities | | |
| – Individually assessed | **–** | 2 |
| **Held-to-maturity securities** | | |
| Net reversal of impairment allowances on held-to-maturity securities | | |
| – Individually assessed (Note 27) | **5** | 3 |
| **Others** | **(12)** | (10) |
| **Net charge of impairment allowances** | **(737)** | (859) |

## 13. Operating expenses

| | 2013 HK$'m | (Restated) 2012 HK$'m |
|---|---|---|
| Staff costs (including directors' emoluments) | | |
| – salaries and other costs | **6,313** | 5,932 |
| – pension cost | **506** | 474 |
| | **6,819** | 6,406 |
| Premises and equipment expenses (excluding depreciation) | | |
| – rental of premises | **792** | 695 |
| – information technology | **403** | 398 |
| – others | **381** | 363 |
| | **1,576** | 1,456 |
| Depreciation (Note 31) | **1,663** | 1,493 |
| Auditor's remuneration | | |
| – audit services | **26** | 33 |
| – non-audit services | **8** | 4 |
| Other operating expenses | **1,991** | 1,867 |
| | **12,083** | 11,259 |

Contingent rent included in the "Rental of premises" amounted to HK$10 million during the year (2012: Nil).

Certain comparative amounts of operating expenses have been reclassified to fee and commission expense to conform with the current year's presentation.

## 14. Net gain from disposal of/fair value adjustments on investment properties

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| Net gain from disposal of investment properties | **–** | 4 |
| Net gain from fair value adjustments on investment properties (Note 30) | **264** | 1,885 |
| | **264** | 1,889 |

## 15. Net gain from disposal/revaluation of properties, plant and equipment

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| Net gain from disposal of premises | **–** | 118 |
| Net loss from disposal of other fixed assets | **(13)** | (8) |
| Net gain/(loss) from revaluation of premises (Note 31) | **14** | (4) |
| | **1** | 106 |

## 16. Taxation

Taxation in the income statement represents:

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| Current tax | | |
| Hong Kong profits tax | | |
| – current year taxation | **4,174** | 3,762 |
| – over-provision in prior years | **(13)** | (55) |
| | **4,161** | 3,707 |
| Overseas taxation | | |
| – current year taxation | **711** | 436 |
| – over-provision in prior years | **(16)** | – |
| | **4,856** | 4,143 |
| Deferred tax | | |
| Origination and reversal of temporary differences (Note 39) | **(138)** | (169) |
| | **4,718** | 3,974 |

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The taxation on the Group's profit before taxation that differs from the theoretical amount that would arise using the taxation rate of Hong Kong is as follows:

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| Profit before taxation | **27,793** | 25,521 |
| Calculated at a taxation rate of 16.5% (2012: 16.5%) | **4,586** | 4,211 |
| Effect of different taxation rates in other countries | **26** | 45 |
| Income not subject to taxation | **(188)** | (501) |
| Expenses not deductible for taxation purposes | **74** | 105 |
| Utilisation of previously unrecognised tax losses | **(121)** | (91) |
| Over-provision in prior years | **(29)** | (55) |
| Foreign withholding tax | **370** | 260 |
| Taxation charge | **4,718** | 3,974 |
| Effective tax rate | **17.0%** | 15.6% |

## 17. Profit attributable to the equity holders of the Company

The consolidated profit attributable to the equity holders of the Company for the year ended 31 December 2013 includes a profit of HK$13,519 million (2012: HK$12,820 million) which has been dealt with in the financial statements of the Company.

## 18. Dividends

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Per share HK$** | **Total HK$'m** | Per share HK$ | Total HK$'m |
| Interim dividend paid | **0.545** | **5,762** | 0.545 | 5,762 |
| Proposed final dividend | **0.465** | **4,917** | 0.693 | 7,327 |
| | **1.010** | **10,679** | 1.238 | 13,089 |

At a meeting held on 29 August 2013, the Board declared an interim dividend of HK$0.545 per ordinary share for the first half of 2013 amounting to approximately HK$5,762 million.

At a meeting held on 26 March 2014, the Board proposed to recommend to the Annual General Meeting on 11 June 2014 a final dividend of HK$0.465 per ordinary share for the year ended 31 December 2013 amounting to approximately HK$4,917 million. This proposed final dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2014.

## 19. 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 2013 of approximately HK$22,252 million (2012: HK$20,930 million) and on the ordinary shares in issue of 10,572,780,266 shares (2012: 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 2013 (2012: Nil).

## 20. 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 and 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 2013 amounted to approximately HK$352 million (2012: approximately HK$343 million), after a deduction of forfeited contributions of approximately HK$5 million (2012: approximately HK$3 million). For the MPF Scheme, the Group contributed approximately HK$64 million (2012: approximately HK$59 million) for the year ended 31 December 2013.

## 21. Directors', senior management's and key personnel's emoluments

### *(a) Directors' and senior management's emoluments*

#### (i) Directors' emoluments

Details of the emoluments paid to or receivable by the directors of the Company in respect of their services rendered for the Company and managing the subsidiaries within the Group during the year are as follows:

| | 2013 | | | |
|---|---|---|---|---|
| | Directors' fee HK$'000 | Basic salaries, allowances and benefits in kind HK$'000 | Bonus HK$'000 | Total HK$'000 |
| **Executive Directors** | | | | |
| HE Guangbei (Chief Executive) | 100 | 8,326 | 4,286 | 12,712 |
| GAO Yingxin | 100 | 5,741 | 2,570 | 8,411 |
| | 200 | 14,067 | 6,856 | 21,123 |
| **Non-executive Directors** | | | | |
| TIAN Guoli | – | – | – | – |
| XIAO Gang | – | – | – | – |
| LI Lihui | – | – | – | – |
| CHEN Siqing | – | – | – | – |
| LI Zaohang | – | – | – | – |
| ZHOU Zaiqun# | 4,136 | – | – | 4,136 |
| FUNG Victor Kwok King* | 300 | – | – | 300 |
| KOH Beng Seng* | 380 | – | – | 380 |
| NING Gaoning* | 250 | – | – | 250 |
| SHAN Weijian* | 350 | – | – | 350 |
| TUNG Savio Wai-Hok* | 430 | – | – | 430 |
| TUNG Chee Chen* | 142 | – | – | 142 |
| | 5,988 | – | – | 5,988 |
| | 6,188 | 14,067 | 6,856 | 27,111 |

Mr XIAO Gang resigned as Chairman and Non-executive Director of the Company with effect from 17 March 2013. Mr TUNG Chee Chen retired as an Independent Non-executive Director of the Company after the conclusion of the annual general meeting held on 28 May 2013. Mr TIAN Guoli was appointed as Chairman and Non-executive Director of the Company with effect from 4 June 2013. Mr LI Lihui resigned as Vice Chairman and Non-executive Director of the Company, Mr ZHOU Zaiqun retired as Non-executive Director of the Company and Mr CHEN Siqing was appointed as Vice Chairman of the Company with effect from 25 March 2014.

## 21. Directors', senior management's and key personnel's emoluments (continued)

### *(a) Directors' and senior management's emoluments (continued)*

#### (i) Directors' emoluments (continued)

| | 2012 | | | |
|---|---|---|---|---|
| | Directors' fee HK$'000 | Basic salaries, allowances and benefits in kind HK$'000 | Bonus HK$'000 | Total HK$'000 |
| **Executive Directors** | | | | |
| HE Guangbei (Chief Executive) | 100 | 7,812 | 4,024 | 11,936 |
| GAO Yingxin | 100 | 5,438 | 2,441 | 7,979 |
| | 200 | 13,250 | 6,465 | 19,915 |
| **Non-executive Directors** | | | | |
| XIAO Gang | – | – | – | – |
| LI Lihui | – | – | – | – |
| CHEN Siqing | – | – | – | – |
| LI Zaohang | – | – | – | – |
| ZHOU Zaiqun# | 3,987 | – | – | 3,987 |
| FUNG Victor Kwok King* | 301 | – | – | 301 |
| KOH Beng Seng* | 350 | – | – | 350 |
| NING Gaoning* | 89 | – | – | 89 |
| SHAN Weijian* | 350 | – | – | 350 |
| TUNG Savio Wai-Hok* | 399 | – | – | 399 |
| TUNG Chee Chen* | 349 | – | – | 349 |
| | 5,825 | – | – | 5,825 |
| | 6,025 | 13,250 | 6,465 | 25,740 |

Notes:

# Included fee as Chairman and Non-executive Director of Nanyang Commercial Bank, Limited

* Independent Non-executive Directors

For the year ended 31 December 2013, certain directors waived emoluments of HK$2 million (2012: HK$2 million), which include directors' fee from subsidiaries.

## 21. Directors', senior management's and key personnel's emoluments (continued)

### (a) *Directors' and senior management's emoluments (continued)*

#### (ii) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2012: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2012: three) individuals during the year are as follows:

| | 2013<br>HK$'m | 2012<br>HK$'m |
|---|---|---|
| Basic salaries and allowances | **12** | 15 |
| Bonus | **6** | 7 |
| Directors' fee from subsidiaries | **–** | 1 |
| | **18** | 23 |

Emoluments paid to or receivable by individuals during the year with reference to their tenure are within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2013** | 2012 |
| HK$5,000,001 to HK$5,500,000 | **–** | – |
| HK$5,500,001 to HK$6,000,000 | **1** | 2 |
| HK$6,000,001 to HK$6,500,000 | **2** | – |
| HK$11,500,001 to HK$12,000,000 | **–** | 1 |

#### (iii) Senior management's emoluments

Emoluments paid to or receivable by individuals during the year with reference to their tenure as senior management are within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2013** | 2012 |
| HK$2,000,001 to HK$2,500,000 | **1** | – |
| HK$4,500,001 to HK$5,000,000 | **–** | 1 |
| HK$5,000,001 to HK$5,500,000 | **2** | 2 |
| HK$5,500,001 to HK$6,000,000 | **3** | 2 |
| HK$6,000,001 to HK$6,500,000 | **1** | – |
| HK$7,500,001 to HK$8,000,000 | **–** | 1 |
| HK$8,000,001 to HK$8,500,000 | **1** | – |
| HK$11,500,001 to HK$12,000,000 | **–** | 2 |
| HK$12,500,001 to HK$13,000,000 | **1** | – |

## 21. Directors', senior management's and key personnel's emoluments (continued)

### *(b) Remuneration for Senior Management and Key Personnel under CG-5*

Pursuant to CG-5 Guideline on a Sound Remuneration System issued by the HKMA, details of the remuneration for Senior Management and Key Personnel of the Group during the year are as follows:

#### (i) Remuneration awarded during the year

| | **2013** | | | | | |
|---|---|---|---|---|---|---|
| | **Senior Management** | | | **Key Personnel** | | |
| | **Non-deferred HK$'m** | **Deferred HK$'m** | **Total HK$'m** | **Non-deferred HK$'m** | **Deferred HK$'m** | **Total HK$'m** |
| Fixed remuneration | | | | | | |
| Cash | **46** | **–** | **46** | **52** | **–** | **52** |
| Variable remuneration | | | | | | |
| Cash | **14** | **5** | **19** | **24** | **7** | **31** |
| Total | **60** | **5** | **65** | **76** | **7** | **83** |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Senior Management | | | Key Personnel | | |
| | Non-deferred HK$'m | Deferred HK$'m | Total HK$'m | Non-deferred HK$'m | Deferred HK$'m | Total HK$'m |
| Fixed remuneration | | | | | | |
| Cash | 46 | – | 46 | 51 | – | 51 |
| Variable remuneration | | | | | | |
| Cash | 13 | 6 | 19 | 23 | 6 | 29 |
| Total | 59 | 6 | 65 | 74 | 6 | 80 |

The remuneration above includes 11 (2012: 10) members of Senior Management and 19 (2012: 22) members of Key Personnel.

# NOTES TO THE FINANCIAL STATEMENTS

## 21. Directors', senior management's and key personnel's emoluments (continued)

### *(b) Remuneration for Senior Management and Key Personnel under CG-5 (continued)*

#### (ii) Deferred remuneration

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Senior Management HK$'m** | **Key Personnel HK$'m** | Senior Management HK$'m | Key Personnel HK$'m |
| Deferred remuneration | | | | |
| Vested | **6** | **4** | 3 | 3 |
| Unvested | **11** | **14** | 12 | 11 |
| | **17** | **18** | 15 | 14 |
| At 1 January | **12** | **11** | 9 | 8 |
| Awarded | **5** | **7** | 6 | 6 |
| Paid out | **(6)** | **(4)** | (3) | (3) |
| Reduced through performance adjustments | **–** | **–** | – | – |
| At 31 December | **11** | **14** | 12 | 11 |

For the purpose of disclosure, Senior Management and Key Personnel mentioned in this section are defined according to the HKMA's Guideline on a Sound Remuneration System.

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

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

## 22. Cash and balances with banks and other financial institutions

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Cash | **9,456** | 6,688 |
| Balances with central banks | **139,022** | 84,387 |
| Balances with banks and other financial institutions | **110,463** | 64,735 |
| Placements with banks and other financial institutions maturing within one month | **94,800** | 42,938 |
| | **353,741** | 198,748 |

## 23. Financial assets at fair value through profit or loss

| | Trading securities | | Financial assets designated at fair value through profit or loss | | Total | |
|---|---|---|---|---|---|---|
| | **2013 HK$'m** | 2012 HK$'m | **2013 HK$'m** | 2012 HK$'m | **2013 HK$'m** | 2012 HK$'m |
| At fair value | | | | | | |
| Debt securities | | | | | | |
| – Listed in Hong Kong | **7,811** | 5,378 | **759** | 959 | **8,570** | 6,337 |
| – Listed outside Hong Kong | **5,007** | 4,982 | **7,009** | 7,119 | **12,016** | 12,101 |
| | **12,818** | 10,360 | **7,768** | 8,078 | **20,586** | 18,438 |
| – Unlisted | **13,397** | 18,768 | **6,837** | 8,711 | **20,234** | 27,479 |
| | **26,215** | 29,128 | **14,605** | 16,789 | **40,820** | 45,917 |
| Certificates of deposit | | | | | | |
| – Unlisted | **139** | 145 | **369** | 1,197 | **508** | 1,342 |
| Fund | | | | | | |
| – Unlisted | **–** | – | **661** | 636 | **661** | 636 |
| Equity securities | | | | | | |
| – Listed in Hong Kong | **3** | 13 | **880** | 1,126 | **883** | 1,139 |
| – Listed outside Hong Kong | **–** | – | **266** | 86 | **266** | 86 |
| | **3** | 13 | **1,146** | 1,212 | **1,149** | 1,225 |
| – Unlisted | **355** | 212 | **–** | – | **355** | 212 |
| | **358** | 225 | **1,146** | 1,212 | **1,504** | 1,437 |
| Total | **26,712** | 29,498 | **16,781** | 19,834 | **43,493** | 49,332 |

Financial assets at fair value through profit or loss are analysed by type of issuer as follows:

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Sovereigns | **17,966** | 22,729 |
| Public sector entities* | **172** | 267 |
| Banks and other financial institutions | **13,065** | 15,006 |
| Corporate entities | **12,290** | 11,330 |
| | **43,493** | 49,332 |

* Included financial assets at fair value through profit or loss of HK$156 million (2012: HK$168 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

## 23. Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are analysed as follows:

| | **2013**<br>**HK$'m** | 2012<br>HK$'m |
|---|---|---|
| Treasury bills | **9,895** | 17,210 |
| Certificates of deposit | **508** | 1,342 |
| Other financial assets at fair value through profit or loss | **33,090** | 30,780 |
| | **43,493** | 49,332 |

## 24. Derivative financial instruments and hedge accounting

The Group enters into the following exchange rate, interest rate, commodity and equity related derivative financial instrument contracts for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currency on a future date. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates or buy or sell interest rate financial instruments on a future date at an agreed price in the financial market under the administration of the stock exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contract rate of interest and the current market rate, based on a notional principal amount.

Currency, interest rate and precious metal swaps are commitments to exchange one set of cash flows or commodity for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or precious metals (for example, silver swaps) or a combination of all these (for example, cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate, precious metal and equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated over-the-counter ("OTC") between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock option).

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the balance sheet. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates, market interest rates, metal prices or equity prices relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

## 24. Derivative financial instruments and hedge accounting (continued)

### *(a) Derivative financial instruments*

The Group trades derivative products (both exchange-traded or OTC) mainly for customer business. The Group strictly follows risk management policies and requirement in providing derivative products to our customers and in trading of derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions, and the maximum tenor of the deal is set. Every derivative transaction must be input into the relevant system for settlement, mark-to-market revaluation, reporting and control.

The following tables summarise the contract/notional amounts of each class of derivative financial instrument as at 31 December:

| | 2013 | | | |
|---|---|---|---|---|
| | Trading HK$'m | Hedging HK$'m | Not qualified for hedge accounting HK$'m | Total HK$'m |
| Exchange rate contracts | | | | |
| Spot, forwards and futures | 302,252 | – | 641 | 302,893 |
| Swaps | 683,295 | 2,532 | 10,691 | 696,518 |
| Foreign currency options | | | | |
| – Options purchased | 20,982 | – | – | 20,982 |
| – Options written | 23,457 | – | – | 23,457 |
| | 1,029,986 | 2,532 | 11,332 | 1,043,850 |
| Interest rate contracts | | | | |
| Futures | 2,790 | – | – | 2,790 |
| Swaps | 267,140 | 86,803 | 4,177 | 358,120 |
| | 269,930 | 86,803 | 4,177 | 360,910 |
| Commodity contracts | 5,367 | – | – | 5,367 |
| Equity contracts | 2,099 | – | – | 2,099 |
| Other contracts | 59 | – | – | 59 |
| Total | 1,307,441 | 89,335 | 15,509 | 1,412,285 |

Not qualified for hedge accounting: derivative contracts which do not qualify as hedges for accounting purposes but are managed in conjunction with the financial instruments designated at fair value through profit or loss are separately disclosed in compliance with the requirements set out in the Banking (Disclosure) Rules.

## 24. Derivative financial instruments and hedge accounting (continued)

### *(a) Derivative financial instruments (continued)*

| | 2012 | | | |
|---|---|---|---|---|
| | Trading HK$'m | Hedging HK$'m | Not qualified for hedge accounting HK$'m | Total HK$'m |
| Exchange rate contracts | | | | |
| Spot, forwards and futures | 270,913 | – | – | 270,913 |
| Swaps | 680,377 | 3,174 | 7,451 | 691,002 |
| Foreign currency options | | | | |
| – Options purchased | 4,821 | – | – | 4,821 |
| – Options written | 9,096 | – | – | 9,096 |
| | 965,207 | 3,174 | 7,451 | 975,832 |
| Interest rate contracts | | | | |
| Futures | 235 | – | – | 235 |
| Swaps | 284,906 | 46,872 | 8,646 | 340,424 |
| | 285,141 | 46,872 | 8,646 | 340,659 |
| Commodity contracts | 20,481 | – | – | 20,481 |
| Equity contracts | 1,507 | – | – | 1,507 |
| Other contracts | 69 | – | – | 69 |
| Total | 1,272,405 | 50,046 | 16,097 | 1,338,548 |

## 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:

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value assets | | | | Fair value liabilities | | | |
| | Trading HK$'m | Hedging HK$'m | Not qualified for hedge accounting HK$'m | Total HK$'m | Trading HK$'m | Hedging HK$'m | Not qualified for hedge accounting HK$'m | Total HK$'m |
| Exchange rate contracts | | | | | | | | |
| Spot, forwards and futures | 14,208 | – | – | 14,208 | (10,000) | – | (7) | (10,007) |
| Swaps | 5,275 | 34 | 145 | 5,454 | (4,953) | (43) | (167) | (5,163) |
| Foreign currency options | | | | | | | | |
| – Options purchased | 58 | – | – | 58 | – | – | – | – |
| – Options written | – | – | – | – | (150) | – | – | (150) |
| | 19,541 | 34 | 145 | 19,720 | (15,103) | (43) | (174) | (15,320) |
| Interest rate contracts | | | | | | | | |
| Futures | 1 | – | – | 1 | (1) | – | – | (1) |
| Swaps | 1,767 | 3,359 | 5 | 5,131 | (2,191) | (1,127) | (64) | (3,382) |
| | 1,768 | 3,359 | 5 | 5,132 | (2,192) | (1,127) | (64) | (3,383) |
| Commodity contracts | 472 | – | – | 472 | (185) | – | – | (185) |
| Equity contracts | 24 | – | – | 24 | (24) | – | – | (24) |
| Total | 21,805 | 3,393 | 150 | 25,348 | (17,504) | (1,170) | (238) | (18,912) |

## 24. Derivative financial instruments and hedge accounting (continued)

### *(a) Derivative financial instruments (continued)*

| | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value assets | | | | Fair value liabilities | | | |
| | Trading HK$'m | Hedging HK$'m | Not qualified for hedge accounting HK$'m | Total HK$'m | Trading HK$'m | Hedging HK$'m | Not qualified for hedge accounting HK$'m | Total HK$'m |
| Exchange rate contracts | | | | | | | | |
| Spot, forwards and futures | 17,257 | – | – | 17,257 | (13,001) | – | – | (13,001) |
| Swaps | 7,476 | 42 | 119 | 7,637 | (2,557) | (55) | (136) | (2,748) |
| Foreign currency options | | | | | | | | |
| – Options purchased | 23 | – | – | 23 | – | – | – | – |
| – Options written | – | – | – | – | (28) | – | – | (28) |
| | 24,756 | 42 | 119 | 24,917 | (15,586) | (55) | (136) | (15,777) |
| Interest rate contracts | | | | | | | | |
| Futures | 1 | – | – | 1 | – | – | – | – |
| Swaps | 2,231 | 3,338 | 24 | 5,593 | (3,157) | (1,693) | (89) | (4,939) |
| | 2,232 | 3,338 | 24 | 5,594 | (3,157) | (1,693) | (89) | (4,939) |
| Commodity contracts | 818 | – | – | 818 | (488) | – | – | (488) |
| Equity contracts | 10 | – | – | 10 | (10) | – | – | (10) |
| Total | 27,816 | 3,380 | 143 | 31,339 | (19,241) | (1,748) | (225) | (21,214) |

## 24. Derivative financial instruments and hedge accounting (continued)

### (a) Derivative financial instruments (continued)

The tables below give the contract/notional amounts, credit risk-weighted amounts and fair values of derivatives after taking into account the effect of valid bilateral netting agreements and are prepared with reference to the Completion Instructions for the HKMA return of capital adequacy ratio.

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.

| | 2013 | | |
|---|---|---|---|
| | **Contract/ notional amount HK$'m** | **Credit risk-weighted amount HK$'m** | **Fair value HK$'m** |
| Exchange rate contracts | | | |
| Spot, forwards and futures | **122,717** | **1,152** | **1,006** |
| Swaps | **631,019** | **4,129** | **5,291** |
| Foreign currency options | | | |
| – Options purchased | **20,592** | **144** | **60** |
| | **774,328** | **5,425** | **6,357** |
| Interest rate contracts | | | |
| Futures | **2,790** | **1** | **1** |
| Swaps | **358,570** | **1,541** | **4,795** |
| | **361,360** | **1,542** | **4,796** |
| Commodity contracts | **167** | **4** | **1** |
| Equity contracts | **2,099** | **144** | **27** |
| Total | **1,137,954** | **7,115** | **11,181** |

## 24. Derivative financial instruments and hedge accounting (continued)

### *(a) Derivative financial instruments (continued)*

| | 2012 | | |
|---|---|---|---|
| | Contract/ notional amount HK$'m | Credit risk-weighted amount HK$'m | Fair value HK$'m |
| Exchange rate contracts | | | |
| Spot, forwards and futures | 79,292 | 462 | 416 |
| Swaps | 640,320 | 3,746 | 7,376 |
| Foreign currency options | | | |
| – Options purchased | 2,601 | 10 | 13 |
| | 722,213 | 4,218 | 7,805 |
| Interest rate contracts | | | |
| Swaps | 340,424 | 913 | 5,112 |
| Commodity contracts | 221 | 6 | 1 |
| Equity contracts | 720 | 38 | 2 |
| Total | 1,063,578 | 5,175 | 12,920 |

The fair values which were calculated after taking into account the effect of valid bilateral netting agreements for the Group amounted to HK$173 million (2012: Nil).

### *(b) Hedge accounting*

The fair values of derivative financial instruments designated as hedging instruments as at 31 December are as follows:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Assets HK$'m** | **Liabilities HK$'m** | Assets HK$'m | Liabilities HK$'m |
| Fair value hedges | **3,359** | **(1,127)** | 3,338 | (1,693) |
| Cash flow hedges | **34** | **(43)** | 42 | (55) |
| | **3,393** | **(1,170)** | 3,380 | (1,748) |

## 24. Derivative financial instruments and hedge accounting (continued)

### *(b) Hedge accounting (continued)*

#### (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:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Hedged assets HK$'m** | **Hedged liabilities HK$'m** | Hedged assets HK$'m | Hedged liabilities HK$'m |
| Net gain/(loss) | | | | |
| – hedging instruments | **2,284** | **(1,467)** | (110) | 590 |
| – hedged items | **(2,284)** | **2,031** | 86 | (426) |
| | **–** | **564** | (24) | 164 |

#### (ii) Cash flow hedges

The Group hedges a portion of foreign exchange risks that it expects to assume as a result of cash flows from certain fixed income securities using cross-currency interest rate swaps.

There were no gains or losses on ineffective portion recognised in the income statement during the year (2012: Nil).

#### (iii) Hedges of net investments in foreign operations

As at 31 December 2013, a proportion of the Group's RMB-denominated deposits from customers of HK$1,888 million (2012: HK$1,834 million) were designated as a hedging instrument to hedge against the net investments in foreign operations.

There were no gains or losses on ineffective portion recognised in the income statement during the year (2012: Nil).

## 25. Advances and other accounts

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| Personal loans and advances | **254,545** | 238,702 |
| Corporate loans and advances | **603,787** | 539,562 |
| Advances to customers* | **858,332** | 778,264 |
| Loan impairment allowances | | |
| – Individually assessed | **(840)** | (736) |
| – Collectively assessed | **(3,395)** | (2,969) |
| | **854,097** | 774,559 |
| Trade bills | **70,846** | 45,180 |
| Total | **924,943** | 819,739 |

As at 31 December 2013, advances to customers included accrued interest of HK$1,344 million (2012: HK$1,434 million).

As at 31 December 2013 and 2012, no impairment allowance was made in respect of trade bills.

* Included advances to customers denominated in HK dollars of HK$552,769 million (2012: HK$520,638 million) and US dollars equivalent to HK$217,702 million (2012: HK$177,027 million).

## 26. Loan impairment allowances

| | 2013 | | |
|---|---|---|---|
| | Individual assessment | | |
| | Personal HK$'m | Corporate HK$'m | Total HK$'m |
| At 1 January 2013 | 26 | 710 | 736 |
| (Credited)/charged to income statement (Note 12) | (4) | 63 | 59 |
| Loans written off during the year as uncollectible | (3) | (206) | (209) |
| Recoveries | 11 | 243 | 254 |
| Unwind of discount on impairment allowances | – | (6) | (6) |
| Exchange difference | – | 6 | 6 |
| At 31 December 2013 | 30 | 810 | 840 |

| | 2013 | | |
|---|---|---|---|
| | Collective assessment | | |
| | Personal HK$'m | Corporate HK$'m | Total HK$'m |
| At 1 January 2013 | 269 | 2,700 | 2,969 |
| Charged to income statement (Note 12) | 303 | 368 | 671 |
| Loans written off during the year as uncollectible | (291) | (2) | (293) |
| Recoveries | 34 | – | 34 |
| Exchange difference | – | 14 | 14 |
| At 31 December 2013 | 315 | 3,080 | 3,395 |

## 26. Loan impairment allowances (continued)

| | 2012 | | |
|---|---|---|---|
| | Individual assessment | | |
| | Personal HK$'m | Corporate HK$'m | Total HK$'m |
| At 1 January 2012 | 28 | 231 | 259 |
| (Credited)/charged to income statement (Note 12) | (16) | 294 | 278 |
| Loans written off during the year as uncollectible | (3) | (23) | (26) |
| Recoveries | 17 | 217 | 234 |
| Unwind of discount on impairment allowances | – | (10) | (10) |
| Exchange difference | – | 1 | 1 |
| At 31 December 2012 | 26 | 710 | 736 |

| | 2012 | | |
|---|---|---|---|
| | Collective assessment | | |
| | Personal HK$'m | Corporate HK$'m | Total HK$'m |
| At 1 January 2012 | 237 | 2,334 | 2,571 |
| Charged to income statement (Note 12) | 213 | 363 | 576 |
| Loans written off during the year as uncollectible | (211) | (1) | (212) |
| Recoveries | 30 | – | 30 |
| Exchange difference | – | 4 | 4 |
| At 31 December 2012 | 269 | 2,700 | 2,969 |

## 27. Investment in securities

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| **The Group** | | |
| **(a) Available-for-sale securities** | | |
| Debt securities, at fair value | | |
| – Listed in Hong Kong | **27,134** | 20,252 |
| – Listed outside Hong Kong | **123,369** | 110,594 |
| | **150,503** | 130,846 |
| – Unlisted | **182,469** | 247,410 |
| | **332,972** | 378,256 |
| Certificates of deposit, at fair value | | |
| – Listed in Hong Kong | **502** | – |
| – Listed outside Hong Kong | **686** | 1,375 |
| | **1,188** | 1,375 |
| – Unlisted | **76,889** | 71,466 |
| | **78,077** | 72,841 |
| Equity securities, at fair value | | |
| – Listed in Hong Kong | **2,801** | 2,592 |
| – Unlisted | **1,470** | 1,043 |
| | **4,271** | 3,635 |
| | **415,320** | 454,732 |
| **(b) Held-to-maturity securities** | | |
| Debt securities, at amortised cost | | |
| – Listed in Hong Kong | **710** | 948 |
| – Listed outside Hong Kong | **12,353** | 7,807 |
| | **13,063** | 8,755 |
| – Unlisted | **4,300** | 8,778 |
| | **17,363** | 17,533 |
| Certificates of deposit, at amortised cost | | |
| – Unlisted | **95** | 874 |
| | **17,458** | 18,407 |
| Impairment allowances | **(3)** | (9) |
| | **17,455** | 18,398 |
| **(c) Loans and receivables** | | |
| Unlisted, at amortised cost | **7,945** | 9,234 |
| **Total** | **440,720** | 482,364 |
| Market value of listed held-to-maturity securities | **13,132** | 8,983 |
| **The Company** | | |
| **Available-for-sale securities** | | |
| Equity securities, at fair value | | |
| – Listed in Hong Kong | **2,801** | 2,528 |

## 27. Investment in securities (continued)

Investment in securities is analysed by type of issuer as follows:

| | **2013** | | | |
|---|---|---|---|---|
| | **Available-for-sale securities HK$'m** | **Held-to-maturity securities HK$'m** | **Loans and receivables HK$'m** | **Total HK$'m** |
| **The Group** | | | | |
| Sovereigns | **53,060** | **2,318** | **–** | **55,378** |
| Public sector entities* | **46,292** | **137** | **–** | **46,429** |
| Banks and other financial institutions | **243,746** | **7,227** | **7,112** | **258,085** |
| Corporate entities | **72,222** | **7,773** | **833** | **80,828** |
| | **415,320** | **17,455** | **7,945** | **440,720** |

| | 2012 | | | |
|---|---|---|---|---|
| | Available-for-sale securities HK$'m | Held-to-maturity securities HK$'m | Loans and receivables HK$'m | Total HK$'m |
| **The Group** | | | | |
| Sovereigns | 152,583 | 3,208 | – | 155,791 |
| Public sector entities* | 39,913 | 1,278 | – | 41,191 |
| Banks and other financial institutions | 211,561 | 12,115 | 8,077 | 231,753 |
| Corporate entities | 50,675 | 1,797 | 1,157 | 53,629 |
| | 454,732 | 18,398 | 9,234 | 482,364 |

* Included available-for-sale securities of HK$24,530 million (2012: HK$20,974 million) and held-to-maturity securities of HK$58 million (2012: HK$248 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

As at 31 December 2013 and 2012, all of the available-for-sale securities held by the Company were issued by banks and other financial institutions.

## 27. Investment in securities (continued)

The movements in investment in securities are summarised as follows:

| | **2013** | | |
|---|---|---|---|
| | **Available-for-sale securities HK$'m** | **Held-to-maturity securities HK$'m** | **Loans and receivables HK$'m** |
| **The Group** | | | |
| At 1 January 2013 | **454,732** | **18,398** | **9,234** |
| Additions | **547,165** | **1,102** | **12,927** |
| Disposals, redemptions and maturity | **(553,997)** | **(8,590)** | **(14,321)** |
| Amortisation | **(157)** | **46** | **100** |
| Change in fair value | **(8,854)** | **–** | **–** |
| Net reversal of impairment allowances | **–** | **5** | **–** |
| Reclassification | **(6,797)** | **6,797** | **–** |
| Exchange difference | **(16,772)** | **(303)** | **5** |
| At 31 December 2013 | **415,320** | **17,455** | **7,945** |

| | 2012 | | |
|---|---|---|---|
| | Available-for-sale securities HK$'m | Held-to-maturity securities HK$'m | Loans and receivables HK$'m |
| **The Group** | | | |
| At 1 January 2012 | 316,398 | 53,927 | 6,673 |
| Additions | 865,481 | 12,687 | 16,446 |
| Disposals, redemptions and maturity | (728,314) | (47,895) | (14,146) |
| Amortisation | 380 | (215) | 90 |
| Change in fair value | 5,484 | – | – |
| Net reversal of impairment allowances | – | 3 | – |
| Exchange difference | (4,697) | (109) | 171 |
| At 31 December 2012 | 454,732 | 18,398 | 9,234 |

## 27. Investment in securities (continued)

| | Available-for-sale securities | |
|---|---|---|
| | **2013 HK$'m** | 2012 HK$'m |
| **The Company** | | |
| At 1 January | **2,528** | 2,506 |
| Change in fair value | **273** | 22 |
| At 31 December | **2,801** | 2,528 |

Available-for-sale and held-to-maturity securities are analysed as follows:

| | Available-for-sale securities | | Held-to-maturity securities | |
|---|---|---|---|---|
| | **2013 HK$'m** | 2012 HK$'m | **2013 HK$'m** | 2012 HK$'m |
| **The Group** | | | | |
| Treasury bills | **33,975** | 115,637 | **585** | 885 |
| Certificates of deposit | **78,077** | 72,841 | **95** | 874 |
| Others | **303,268** | 266,254 | **16,775** | 16,639 |
| | **415,320** | 454,732 | **17,455** | 18,398 |

The movements in impairment allowances on held-to-maturity securities are summarised as follows:

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| **The Group** | | |
| At 1 January | **9** | 25 |
| Credited to income statement (Note 12) | **(5)** | (3) |
| Disposals | **(1)** | (13) |
| At 31 December | **3** | 9 |

During the year 2013, the Group reclassified certain debt securities with fair value of HK$6,797 million out of available-for-sale category into held-to-maturity category. The Group had the intention and ability to hold these reclassified debt securities until maturity at the date of reclassification.

## 28. Investment in subsidiaries

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| **The Company** | | |
| Unlisted shares, at cost | **54,834** | 54,834 |

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 2013:

| Name | Place of incorporation and operation | Particulars of issued share capital/ registered 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 | 950,000 ordinary shares of HK$100 each | 100% | Securities and futures brokerage |
| Nanyang Commercial Bank (China), Limited | PRC | Registered capital RMB6,500,000,000 | 100% | Banking business |

* Shares held directly by the Company

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## 28. Investment in subsidiaries (continued)

The particulars of subsidiary with significant non-controlling interests are as follows:

***BOC Group Life Assurance Company Limited***

| | **2013** | 2012 |
|---|---|---|
| Proportion of ownership interests and voting rights held by non-controlling interests | **49%** | 49% |

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Profit attributable to non-controlling interests | **526** | 300 |
| Accumulated non-controlling interests | **2,158** | 2,080 |
| Summarised financial information: | | |
| – total assets | **79,580** | 66,150 |
| – total liabilities | **75,176** | 61,904 |
| – profit for the year | **1,072** | 614 |
| – total comprehensive income for the year | **159** | 1,228 |

## 29. Interests in associates and a joint venture

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| At 1 January | **259** | 234 |
| Share of results | **42** | 35 |
| Share of tax | **(7)** | (8) |
| Dividend received | **(2)** | (2) |
| At 31 December | **292** | 259 |

## 29. Interests in associates and a joint venture (continued)

The particulars of the Group's associates and joint venture, all of which are unlisted, are as follows:

| Name | Place of incorporation and operation | Particulars of issued share capital/ registered capital | Interest held | Principal activities |
|---|---|---|---|---|
| Associates: | | | | |
| BOC Services Company Limited | PRC | Registered capital RMB50,000,000 | 45.00% | Credit card back-end service support |
| BOC Expresspay Company Limited | PRC | Registered capital RMB450,000,000 | 25.33% | Prepay debit card services |
| Joint Venture: | | | | |
| Joint Electronic Teller Services Limited | Hong Kong | 100,238 ordinary shares of HK$100 each | 19.96% | Operation of a private inter-bank message switching network in respect of ATM services |

| | Associates | | Joint venture | |
|---|---|---|---|---|
| | **2013 HK$'m** | 2012 HK$'m | **2013 HK$'m** | 2012 HK$'m |
| Interests in associates/joint venture | **232** | 199 | **60** | 60 |
| Share of profit/total comprehensive income for the year of associates/joint venture | **33** | 25 | **2** | 2 |

## 30. Investment properties

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| At 1 January | **14,364** | 12,441 |
| Additions | **2** | 2 |
| Disposals | **–** | (62) |
| Fair value gains (Note 14) | **264** | 1,885 |
| Reclassification (to)/from properties, plant and equipment (Note 31) | **(34)** | 98 |
| Exchange difference | **1** | – |
| At 31 December | **14,597** | 14,364 |

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| Held in Hong Kong | | |
| On long-term lease (over 50 years) | **2,893** | 2,754 |
| On medium-term lease (10 to 50 years) | **11,436** | 11,361 |
| Held outside Hong Kong | | |
| On medium-term lease (10 to 50 years) | **248** | 249 |
| On short-term lease (less than 10 years) | **20** | – |
| | **14,597** | 14,364 |

As at 31 December 2013, investment properties are included in the balance sheet at valuation carried out at 31 December 2013 on the basis of their fair value by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited. The fair value represents the price that would be received to sell each investment property in an orderly transaction with market participants at the measurement date.

## 31. Properties, plant and equipment

| | Premises HK$'m | Equipment, fixtures and fittings HK$'m | Total HK$'m |
|---|---|---|---|
| Net book value at 1 January 2013 | **46,178** | **2,565** | **48,743** |
| Additions | **376** | **720** | **1,096** |
| Disposals | **(1)** | **(16)** | **(17)** |
| Revaluation | **4,143** | **–** | **4,143** |
| Depreciation for the year (Note 13) | **(953)** | **(710)** | **(1,663)** |
| Reclassification from investment properties (Note 30) | **34** | **–** | **34** |
| Exchange difference | **14** | **8** | **22** |
| Net book value at 31 December 2013 | **49,791** | **2,567** | **52,358** |
| At 31 December 2013 | | | |
| Cost or valuation | **49,791** | **8,275** | **58,066** |
| Accumulated depreciation and impairment | **–** | **(5,708)** | **(5,708)** |
| Net book value at 31 December 2013 | **49,791** | **2,567** | **52,358** |
| The analysis of cost or valuation of the above assets is as follows: | | | |
| At 31 December 2013 | | | |
| At cost | **–** | **8,275** | **8,275** |
| At valuation | **49,791** | **–** | **49,791** |
| | **49,791** | **8,275** | **58,066** |
| Net book value at 1 January 2012 | 37,049 | 2,601 | 39,650 |
| Additions | 358 | 687 | 1,045 |
| Disposals | (147) | (9) | (156) |
| Revaluation | 9,792 | – | 9,792 |
| Depreciation for the year (Note 13) | (778) | (715) | (1,493) |
| Reclassification to investment properties (Note 30) | (98) | – | (98) |
| Exchange difference | 2 | 1 | 3 |
| Net book value at 31 December 2012 | 46,178 | 2,565 | 48,743 |
| At 31 December 2012 | | | |
| Cost or valuation | 46,178 | 7,793 | 53,971 |
| Accumulated depreciation and impairment | – | (5,228) | (5,228) |
| Net book value at 31 December 2012 | 46,178 | 2,565 | 48,743 |
| The analysis of cost or valuation of the above assets is as follows: | | | |
| At 31 December 2012 | | | |
| At cost | – | 7,793 | 7,793 |
| At valuation | 46,178 | – | 46,178 |
| | 46,178 | 7,793 | 53,971 |

## 31. Properties, plant and equipment (continued)

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

| | **2013** **HK$'m** | 2012 HK$'m |
|---|---|---|
| Held in Hong Kong | | |
| On long-term lease (over 50 years) | **18,774** | 16,913 |
| On medium-term lease (10 to 50 years) | **30,250** | 28,547 |
| Held outside Hong Kong | | |
| On long-term lease (over 50 years) | **74** | 65 |
| On medium-term lease (10 to 50 years) | **675** | 632 |
| On short-term lease (less than 10 years) | **18** | 21 |
| | **49,791** | 46,178 |

As at 31 December 2013, premises are included in the balance sheet at valuation carried out at 31 December 2013 on the basis of their fair value by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited. The fair value represents the price that would be received to sell each premises in an orderly transaction with market participants at the measurement date.

As a result of the above-mentioned revaluations, changes in value of the Group's premises were recognised in the Group's premises revaluation reserve, the income statement and non-controlling interests as follows:

| | **2013** **HK$'m** | 2012 HK$'m |
|---|---|---|
| Increase in valuation credited to premises revaluation reserve | **4,078** | 9,718 |
| Increase/(decrease) in valuation credited/(charged) to income statement (Note 15) | **14** | (4) |
| Increase in valuation credited to non-controlling interests | **51** | 78 |
| | **4,143** | 9,792 |

As at 31 December 2013, the net book value of premises that would have been included in the Group's balance sheet had the premises been carried at cost less accumulated depreciation and impairment losses was HK$7,221 million (2012: HK$6,904 million).

## 32. Other assets

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| Repossessed assets | **64** | 18 |
| Precious metals | **5,146** | 6,610 |
| Reinsurance assets | **23,937** | 14,671 |
| Accounts receivable and prepayments | **16,109** | 15,532 |
| | **45,256** | 36,831 |

## 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.

## 34. Financial liabilities at fair value through profit or loss

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| Trading liabilities | | |
| – Short positions in Exchange Fund Bills and Notes | **9,748** | 17,331 |
| Financial liabilities designated at fair value through profit or loss | | |
| – Structured deposits (Note 35) | **3,832** | 2,841 |
| | **13,580** | 20,172 |

The carrying amount of financial liabilities designated at fair value through profit or loss as at 31 December 2013 was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK$6 million (the carrying amount of financial liabilities designated at fair value through profit or loss as at 31 December 2012 was more than the amount that the Group would be contractually required to pay at maturity to the holders by HK$1 million). The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the year and cumulatively, attributable to changes in own credit risk was insignificant.

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## 35. Deposits from customers

| | 2013<br>HK$'m | 2012<br>HK$'m |
|---|---|---|
| Current, savings and other deposit accounts (per balance sheet) | **1,324,148** | 1,226,290 |
| Structured deposits reported as financial liabilities at fair value through profit or loss (Note 34) | **3,832** | 2,841 |
| | **1,327,980** | 1,229,131 |
| Analysed by: | | |
| Demand deposits and current accounts | | |
| – corporate | **81,162** | 76,742 |
| – personal | **23,622** | 20,553 |
| | **104,784** | 97,295 |
| Savings deposits | | |
| – corporate | **224,970** | 202,846 |
| – personal | **411,167** | 400,719 |
| | **636,137** | 603,565 |
| Time, call and notice deposits | | |
| – corporate | **350,381** | 298,902 |
| – personal | **236,678** | 229,369 |
| | **587,059** | 528,271 |
| | **1,327,980** | 1,229,131 |

## 36. Debt securities in issue at amortised cost

| | 2013<br>HK$'m | 2012<br>HK$'m |
|---|---|---|
| Senior notes under the Medium Term Note Programme | **5,684** | 5,919 |
| Other debt securities | **–** | 4 |
| | **5,684** | 5,923 |

## 37. Other accounts and provisions

| | 2013<br>HK$'m | 2012<br>HK$'m |
|---|---|---|
| Other accounts payable | **47,803** | 47,639 |
| Provisions | **346** | 344 |
| | **48,149** | 47,983 |

## 38. Assets pledged as security

As at 31 December 2013, liabilities of the Group amounting to HK$11,529 million (2012: HK$18,029 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$3,394 million (2012: HK$438 million) were secured by debt securities and bills related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK$15,031 million (2012: HK$18,596 million) mainly included in "Trading securities", "Available-for-sale securities" and "Trade bills".

## 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 balance sheet, and the movements during the year are as follows:

| | **2013** | | | | | |
|---|---|---|---|---|---|---|
| | **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 2013 | **564** | **6,772** | **(144)** | **(492)** | **617** | **7,317** |
| Charged/(credited) to income statement (Note 16) | **17** | **(91)** | **52** | **(100)** | **(16)** | **(138)** |
| Charged/(credited) to other comprehensive income | **–** | **666** | **–** | **–** | **(1,203)** | **(537)** |
| Exchange difference | **–** | **1** | **–** | **(2)** | **(1)** | **(2)** |
| At 31 December 2013 | **581** | **7,348** | **(92)** | **(594)** | **(603)** | **6,640** |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | 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 2012 | 547 | 5,299 | (131) | (451) | (109) | 5,155 |
| Charged/(credited) to income statement (Note 16) | 17 | (128) | (13) | (41) | (4) | (169) |
| Charged to other comprehensive income | – | 1,601 | – | – | 730 | 2,331 |
| At 31 December 2012 | 564 | 6,772 | (144) | (492) | 617 | 7,317 |

## 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 balance sheet:

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Deferred tax assets | **(304)** | (89) |
| Deferred tax liabilities | **6,944** | 7,406 |
| | **6,640** | 7,317 |

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Deferred tax assets to be recovered after more than twelve months | **(85)** | (154) |
| Deferred tax liabilities to be settled after more than twelve months | **7,391** | 6,847 |
| | **7,306** | 6,693 |

As at 31 December 2013, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK$7 million (2012: HK$718 million). These tax losses do not expire under the current tax legislation.

## 40. Insurance contract liabilities

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| At 1 January | **53,937** | 47,220 |
| Benefits paid | **(5,798)** | (7,169) |
| Claims incurred and movement in liabilities | **18,498** | 13,886 |
| At 31 December | **66,637** | 53,937 |

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK$23,902 million (2012: HK$14,644 million) and the associated reinsurance assets of HK$23,937 million (2012: HK$14,671 million) are included in "Other assets" (Note 32).

## 41. Subordinated liabilities

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| **Subordinated loans, at amortised cost** | | |
| EUR660m* | – | 6,749 |
| **Subordinated notes, at amortised cost with fair value hedge adjustment** | | |
| USD2,500m** | 19,849 | 22,006 |
| Total | 19,849 | 28,755 |

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. During the year, HKMA has approved BOCHK to early repay the subordinated loans.

In 2010, BOCHK issued listed subordinated notes with an aggregate amount of USD2,500 million.

Amounts qualified as Tier 2 capital instruments/supplementary capital for regulatory purposes are shown in Note 4.5(C).

* 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. It has been fully repaid during the year.

** Interest rate at 5.55% per annum payable semi-annually, due February 2020.

## 42. Share capital

| | 2013 HK$'m | 2012 HK$'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 103 to 104 of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 44. Notes to consolidated cash flow statement

### *(a) Reconciliation of operating profit to operating cash inflow/(outflow) before taxation*

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Operating profit | **27,493** | 23,499 |
| Depreciation | **1,663** | 1,493 |
| Net charge of impairment allowances | **737** | 859 |
| Unwind of discount on impairment allowances | **(6)** | (10) |
| Advances written off net of recoveries | **(214)** | 26 |
| Change in subordinated liabilities | **(1,744)** | 703 |
| Change in balances with banks and other financial institutions with original maturity over three months | **(3,896)** | (7,794) |
| Change in placements with banks and other financial institutions with original maturity over three months | **33,223** | 34,466 |
| Change in financial assets at fair value through profit or loss | **2,082** | 568 |
| Change in derivative financial instruments | **3,689** | (5,619) |
| Change in advances and other accounts | **(105,734)** | (65,385) |
| Change in investment in securities | **(6,023)** | (104,150) |
| Change in other assets | **(8,437)** | (11,077) |
| Change in deposits and balances from banks and other financial institutions | **99,067** | (57,488) |
| Change in financial liabilities at fair value through profit or loss | **(6,592)** | 16,935 |
| Change in deposits from customers | **97,858** | 80,339 |
| Change in debt securities in issue at amortised cost | **(239)** | (62) |
| Change in other accounts and provisions | **166** | 6,172 |
| Change in insurance contract liabilities | **12,700** | 6,717 |
| Effect of changes in exchange rates | **(570)** | 3,862 |
| Operating cash inflow/(outflow) before taxation | **145,223** | (75,946) |
| Cash flows from operating activities included: | | |
| – Interest received | **38,611** | 35,297 |
| – Interest paid | **11,129** | 9,704 |
| – Dividend received | **127** | 117 |

## 44. Notes to consolidated cash flow statement (continued)

### *(b) Analysis of the balances of cash and cash equivalents*

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| Cash and balances with banks and other financial institutions with original maturity within three months | **330,408** | 179,311 |
| Placements with banks and other financial institutions with original maturity within three months | **22,044** | 8,152 |
| Treasury bills with original maturity within three months | **10,024** | 53,912 |
| Certificates of deposit with original maturity within three months | **725** | 1,580 |
| | **363,201** | 242,955 |

## 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 aggregate credit risk-weighted amount and is prepared with reference to the Completion Instructions for the HKMA return of capital adequacy ratio.

| | 2013 HK$'m | 2012 HK$'m |
|---|---|---|
| Direct credit substitutes | **17,555** | 14,168 |
| Transaction-related contingencies | **12,929** | 11,681 |
| Trade-related contingencies | **56,269** | 45,412 |
| Commitments that are unconditionally cancellable without prior notice | **361,772** | 320,777 |
| Other commitments with an original maturity of | | |
| – up to one year | **6,601** | 18,988 |
| – over one year | **67,879** | 52,743 |
| | **523,005** | 463,769 |
| Credit risk-weighted amount | **55,353** | 59,008 |

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.

## 46. Capital commitments

The Group has the following outstanding capital commitments not provided for in the financial statements:

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Authorised and contracted for but not provided for | **350** | 325 |
| Authorised but not contracted for | **11** | 1 |
| | **361** | 326 |

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:

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Land and buildings | | |
| – not later than one year | **714** | 697 |
| – later than one year but not later than five years | **1,188** | 1,209 |
| – later than five years | **323** | 446 |
| | **2,225** | 2,352 |

Certain non-cancellable operating leases included in the table above were subject to renegotiation and rent adjustment with reference to market rates prevailing at specified agreed dates or according to the special conditions as stipulated in the leases.

### (b) *The Group as lessor*

The Group has contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Land and buildings | | |
| – not later than one year | **402** | 410 |
| – later than one year but not later than five years | **416** | 272 |
| | **818** | 682 |

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 rent adjustments according to the prevailing market conditions at the expiration of the lease.

## 48. Litigation

The Group has been served a number of claims and counterclaims by various independent parties. These claims and counterclaims are in relation to the normal commercial activities of the Group.

No material provision was made against these claims and counterclaims because the directors believe that the Group has meritorious defences against the claimants or the amounts involved in these claims are not expected to be material.

## 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 operating 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 represents business mainly relating to life insurance products, including traditional and unit-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 and a joint venture.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment funding is charged according to the internal funds transfer pricing mechanism of the Group, which is primarily based on market rates with the consideration of specific features of the product.

As the Group derives a majority of revenue from interest and the senior management relies primarily on net interest income in managing the business, interest income and expense for all reportable segments are presented on a net basis. Under the same consideration, insurance premium income and insurance benefits and claims are also presented on a net basis.

## 49. Segmental reporting (continued)

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 1,836 | 9,630 | 14,547 | 1,900 | 3 | 27,916 | – | 27,916 |
| – inter-segment | 5,757 | 2,274 | (7,550) | 14 | (495) | – | – | – |
| | 7,593 | 11,904 | 6,997 | 1,914 | (492) | 27,916 | – | 27,916 |
| Net fee and commission income/(expense) | 5,324 | 3,576 | 144 | (65) | 385 | 9,364 | (399) | 8,965 |
| Net insurance premium income | – | – | – | 9,185 | – | 9,185 | (15) | 9,170 |
| Net trading gain/(loss) | 734 | 337 | 2,201 | (169) | (161) | 2,942 | 15 | 2,957 |
| Net loss on financial instruments designated at fair value through profit or loss | – | – | (27) | (132) | – | (159) | – | (159) |
| Net gain/(loss) on other financial assets | – | 21 | 179 | (63) | (54) | 83 | – | 83 |
| Other operating income | 48 | 4 | 3 | 7 | 1,646 | 1,708 | (1,054) | 654 |
| **Total operating income** | 13,699 | 15,842 | 9,497 | 10,677 | 1,324 | 51,039 | (1,453) | 49,586 |
| Net insurance benefits and claims | – | – | – | (9,273) | – | (9,273) | – | (9,273) |
| **Net operating income before impairment allowances** | 13,699 | 15,842 | 9,497 | 1,404 | 1,324 | 41,766 | (1,453) | 40,313 |
| Net (charge)/reversal of impairment allowances | (289) | (453) | 5 | – | – | (737) | – | (737) |
| **Net operating income** | 13,410 | 15,389 | 9,502 | 1,404 | 1,324 | 41,029 | (1,453) | 39,576 |
| Operating expenses | (6,477) | (3,544) | (1,155) | (259) | (2,101) | (13,536) | 1,453 | (12,083) |
| **Operating profit/(loss)** | 6,933 | 11,845 | 8,347 | 1,145 | (777) | 27,493 | – | 27,493 |
| Net gain from disposal of/fair value adjustments on investment properties | – | – | – | – | 264 | 264 | – | 264 |
| Net (loss)/gain from disposal/revaluation of properties, plant and equipment | (7) | (1) | – | (1) | 10 | 1 | – | 1 |
| Share of profits less losses after tax of associates and a joint venture | – | – | – | – | 35 | 35 | – | 35 |
| **Profit/(loss) before taxation** | 6,926 | 11,844 | 8,347 | 1,144 | (468) | 27,793 | – | 27,793 |
| **Assets** | | | | | | | | |
| Segment assets | 286,067 | 662,806 | 962,077 | 79,580 | 70,050 | 2,060,580 | (13,936) | 2,046,644 |
| Interests in associates and a joint venture | – | – | – | – | 292 | 292 | – | 292 |
| | 286,067 | 662,806 | 962,077 | 79,580 | 70,342 | 2,060,872 | (13,936) | 2,046,936 |
| **Liabilities** | | | | | | | | |
| Segment liabilities | 738,429 | 625,842 | 445,973 | 75,176 | 12,444 | 1,897,864 | (13,936) | 1,883,928 |
| **Other information** | | | | | | | | |
| Capital expenditure | 28 | 4 | – | 6 | 1,060 | 1,098 | – | 1,098 |
| Depreciation | 341 | 188 | 77 | 10 | 1,047 | 1,663 | – | 1,663 |
| Amortisation of securities | – | – | (156) | 145 | – | (11) | – | (11) |

## 49. Segmental reporting (continued)

| | 2012 (Restated) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 932 | 8,784 | 13,229 | 1,757 | 6 | 24,708 | – | 24,708 |
| – inter-segment | 5,725 | 1,085 | (6,288) | – | (522) | – | – | – |
| | 6,657 | 9,869 | 6,941 | 1,757 | (516) | 24,708 | – | 24,708 |
| Net fee and commission income/(expense) | 4,316 | 3,338 | 138 | (67) | 247 | 7,972 | (209) | 7,763 |
| Net insurance premium income | – | – | – | 6,466 | – | 6,466 | (15) | 6,451 |
| Net trading gain/(loss) | 559 | 364 | 1,873 | 359 | (34) | 3,121 | 8 | 3,129 |
| Net gain on financial instruments designated at fair value through profit or loss | – | – | 42 | 705 | – | 747 | – | 747 |
| Net (loss)/gain on other financial assets | – | (2) | 623 | 129 | – | 750 | – | 750 |
| Other operating income | 50 | 3 | 8 | 14 | 1,429 | 1,504 | (915) | 589 |
| **Total operating income** | 11,582 | 13,572 | 9,625 | 9,363 | 1,126 | 45,268 | (1,131) | 44,137 |
| Net insurance benefits and claims | – | – | – | (8,520) | – | (8,520) | – | (8,520) |
| **Net operating income before impairment allowances** | 11,582 | 13,572 | 9,625 | 843 | 1,126 | 36,748 | (1,131) | 35,617 |
| Net (charge)/reversal of impairment allowances | (214) | (650) | 16 | (11) | – | (859) | – | (859) |
| **Net operating income** | 11,368 | 12,922 | 9,641 | 832 | 1,126 | 35,889 | (1,131) | 34,758 |
| Operating expenses | (5,852) | (3,196) | (1,259) | (223) | (1,860) | (12,390) | 1,131 | (11,259) |
| **Operating profit/(loss)** | 5,516 | 9,726 | 8,382 | 609 | (734) | 23,499 | – | 23,499 |
| Net gain from disposal of/fair value adjustments on investment properties | – | – | – | – | 1,889 | 1,889 | – | 1,889 |
| Net (loss)/gain from disposal/revaluation of properties, plant and equipment | (3) | (1) | – | – | 110 | 106 | – | 106 |
| Share of profits less losses after tax of associates and a joint venture | – | – | – | – | 27 | 27 | – | 27 |
| **Profit before taxation** | 5,513 | 9,725 | 8,382 | 609 | 1,292 | 25,521 | – | 25,521 |
| **Assets** | | | | | | | | |
| Segment assets | 266,839 | 573,803 | 870,488 | 66,150 | 65,760 | 1,843,040 | (12,536) | 1,830,504 |
| Interests in associates and a joint venture | – | – | – | – | 259 | 259 | – | 259 |
| | 266,839 | 573,803 | 870,488 | 66,150 | 66,019 | 1,843,299 | (12,536) | 1,830,763 |
| **Liabilities** | | | | | | | | |
| Segment liabilities | 716,696 | 551,508 | 346,561 | 61,904 | 11,556 | 1,688,225 | (12,536) | 1,675,689 |
| **Other information** | | | | | | | | |
| Capital expenditure | 27 | 8 | – | 15 | 997 | 1,047 | – | 1,047 |
| Depreciation | 324 | 169 | 90 | 6 | 904 | 1,493 | – | 1,493 |
| Amortisation of securities | – | – | 190 | 65 | – | 255 | – | 255 |

Certain comparative amounts of operating expenses have been reclassified to net fee and commission income to conform with the current year's presentation.

## 50. Offsetting financial instruments

The following tables present details of financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognised financial assets HK$'m | Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m | Net amounts of financial assets presented in the balance sheet HK$'m | Related amounts not set off in the balance sheet: Financial instruments HK$'m | Related amounts not set off in the balance sheet: Cash collateral received HK$'m | Net amount HK$'m |
| **Assets** | | | | | | |
| Derivative financial instruments | 11,450 | – | 11,450 | (6,732) | (1,826) | 2,892 |
| Other assets | 13,286 | (8,532) | 4,754 | – | – | 4,754 |
| Total | 24,736 | (8,532) | 16,204 | (6,732) | (1,826) | 7,646 |

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognised financial liabilities HK$'m | Gross amounts of recognised financial assets set off in the balance sheet HK$'m | Net amounts of financial liabilities presented in the balance sheet HK$'m | Related amounts not set off in the balance sheet: Financial instruments HK$'m | Related amounts not set off in the balance sheet: Cash collateral pledged HK$'m | Net amount HK$'m |
| **Liabilities** | | | | | | |
| Derivative financial instruments | 9,263 | – | 9,263 | (6,732) | – | 2,531 |
| Repurchase agreements | 2,100 | – | 2,100 | (2,100) | – | – |
| Other liabilities | 8,784 | (8,532) | 252 | – | – | 252 |
| Total | 20,147 | (8,532) | 11,615 | (8,832) | – | 2,783 |

## 50. Offsetting financial instruments (continued)

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognised financial assets HK$'m | Gross amounts of recognised financial liabilities set off in the balance sheet HK$'m | Net amounts of financial assets presented in the balance sheet HK$'m | Related amounts not set off in the balance sheet: Financial instruments HK$'m | Related amounts not set off in the balance sheet: Cash collateral received HK$'m | Net amount HK$'m |
| **Assets** | | | | | | |
| Derivative financial instruments | 13,542 | – | 13,542 | (6,292) | (3,245) | 4,005 |
| Other assets | 15,452 | (9,939) | 5,513 | – | – | 5,513 |
| Total | 28,994 | (9,939) | 19,055 | (6,292) | (3,245) | 9,518 |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognised financial liabilities HK$'m | Gross amounts of recognised financial assets set off in the balance sheet HK$'m | Net amounts of financial liabilities presented in the balance sheet HK$'m | Related amounts not set off in the balance sheet: Financial instruments HK$'m | Related amounts not set off in the balance sheet: Cash collateral pledged HK$'m | Net amount HK$'m |
| **Liabilities** | | | | | | |
| Derivative financial instruments | 8,182 | – | 8,182 | (6,292) | – | 1,890 |
| Other liabilities | 10,456 | (9,939) | 517 | – | – | 517 |
| Total | 18,638 | (9,939) | 8,699 | (6,292) | – | 2,407 |

For master netting agreements of OTC derivative and sale and repurchase transactions entered into by the Group, related amounts with the same counterparty can be offset if an event of default or other predetermined events occur.

# NOTES TO THE FINANCIAL STATEMENTS

## 51. Transfers of financial assets

The transferred financial assets below that do not qualify for derecognition are debt securities held by counterparties as collateral under sale and repurchase agreements.

| | 2013 | |
|---|---|---|
| | **Carrying amount of transferred assets HK$'m** | **Carrying amount of associated liabilities HK$'m** |
| Repurchase agreements | **2,100** | **2,100** |

As at 31 December 2012, there were no transfers of financial assets.

## 52. 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:

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Aggregate amount of relevant transactions outstanding at year end | **3,790** | 5,865 |
| Maximum aggregate amount of relevant transactions outstanding during the year | **7,661** | 7,316 |

## 53. 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.

The significant related party transactions are defined according to HKAS 24 while the connected transactions are defined by Chapter 14A of the Listing Rules. The details of connected transactions are set out in "Connected transactions" on page 271.

### *(a) Transactions with the parent companies and the other companies controlled by the parent companies*

General information of the parent companies:

The Group is controlled by BOC. Central Huijin is the controlling entity of BOC, and it is a wholly-owned subsidiary of CIC which is a wholly state-owned company engaging in foreign currency investment management.

Central Huijin has controlling equity interests in certain other entities in the PRC.

The Group enters into banking and other transactions with these entities in the normal course of business which include loans, investment securities, money market and reinsurance transactions.

The majority of transactions with BOC arise from money market activities. As at 31 December 2013, the related aggregate amounts due from and to BOC of the Group were HK$130,693 million (2012: HK$59,739 million) and HK$41,263 million (2012: HK$46,429 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the year ended 31 December 2013 were HK$2,278 million (2012: HK$2,252 million) and HK$146 million (2012: HK$148 million) respectively. Transactions with other companies controlled by BOC are not considered material.

### *(b) Transactions with government authorities, agencies, affiliates and other state controlled entities*

The Group is subject to the control of the State Council of the PRC Government through CIC and Central Huijin, which also directly 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.

## 53. Significant related party transactions (continued)

### (c) *Summary of transactions entered into during the ordinary course of business with associates, a joint venture and other related parties*

The aggregate income/expenses and balances arising from related party transactions with associates, a joint venture and other related parties of the Group are summarised as follows:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Associates and joint venture HK$'m** | **Other related parties HK$'m** | Associates and joint venture HK$'m | Other related parties HK$'m |
| Income statement items: | | | | |
| Administrative services fees received/receivable | **–** | **9** | – | 8 |
| Other operating expenses | **49** | **–** | – | – |
| Balance sheet items: | | | | |
| Deposits from customers | **22** | **–** | 34 | – |
| Other accounts and provisions | **–** | **–** | 5 | – |

### (d) *Key management personnel*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, senior management and company secretary. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior years, no material transaction was conducted with key management personnel of the Company and its holding companies, as well as parties related to them.

The compensation of key management personnel for the year ended 31 December is detailed as follows:

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Salaries and other short-term employee benefits | **66** | 66 |
| Post-employment benefits | **1** | 1 |
| | **67** | 67 |

## 54. 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 Authorised 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.

| | **2013** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Equivalent in million of HK$** | | | | | | | |
| | **US Dollars** | **Japanese Yen** | **Euro** | **Australian Dollars** | **Pound Sterling** | **Renminbi** | **Other foreign currencies** | **Total foreign currencies** |
| Spot assets | **537,034** | **1,093** | **11,963** | **22,583** | **1,447** | **589,995** | **16,566** | **1,180,681** |
| Spot liabilities | **(387,497)** | **(3,797)** | **(11,663)** | **(31,203)** | **(12,441)** | **(540,509)** | **(17,849)** | **(1,004,959)** |
| Forward purchases | **438,862** | **42,992** | **49,900** | **34,026** | **25,008** | **197,747** | **36,646** | **825,181** |
| Forward sales | **(581,245)** | **(40,424)** | **(50,197)** | **(25,635)** | **(14,046)** | **(239,842)** | **(35,547)** | **(986,936)** |
| Net options position | **2,416** | **–** | **(1)** | **(5)** | **4** | **(2,991)** | **(5)** | **(582)** |
| Net long/(short) position | **9,570** | **(136)** | **2** | **(234)** | **(28)** | **4,400** | **(189)** | **13,385** |
| Net structural position | **333** | **–** | **–** | **–** | **–** | **9,075** | **–** | **9,408** |

| | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Equivalent in million of HK$ | | | | | | | |
| | US Dollars | Japanese Yen | Euro | Australian Dollars | Pound Sterling | Renminbi | Other foreign currencies | Total foreign currencies |
| Spot assets | 480,099 | 81,033 | 17,279 | 24,874 | 4,336 | 374,118 | 17,313 | 999,052 |
| Spot liabilities | (357,163) | (3,736) | (19,074) | (25,594) | (13,308) | (359,234) | (19,321) | (797,430) |
| Forward purchases | 438,027 | 39,150 | 36,876 | 27,824 | 32,925 | 169,229 | 30,962 | 774,993 |
| Forward sales | (543,759) | (116,379) | (35,207) | (27,018) | (24,226) | (184,128) | (28,746) | (959,463) |
| Net options position | (53) | (3) | 5 | (4) | 8 | (17) | (21) | (85) |
| Net long/(short) position | 17,151 | 65 | (121) | 82 | (265) | (32) | 187 | 17,067 |
| Net structural position | 321 | – | – | – | – | 8,583 | – | 8,904 |

## 55. Cross-border claims

The below analysis is prepared with reference to the Completion Instructions for the HKMA return of cross-border claims. Cross-border claims are exposures to foreign counterparties on which the ultimate risk lies, and are derived according to the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, the risk will be transferred to the country of the guarantor. For a claim on an overseas branch of a bank whose head office is located in another country, the risk will be transferred to the country where its head office is located. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims are shown as follows:

| | **2013** | | | |
|---|---|---|---|---|
| | **Banks HK$'m** | **Public sector entities* HK$'m** | **Others HK$'m** | **Total HK$'m** |
| Asia, other than Hong Kong | | | | |
| – Mainland of China | **399,428** | **128,223** | **150,889** | **678,540** |
| – Japan | **11,554** | **6,277** | **143** | **17,974** |
| – Others | **38,480** | **3,164** | **31,839** | **73,483** |
| | **449,462** | **137,664** | **182,871** | **769,997** |
| North America | | | | |
| – United States | **1,221** | **33,461** | **38,559** | **73,241** |
| – Others | **7,101** | **2,126** | **282** | **9,509** |
| | **8,322** | **35,587** | **38,841** | **82,750** |
| Total | **457,784** | **173,251** | **221,712** | **852,747** |

| | 2012 | | | |
|---|---|---|---|---|
| | Banks HK$'m | Public sector entities* HK$'m | Others HK$'m | Total HK$'m |
| Asia, other than Hong Kong | | | | |
| – Mainland of China | 272,511 | 81,892 | 128,295 | 482,698 |
| – Japan | 7,283 | 81,320 | 158 | 88,761 |
| – Others | 49,874 | 4,410 | 24,687 | 78,971 |
| | 329,668 | 167,622 | 153,140 | 650,430 |
| North America | | | | |
| – United States | 2,439 | 46,397 | 34,290 | 83,126 |
| – Others | 12,990 | 1,392 | 276 | 14,658 |
| | 15,429 | 47,789 | 34,566 | 97,784 |
| Total | 345,097 | 215,411 | 187,706 | 748,214 |

* Included United States of HK$10,523 million (2012: HK$10,442 million) and other countries in North America of HK$2,126 million (2012: HK$1,355 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

## 56. Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures with reference to the Completion Instructions for the HKMA return of non-bank Mainland exposures. The Group's Mainland exposures arising from non-bank counterparties are summarised as follows:

| | **2013** | | | |
|---|---|---|---|---|
| | **On-balance sheet exposure HK$'m** | **Off-balance sheet exposure HK$'m** | **Total exposure HK$'m** | **Individually assessed impairment allowances HK$'m** |
| Mainland entities | **373,439** | **82,774** | **456,213** | **234** |
| Companies and individuals outside Mainland where the credit is granted for use in Mainland | **52,238** | **15,745** | **67,983** | **135** |
| Other non-bank Mainland exposures | **25,375** | **1,651** | **27,026** | **15** |
| | **451,052** | **100,170** | **551,222** | **384** |

| | 2012 | | | |
|---|---|---|---|---|
| | On-balance sheet exposure HK$'m | Off-balance sheet exposure HK$'m | Total exposure HK$'m | Individually assessed impairment allowances HK$'m |
| Mainland entities | 317,910 | 70,998 | 388,908 | 142 |
| Companies and individuals outside Mainland where the credit is granted for use in Mainland | 44,283 | 16,191 | 60,474 | 16 |
| Other non-bank Mainland exposures | 23,213 | 2,600 | 25,813 | 67 |
| | 385,406 | 89,789 | 475,195 | 225 |

## 57. 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.

## 58. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 26 March 2014.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

## 1. Regulatory capital for credit, market and operational risks

The bases of regulatory capital calculation for credit risk, market risk and operational risk are described in Note 4.5 to the Financial Statements.

As a result of the adoption of Banking (Capital) (Amendment) Rules 2012 and Banking (Capital) (Amendment) Rules 2013 since 1 January 2013 and 30 June 2013 respectively, the capital disclosures for 2013 are not directly comparable to those of 2012.

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 ratios are set out in Note 4.5(A) to the Financial Statements.

The table below summarises the regulatory capital computed on the same consolidation basis for credit, market, and operational risks.

| | **2013**<br>**HK$'m** | 2012<br>HK$'m |
|---|---|---|
| Credit risk | **65,327** | 56,343 |
| Market risk | **1,329** | 906 |
| Operational risk | **5,038** | 4,421 |
| | **71,694** | 61,670 |

For details of capital management and capital ratios of the Group, please refer to Note 4.5 to the Financial Statements.

## 2. Capital requirements for credit risk

The tables below show the capital requirements for each class and subclass of credit risk exposures as specified in the Banking (Capital) Rules.

| | 2013<br>HK$'m |
|---|---|
| **Capital required for exposures under the IRB approach** | |
| Corporate | |
| Specialised lending under supervisory slotting criteria approach | |
| – Project finance | 76 |
| Small-and-medium sized corporate | 3,946 |
| Other corporates | 33,669 |
| Bank | |
| Banks | 16,179 |
| Securities firms | 77 |
| Retail | |
| Residential mortgages | |
| – Individuals | 985 |
| – Property-holding shell companies | 46 |
| Qualifying revolving retail | 866 |
| Small business retail | 70 |
| Other retail to individuals | 502 |
| Others | |
| Cash items | – |
| Other items | 6,084 |
| Securitisation | 8 |
| Credit valuation adjustment | 515 |
| **Total capital requirements for exposures under the IRB approach** | 63,023 |
| **Capital required for exposures under the standardised (credit risk) approach** | |
| On-balance sheet exposures | |
| Sovereigns | 82 |
| Public sector entities | 63 |
| Multilateral development banks | – |
| Banks | 18 |
| Securities firms | – |
| Corporate | 726 |
| Regulatory retail | 526 |
| Residential mortgage loans | 342 |
| Other exposures which are not past due | 288 |
| Past due exposures | 4 |
| Off-balance sheet exposures | |
| Off-balance sheet exposures other than securities financing transactions and derivative contracts | 233 |
| Securities financing transactions and derivative contracts | 22 |
| Securitisation | – |
| **Total capital requirements for exposures under the standardised (credit risk) approach** | 2,304 |
| **Total capital requirements for credit risk exposures** | 65,327 |

## 2. Capital requirements for credit risk (continued)

| | 2012 HK$'m |
|---|---|
| **Capital required for exposures under the IRB approach** | |
| Corporate | |
| Specialised lending under supervisory slotting criteria approach | |
| – Project finance | 115 |
| Small-and-medium sized corporate | 3,726 |
| Other corporates | 31,896 |
| Bank | |
| Banks | 9,180 |
| Securities firms | 7 |
| Retail | |
| Residential mortgages | |
| – Individuals | 674 |
| – Property-holding shell companies | 42 |
| Qualifying revolving retail | 836 |
| Small business retail | 79 |
| Other retail to individuals | 403 |
| Others | |
| Cash items | – |
| Other items | 5,879 |
| Securitisation | 12 |
| **Total capital requirements for exposures under the IRB approach** | 52,849 |
| **Capital required for exposures under the standardised (credit risk) approach** | |
| On-balance sheet exposures | |
| Sovereigns | 1,333 |
| Public sector entities | 43 |
| Multilateral development banks | – |
| Banks | 6 |
| Securities firms | – |
| Corporate | 1,156 |
| Regulatory retail | 379 |
| Residential mortgage loans | 231 |
| Other exposures which are not past due | 105 |
| Past due exposures | 3 |
| Off-balance sheet exposures | |
| Off-balance sheet exposures other than OTC derivative transactions and credit derivative contracts | 231 |
| OTC derivative transactions | 7 |
| Securitisation | – |
| **Total capital requirements for exposures under the standardised (credit risk) approach** | 3,494 |
| **Total capital requirements for credit risk exposures** | 56,343 |

## 3. Credit risk under the internal ratings-based approach

### *3.1 The internal rating systems and risk components*

The Group adopts the FIRB approach to calculate the regulatory capital requirements for most of the corporate and bank exposures, and adopts the supervisory slotting criteria approach to project finance exposures under "specialised lending". The Group adopts retail IRB approach for retail exposures to individuals and small business. The following is the table showing the Group's different capital calculation approaches to each asset class and sub-classes of exposures (other than securitisation exposures).

| Asset class | Exposure sub-class | Capital calculation approach |
|---|---|---|
| Corporate exposures | Specialised lending under supervisory slotting criteria approach (project finance) | Supervisory Slotting Criteria Approach |
| | Small-and-medium sized corporates | FIRB Approach |
| | Other corporates | |
| Sovereign exposures | Sovereigns | Standardised (credit risk) Approach |
| | Sovereign foreign public sector entities | |
| | Multilateral development banks | |
| Bank exposures | Banks | FIRB Approach |
| | Securities firms | |
| | Public sector entities (excluding sovereign foreign public sector entities) | Standardised (credit risk) Approach |
| Retail exposures | Residential mortgages to individuals | Retail IRB Approach |
| | Residential mortgages to property-holding shell companies | |
| | Qualifying revolving retail | |
| | Small business retail | |
| | Other retail to individuals | |
| Equity exposures | | Standardised (credit risk) Approach |
| Other exposures | Cash items | Specific Risk-weight Approach |
| | Other items | |

## 3. Credit risk under the internal ratings-based approach (continued)

### *3.1 The internal rating systems and risk components (continued)*

#### (A) The structure of internal rating systems and the relationship between internal ratings and external ratings

The Group's internal rating system is a two dimensional rating system that provides separate assessment of borrower and transaction characteristics. For corporate and bank portfolios, the obligor rating dimension reflects exclusively the risk of borrower default and the facility rating dimension reflects transaction specific factors that affect the loss severity in the case of borrower default.

The Group developed statistical models to provide own estimated probability of default ("PD") for its corporate, bank and retail borrowers, and loss given default ("LGD") and exposure at default ("EAD") for retail exposures under retail IRB approach.

The Group uses internal rating system to assess the borrower's likelihood of default for all IRB portfolios. PD estimates the risk of borrower default over a one-year period. A borrower credit grade means a grouping of similar credit-worthiness to which borrowers are assigned on the basis of specified and distinct set of rating criteria, from which the average PD are derived for RWA calculation.

In the process of obligor rating assignment, variables of latest financial performance, management quality, industry risks, group connection and negative warning signals of each obligor are assessed as critical factors to predict borrower's ability and willingness to meet with the contractual obligations under different economic conditions.

The obligors for corporate and bank, and retail PD pools are assigned into eight broad obligor ratings including seven grades for non-defaulted obligors with sub-divisions into 26 minor credit grades and one for defaulted obligors. In the supervisory slotting criteria approach for the project finance exposures, there are four grades for non-defaulted borrowers and one for defaulted borrowers in accordance with the HKMA guidance. The estimates for retail IRB portfolios are pooled by nature of obligors, facility types, collateral types and delinquency status into different PD, EAD and LGD pools. This pooling process provides the basis of accurate and consistent estimation for PD, LGD and EAD at the pool level for exposures arising from residential mortgages to both individuals and property-holding shell companies, qualifying revolving retail exposures and other retail exposures to individuals and small business retail exposures. All credit transactions for corporates and banks are assigned facility ratings (in terms of LGD) in accordance with the HKMA guidance. LGD estimates multiplied by the PD estimates produce the expected loss ("EL") estimates, which are used to assess credit risk quantitatively.

## 3. Credit risk under the internal ratings-based approach (continued)

### *3.1 The internal rating systems and risk components (continued)*

#### (A) The structure of internal rating systems and the relationship between internal ratings and external ratings (continued)

For each internal rating, the equivalent external rating in terms of default risk is as below:

<table>
<tr><th>Internal Credit Grades</th><th>Definition of Internal Ratings</th><th>Standard & Poor's Equivalent</th></tr>
<tr><td>1</td><td rowspan="4">The obligors in grades "1" and "2" have extremely low default risk.<br>The obligor's capacity to meet its financial commitment on the obligation is extremely strong.</td><td>AAA</td></tr>
<tr><td rowspan="3">2</td><td>AA+</td></tr>
<tr><td>AA</td></tr>
<tr><td>AA-</td></tr>
<tr><td rowspan="3">3</td><td rowspan="3">The obligors in grade "3" have low default risk but are somewhat susceptible to the adverse effects of changes in circumstances and economic conditions.<br>However, the obligor's capacity to meet its financial commitment on the obligation is very strong.</td><td>A+</td></tr>
<tr><td>A</td></tr>
<tr><td>A-</td></tr>
<tr><td rowspan="3">4</td><td rowspan="3">The obligors in grade "4" have relatively low default risk and are currently under adequate protection.<br>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.</td><td>BBB+</td></tr>
<tr><td>BBB</td></tr>
<tr><td>BBB-</td></tr>
<tr><td rowspan="3">5</td><td rowspan="3">The obligors in grade "5" have medium default risk which are less vulnerable to nonpayment than other speculative obligors.<br>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.</td><td>BB+</td></tr>
<tr><td>BB</td></tr>
<tr><td>BB-</td></tr>
<tr><td rowspan="3">6</td><td rowspan="3">The obligors in grade "6" have significant to very high default risk and are vulnerable to nonpayment.<br>The obligors currently and in the near term have the capacity to meet its financial commitment on the obligation but adverse business, financial, or economic conditions will very likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.</td><td>B+</td></tr>
<tr><td>B</td></tr>
<tr><td>B-</td></tr>
<tr><td rowspan="3">7</td><td rowspan="3">The obligors in grade "7" have very high default risk and are currently quite vulnerable to nonpayment. The obligors' ability to meet their financial commitment and obligation are dependent upon favorable business, financial, and economic conditions.<br>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.</td><td>CCC</td></tr>
<tr><td>CC</td></tr>
<tr><td>C</td></tr>
<tr><td>8</td><td>Obligors rated "8" are in payment default.</td><td>D</td></tr>
</table>

## 3. Credit risk under the internal ratings-based approach (continued)

### *3.1 The internal rating systems and risk components (continued)*

**(B) Use of internal estimates**

Besides using PD estimates for regulatory capital calculation in corporate and bank exposures, the Group uses the PD together with the LGD and EAD estimates in the credit approval, credit monitoring, reporting and analysis of credit risk information, etc., for the purpose of strengthening the daily management on all credit related matters.

**(C) Process of managing and recognising credit risk mitigation**

For 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 the credit exposures adopting FIRB approach for capital calculation purpose, the recognised eligible guarantees include the guarantees provided by banks, corporates and securities firms with a lower risk weights than the counterparty. The Group takes into account the credit risk mitigation effect of recognised 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, except OTC derivative transactions cleared by central counterparties, the Group has not used any other on-balance sheet or off-balance sheet recognised netting for credit risk mitigation. The Group also has not used any recognised credit derivative contracts for credit risk mitigation.

**(D) The control mechanisms used for internal rating systems**

The Group has established a comprehensive control mechanism to ensure the integrity, accuracy and consistency of the rating systems including the processes for using the risk components in the day-to-day business to assess credit risk.

All of IRB risk models are approved by the RC of the Board on the recommendation of the Group's Basel Steering Committee ("SC"). The Basel SC supervises the use of these internal rating models for risk identification and assessments in the Group's credit decisions.

In order to achieve reasonably accurate risk ratings assignment, the Group has established a rating approval process which is independent of the sales and marketing units. Since internal rating is one of the key inputs to credit decision making, a control mechanism is put in place to ensure the integrity, accuracy and consistency of the rating assignment. For the wholesale (corporate and bank) credit portfolio, internal ratings are normally approved by credit officers who are functionally separated from the sales and marketing units. In some cases where the transactions are in small amount and of very low credit risk, the credit ratings can be assigned and approved by staff within the sales and marketing units, subject to the periodic post-approval review of ratings by RMD and other credit monitoring units.

## 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 are highly automated. As an integral part of the daily credit assessment process, the accuracy and completeness of data input for automatic rating assignment are verified by units independent from business development function.

The obligor rating is reviewed at least annually as required by the Group's credit risk policy. When credit events occur to the obligor, rating review is triggered promptly in accordance with the Group's credit risk policy.

Rating override is designed to allow the credit analyst to include any other relevant credit information that has not yet been captured in the rating models. For reasons of conservatism and prudential considerations, overrides are unlimited in terms of downgrades but more restricted for upgrades. All upgrades will be limited to a maximum of two sub-grades supported by a very narrowly pre-defined list of appropriate reasons. All overrides need to be signed off by a higher level of credit approval authority. The internal rating policy sets a trigger point of 10% overrides on rating cases. The use of overrides and override reasons are analysed as part of performance review on IRB rating models.

The performance of internal rating system is put under ongoing periodic monitoring. The senior management periodically reviews the performance and predictive ability of the internal rating system. The effectiveness of the internal rating system and processes are reviewed by independent control functions. The model maintenance unit conducts assessment on the discriminatory power, accuracy and stability of the rating systems while the validation unit performs comprehensive review of the internal rating system. Internal audit reviews the internal rating system and the operations of the related credit risk control units. The results of the review are reported to the Board and senior management regularly.

A model validation team which is independent from the model development unit and rating assignment units, conducts periodic model validations using both qualitative and quantitative analysis. Model acceptance standards are established to ensure the discriminatory power, accuracy and stability of the rating systems meet regulatory and management requirements. Review of a rating model will be triggered if the performance of the model deteriorates materially against pre-determined tolerance limits.

#### (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.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

## 3. Credit risk under the internal ratings-based approach (continued)

### *3.2 Exposures by IRB calculation approach*

The tables below show the Group's exposures other than securitisation exposures (including the EAD of on-balance sheet exposures and off-balance sheet exposures) by each IRB calculation approach.

| | **2013** | | | | |
|---|---|---|---|---|---|
| | **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 | **741,926** | **851** | **–** | **–** | **742,777** |
| Bank | **565,535** | **–** | **–** | **–** | **565,535** |
| Retail | | | | | |
| Residential mortgages to individuals and property-holding shell companies | **–** | **–** | **211,727** | **–** | **211,727** |
| Qualifying revolving retail | **–** | **–** | **57,868** | **–** | **57,868** |
| Other retail to individuals and small business retail | **–** | **–** | **37,110** | **–** | **37,110** |
| Others | **–** | **–** | **–** | **196,371** | **196,371** |
| Total | **1,307,461** | **851** | **306,705** | **196,371** | **1,811,388** |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | 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 | 640,927 | 1,391 | – | – | 642,318 |
| Bank | 429,712 | – | – | – | 429,712 |
| Retail | | | | | |
| Residential mortgages to individuals and property-holding shell companies | – | – | 209,677 | – | 209,677 |
| Qualifying revolving retail | – | – | 55,256 | – | 55,256 |
| Other retail to individuals and small business retail | – | – | 31,938 | – | 31,938 |
| Others | – | – | – | 163,857 | 163,857 |
| Total | 1,070,639 | 1,391 | 296,871 | 163,857 | 1,532,758 |

## 3. Credit risk under the internal ratings-based approach (continued)

### *3.3 Exposures subject to supervisory estimates under the IRB approach*

The table below shows the total EAD of the Group's exposures subject to supervisory estimates under the use of IRB approach (including the specialised lending subject to the supervisory slotting criteria approach).

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Corporate | **742,777** | 642,318 |
| Bank | **565,535** | 429,712 |
| Others | **196,371** | 163,857 |
| | **1,504,683** | 1,235,887 |

### *3.4 Exposures covered 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. The exposures as at 31 December 2013 exclude securities financing transactions and derivative contracts while those as at 31 December 2012 exclude OTC derivative transactions and repo-style transactions.

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Corporate | **107,841** | 97,907 |
| Bank | **1,889** | 440 |
| Others | **–** | – |
| | **109,730** | 98,347 |

#### (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. The exposures as at 31 December 2013 exclude securities financing transactions and derivative contracts while those as at 31 December 2012 exclude OTC derivative transactions and repo-style transactions.

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Corporate | **142,723** | 20,834 |
| Bank | **17,406** | 17,451 |
| Retail | **–** | – |
| Others | **–** | – |
| | **160,129** | 38,285 |

## 3. Credit risk under the internal ratings-based approach (continued)

### *3.5 Risk assessment for corporate and bank exposures under IRB approach*

The tables below detail the Group's total EAD of corporate and bank exposures by exposure-weighted average risk-weight and exposure-weighted average PD for each obligor grade as at 31 December.

The EAD and PD disclosed below in respect of corporate and bank exposures have taken into account the effect of recognised collateral, recognised netting and recognised guarantees. The Group did not have any recognised credit derivative contracts.

For definition of each obligor grade, please refer to page 247.

**(A) Corporate exposures (other than specialised lending under supervisory slotting criteria approach)**

| | **2013** | | |
|---|---|---|---|
| **Internal Credit Grades** | **Exposure at default HK$'m** | **Exposure-weighted average risk-weight %** | **Exposure-weighted average PD %** |
| Grade 1 | **–** | **–** | **–** |
| Grade 2 | **20,498** | **20.38** | **0.03** |
| Grade 3 | **177,400** | **26.72** | **0.08** |
| Grade 4 | **254,284** | **44.08** | **0.23** |
| Grade 5 | **193,997** | **78.28** | **1.07** |
| Grade 6 | **92,999** | **132.60** | **5.54** |
| Grade 7 | **492** | **211.60** | **22.51** |
| Grade 8/Default | **2,256** | **162.90** | **100.00** |
| | **741,926** | | |

| | 2012 | | |
|---|---|---|---|
| Internal Credit Grades | Exposure at default HK$'m | Exposure-weighted average risk-weight % | Exposure-weighted average PD % |
| Grade 1 | – | – | – |
| Grade 2 | 22,607 | 16.14 | 0.04 |
| Grade 3 | 163,693 | 24.50 | 0.07 |
| Grade 4 | 152,425 | 45.17 | 0.25 |
| Grade 5 | 199,136 | 84.56 | 1.20 |
| Grade 6 | 100,041 | 133.52 | 5.59 |
| Grade 7 | 1,272 | 220.60 | 26.72 |
| Grade 8/Default | 1,753 | 153.97 | 100.00 |
| | 640,927 | | |

## 3. Credit risk under the internal ratings-based approach (continued)

### *3.5 Risk assessment for corporate and bank exposures under IRB approach (continued)*

#### (B) Corporate exposures (specialised lending under supervisory slotting criteria approach)

| | **2013** | | 2012 | |
|---|---|---|---|---|
| **Supervisory Rating Grades** | **Exposure at default HK$'m** | **Exposure-weighted average risk-weight %** | Exposure at default HK$'m | Exposure-weighted average risk-weight % |
| Strong | **171** | **70.00** | 16 | 70.00 |
| Good | **–** | **–** | 953 | 90.00 |
| Satisfactory | **680** | **115.00** | 422 | 115.00 |
| Weak | **–** | **–** | – | – |
| Default | **–** | **–** | – | – |
| | **851** | | 1,391 | |

The supervisory rating grades and risk-weights of specialised lending are determined in accordance with section 158 of the Banking (Capital) Rules.

#### (C) Bank exposures

| | **2013** | | |
|---|---|---|---|
| **Internal Credit Grades** | **Exposure at default HK$'m** | **Exposure-weighted average risk-weight %** | **Exposure-weighted average PD %** |
| Grade 1 | **–** | **–** | **–** |
| Grade 2 | **63,883** | **22.22** | **0.04** |
| Grade 3 | **388,691** | **29.85** | **0.06** |
| Grade 4 | **106,471** | **52.82** | **0.19** |
| Grade 5 | **6,446** | **80.23** | **0.68** |
| Grade 6 | **44** | **132.12** | **2.78** |
| Grade 7 | **–** | **–** | **–** |
| Grade 8/Default | **–** | **–** | **–** |
| | **565,535** | | |

## 3. Credit risk under the internal ratings-based approach (continued)

### *3.5 Risk assessment for corporate and bank exposures under IRB approach (continued)*

#### (C) Bank exposures (continued)

| | 2012 | | |
|---|---|---|---|
| Internal Credit Grades | Exposure at default HK$'m | Exposure-weighted average risk-weight % | Exposure-weighted average PD % |
| Grade 1 | – | – | – |
| Grade 2 | 41,148 | 16.89 | 0.04 |
| Grade 3 | 314,401 | 22.34 | 0.06 |
| Grade 4 | 72,441 | 41.53 | 0.20 |
| Grade 5 | 1,711 | 62.29 | 0.56 |
| Grade 6 | 11 | 53.36 | 5.02 |
| Grade 7 | – | – | – |
| Grade 8/Default | – | – | – |
| | 429,712 | | |

### *3.6 Risk assessment for retail exposures under IRB approach*

The tables below show breakdown of retail exposures on a pool basis by expected loss percentage (EL%) range as at 31 December.

**Residential mortgages**

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Up to 1% | **210,430** | 208,576 |
| >1% | **1,199** | 969 |
| Default | **98** | 132 |
| | **211,727** | 209,677 |

**Qualifying revolving retail**

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Up to 10% | **57,269** | 54,610 |
| >10% | **575** | 624 |
| Default | **24** | 22 |
| | **57,868** | 55,256 |

## 3. Credit risk under the internal ratings-based approach (continued)

### *3.6 Risk assessment for retail exposures under IRB approach (continued)*

**Other retail**

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Up to 2% | **27,513** | 21,895 |
| >2% | **348** | 248 |
| Default | **81** | 78 |
| | **27,942** | 22,221 |

**Small business retail**

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Up to 1% | **8,936** | 9,459 |
| >1% | **175** | 209 |
| Default | **57** | 49 |
| | **9,168** | 9,717 |

### *3.7 Analysis of actual loss and estimates*

The table below shows the actual losses broken down by class of risk exposure, which represent the net charges (including write-offs and individually assessed impairment allowances) made by each class of exposures under the internal ratings-based approach for the year.

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Corporate | **285** | 488 |
| Bank | **–** | – |
| Residential mortgages to individuals and property-holding shell companies | **–** | – |
| Qualifying revolving retail | **159** | 127 |
| Other retail to individuals | **12** | 12 |
| Small business retail | **21** | 12 |
| | **477** | 639 |

Decrease in the loan impairment charge of corporate exposures was mainly due to the decrease in the amount of new classified or impaired loans in 2013.

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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 broken down by class of risk exposure, which is the estimated loss likely to be incurred arising from the potential default of the obligors in respect of the exposure over a one-year period.

| | **Expected loss at 31 December 2012 HK$'m** | Expected loss at 31 December 2011 HK$'m |
|---|---|---|
| Corporate | **4,428** | 2,914 |
| Bank | **164** | 189 |
| Residential mortgages to individuals and property-holding shell companies | **98** | 93 |
| Qualifying revolving retail | **329** | 309 |
| Other retail to individuals | **84** | 111 |
| Small business retail | **31** | 32 |
| | **5,134** | 3,648 |

The tables below set out the actual default rate compared against the estimated PD of the respective portfolio.

| | **Actual default rate during 2013 %** | **Estimated PD at 31 December 2012 %** |
|---|---|---|
| Corporate | **0.33** | **1.88** |
| Bank | **–** | **0.48** |
| Residential mortgages to individuals and property-holding shell companies | **0.04** | **0.62** |
| Qualifying revolving retail | **0.17** | **0.60** |
| Other retail to individuals | **0.61** | **1.70** |
| Small business retail | **0.69** | **1.35** |

| | Actual default rate during 2012 % | Estimated PD at 31 December 2011 % |
|---|---|---|
| Corporate | 0.49 | 1.81 |
| Bank | – | 0.48 |
| Residential mortgages to individuals and property-holding shell companies | 0.04 | 0.62 |
| Qualifying revolving retail | 0.17 | 0.61 |
| Other retail to individuals | 0.76 | 1.75 |
| Small business retail | 0.58 | 1.34 |

## 3. Credit risk under the internal ratings-based approach (continued)

### *3.7 Analysis of actual loss and estimates (continued)*

It should be noted that expected loss and actual loss are measured and calculated using different methodologies compliant with relevant regulatory and accounting standards, which therefore may not be directly comparable. The limitation arises mainly from the fundamental differences in the definition of "loss". The expected loss under Basel Accord which estimates the economic loss arising from the potential default of the obligor by taking into account the time value of money and including the direct and indirect costs associated with the recoveries on the credit exposures during the workout process, while actual loss is the net charge of individually assessed impairment allowances and write-offs made during the year in accordance with the accounting standards.

The actual default rate is measured by using the number of obligors (for wholesale exposures) or number of accounts (for retail exposures) defaulted whereas the estimated probability of default is an estimate of the long run average default rate over an economic cycle and is the estimated one-year forward-looking PD from the date of rating assignment.

Hence, actual default rate in a particular year ("point-in-time") will typically differ from the estimated probability of default which is the "through-the-cycle" estimates as economies move above or below the cyclical norms.

The estimated probability of default is more conservative than the actual default rate for all asset classes.

## 4. Credit risk under the standardised (credit risk) approach

### *4.1 Use of ratings from External Credit Assessment Institutions ("ECAI")*

The Group continues to adopt STC approach based on external credit rating to determine the risk weight of the small residual credit exposures that was approved by HKMA to be exempted from FIRB approach and the following asset classes of exposures:

– Sovereign

– Public sector entity

– Multilateral development bank

The Group performs the ECAI issuer ratings mapping to its exposures in banking book in accordance with Part 4 of the Banking (Capital) Rules. The ECAIs recognised by the Group include Standard & Poor's, Moody's and Fitch.

### *4.2 Credit risk mitigation*

For credit exposures adopting STC approach, the main types of recognised collaterals include cash deposits, debt securities and equities for non-past due exposures. In addition, real estate collateral is also recognised for past due exposures. The treatment of recognised collateral is compliant with the comprehensive approach for credit risk mitigation as mentioned in the Banking (Capital) Rules. For credit exposures under STC approach, the recognised guarantees for capital calculation include the guarantees given by sovereigns, public sector entities, multilateral development banks, or banks and those corporates with ECAI issuer ratings both exempted from FIRB approach for credit exposures, that have lower risk weights than the counterparty.

## 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*

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total Exposures HK$'m | Exposures after CRM* | | Risk-weighted amount | | Total exposures covered by recognised collateral HK$'m | Total exposures covered by recognised guarantees or recognised credit derivative contracts HK$'m |
| | | Rated HK$'m | Unrated HK$'m | Rated HK$'m | Unrated HK$'m | | |
| On-balance sheet exposures | | | | | | | |
| Sovereign | 193,015 | 194,586 | – | 1,026 | – | – | – |
| Public sector entity | 26,605 | 26,530 | – | 784 | – | – | 191 |
| Multilateral development bank | 21,096 | 21,096 | – | – | – | – | – |
| Bank | 508 | 362 | 146 | 74 | 146 | – | – |
| Securities firm | – | – | – | – | – | – | – |
| Corporate | 11,424 | 1,572 | 8,241 | 844 | 8,241 | 231 | 1,380 |
| Cash item | 1 | – | 1 | – | – | – | – |
| Regulatory retail | 8,987 | – | 8,762 | – | 6,572 | 225 | – |
| Residential mortgage loans | 8,665 | – | 8,549 | – | 4,274 | – | 116 |
| Other exposures which are not past due | 3,335 | – | 2,826 | – | 3,600 | 509 | – |
| Past due exposures | 47 | – | 47 | – | 55 | 30 | – |
| Total for on-balance sheet exposures | 273,683 | 244,146 | 28,572 | 2,728 | 22,888 | 995 | 1,687 |
| Off-balance sheet exposures | | | | | | | |
| Off-balance sheet exposures other than securities financing transactions and derivative contracts | 4,425 | 1,847 | 2,578 | 424 | 2,489 | – | 355 |
| Securities financing transactions and derivative contracts | 404 | 13 | 391 | 1 | 268 | 39 | – |
| Total for off-balance sheet exposures | 4,829 | 1,860 | 2,969 | 425 | 2,757 | 39 | 355 |
| Total for non-securitisation exposures | 278,512 | 246,006 | 31,541 | 3,153 | 25,645 | 1,034 | 2,042 |
| Exposures that are risk-weighted at 1,250% | – | | | | | | |

## 4. Credit risk under the standardised (credit risk) approach (continued)

### *4.3 Credit risk exposures other than securitisation exposures under the standardised (credit risk) approach (continued)*

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Exposures after CRM* | | Risk-weighted amount | | | |
| | Total Exposures HK$'m | Rated HK$'m | Unrated HK$'m | Rated HK$'m | Unrated HK$'m | Total exposures covered by recognised collateral HK$'m | Total exposures covered by recognised guarantees or recognised credit derivative contracts HK$'m |
| On-balance sheet exposures | | | | | | | |
| Sovereign | 237,263 | 238,873 | – | 16,662 | – | – | – |
| Public sector entity | 24,584 | 24,437 | – | 538 | – | – | 193 |
| Multilateral development bank | 21,769 | 21,769 | – | – | – | – | – |
| Bank | 382 | 382 | – | 78 | – | – | – |
| Securities firm | – | – | – | – | – | – | – |
| Corporate | 19,683 | 9,133 | 8,927 | 5,520 | 8,927 | 206 | 1,417 |
| Regulatory retail | 6,431 | – | 6,317 | – | 4,737 | 114 | – |
| Residential mortgage loans | 5,812 | – | 5,766 | – | 2,883 | – | 46 |
| Other exposures which are not past due | 1,560 | – | 1,317 | – | 1,317 | 243 | – |
| Past due exposures | 31 | – | 31 | – | 39 | – | – |
| Total for on-balance sheet exposures | 317,515 | 294,594 | 22,358 | 22,798 | 17,903 | 563 | 1,656 |
| Off-balance sheet exposures | | | | | | | |
| Off-balance sheet exposures other than OTC derivative transactions and credit derivative contracts | 4,682 | 1,924 | 2,758 | 231 | 2,655 | 754 | 386 |
| OTC derivative transactions | 144 | 62 | 82 | 4 | 80 | – | – |
| Total for off-balance sheet exposures | 4,826 | 1,986 | 2,840 | 235 | 2,735 | 754 | 386 |
| Total for non-securitisation exposures | 322,341 | 296,580 | 25,198 | 23,033 | 20,638 | 1,317 | 2,042 |
| Exposures deducted from Core Capital or Supplementary Capital | 116 | | | | | | |

* Recognised credit risk mitigation satisfying the requirements and conditions set out in the Banking (Capital) Rules.

## 5. Counterparty credit risk-related exposures

The Group's counterparty credit risk arising from derivative contracts and securities financing transactions both in trading and banking book is subject to the same risk management framework as mentioned in Note 4 to the Financial Statements. The Group establishes credit limit through formal credit approval procedures to control the pre-settlement credit risk arising from derivative transactions and settlement limit to control the settlement risk arising from foreign exchange-related transactions for counterparties in both the trading book and banking book. The Group monitors the risk exposure due to fluctuations in the market by using the current exposure and the potential exposure value of the transactions. Exceptions or excesses are timely and closely identified and monitored by RMD.

Credit equivalent amount and capital charge for the relevant counterparty credit exposures are determined following the regulatory capital requirements. Currently, the Group has adopted the Current Exposure Method to measure the relevant credit equivalent amount, which comprises current exposures and potential future exposures. The relevant counterparty default risk capital charge is calculated under the FIRB/STC approach. In addition, the Group has adopted standardised credit valuation adjustment ("CVA") method to calculate the relevant counterparty CVA capital charge.

The Group establishes prudent eligibility criteria and haircut policy of debt securities being pledged as collateral for securities financing transactions.

The Group formulates policy for classification of credit assets according to the PD of counterparties and the period of overdue. If there is objective evidence that an impairment loss has been incurred, impairment allowance will be provided according to HKFRS and regulatory requirements.

In controlling and monitoring of wrong-way risk (risk of existence of positive correlation between the PD of a counterparty and credit exposures driven by mark-to-market value of the underlying transactions), specific wrong-way risk transactions are generally not allowed and monitoring measures have been formulated for those counterparties identified by stress testing that would be exposed to potential general wrong-way risk.

## 5. Counterparty credit risk-related exposures (continued)

### *5.1 Counterparty credit risk exposures under the internal ratings-based approach*

The following table summarises the Group's exposures to counterparty credit risk arising from securities financing transactions and derivative contracts calculated using the Current Exposure Method. There is no effect of valid cross-product netting agreements on these exposures.

| | 2013 | |
|---|---|---|
| | **Securities financing transactions HK$'m** | **Derivative contracts HK$'m** |
| Gross total positive fair value | | **11,078** |
| Default risk exposures after the effect of valid bilateral netting agreements | **4,220** | **22,719** |
| Less: Value of recognised collateral | | |
| – debt securities | **(314)** | **–** |
| – others | **(3,362)** | **(2,117)** |
| Default risk exposures after the effect of valid bilateral netting agreements net of recognised collateral | **544** | **20,602** |
| Default risk exposures by counterparty type | | |
| Corporate | **–** | **1,135** |
| Banks | **4,220** | **21,584** |
| Retail | **–** | **–** |
| Others | **–** | **–** |
| | **4,220** | **22,719** |
| Risk-weighted amounts by counterparty type | | |
| Corporate | **–** | **917** |
| Banks | **265** | **5,760** |
| Retail | **–** | **–** |
| Others | **–** | **–** |
| | **265** | **6,677** |

## 5. Counterparty credit risk-related exposures (continued)

### *5.1 Counterparty credit risk exposures under the internal ratings-based approach (continued)*

The following table summarises the Group's exposures to counterparty credit risk arising from OTC derivative. There is no effect of valid bilateral netting agreements on the credit equivalent amounts.

| | 2012 |
|---|---|
| | OTC derivative<br>HK$'m |
| Gross total positive fair value | 12,884 |
| Credit equivalent amounts | 22,591 |
| Less: Value of recognised collateral | |
| – debt securities | – |
| – others | – |
| Net credit equivalent amounts | 22,591 |
| Exposure at default by counterparty type | |
| Corporate | 797 |
| Banks | 21,794 |
| Retail | – |
| Others | – |
| | 22,591 |
| Risk-weighted amounts by counterparty type | |
| Corporate | 509 |
| Banks | 4,443 |
| Retail | – |
| Others | – |
| | 4,952 |

There were no outstanding repo-style transactions under the internal ratings-based approach as at 31 December 2012.

## 5. Counterparty credit risk-related exposures (continued)

### *5.2 Counterparty credit risk exposures under the standardised (credit risk) approach*

The following table summarises the Group's exposures to counterparty credit risk arising from derivative contracts calculated using the Current Exposure Method. There is no effect of valid cross-product netting agreements on these exposures.

| | **2013** |
|---|---|
| | **Derivative contracts HK$'m** |
| Gross total positive fair value | **118** |
| Default risk exposures after the effect of valid bilateral netting agreements | **404** |
| Less: Value of recognised collateral | |
| – debt securities | **–** |
| – others | **(39)** |
| Default risk exposures after the effect of valid bilateral netting agreements net of recognised collateral | **365** |
| Default risk exposures by counterparty type | |
| Sovereign | **73** |
| Public sector entity | **3** |
| Bank | **–** |
| Corporate | **213** |
| Regulatory retail | **113** |
| Other exposures which are not past due exposures | **2** |
| Past due exposures | **–** |
| | **404** |
| Risk-weighted amounts by counterparty type | |
| Sovereign | **8** |
| Public sector entity | **1** |
| Bank | **–** |
| Corporate | **173** |
| Regulatory retail | **85** |
| Other exposures which are not past due exposures | **2** |
| Past due exposures | **–** |
| | **269** |

There were no outstanding securities financing transactions under the standardised (credit risk) approach as at 31 December 2013.

## 5. Counterparty credit risk-related exposures (continued)

### *5.2 Counterparty credit risk exposures under the standardised (credit risk) approach (continued)*

The following table summarises the Group's exposures to counterparty credit risk arising from OTC derivative. There is no effect of valid bilateral netting agreements on the credit equivalent amounts.

| | 2012<br>OTC derivative<br>HK$'m |
|---|---|
| Gross total positive fair value | 41 |
| Credit equivalent amounts | 144 |
| Less: Value of recognised collateral | |
| – debt securities | – |
| – others | – |
| Net credit equivalent amounts | 144 |
| Credit equivalent amounts net of recognised collateral by counterparty type | |
| Sovereign | 51 |
| Public sector entity | 5 |
| Bank | 5 |
| Corporate | 75 |
| Regulatory retail | 8 |
| Other exposures which are not past due exposures | – |
| Past due exposures | – |
| | 144 |
| Risk-weighted amounts by counterparty type | |
| Sovereign | – |
| Public sector entity | 1 |
| Bank | 3 |
| Corporate | 74 |
| Regulatory retail | 6 |
| Other exposures which are not past due exposures | – |
| Past due exposures | – |
| | 84 |

There were no outstanding repo-style transactions under the standardised (credit risk) approach as at 31 December 2012.

There were no outstanding credit derivative contracts as at 31 December 2013 (2012: Nil).

## 6. Assets securitisation

The Group continues to adopt the ratings-based method under IRB approach to calculate the credit risk for both securitisation and re-securitisation exposures as an investing institution in the year 2013. Since this approach employs mapping of external credit ratings for risk weights calculations, the Group adopts the three ECAIs (Standard & Poor's, Moody's and Fitch) recognised by HKMA for this purpose.

The Group monitors the risks inherent in its securitisation assets and re-securitisation assets on an ongoing basis. The external credit ratings, assessment of the underlying assets and market prices are used for managing credit risk associated with the investment. For interest rate risk in its banking book, control measures for asset backed securities and mortgage backed securities include, but not limited to AFS EV and PVBP.

The Group has no outstanding exposures that are held with the intention of transferring exposures booked in the banking book and trading book into securitisation transactions as at 31 December 2013 and 2012.

Securitisation exposures arising from the Group's investing activities are analysed as follows:

### *6.1 Securitisation exposures*

| | **2013** | 2012 |
|---|---|---|
| | **On-balance sheet Banking Book HK$'m** | On-balance sheet Banking Book HK$'m |
| Residential mortgage loans | **703** | 1,156 |
| Commercial mortgage loans | **–** | – |
| Student loans | **79** | 172 |
| Re-securitisations | **–** | 3 |
| | **782** | 1,331 |

Reduction in securitisation exposures was due to repayments of principal.

There were no on-balance sheet securitisation exposures booked in trading book as at 31 December 2013 and 2012.

There were no off-balance sheet securitisation exposures booked in banking and trading books as at 31 December 2013 and 2012.

There were no securitisation transactions in trading book subject to the IMM approach as at 31 December 2013 and 2012.

There were no securitisation exposures that the Group has allocated a risk-weight of 1,250% as at 31 December 2013.

There were no securitisation exposures deducted from core and/or supplementary capital as at 31 December 2012.

The Group did not have credit risk mitigations which are treated as part of securitisation and re-securitisation transactions as at 31 December 2013 and 2012.

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## 6. Assets securitisation (continued)

### *6.2 Breakdown by risk-weights of the securitisation exposures (excluding re-securitisation exposures) under internal ratings-based (securitisation) approach*

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Securitisation exposures HK$'m** | **Capital requirements HK$'m** | Securitisation exposures HK$'m | Capital requirements HK$'m |
| 7% | **576** | **4** | 1,043 | 6 |
| 8% | **27** | **–** | 51 | – |
| 10% | **16** | **–** | 59 | 1 |
| 12% | **87** | **1** | 105 | 1 |
| 15% | **–** | **–** | – | – |
| 18% | **–** | **–** | – | – |
| 20% | **–** | **–** | – | – |
| 25% | **–** | **–** | – | – |
| 35% | **27** | **1** | – | – |
| 50% | **–** | **–** | – | – |
| 60% | **34** | **2** | 50 | 2 |
| 75% | **–** | **–** | – | – |
| 100% | **15** | **1** | 20 | 2 |
| 250% | **–** | **–** | – | – |
| 425% | **–** | **–** | – | – |
| 650% | **–** | **–** | – | – |
| Deducted from capital | **–** | **–** | – | – |
| | **782** | **9** | 1,328 | 12 |

Reduction in securitisation exposures and capital requirements were due to repayments of principal.

## 6. Assets securitisation (continued)

### *6.3 Breakdown by risk-weights of the re-securitisation exposures under internal ratings-based (securitisation) approach*

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Securitisation exposures HK$'m** | **Capital requirements HK$'m** | Securitisation exposures HK$'m | Capital requirements HK$'m |
| 20% | – | – | – | – |
| 25% | – | – | – | – |
| 30% | – | – | – | – |
| 35% | – | – | 3 | – |
| 40% | – | – | – | – |
| 50% | – | – | – | – |
| 60% | – | – | – | – |
| 65% | – | – | – | – |
| 100% | – | – | – | – |
| 150% | – | – | – | – |
| 200% | – | – | – | – |
| 225% | – | – | – | – |
| 300% | – | – | – | – |
| 500% | – | – | – | – |
| 650% | – | – | – | – |
| 750% | – | – | – | – |
| 850% | – | – | – | – |
| Deducted from capital | – | – | – | – |
| | – | – | 3 | – |

Reduction in securitisation exposures and capital requirements were due to repayments of principal.

### *6.4 Summary of accounting policies for securitisation exposures*

The Group held certain securitised debt securities at the end of the reporting period. They are classified and measured for accounting purpose in accordance with the Group's accounting policies as outlined in Note 2.8 "Financial assets", 2.11 "Recognition and derecognition of financial instruments", 2.12 "Fair value measurement" and 2.14 "Impairment of financial assets" to the Financial Statements. For those investments measured at fair value, further details on their valuation are outlined in Note 5.1 "Financial instruments measured at fair value" to the Financial Statements.

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## 7. Capital charge for market risk

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Under the standardised (market risk) approach | | |
| Foreign exchange exposures (net) | **–** | – |
| Interest rate exposures | | |
| – non-securitisation exposure | **50** | 117 |
| Commodity exposures | **6** | 6 |
| Equity exposures | **57** | 36 |
| Under the internal models approach | | |
| General foreign exchange and interest rate exposures | **1,216** | 747 |
| Capital charge for market risk | **1,329** | 906 |

Market risk regulatory capital charge is calculated under the Banking (Capital) (Amendment) Rules 2011 to incorporate capital charge for stressed VAR. The following table sets out the IMM VAR and stressed VAR[1] for the general market risk exposure calculated under the IMM approach of the Group.

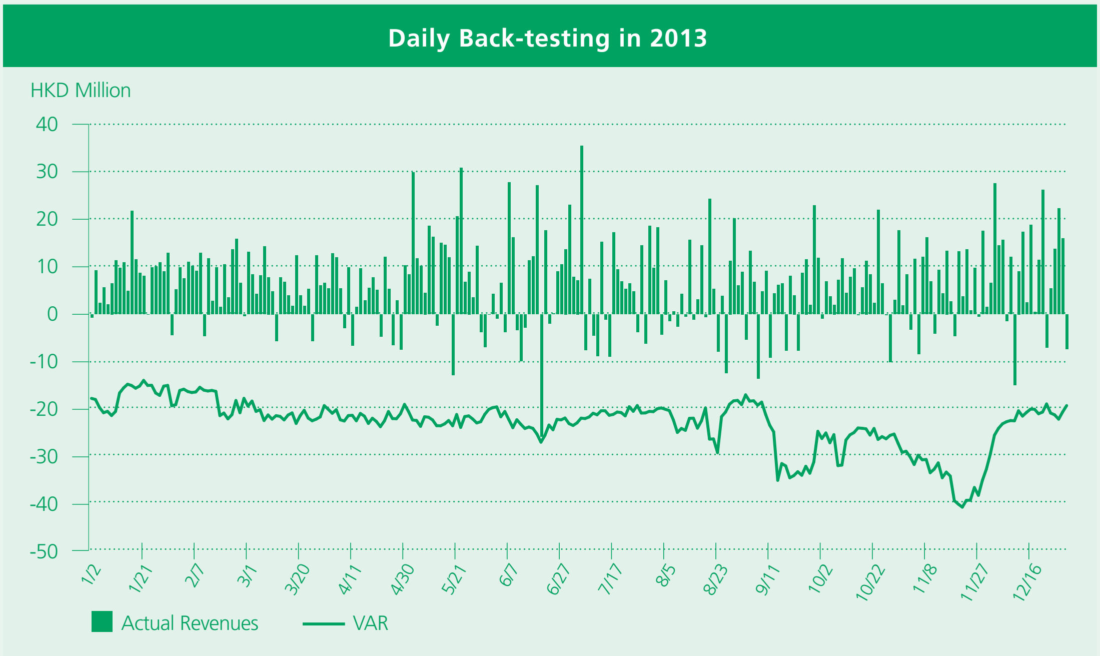
| | **Year** | **At 31 December HK$'m** | **Minimum for the year HK$'m** | **Maximum for the year HK$'m** | **Average for the year HK$'m** |
|---|---|---|---|---|---|
| IMM VAR for foreign exchange and | 2013 | 80.8 | 33.2 | 113.8 | 61.2 |
| interest rate risk | 2012 | 38.5 | 35.0 | 105.1 | 63.9 |
| IMM VAR for foreign exchange risk | 2013 | 59.2 | 17.8 | 71.7 | 40.3 |
| | 2012 | 19.7 | 16.2 | 70.1 | 36.3 |
| IMM VAR for interest rate risk | 2013 | 88.7 | 23.1 | 135.1 | 61.9 |
| | 2012 | 24.9 | 15.5 | 104.9 | 44.8 |
| Stressed VAR for foreign exchange and | 2013 | 246.6 | 203.7 | 489.4 | 338.7 |
| interest rate risk | 2012 | 221.9 | 140.7 | 334.6 | 217.4 |
| Stressed VAR for foreign exchange risk | 2013 | 171.9 | 27.2 | 195.9 | 77.4 |
| | 2012 | 25.0 | 24.3 | 73.2 | 43.2 |
| Stressed VAR for interest rate risk | 2013 | 379.3 | 190.7 | 531.9 | 371.6 |
| | 2012 | 216.9 | 133.2 | 339.1 | 218.3 |

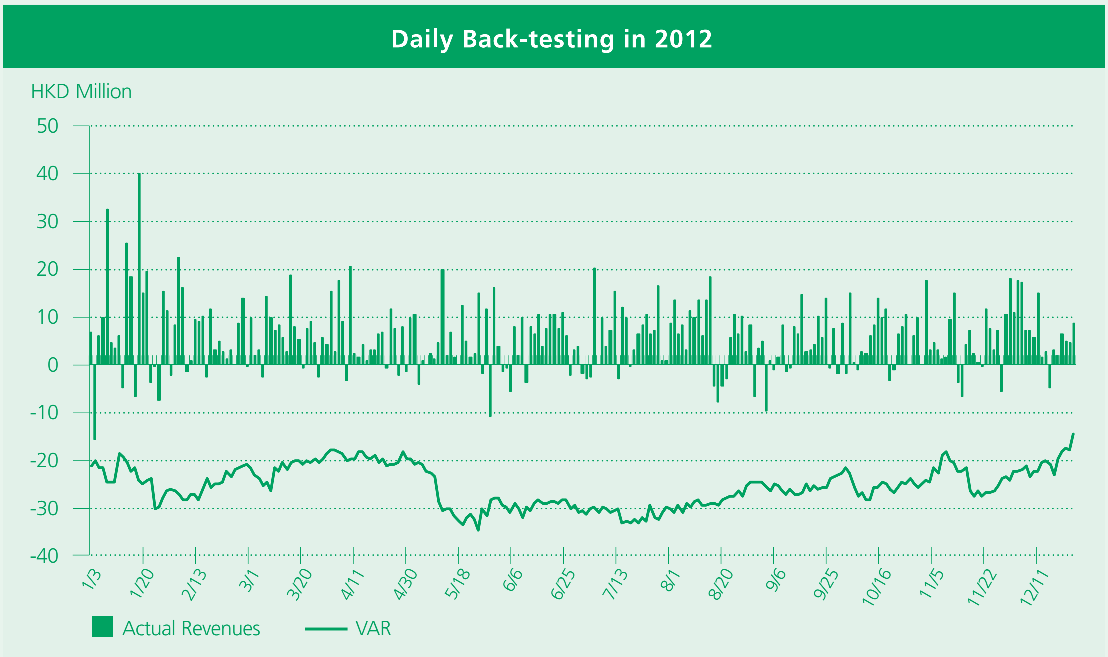
Note:

1. IMM VAR and stressed VAR measures used for market risk regulatory capital purposes are calculated to a 99% confidence level and use a 10-day holding period. The stressed VAR uses the same methodology as the VAR model and is generated with inputs calibrated to the historical market data from a continuous 12-month period of significant financial stress relevant to the Group's portfolio.

## 7. Capital charge for market risk (continued)

The graph below shows the regulatory back-testing result of the Group's market risk under IMM approach.




There was no actual loss exceeding the VAR for the Group as shown in the back-testing results.

## 8. Capital charge for operational risk

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Capital charge for operational risk | **5,038** | 4,421 |

The Group uses the standardised (operational risk) approach to calculate its operational risk capital charge.

## 9. Equity exposures in banking book

Equity holdings in other entities are accounted for in accordance with the underlying intentions of holdings at the inception of acquisition. The classifications for equity holdings taken for relationship and strategic purposes will be separated from those taken for other purposes (including capital appreciation). Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in associates, joint venture or subsidiaries, are classified as available-for-sale securities and are reported in the balance sheet as "Investment in securities".

For equity exposures in banking book other than associates, joint venture or subsidiaries, the Group applies the same accounting treatment and valuation methodologies as detailed in the Notes 2.8(4), 2.11, 2.12 and 2.14 to the Financial Statements, further details on their valuation are outlined in Note 5.1 "Financial instruments measured at fair value" to the Financial Statements. If additional investment is made subsequently such that an investee becomes an associate, joint venture or subsidiary, then the investment is reclassified in accordance with the Group's accounting policies.

Gains or losses related to equity exposures are summarised below:

| | **2013 HK$'m** | 2012 HK$'m |
|---|---|---|
| Realised gains from sales | **–** | 6 |
| Unrealised gains on revaluation recognised in reserves but not through income statement | **1,179** | 771 |

The unrealised gains included in supplementary capital for the year ended 31 December 2012 were HK$347 million.

## 10. Connected transactions

In 2013, 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 continuing connected transactions conducted pursuant to the Services and Relationship Agreement entered into among, inter alia, the Company and BOC dated 6 July 2002 (as amended and supplemented from time to time, which has been amended for a period of three years commencing 1 January 2011), whereas BOC has agreed to, and agreed to procure its Associates to, enter into all future arrangements with the Group on an arm's length basis, on normal commercial terms and at rates no less favourable than those offered to independent third parties, in relation to certain areas including, among others, information technology services, training services, physical bullion agency services, correspondent banking arrangements, treasury transactions, provision of insurance and syndicated loans, and the Company has agreed to, and agreed to procure its subsidiaries to, enter into all future arrangements on the same basis, provided that the rates offered by the Group to BOC and its Associates will be no more favourable than those offered to independent third parties. The Services and Relationship Agreement is also amended to allow for the provision of (i) call center services, cash management services and card services and other related business between BOC or its Associates and the Group; and (ii) information technology services by the Group to BOC's worldwide branches and subsidiaries. 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. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

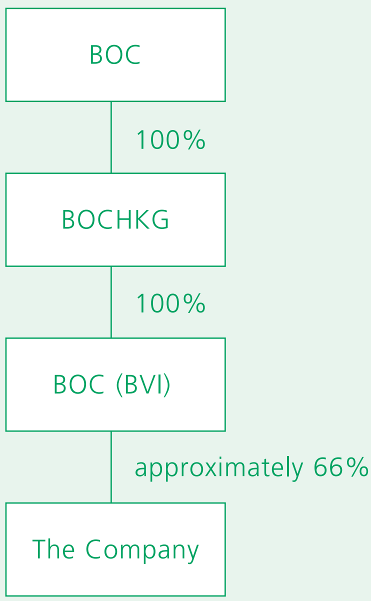
| Type of Transaction | 2013 Cap (HK$'m) | 2013 Actual Amount (HK$'m) |
|---|---|---|
| Information Technology Services | **1,000** | **58** |
| Property Transactions | **1,000** | **152** |
| Bank-note Delivery | **1,000** | **159** |
| Provision of Insurance Cover | **1,000** | **134** |
| Card Services | **1,000** | **126** |
| Custody Business | **1,000** | **38** |
| Call Center Services | **1,000** | **51** |
| Securities Transactions | **7,500** | **240** |
| Fund Distribution Transactions | **7,500** | **48** |
| Insurance Agency | **7,500** | **755** |
| Foreign Exchange Transactions | **7,500** | **319** |
| Trading of Financial Assets | **250,000** | **10,268** |
| Inter-bank Capital Markets | **250,000** | **5,673** |

## 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.

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.

## 11. Reconciliation between HKFRSs vs IFRS/CAS (continued)

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:

– restatement of carrying value of bank premises; and

– deferred taxation impact arising from the above different measurement basis.

### *(a) Restatement of carrying value of bank premises*

The Company has elected for a revaluation model rather than cost model to account for bank premises and investment properties under HKFRSs. On the contrary, BOC has elected for the cost model for bank premises and revaluation model for investment properties under IFRS and CAS. Therefore, adjustments have been made to the carrying value of bank premises as well as to re-calculate the depreciation charge and disposal gain/loss under IFRS and CAS.

### *(b) Deferred tax adjustments*

These represent the deferred tax effect of the aforesaid adjustments.

The difference in classification and measurement of certain investment securities under HKFRSs and IFRS due to the different timing in first adoption of HKFRSs and IFRS by the Group and BOC are vanished as those investment securities were all matured before 31 December 2012.

### *Profit after tax/net assets reconciliation*

**HKFRSs vs IFRS/CAS**

| | **Profit after tax** | | **Net assets** | |
|---|---|---|---|---|
| | **2013 HK$'m** | 2012 HK$'m | **2013 HK$'m** | 2012 HK$'m |
| **Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs** | **23,075** | 21,547 | **163,008** | 155,074 |
| Add: IFRS/CAS adjustments | | | | |
| Re-measurement of carrying value of treasury products | **–** | (12) | **–** | – |
| Restatement of carrying value of bank premises | **719** | 658 | **(38,515)** | (35,148) |
| Deferred tax adjustments | **(78)** | (106) | **6,383** | 5,798 |
| **Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRS/CAS** | **23,716** | 22,087 | **130,876** | 125,724 |

# 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$50,000,000 | 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 December 2009 | Units in issue HK$1,862,386,064 | 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 |
| BOCHK Asset Management Limited | Hong Kong 28 October 2010 | Ordinary shares HK$39,500,000 | 100.00% | Asset management |
| BOCHK Financial Products (Cayman) Limited | Cayman Islands 10 November 2006 | Ordinary shares US$50,000 | 100.00% | Issuing structured notes |
| BOCHK Information Technology (Shenzhen) Co., Ltd. | PRC 16 April 1990 | Registered capital HK$70,000,000 | 100.00% | Property holding and investment |
| BOCHK Information Technology Services (Shenzhen) Ltd. | PRC 26 May 1993 | Registered capital HK$40,000,000 | 100.00% | Information technology services |

## 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 |
|---|---|---|---|---|
| BOCI-Prudential Trustee Limited | Hong Kong<br>11 October 1999 | Ordinary shares<br>HK$300,000,000 | 41.10% | Trustee services |
| Che Hsing (Nominees) Limited | Hong Kong<br>23 April 1980 | Ordinary shares<br>HK$10,000 | 100.00% | Nominee services |
| Chiyu Banking Corporation (Nominees) Limited | Hong Kong<br>3 November 1981 | Ordinary shares<br>HK$100,000 | 70.49% | Investment holding |
| Grace Charter Limited | Hong Kong<br>4 May 2001 | Ordinary shares<br>HK$2 | 70.49% | Investment holding |
| G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd. | PRC<br>24 September 1993 | Registered capital<br>HK$40,000,000 | 100.00% | Property holding and investment |
| Kwong Li Nam Investment Agency Limited | Hong Kong<br>25 May 1984 | Ordinary shares<br>HK$3,050,000 | 100.00% | Investment agency |
| Nanyang Commercial Bank (China), Limited | PRC<br>14 December 2007 | Registered capital<br>RMB6,500,000,000 | 100.00% | Banking business |
| Nanyang Commercial Bank (Nominees) Limited | Hong Kong<br>22 August 1980 | Ordinary shares<br>HK$50,000 | 100.00% | Nominee services |
| Nanyang Commercial Bank Trustee Limited | Hong Kong<br>22 October 1976 | Ordinary shares<br>HK$3,000,000 | 100.00% | Trustee services |
| Po Sang Financial Investment Services Company Limited | Hong Kong<br>23 September 1980 | Ordinary shares<br>HK$95,000,000 | 100.00% | Gold trading and investment holding |
| Po Sang Futures Limited | Hong Kong<br>19 October 1993 | Ordinary shares<br>HK$95,000,000 | 100.00% | Securities and futures brokerage |
| Seng Sun Development Company, Limited | Hong Kong<br>11 December 1961 | Ordinary shares<br>HK$2,800,000 | 70.49% | Investment holding |
| Sin Chiao Enterprises Corporation, Limited | Hong Kong<br>13 September 1961 | Ordinary shares<br>HK$3,000,000 | 100.00% | Property holding and investment |
| Sin Hua Trustee Limited | Hong Kong<br>27 October 1978 | Ordinary shares<br>HK$3,000,000 | 100.00% | Trustee services |
| Sino Information Services Company Limited | Hong Kong<br>11 February 1993 | Ordinary shares<br>HK$7,000,000 | 100.00% | Information services |

# APPENDIX

## Subsidiaries of the Company (continued)

G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd. commenced winding up on 26 December 2011.

BOC Travel Services Limited commenced members' voluntary winding up on 23 November 2012.

Sin Mei (Nominee) Limited, Kincheng (Nominees) Limited, Sin Yeh Shing Company Limited, Track Link Investment Limited, Po Hay Enterprises Limited and Kiu Nam Investment Corporation Limited were dissolved on 19 January 2013.

Chung Chiat Company Limited and The China-South Sea (Nominees) Services Limited were dissolved on 23 February 2013.

Kincheng Investments & Developments (H.K.) Limited was dissolved on 21 August 2013.

# DEFINITIONS

In this Annual Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

| Terms | Meanings |
|---|---|
| "ABS" | Asset-backed Securities |
| "ADR" | American Depositary Receipt |
| "ADS(s)" | American Depositary Share(s) |
| "ALCO" | the Asset and Liability Management Committee |
| "AT1" | Additional Tier 1 |
| "ATM" | Automated Teller Machine |
| "Associates" | has the meaning ascribed to "associates" in the Listing Rules |
| "BOC" | Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively |
| "BOC (BVI)" | BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of BOCHKG |
| "BOCCC" | BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK |
| "BOCG Insurance" | Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC |
| "BOCHK Charitable Foundation" | Bank of China (Hong Kong) Limited Charitable Foundation (formerly known as the "Bank of China Group Charitable Foundation"), a charitable foundation being established in July 1994 |
| "BOCHKG" | BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC |
| "BOCHK" or "the Bank" | Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company |
| "BOCI" | BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC |
| "BOCI-Prudential Manager" | BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively |
| "BOCI-Prudential Trustee" | BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively |
| "BOCG Life" | BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively |
| "Board" or "Board of Directors" | the Board of Directors of the Company |

# DEFINITIONS

| Terms | Meanings |
|---|---|
| "CAS" | China Accounting Standards for Business Enterprises |
| "CE" | Chief Executive |
| "CET1" | Common Equity Tier 1 |
| "CFO" | Chief Financial Officer |
| "CIC" | China Investment Corporation |
| "CRM" | Credit Risk Mitigation |
| "CRO" | Chief Risk Officer |
| "CVA" | Credit Valuation Adjustment |
| "Central Huijin" | Central Huijin Investment Ltd. |
| "Chiyu" | Chiyu Banking Corporation Limited, a company incorporated under the laws of Hong Kong, in which BOCHK holds an equity interest of 70.49% |
| "DCE" | Deputy Chief Executive |
| "DVA" | Debit Valuation Adjustment |
| "EAD" | Exposure at Default |
| "ECAI(s)" | External Credit Assessment Institution(s) |
| "EL" | Expected Loss |
| "ETF" | Exchange Traded Fund |
| "EURIBOR" | Euro Interbank Offered Rate |
| "EV" | Economic Value Sensitivity Ratio |
| "FIRB" | Foundation Internal Ratings-based |
| "Fitch" | Fitch Ratings |
| "GDP" | Gross Domestic Product |
| "HIBOR" | Hong Kong Interbank Offered Rate |
| "HKAS(s)" | Hong Kong Accounting Standard(s) |
| "HKFRS(s)" | Hong Kong Financial Reporting Standard(s) |
| "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" or "HKSAR" | Hong Kong Special Administrative Region |
| "ICAAP" | Internal Capital Adequacy Assessment Process |
| "IFRS" | International Financial Reporting Standards |
| "IMM" | Internal Models |
| "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 of China" | the mainland of the PRC |
| "Medium Term Note Programme" | the medium term note programme was established by BOCHK on 2 September 2011 |
| "Moody's" | Moody's Investors Service |
| "NCB" | Nanyang Commercial Bank, Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK |
| "NCB (China)" | Nanyang Commercial Bank (China), Limited, a company incorporated under the laws of the PRC and a wholly-owned subsidiary of NCB |
| "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 |
| "OTC" | Over-the-counter |
| "PD" | Probability of Default |
| "PRC" | the People's Republic of China |
| "PVBP" | Price Value of a Basis Point |
| "QDIIs" | Qualified Domestic Institutional Investors |
| "QFII" | Qualified Foreign Institutional Investors |
| "RC" | the Risk Committee |
| "RMB" or "Renminbi" | Renminbi, the lawful currency of the PRC |
| "RMD" | the Risk Management Department |
| "RQFII" | Renminbi Qualified Foreign Institutional Investors |
| "RWA" | Risk-weighted Assets |
| "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 |
|---|---|
| "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" | 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 Wealth Management Centre | Nos. 49-51A, Sing Woo Road, Happy Valley, Hong Kong | 3982 8270 |
| Happy Valley Branch | 11 King Kwong Street, Happy Valley, Hong Kong | 2838 6668 |
| Causeway Bay Branch | 505 Hennessy Road, Causeway Bay, Hong Kong | 3982 8068 |
| Percival Street 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 |
| **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 |
| OUHK 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 |
| 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 |

# BRANCH NETWORK & CORPORATE BANKING CENTRES

## Bank of China (Hong Kong) – Branch Network (continued)

| Branch | Address | Telephone |
|---|---|---|
| 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 |
| 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 |
| 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 |
| 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 Wealth Management Centre | Shop N47-49, Mount Sterling Mall, Mei Foo Sun Chuen, Kowloon | 2742 8003 |
| Mei Foo Mount Sterling Mall Branch | 17-B 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 Wealth Management 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 |
| 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 |

# BRANCH NETWORK & CORPORATE BANKING CENTRES

## Bank of China (Hong Kong) – Branch Network (continued)

| Branch | Address | Telephone |
|---|---|---|
| **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 |
| Kin Wing Street Branch | 24-30 Kin Wing Street, Tuen Mun, New Territories | 2465 2212 |
| Venice Gardens Branch | Shop13-15, G/F Venice Gardens, Leung Tak Street, Tuen Mun, New Territories | 2455 1288 |
| Butterfly Estate Branch | Shop Nos. L187-195, Level 1, Butterfly Plaza, Tuen Mun, New Territories | 2920 5188 |
| Leung King Estate Branch | Shop No. L221 and L222, Level 2, Leung King Plaza, 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 Shing Street, 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 7T075, 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 | 24/F, Bank of China Tower, 1 Garden Road, Hong Kong | 3982 6513 |
| Hong Kong Central and West SME Centre | | |
| 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 | 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 | Room 1408, 14/F, Shatin Galleria, 18-24 Shan Mei Street, Fo Tan, Shatin, New Territories | 3982 7800 |
| Fo Tan SME Centre | | |
| 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 (Bank) | 33/F, Bank of China Tower, 1 Garden Road, Hong Kong | 2903 6666 |
| Non-Bank Financial Institutions & Public Sector | 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 |

## 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 | 3982 9984 |
| 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, 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 |
| Tsimshatsui Branch | G/F, Cheong Hing Building, 72 Nathan Road, Tsim Sha Tsui, Kowloon | 2376 3988 |
| Hunghom Branch | 69A Wuhu Street, Hunghom, 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 |
| Cheung Sha Wan Branch | G/F, 792-794 Cheung Sha Wan Road, Kowloon | 3982 9912 |
| Kowloon Bay Branch | Shop 2, G/F, Shun Fat Industrial Building, 17 Wang Hoi Road, Kowloon Bay, Kowloon | 2769 6268 |

# BRANCH NETWORK & CORPORATE BANKING CENTRES

## Nanyang Commercial Bank – Branch Network (continued)

| Branch | Address | Telephone |
|---|---|---|
| **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 | 3982 9994 |
| Sheung Shui Branch | 31 Fu Hing Street, Sheung Shui, New Territories | 3982 9995 |
| 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 |
| Tsuen Wan Market Street Branch | Shops A&B, G/F, 21-25 Tsuen Wan Market Street, Tsuen Wan, New Territories | 3982 9910 |
| Sai Kung Branch | Shop 11-12 Sai Kung Garden, Man Nin Street, New Territories | 2791 1122 |
| **Offshore** | | |
| San Francisco Branch | 505 Montgomery Street, Suite 1200, 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 0187 |
| 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 | Factory A, G/F, Lucky (Kwun Tong) Industrial Building, 398-402 Kwun Tong Road, 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, Yaumatei, 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, Shop 11-13, 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 |
| 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** | | |
| Fuzhou Branch | 1/F, International Building, 210 Wusi Road, Fuzhou, Fujian Province, China | (86-591) 8781 0078 |
| Xiamen Branch | 1/F, Unit 111-113, No 861 Xiahe Road, Xiamen, Fujian Province, China | (86-592) 585 7690 |
| Xiamen Jimei Sub-Branch | No.68-71, Lehai Bei Li, Jimei District, Xiamen, Fujian Province, China | (86-592) 619 3302 |
| Xiamen Guanyinshan Sub-Branch | Unit 1702E, 1703A, No. 9 Building, 170 Tapu East Road, Guanyinshan CBD, Xiamen, Fujian Province, China | (86-592) 599 0520 |

## Nanyang Commercial Bank (China) – Branch Network

| Branch | Address | Telephone |
|---|---|---|
| **The Mainland of China** | | |
| Head Office | Nanyang Commercial Bank Building, No.800 Century Avenue, Pudong District, Shanghai, China | (86-21) 3856 6666 |
| Shenzhen Branch | L140-142, Tower 4, Excellence Century Center, Fuhua 3rd Road, Futian District, Shenzhen, China | (86-755) 8233 0230 |
| 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, South Ren Min Road, Luohu District, Shenzhen, China | (86-755) 2515 6333 |
| Shenzhen Futian Sub-Branch | 1/F, Shen Ye Garden Club House, Caitian Road, Futian District, Shenzhen, China | (86-755) 8294 2929 |
| Shenzhen Baoan Sub-Branch | Unit 108 Xushida Garden, Xin An Si Road, Baoan District 34-2, Shenzhen, China | (86-755) 2785 3302 |
| Shenzhen Jiabin Sub-Branch | 1/F, Block C, Nanyang Mansion, No.2002 Jianshe Road, Luohu District, Shenzhen, China | (86-755) 8220 9955 |
| Shenzhen Houhai Sub-Branch | L184-185, Tiley Central Plaza II, Central Area, Nanshan District, Shenzhen, China | (86-755) 8663 6200 |
| Dongguan Sub-Branch | No.C-112, C-204, Dingfeng International Plaza, No.19 Dongguan Avenue, Dongcheng District, Dongguan, China | (86-769) 2662 6888 |
| 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 North Tianhe Road, Tianhe District, Guangzhou, China | (86-20) 3891 2668 |
| Guangzhou Panyu Sub-Branch | C001-C008 & C101-C106, No.2 West Fuhua Road, Shiqiao, Panyu District, Guangzhou, China | (86-20) 3451 0228 |
| Guangzhou Yuexiu Sub-Branch | Room 01, Huayitai Plaza, No.418 Dong Feng Zhong Road, Yuexiu District, Guangzhou, China | (86-20) 8378 2668 |
| Foshan Sub-Branch | Room 403-405 and Ground Floor P5/P6, Jinhai Plaza, No. 21 Jihua Wu Road Chancheng District, Foshan, Guangdong, China | (86-757) 8290 3368 |
| Dalian Branch | 1/F, Anho Building, No.87 Renmin Road, Dalian, China | (86-411) 3984 8888 |
| Beijing Branch | 1/F A, B, C, D Areas and 2F, Tower B, Jiacheng Plaza, 18 Xiaguangli, North Dongsanhuan Road, Chao Yang District, Beijing, China | (86-10) 5839 0888 |
| Beijing Jianguomen Sub-Branch | Level 1A, No.8B Jianguomen Wai Da Jie, Chaoyang District, Beijing, China | (86-10) 6568 4728 |
| Beijing Zhongguancun Sub-Branch | Room 105 & 106, Ground Floor, No.8 North Haidian Second Street, Haidian District, Beijing, China | (86-10) 5971 8565 |
| Beijing Wuluju Sub-Branch | No.106, 2nd Area, West Fouth Ring Road 160th, Haidian District, Beijing, China | (86-10) 8854 6868 |
| Shanghai Branch | 1/F, 2/F & M/F, Nanyang Commercial Bank Building, No.800 Century Avenue, Pudong District, 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 Zhabei Sub-Branch | Unit 102, Block 7, Daning Central Square, No.700 Wanrong Road, Zhabei District, Shanghai, China | (86-21) 5308 8888 |
| 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 West Nanjing Road, Huangpu District, Shanghai, China | (86-21) 6375 5858 |
| Hangzhou Branch | Room 101-201, Building 2, Tong Ce Square, No.3688 Jiang Nan Avenue, Binjiang District, Hangzhou, China | (86-571) 8778 6000 |
| Hangzhou Chengzhong Sub-Branch | 1-2F Guo Mao Building, No.195-1 Qingchun Road, Hangzhou, China | (86-571) 8703 8080 |
| Nanning Branch | 1/F, Kings Wealth CBD Modern Town, No.63 Jinhu Road, Nanning, China | (86-771) 555 8333 |
| Shantou Branch | G/F, No.3 Yingbin Road, Shantou, China | (86-754) 8826 8266 |
| Qingdao Branch | South Door, No.66 Nanjing Road, Qingdao, China | (86-532) 6670 7676 |
| Qingdao Economic and Technical Development Zone Sub-Branch | No.218 Middle Changjiang Road, Economic & Technical Development Zone, Qingdao, Shandong, China | (86-532) 6805 5618 |
| Qingdao Qinling Road Sub-Branch | 1-2/F, Unit 12-13, Jinling Century Garden, Xianxialing Road, Laoshan District, Qingdao, China | (86-532) 8395 0878 |
| Qingdao Chengyang Road Sub-Branch | No.192-1, Zhengyang Middle Road, Chengyang Zone, Qingdao, China | (86-532) 6776 2929 |
| Chengdu Branch | M/F, 1/F, Dong Du INTL., 70 Section 2, Middle Renmin Road, Chengdu, China | (86-28) 8628 2777 |
| Chengdu Chuangye Road Sub-Branch | No.7-9, 10-12, 13-16, 1 F, 4 Building, No.49 Chuangye Road, Hi-tech Zone, Chengdu, China | (86-28) 6155 8822 |
| Wuxi Branch | Vanke Homes, No.28 North Changjiang Road, Wuxi New District, Wuxi, China | (86-510) 8119 1666 |
| Jiangyin Sub-Branch | Building A, Kaiyue International Financial Center, 25 North Huancheng Road, Jiangyin, China | (86-510) 8187 5588 |
| Hefei Branch | Land Square Baiyue Center Building 2, No. 288 Huaining Road, Zhengwu District, Hefei, Anhui, China | (86-551) 6275 0923 |

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