

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.

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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**

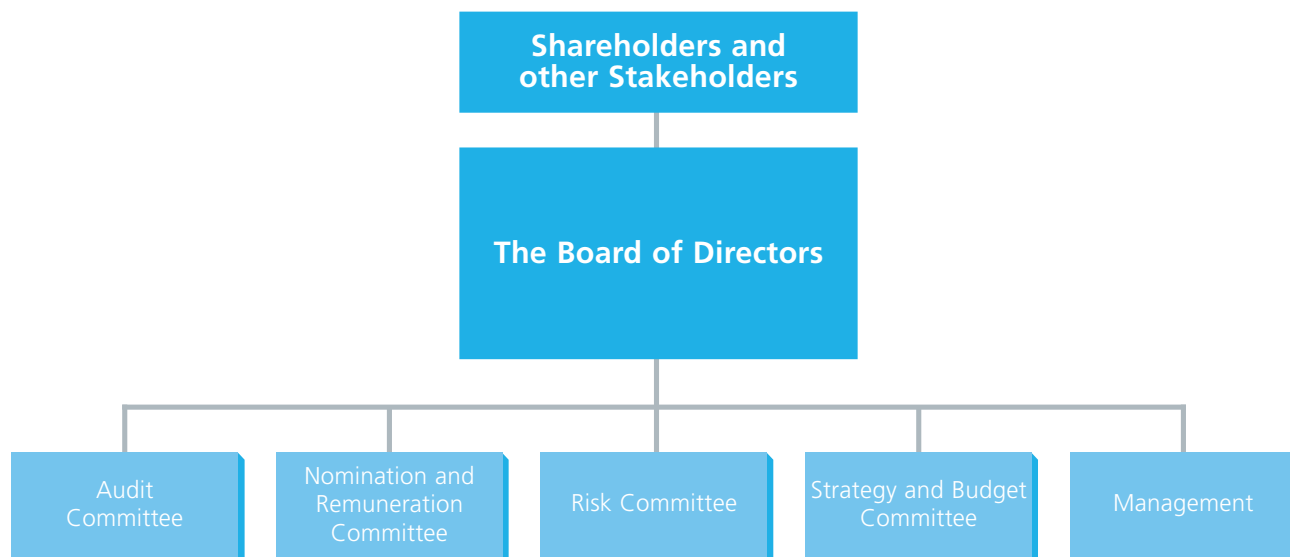
Board's Mandate. In short, the Chairman is responsible for ensuring that the Board properly discharges its responsibilities and conforms to good corporate governance practices and procedures. In addition, as the Chairman of the Board, he is also responsible for ensuring that all Directors are properly 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. Led by the Chief Executive, the Management Committee fulfils responsibilities including management of the Group's routine operation, implementation of business development strategies and realisation of the Group's long-term targets and strategies.

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.**

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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.

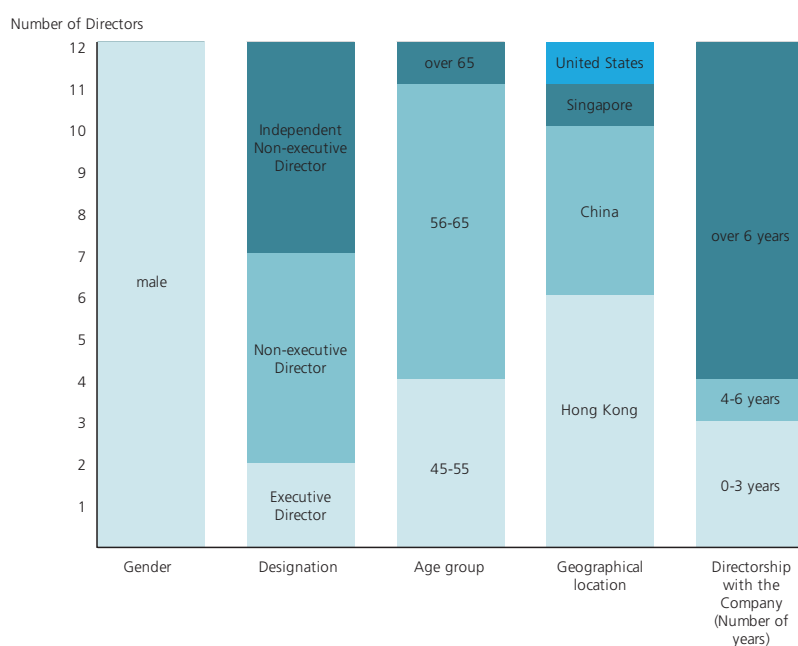
The Company recognises the importance and benefits of board diversity and formulated a Board Diversity Policy in August 2013 with a view to promoting the Board efficiency and standards of corporate governance of the Company and to be in line with the new Corporate Governance Code on board diversity came 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 aforementioned. 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.

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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.**

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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.

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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
<i>Non-executive Directors</i>			
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)	✓	✓	✓
<i>Independent Non-executive Directors</i>			
Dr FUNG Victor Kwok King	✓	✓	✓
Mr KOH Beng Seng	✓	✓	✓
Mr NING Gaoning	✓	✓	✓
Mr SHAN Weijian	✓	✓	✓
Mr TUNG Savio Wai-Hok	✓	✓	✓
<i>Executive Directors</i>			
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.

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

Directors	Number of Board meetings attended	Attendance rate
<i>Non-executive Directors</i>		
Mr TIAN Guoli (<i>Chairman</i>) (<i>Note 1</i>)	3 out of 3	100%
Mr LI Lihui (<i>Vice Chairman</i>) (<i>Note 2</i>)	6 out of 6	100%
Mr LI Zaohang	6 out of 6	100%
Mr ZHOU Zaiqun (<i>Note 3</i>)	6 out of 6	100%
Mr CHEN Siqing (<i>Note 4</i>)	5 out of 6	83%
<i>Independent Non-executive Directors</i>		
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 (<i>Note 5</i>)	3 out of 3	100%
Mr TUNG Savio Wai-Hok	6 out of 6	100%
<i>Executive Directors</i>		
Mr HE Guangbei (<i>Vice Chairman and Chief Executive</i>)	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;

CORPORATE GOVERNANCE

- 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 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 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 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 (<i>Chairman</i>)	5 out of 5	100%
Mr ZHOU Zaiqun (<i>Note</i>)	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 (<i>Note</i>)	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.

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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 (<i>Chairman</i>) (<i>Note 1</i>)	5 out of 6	83%
Mr TUNG Chee Chen (<i>Note 1</i>)	3 out of 3	100%
Mr LI Lihui (<i>Note 2</i>)	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 (<i>Note 1</i>)	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.

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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 (<i>Chairman</i>)	6 out of 6	100%
Mr LI Zaohang (<i>Note</i>)	5 out of 6	83%
Mr CHEN Siqing (<i>Note</i>)	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.

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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 (<i>Chairman</i>) (<i>Note</i>)	5 out of 5	100%
Mr HE Guangbei	5 out of 5	100%
Mr CHEN Siqing (<i>Note</i>)	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.

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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.

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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.

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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

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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.