

Corporate Governance

The Company is committed to maintaining and upholding high standards of corporate governance in order to safeguard the interests of shareholders, customers and employees. The Company abides strictly by the relevant laws and regulations in Hong Kong, and observes the rules and guidelines issued by regulatory authorities including 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. To further enhance corporate governance standard, the Company will revamp its corporate governance system and strengthen relevant measurements by referencing to market trend as well as guidelines and requirements issued by regulatory authorities.

In 2014, 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 third consecutive year for the Company to be granted with such recognised awards. The Company will continue to maintain sound corporate governance standards and procedures to ensure the completeness, transparency and quality of our information disclosure.

Corporate Governance Policy

Policy Statement

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

Essential Principles

(1) Eminent Board

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

(2) Prudent Risk Management

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

(3) Fair Remuneration System

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

(4) Effective Disclosure Mechanism

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

(5) Upholding Shareholders' Rights

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

(6) 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 Committee, the Board ensures that each Board Committee shall conduct regular self-assessment of its effectiveness, and based on the evaluation results, the Board gives such feedback, directions and guidance as may be necessary to enhance its efficiency and effectiveness.

Policy Goal

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

Corporate Governance Framework

Responsibilities of the Board and Management

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

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

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

Roles of the Chairman and the Chief Executive

To avoid concentration of power in any single individual, the positions of the Chairman and the Chief Executive are held by two different individuals. Their roles are distinct, clearly established and stipulated in the Board's Mandate. In short, the Chairman is responsible for ensuring that the Board properly discharges its responsibilities and conforms to good corporate governance practices and procedures. In addition, as the Chairman of the Board, he is also responsible for ensuring that all Directors are properly briefed on all issues

currently on hand, and that all Directors receive adequate, accurate and reliable information in a timely manner. The Chief Executive is responsible for providing leadership for the whole Management and implementing important policies and development strategies as adopted by the Board. Led by the Chief Executive, the Management Committee fulfils responsibilities including management of the Group's routine operation, implementation of business development strategies and realisation of the Group's long-term targets and strategies.

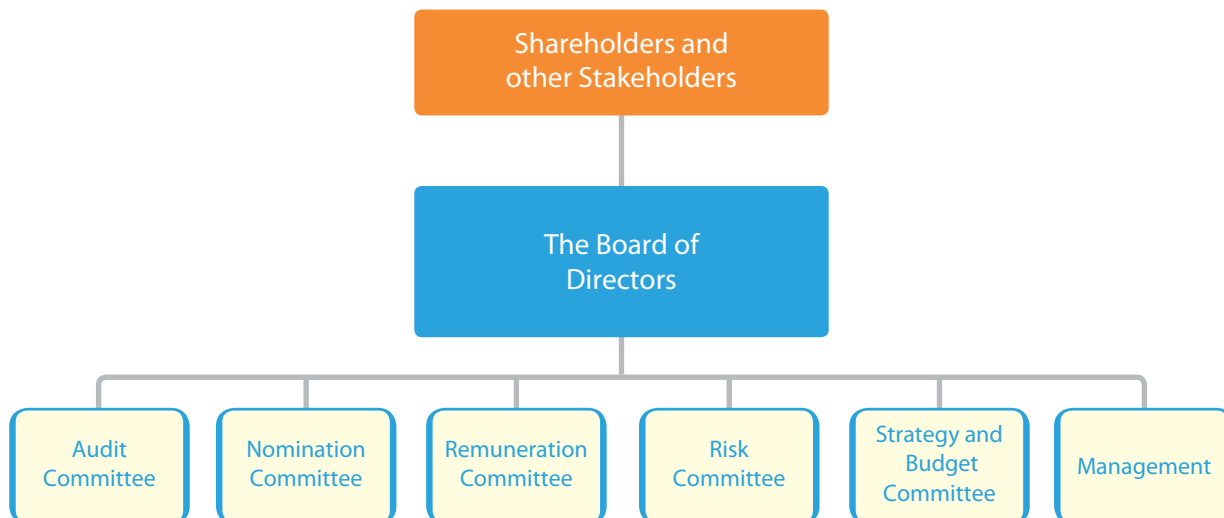
Board Committees

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

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

Corporate Governance

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



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

Board of Directors

Composition and Terms of Office of the Board

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

The Board currently has ten members, comprising four Independent Non-executive Directors, five Non-executive Directors and one Executive Director. Mr CHEN Siqing was appointed as Vice Chairman and a member of the predecessor Nomination and Remuneration Committee, ceased to be a member of each of the Risk Committee and the Strategy and Budget Committee of the Company with effect from 25 March 2014; Mr ZHU Shumin was appointed as a Non-executive Director and a member of each of the Risk Committee and the Strategy and Budget Committee of the Company with effect from 22 May 2014; Mdm CHENG Eva was appointed as an Independent Non-executive Director and a member of each of the Audit Committee and the Strategy and Budget Committee of the Company with effect from 30 October 2014; on 6 March 2015, Mr YUE Yi has been re-designated from Non-executive Director (appointed on 22 May 2014) to Executive Director, appointed as Vice Chairman and Chief Executive, ceased to be a member of the Risk Committee but remains as a member of the Strategy and Budget Committee of the Company; and Mr GAO Yingxin has been re-designated from Executive Director to Non-executive Director and appointed as a member of each of the Risk Committee and the Strategy and Budget Committee of the Company with effect from 11 March 2015.

With effect from 25 March 2014, Mr LI Lihui resigned as Vice Chairman and Non-executive Director, and ceased to be a member of the predecessor Nomination and Remuneration Committee of the Company; Mr ZHOU Zaiqun retired and ceased to be a Non-executive Director, a member of the Audit Committee and chairman of the Strategy and Budget Committee of the Company; Mr LI Zaohang was appointed as chairman of the Strategy and Budget Committee and ceased to be a member of the Risk Committee of the Company; Dr FUNG Victor Kwok King retired as an Independent Non-executive Director of the Company after the conclusion of the annual general meeting held on 11 June 2014 and ceased to be a member of each of the Audit Committee and the Strategy and Budget Committee; Mr NING Gaoning resigned as an Independent Non-executive Director and ceased to be a member of the Strategy and Budget Committee of the Company with effect from 30 October 2014; and Mr HE Guangbei resigned as Vice Chairman, Executive Director and Chief Executive and ceased to be a member of the Strategy and Budget Committee of the Company with effect from 6 March 2015. Save as disclosed above, there were no other changes to the composition of the Board and Board Committees during the year and up to the date of this Annual Report.

All the existing Non-executive Directors and Independent Non-executive Directors of the Company have been appointed for a fixed term of approximately 3 years, with formal letters of appointment setting out the key terms and conditions of their appointment. In accordance with Article 98 of the Articles of Association and pursuant to Code A.4.2 of the Corporate Governance Code, the terms of office of Mr CHEN Siqing, Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok will expire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election. Further, pursuant to the Articles of Association, any Director appointed by the Board during the year shall hold office only until the next following annual general meeting of the Company, and shall then be eligible for re-election at such meeting. Accordingly, the term of office of Mdm CHENG Eva, who had been appointed on 30 October 2014, will expire at the forthcoming annual general meeting and, being eligible, offer herself 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 Company has also established a written and formal process for the appointment of Independent Non-executive Directors to ensure that the appointment procedures are standardised, thorough and transparent.

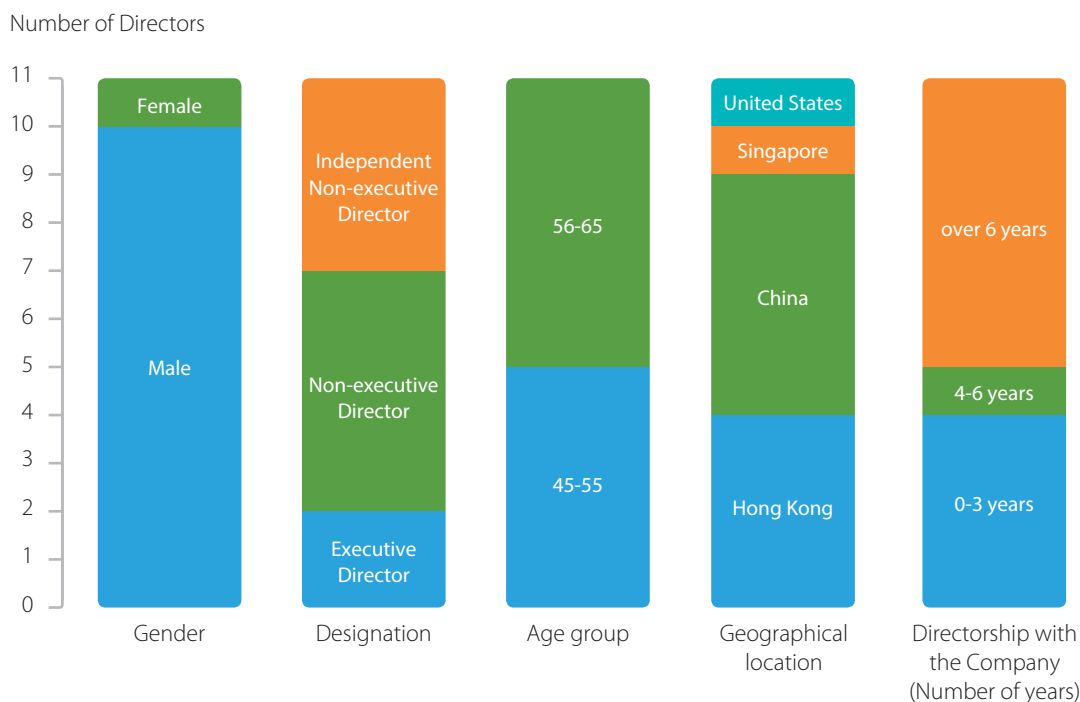
Diversity and Independence of the Board Members

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

Under the current board membership, all Directors possess extensive experience in banking and management. In addition, over one-third of them are Independent Non-executive Directors, 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" which stipulates the criteria on independence of Independent Non-executive Directors. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his/her independence by reference to the Independence Policy. Based on the information available to the Company, it considers that all of the Independent Non-executive Directors are independent. Biographical details of the professional experience, skills and knowledge of the Directors are set out in the section headed "Board of Directors and Senior Management" 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.

Corporate Governance

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



Mr TIAN Guoli, Mr CHEN Siqing and Mr LI Zaohang are Executive Directors of BOC; Mr ZHU Shumin is an Executive Vice President of BOC; Mr YUE Yi was an Executive Vice President of BOC (he resigned such position with effect from 6 March 2015); Mr LI Lihui was a Vice Chairman, Executive Director and President of BOC (he resigned such positions with effect from 28 January 2014); Mr ZHOU Zaiqun was an 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 relationships.

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

Directors' Liability Insurance Policy

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

Directors' Training and Professional Development

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

The Company also provides regular updates to Board members on material changes to regulatory requirements applicable to the Directors and the Company on a timely basis; and arranges regular meetings with the Management

to facilitate the understanding of the latest business development of the Company. In addition, Board members are encouraged to participate actively in continuous training programmes. The Company also arranges relevant professional training programmes for Board members at the Company's expense.

During the year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills in accordance with Code A.6.5 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules. In 2014, the Company invited experts to deliver seminars to the Directors and senior management

with regard to the latest supervisory requirements in anti-money laundering, market development and risk-based capital and performance management. Each of the Directors received a series of training locally or overseas as he thought fit, hosted or attended briefings, meetings, seminars and conferences organised by the Company and other organisations. Relevant training included, among others:

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

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

Directors ^{Note}	Corporate Governance	Regulatory updates	Banking industry development trend and global/national economy
Non-executive Directors			
Mr TIAN Guoli	✓	✓	✓
Mr CHEN Siqing	✓	✓	✓
Mr LI Zaohang	✓	✓	✓
Mr ZHU Shumin	✓	✓	✓
Mr YUE Yi	✓	✓	✓
Independent Non-executive Directors			
Mdm CHENG Eva	✓	✓	✓
Mr KOH Beng Seng	✓	✓	✓
Mr SHAN Weijian	✓	✓	✓
Mr TUNG Savio Wai-Hok	✓	✓	✓
Executive Directors			
Mr HE Guangbei	✓	✓	✓
Mr GAO Yingxin	✓	✓	✓

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

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

Six Board meetings were held during 2014 with an average attendance rate of 82%. The meeting schedule for the year was prepared and approved by the Board in the preceding year. In general, formal notice of Board meetings shall be sent to all Directors at least 14 days before the date of the scheduled meetings and Board agenda and meeting materials are despatched to all Board members for review at least seven days prior to the scheduled meetings. Board agenda is approved by the Chairman following consultation with other Board members and the senior management. In addition, in order to facilitate open discussion with all Non-executive Directors, 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, Board committee meetings, annual general meeting and extraordinary general meeting in 2014 are set out as follows:

Directors'	Number of meetings attended/Number of meetings convened during directors' term of office									
	Board	Board Committees						General Meeting		
		Audit Committee	Remuneration Committee ²	Nomination and Remuneration Committee ^{2,3}	Nomination Committee ^{2,3}	Remuneration Committee ²	Risk and Strategy and Budget Committee	Annual General Meeting	Extraordinary General Meeting	
Number of meetings held during the year	6	5	4	0	1	6	4	1	1	
Non-executive Directors										
TIAN Guoli (<i>Chairman</i>)	4/6	–	–	0/0	–	–	–	0/1	0/1	
CHEN Siqing (<i>Vice Chairman</i>)	6/6	–	3/3	0/0	1/1	1/1	1/1	0/1	0/1	
LI Zaohang	4/6	–	2/4	–	1/1	0/1	3/3	0/1	0/1	
ZHU Shumin	4/4	–	–	–	–	4/5	3/3	1/1	1/1	
YUE Yi	4/4	–	–	–	–	3/5	2/3	1/1	1/1	
LI Lihui (<i>former Vice Chairman</i>)	1/1	–	1/1	–	–	–	–	–	–	
ZHOU Zaiqun (<i>retired</i>)	1/1	1/1	–	–	–	–	1/1	–	–	
Independent Non-executive Directors										
CHENG Eva	1/1	1/1	–	–	–	–	1/1	–	–	
KOH Beng Seng	6/6	4/5	3/4	0/0	1/1	6/6	–	1/1	1/1	
SHAN Weijian	5/6	5/5	3/4	0/0	1/1	–	–	0/1	0/1	
TUNG Savio Wai-Hok	5/6	5/5	4/4	0/0	1/1	5/6	3/4	1/1	1/1	
FUNG Victor Kwok King (<i>retired</i>)	2/3	2/2	–	–	–	–	1/1	0/1	0/1	
NING Gaoning (<i>resigned</i>)	0/5	–	–	–	–	–	0/3	0/1	0/1	
Executive Directors										
HE Guangbei (<i>Vice Chairman and Chief Executive</i>)	6/6	–	–	–	–	–	4/4	1/1	1/1	
GAO Yingxin	6/6	–	–	–	–	–	–	1/1	1/1	
Average Attendance Rate	82%	96%	80%	N/A	100%	79%	79%	50%	50%	

Notes:

1. Please refer to the section headed "Composition and Terms of Office of the Board" under "Board of Directors" for details of changes in Directors during the year and up to the date of this Annual Report
2. The Nomination and Remuneration Committee had been re-organised into the Nomination Committee and the Remuneration Committee with effect from 30 October 2014
3. The Nomination Committee did not hold any meeting after the re-organisation of the Nomination and Remuneration Committee on 30 October 2014

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.

Board Committees

Audit Committee

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

Composition	Main duties
Mr SHAN Weijian (Chairman) Mdm CHENG Eva Mr KOH Beng Seng Mr TUNG Savio Wai-Hok	<ul style="list-style-type: none"> • 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 • corporate governance framework of the Group and implementation thereof <p>Major works performed during the year (included the review and, where applicable, approval of)</p> <ul style="list-style-type: none"> • the Company's Directors' Report and financial statements for the year ended 31 December 2013 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 2014 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 2014 and 30 September 2014 that were recommended to the Board for approval • the audit reports and report on internal control recommendations submitted by external auditor, and the on-site examination reports issued by regulators • the appointment of external auditor, the fees payable to external auditor for the annual audit, interim review and other non-audit services • the Group's audit plan for next year and key areas identified • the deployment of human resources and pay level of the Internal Audit and its budget for next year • the 2013 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.

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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 2014. 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".

Nomination and Remuneration Committee (Re-organised into the Nomination Committee and the Remuneration Committee with effect from 30 October 2014)

The predecessor Nomination and Remuneration Committee comprised five members prior to its re-organisation, including two Non-executive Directors and three Independent Non-executive Directors. Its composition, main duties and major works performed during the period are as follows:

Composition

Mr TUNG Savio Wai-Hok¹ (Chairman)
Mr CHEN Siqing²
Mr LI Zaohang²
Mr SHAN Weijian¹
Mr KOH Beng Seng¹

Main duties

- 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
- code of conduct applicable to employees

Major works performed during the period (included the approval, review and proposal to the Board)

- review and amendment on the major human resources and remuneration policies, including the succession policy for Senior Management variable pay deferral policy
- performance appraisal result of the Executive Directors and Senior Management for year 2013
- proposal on staff bonus for year 2013 and salary adjustment for year 2014 for the Group, including the Senior Management
- 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 recruitment, adjustment and appointment of Senior Management
- consideration of the matters relating to the recruitment, adjustment and appointment of directors in the Company

Notes:

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

After taking into consideration the general practices of other listed companies, and the modifications of the composition and structure of Board Committees will facilitate the fulfilment of the respective duties, implementation of effective control and enhancement on high standards of corporate governance, the Nomination and Remuneration Committee had been re-organised into the Nomination Committee and the Remuneration Committee with effect from 30 October 2014.

Nomination Committee

Following to the re-organisation, the Nomination Committee comprised five members, including two Non-executive Directors and three Independent Non-executive Directors. Its composition and main duties are as follows:

Composition	Main duties
Mr TIAN Guoli ¹ (Chairman) Mr CHEN Siqing ¹ Mr KOH Beng Seng ² Mr SHAN Weijian ² Mr TUNG Savio Wai-Hok ²	<ul style="list-style-type: none"> human resources, remuneration strategy and incentive framework of the Group selection and nomination of Directors, Board Committee members and Senior Management structure, size and composition (including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills and knowledge, etc.) of the Board and Board Committees effectiveness of the Board and Board Committees training and continuous professional development of Directors and Senior Management code of conduct applicable to employees <p>Major works performed during the period (included the approval, review and proposal to the Board)</p> <ul style="list-style-type: none"> matter relating to the appointment of Senior Management

Notes:

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

Remuneration Committee

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

Composition	Main duties
Mr TUNG Savio Wai-Hok ¹ (Chairman) Mr CHEN Siqing ² Mr LI Zaohang ² Mr SHAN Weijian ¹ Mr KOH Beng Seng ¹	<ul style="list-style-type: none"> remuneration strategy and incentive framework of the Group remuneration of Directors, Board Committee members, Senior Management and Key Personnel <p>Major tasks performed during the period (included the approval, review and proposal to the Board)</p> <ul style="list-style-type: none"> review and amendment on the major remuneration policies, include the bonus funding mechanics of NCB (China) remuneration relating to the appointment of Senior Management key performance indicators of the Group and the Senior Management for year 2015 proposal on human resources budget of the Group for year 2015

Notes:

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

Risk Committee

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

Composition

Mr KOH Beng Seng¹ (Chairman)
Mr ZHU Shumin²
Mr YUE Yi²
Mr TUNG Savio Wai-Hok¹

Main duties

- formulation of the risk appetite and risk management strategy of the Group and determination of the Group's risk profile
- identification, assessment and management of material risks faced by various business units of the Group
- review and assessment of the adequacy and effectiveness of the Group's risk management policies, 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
- review of key reports, including risk exposure reports, model development and validation reports, and credit risk model performance reports

Major works performed during the year

- approval of "BOCHK Group's Recovery Plan"
- review/approval of key risk management policies, including the "Risk Appetite Statement of BOCHK Group", the "BOCHK Group Operating Principles", the "Risk Management Policy Statement of BOCHK Group", the "Capital Management Policy", 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 2013
- review/approval of the Group's operating plans, including the Group's target balance sheets, the BOCHK's banking book investment plans and portfolio key risk indicators, as well as risk management limits
- review and monitoring of Basel Accord implementation, including review of model validation reports and model performance reports, and receiving the status reports of the allocation of risk-weighted assets
- review of various risk management reports
- review/approval of significant high risk exposures or transactions

Notes:

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

Strategy and Budget Committee

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

Composition

Mr LI Zaohang¹ (Chairman)
 Mr HE Guangbei²
 Mr ZHU Shumin¹
 Mr YUE Yi¹
 Mdm CHENG Eva³
 Mr TUNG Savio Wai-Hok³

Main duties

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

Major works performed during the year

- providing guidance and monitoring the implementation of the Group's overall business strategies. Considering the external market environment and internal development target of the coming 3 years, the Committee discussed and approved BOCHK Group's 2015-2017 Strategic Plan, which was submitted and approved by the Board eventually
- for enhancing the cooperation within the BOC Group in overseas development, it discussed the business cooperation between BOCHK and BOC Overseas Entities
- in response to the new market trend which posed new opportunities and challenges to the bank, it discussed the impact of internet finance on credit card business and the related coping strategies
- reviewed and monitored the implementation of the Group's financial budgets and business plans for 2014, and also reviewed and endorsed the financial budgets and business plans submitted by the Management for the year 2015 and recommended the same to the Board

Notes:

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

Ad Hoc Committee

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

Search Committee

The Search Committee was established in March 2014 to search for a suitably qualified candidate as an Independent Non-executive Director and a Deputy Chief Executive (Personal Banking) of the Company. The Committee was chaired by Mr TUNG Savio Wai-Hok, an Independent Non-executive Director. Its members included Mr HE Guangbei, an Executive Director, Mr CHEN Siqing and Mr LI Zaohang, Non-executive Directors and Mr KOH Beng Seng and Mr SHAN Weijian, Independent Non-executive Directors. After several rounds of selection and with the recommendation of the predecessor Nomination and Remuneration Committee, the Board resolved to appoint Mdm CHENG Eva as an Independent Non-executive Director of the Company with effect from 30 October 2014 and Mrs KUNG YEUNG Ann Yun Chi as a Deputy Chief Executive (Personal Banking) of the Company with effect from 1 March 2015 respectively.

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 2014.

Directors' Remuneration

Pursuant to the "Policy on Directors' Remuneration" adopted by the Company, when recommending the remuneration of Directors, the Remuneration Committee should benchmark against companies of comparable business type or scale, and job nature and workload at both the Board and Board

Committee levels (including frequency of meetings and nature of agenda items) in order to compensate Directors fairly. No individual Director is allowed to participate in the procedures for deciding his/her individual remuneration package. Information relating to the remuneration of each Director for 2014 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 2014, all Non-executive Directors waived their Directors' fee as mentioned above and Executive Directors did not receive any additional fees for being Chairmen or members of the Board Committees

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

Remuneration and Incentive Mechanism

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

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

- **“Senior Management” and “Key Personnel”**

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

- “Senior Management”: The senior executives designated by the Board who are responsible for oversight of the firm-wide strategy or material business lines, including Chief Executive, Deputy Chief Executives, Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, Board Secretary and Head of Group Audit.
- “Key Personnel”: The employees whose individual business activities involve the assumption of material risk which may have significant impact on risk exposure, or whose individual responsibilities are directly and materially linked to the risk management, or those who have direct influence to the profit, including heads of material business lines, heads of major subsidiaries, Head of Trading and Chief Dealers, as well as heads of risk control functions.

- **Determination of the Remuneration Policy**

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

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

1. **Performance Management Mechanism**

To reflect the “performance-driven” corporate culture, the Group has put in place a performance management mechanism to formalise the performance management at the levels of the Group, units and individuals. The annual targets of the Group will be cascaded down under the framework of balanced scorecard whereby the performance of the “Senior Management” and different units (including business units, risk control units and

other units) would be assessed from the perspectives of financial, customer, building blocks/key tasks, human capital, risk management and compliance. For individual staff at different levels, annual targets of the Group will be tied to their job requirements through the performance management mechanism. Performance of individuals will be appraised on their achievement against targets, their contribution towards performance of their units and fulfilment of risk management duties and compliance, etc. Not only is target accomplishment taken into account, but the risk exposure involved during the course of work could also be evaluated and managed, ensuring security and normal operation of the Group.

2. **Risk Adjustment of Remuneration**

To put the principle of aligning performance and remuneration with risk into practice, based on “The Risk Adjustment Method”, the key risk modifiers of 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”. The size of the variable remuneration pool of the Group is calculated according to the risk adjusted performance results approved by the Board and is subject to the Board’s discretion. This method ensures the Group to fix the Group’s variable remuneration pool after considering risk exposures and changes and to maintain effective risk management through the remuneration mechanism.

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

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

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

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

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

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

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

The vesting of the deferred variable remuneration is linked with the long term value creation of the Group. The vesting conditions are closely linked to the annual performance of the Group in the next 3 years and the individual behaviour of the staff concerned. When the Group’s performance has met the threshold requirement, the deferred variable remuneration would be vested

following the corresponding schedule. However, if a staff is found to have committed fraud, or any financial or non-financial factors used in performance measurement or variable pay determination are later proven to have been manifestly worse than originally understood in a particular year, or individual behaviour/management style pose negative impacts to the business unit and even the Group, including but not limited to improper or inadequate risk management, etc., the unvested portion of the deferred variable remuneration of the relevant staff would be forfeited.

• External Remuneration Consultant

To ensure the suitability and competitiveness of the remuneration and incentive mechanism, the Group appointed Towers Watson 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 2015 annual general meeting. Subject to shareholders’ authorisation, the Board will authorise the Audit Committee to determine the remuneration of Ernst & Young. For 2014, the fee charged by Ernst & Young was HK\$39 million, of which HK\$27 million was for audit services and HK\$12 million related to other services (mainly including tax-related and advisory services). For 2013, the fee paid by the Group to 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).

The Audit Committee was satisfied that the non-audit services in 2014 did not affect the independence of Ernst & Young. The amount paid to Ernst & Young for non-audit services in 2014 comprised mainly the tax-related services fee of approximately HK\$2 million, services fee on Foreign Account Tax Compliance Act project of approximately HK\$1 million, and other non-audit services fee of approximately HK\$9 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 2014 review have been reported to the Audit Committee and the Board.

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

- a rational organisational structure with appropriate personnel is developed and whose responsibility, authority, and accountability are clearly delineated. The Group has formulated policies and procedures to ensure reasonable checks and balances for all the operating units, reasonable safeguard for the Group's assets, the implementation of internal controls and adherence to relevant laws and regulations and risk management in its operations;
- the Management draws up and continuously monitors the implementation of the Group's strategies, business plans and financial budgets. The accounting and management systems that are in place provide the basis for evaluating financial and operational performance;
- the Group has various risk management and human resources policies. There are specific units and personnel that are responsible for identifying, assessing and managing all the major risks. These include reputation, strategic, legal, compliance, credit, market, operational, liquidity and interest rate risks (The Group's risk management is given on page 41 to page 45 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.

Corporate Governance

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 2014, 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 2014, 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 HE Guangbei (the Chairman of annual general meeting), Mr TUNG Savio Wai-Hok, the Chairman of the predecessor Nomination and Remuneration Committee, Mr KOH Beng Seng, the Chairman of the Risk Committee, and Ernst & Young, the auditor were present at the Company's 2014 annual general meeting and extraordinary general meeting held on 11 June 2014 at Grand Ballroom, The Lobby Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wan Chai, Hong Kong to respond to enquiries raised by shareholders. Mr TIAN Guoli, Mr CHEN Siqing, Mr LI Zaohang, Dr FUNG Victor Kwok King, Mr NING Gaoning and Mr SHAN Weijian were unable to attend the meeting due to other business engagements. Save as disclosed above, all other Directors including Mr ZHU Shumin, Mr YUE Yi and Mr GAO Yingxin were also present at the meeting. Resolutions passed at the Company's 2014 annual general meeting included: adoption of the Company's 2013 financial statements, declaration of 2013 final dividend, re-election of Directors, re-appointment of auditor, the grant of general mandates to the Board to issue and buy back shares of the Company and approval of the adoption of new Articles of Association 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 2013 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 2014 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 2015 annual general meeting for approval by shareholders. Further, given its commitment to high standards of corporate governance, the Board also adopted certain internal policies for the exercise of the powers granted to the Board under the general mandates to issue shares solely for cash and buy back shares. The relevant policies are summarised as follows:

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

All the resolutions proposed at the Company's 2015 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 2015 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 2015 annual general meeting in a circular to shareholders which includes introduction to the proposed resolutions to be approved at the annual general meeting, information on the retiring Directors who are eligible for re-election, information on voting and other issues relating to the 2015 annual general meeting in the form of "Frequently Asked Questions".

Constitutional Documents

During the year, shareholders of the Company approved the adoption of new Articles of Association at the annual general meeting, of which the new Articles of Association incorporated (among other things) certain key changes under the Hong Kong Companies Ordinance (Chapter 622) which came into effect on 3 March 2014. For details of the amendments to the Articles of Association, please refer to the circular dated 14 April 2014 to the shareholders of the Company.

Shareholders' Rights

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

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

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

Ordinance (Chapter 622) once a valid requisition is received.

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

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

- (a) shareholders representing at least 2.5% of the total voting rights of all the shareholders who have a relevant right to vote; or
- (b) at least 50 shareholders who have a relevant right to vote.

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

Disclosure of Information

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

Directors’ Responsibility Statement in relation to Financial Statements

The following statement should be read in conjunction with the auditor’s statement of their responsibilities as set out in the auditor’s report 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.