



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

Stock Code: 2388

Driving Excellence on New Grounds

Annual Report 2014



This version of the 2014 Annual Report will be replaced by the printed version available around mid April 2015.

Our Vision is to be
YOUR PREMIER BANK

Our Mission is to

Build customer satisfaction and provide quality and professional service

Offer rewarding career opportunities and cultivate staff commitment

Create values and deliver superior returns to shareholders

Our Core Values are

Social Responsibility We care for and contribute to our communities

Performance We measure results and reward achievement

Integrity We uphold trustworthiness and business ethics

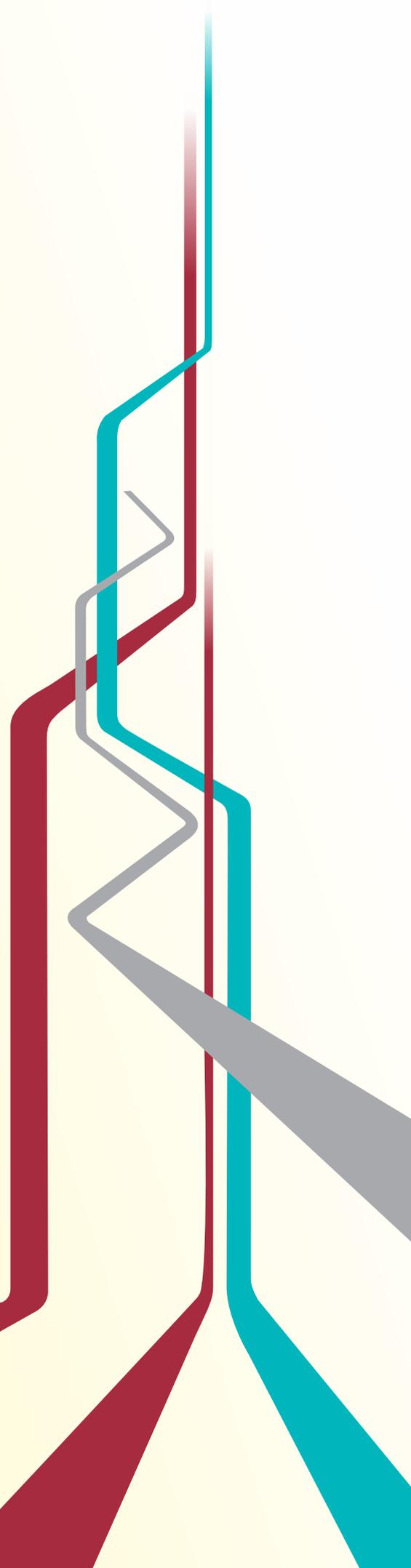
Respect We cherish every individual

Innovation We encourage creativity

Teamwork We work together to succeed

Combining the initials of mission and core values, we have

BOC SPIRIT



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

BOCHK is a leading commercial banking group in Hong Kong. With over 260 branches, more than 600 ATMs and other delivery channels in Hong Kong, BOCHK and its subsidiaries offer a comprehensive range of financial products and services to personal and corporate customers. BOCHK is one of the three note issuing banks in Hong Kong and also the Clearing Bank for Renminbi business in Hong Kong. In addition, the BOCHK Group (comprising BOCHK, Nanyang Commercial Bank and Chiyu Banking Corporation) and its subsidiaries have 42 branches and sub-branches in the Mainland of China to provide cross-border banking services to customers in Hong Kong and the Mainland.

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

Theme

2014 marked another year of success for the Group with record high results. The cover of the annual report features an illuminated Bank of China Tower to represent our ongoing pursuit of excellence and commitment to sustainable growth. This is reflected in our theme for this year’s annual report, Driving Excellence on New Grounds.

We are also committed to further enhancing the customer experience by offering the diverse range of services and products via different platforms for our personal and corporate clients.

Looking ahead, by capitalising on our solid foundation and strong franchise, the Group will be proactive in taking advantage of new opportunities to create greater value for our customers, shareholders, employees and the community. We will remain focused on Serving Society, Delivering Excellence and contributing to the enhancement of Hong Kong as an international financial hub and its long-term economic development.

Contents

Financial Highlights	2
Five-Year Financial Summary	3
Chairman’s Statement	6
Chief Executive’s Report	8
Management’s Discussion and Analysis	16
Corporate Information	48
Board of Directors and Senior Management	50
Report of the Directors	59
Corporate Governance	64
Investor Relations	85
Corporate Social Responsibility	94
Awards and Recognition	104
Financial Section	108
Appendix – Subsidiaries of the Company	292
Definitions	294
Branch Network & Corporate Banking Centres	297

Financial Highlights

	2014	2013	Change
For the year	HK\$'m	HK\$'m	+ / (-)%
Net operating income before impairment allowances	44,282	40,313	9.8
Operating profit	30,260	27,493	10.1
Profit before taxation	30,663	27,793	10.3
Profit for the year	25,105	23,075	8.8
Profit attributable to the equity holders of the Company	24,577	22,252	10.4
Per share	HK\$	HK\$	+ / (-)%
Basic earnings per share	2.3246	2.1046	10.4
Dividend per share	1.1200	1.0100	10.9
At year-end	HK\$'m	HK\$'m	+ / (-)%
Capital and reserves attributable to the equity holders of the Company	176,714	158,813	11.3
Issued and fully paid share capital	52,864	52,864	–
Total assets	2,189,367	2,046,936	7.0
Financial ratios	%	%	
Return on average total assets ¹	1.19	1.22	
Return on average shareholders' equity ²	14.65	14.37	
Cost to income ratio	29.29	29.97	
Loan to deposit ratio ³	64.79	64.63	
Average liquidity ratio ⁴	42.17	37.93	
Total capital ratio ⁵	17.51	15.80	

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

2. Return on average shareholders' equity

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

3. Loan to deposit ratio is calculated as at year end. Loan represents gross advances to customers. Deposit represents deposits from customers including structured deposits reported as "Financial liabilities at fair value through profit or loss".

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

5. Total capital ratio is computed on the consolidated basis for regulatory purposes that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.

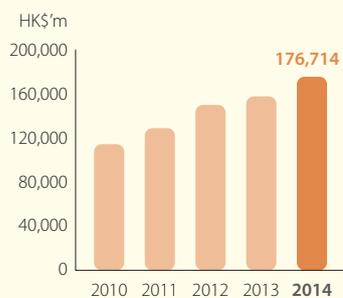
Profit attributable to the equity holders of the Company



Total assets



Capital and reserves attributable to the equity holders of the Company



Five-Year Financial Summary

The financial information of the Group for the last five years commencing from 1 January 2010 is summarised below:

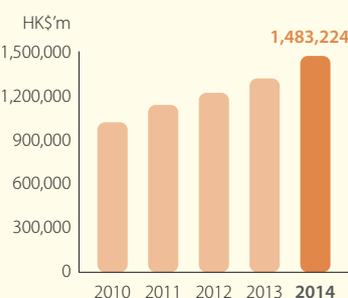
	2014	2013	2012	2011	2010
For the year	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Net operating income before impairment allowances	44,282	40,313	35,617	30,846	27,508
Operating profit	30,260	27,493	23,499	22,478	18,239
Profit before taxation	30,663	27,793	25,521	24,680	19,742
Profit for the year	25,105	23,075	21,547	20,813	16,690
Profit attributable to the equity holders of the Company	24,577	22,252	20,930	20,430	16,196
Per share	HK\$	HK\$	HK\$	HK\$	HK\$
Basic earnings per share	2.3246	2.1046	1.9796	1.9323	1.5319
At year-end	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Advances and other accounts	1,014,129	924,943	819,739	755,229	645,424
Total assets	2,189,367	2,046,936	1,830,763	1,738,510	1,661,040
Daily average balance of total assets	2,112,622	1,890,403	1,734,388	1,823,989	1,382,121
Deposits from customers ¹	1,483,224	1,327,980	1,229,131	1,146,590	1,027,267
Total liabilities	2,007,895	1,883,928	1,675,689	1,605,327	1,542,751
Issued and fully paid share capital	52,864	52,864	52,864	52,864	52,864
Capital and reserves attributable to the equity holders of the Company	176,714	158,813	150,969	129,765	115,181
Financial ratios	%	%	%	%	%
Return on average total assets	1.19	1.22	1.24	1.14	1.21
Cost to income ratio	29.29	29.97	31.61	25.49	34.84
Loan to deposit ratio	64.79	64.63	63.32	61.00	59.69

1. Deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".

Advances and other accounts



Deposits from customers





10:45

中國銀行(香港) BANK OF CHINA Login

18°C
↑ 19°C ↓ 17°C

1,500

BOC Express Cash Personal Loan, Empower your finances with integrated network

HSI

24836.76

↑ 4.00% ↑ 1.00%

Information provided by: [www.hsi.com](#)
Updated: 2015/02/23 17:59

Watchlist

Tap here to input stock code and tap + to add stock quotes displayed in homepage.

FX

Tap and hold this widget, then tap to select FX rates displayed

Nearby Branch

Fortress Hill 彌敦道

- Credit Card
- Mortgage
- Tax Loan
- Travel Insurance



Efficient e-Banking Service



Chairman's Statement



TIAN Guoli

Chairman

In 2014 we saw continued volatility in global financial markets, particularly in the last quarter of the year. The US was set to normalise its monetary policy, while weakened economic momentum in Europe and Japan prompted further quantitative easing measures. This, coupled with plummeting oil prices, heightened market anxiety. The Mainland economy grew at a more modest pace, and declining demand in Hong Kong hindered domestic GDP growth, although local residential property transactions picked up towards the year end. For Hong Kong banks, the acceleration in RMB internationalisation created new business opportunities. Against the backdrop of a complex and fast-changing environment, our financial strength enabled us to withstand the testing challenges of the year. We stepped up our efforts to capture strategic business opportunities and optimise our business structure, and focused on asset and liability management to achieve an encouraging set of results.

I am pleased to report that the Group delivered another year of record results in 2014, thanks to growth in our core businesses. Net operating income before impairment allowances increased by 9.8% year-on-year to HK\$44,282 million. Operating profit before impairment allowances increased by 10.9% to HK\$31,310 million. During the year, the Group achieved a profit attributable to the equity holders of HK\$24,577 million, a year-on-year increase of 10.4%. Earnings per share was HK\$2.3246. The Board has recommended a final dividend of HK\$0.575 per share. Together with the interim dividend of HK\$0.545 per share, the full year dividend will be HK\$1.120 per share, a rise of 10.9% year-on-year. The Group's total dividend payout as a percentage of profit attributable to the equity holders will be 48.2%. At the end of the year, we remained well-capitalised with a total capital ratio of 17.51%.

As a result of our sustainable growth strategy, our key financial indicators remained strong in 2014. We optimised our asset mix while strengthening our risk management. An appropriate balance of liquidity and capital was also well maintained. The Group's total assets grew at a healthy pace, and customer deposits and loans rose steadily. By keeping track of market developments and performing thorough credit checks, the Group maintained its benign asset quality. In recognition of our solid financial position

and record of achieving long-term profitability from our core businesses, BOCHK was named the Strongest Bank 2014 in Asia Pacific and Hong Kong by *The Asian Banker*.

Our operating philosophy has always been based on innovation and improving customer experience. During the year, we catered for the increasingly diverse needs of customers, emphasising close coordination among our business units, product innovation and an enhanced customer segmentation strategy. Our expertise in wealth management also continued to deepen, which enabled us to attract high quality customers and further elevated recognition of our brand. At the same time, we continued to take advantage of the latest trends in information technology. In order to improve the customer experience, the Group strengthened the sales capabilities of its diversified business platforms through the provision of a secure online trading platform and the launch of innovative mobile applications including a one-stop mortgage service for smartphones. In 2014, the Group maintained its market leadership in new mortgage underwriting business in Hong Kong. For the seventh consecutive year, we were honoured with the Best SME's Partner Award from the Hong Kong General Chamber of Small and Medium Business.

During 2014, Hong Kong's offshore RMB business flourished. The official launch of Shanghai-Hong Kong Stock Connect along with the further relaxation of personal RMB business in Hong Kong marked another important milestone in the offshore RMB business. Riding on the business opportunities arising from Shanghai-Hong Kong Stock Connect, the Group provided a comprehensive A shares investment service that helped customers capture investment opportunities through our multiple trading and service channels. We also took advantage of the removal of limitations announced by HKMA for Hong Kong residents on RMB currency conversions and RMB personal loan services. Following such announcement, we began providing a timely array of new products and services, including RMB mortgage loans and personal lending, which reinforced our position as the first mover in offshore RMB business.

The internationalisation of the RMB also created new opportunities for global trade, finance and investment. RMB businesses further developed by the Group during the year included cross-border

RMB settlement, loans, deposits, CNH currency exchange, insurance and credit cards. Moreover, we continued to break new ground in related businesses in the China (Shanghai) Pilot Free Trade Zone ("Shanghai Free Trade Zone") and Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone ("Qianhai"). As of today, the Group is the forerunner in cross-border RMB cash pooling in the Shanghai Free Trade Zone, which helps enterprises make more flexible use of their onshore and offshore funds. Additionally, we are providing banking services to Qianhai enterprises and financing major infrastructure construction projects in the area.

The Group continued its contributions towards the development of offshore RMB business in Hong Kong. Designated as a Primary Liquidity Provider by the HKMA for Hong Kong's offshore RMB market, we will assist in satisfying the market demand for RMB funds. As the clearing bank for RMB business in Hong Kong, we also enhanced the quality of our services by extending RMB clearing service hours from October 2014. We now offer the longest operating hours globally, covering time zones in Europe, America and Asia. Also in 2014, we gained ISO 9001:2008 for our efficient, well-managed RMB Clearing Centre, making us the first RMB Clearing Centre worldwide to achieve this accreditation.

To support our customers' global expansion plans and connect foreign customers to their Mainland counterparts, we have been reinforcing our global solution capabilities in collaboration with our parent bank, BOC, and its overseas branches. As the leading Asia-Pacific syndication loan centre in the BOC Group, we have been the top mandated arranger in the Hong Kong-Macau syndicated loan market for ten consecutive years. In 2014, we continued to help our customers meet their cross-border wealth management needs through our expertise, integrated business referral system and full range of innovative cross-border financial services. We are also well positioned to capture opportunities arising from our collaboration with the BOC Group's institutions in Guangdong, Hong Kong, and Macau as part of an orchestrated effort to win new business via our exclusive service edge.

Looking ahead to 2015, the Hong Kong banking sector faces an operating environment filled with as many opportunities as there are challenges. In many parts of the globe, the economic recovery is likely to remain uneven. Fortunately for those of us in this region, we can expect further economic integration and growing business opportunities following the acceleration of RMB internationalisation, the Mainland government's policy of One Belt, One Road, and the launch of additional Pilot Free Trade Zones in the future. Nevertheless, Hong Kong banks will have to deal with intensifying competition and comply with more stringent regulatory requirements. The liquidity coverage ratio requirement under Basel III will start to phase in from 2015, while other capital buffers will come into effect from 2016 onwards.

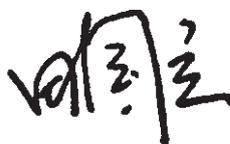
In the meantime, we will capitalise on our strong financial position and market knowledge. We will continue to strengthen our asset and liability management, introduce new service models and ride on the latest technology trends to increase our service efficiency and sales capabilities, as these will all help us achieve our long-term strategic goal of sustainable development.

On 6 March 2015, Mr HE Guangbei resigned as Vice Chairman, Executive Director and Chief Executive of the Company due to age reason while Mr YUE Yi was re-designated to succeed all of his roles. I would like to extend my sincere appreciation to Mr HE for leading the Group to achieve outstanding results over the past twelve years and establishing a solid foundation for the Group's long-term prosperity. Meanwhile, I warmly welcome Mr YUE in his new roles and trust that his broad experience in the banking industry together with his global perspective will bring us into a new era of growth for the Group.

The Board composition was changed. Mr LI Lihui resigned from his post as the Vice Chairman of the Company. Mr ZHOU Zaiqun retired as a Non-executive Director, while Dr FUNG Victor Kwok King retired and Mr NING Gaoning resigned as Independent Non-executive Directors of the Company. On behalf of the Board, I would like to extend my sincere appreciation to all of them for their valuable contributions to the Group during their tenure of service. At the same time, I would like to warmly welcome Mr CHEN Siqing, who has assumed his role as the Vice Chairman, and Mr ZHU Shumin, who has joined us as Non-executive Director, and Madam CHENG Eva was appointed as an Independent Non-executive Director of the Company. With their abundant experience in various areas, I trust they will bring new thinking to the Group. Mr GAO Yingxin was re-designated from Executive Director into Non-executive Director in March 2015 due to his other work engagement in the BOC Group.

Mr ZHUO Chengwen resigned in August 2014 as the Chief Financial Officer due to his other work engagement in the BOC Group while Madam SUI Yang succeeded him in this role on the same day. Mr YEUNG Jason Chi Wai retired as Deputy Chief Executive (Personal Banking) and Mrs KUNG YEUNG Ann Yun Chi was appointed as his successor in March 2015. The Board wishes to thank Mr ZHUO and Mr YEUNG for their contributions to the Group and welcome Madam SUI and Mrs KUNG in their new roles.

In 2014, the Group achieved another year of solid results. I would like to express my gratitude to the Board for their wise counsel, to all staff for their hard work and commitment, to our customers for their loyalty and trust, and to our shareholders for their continuous support. With our concerted efforts, I have every confidence that the Group will attain new heights and maximise shareholder value in the years ahead.



TIAN Guoli

Chairman

Hong Kong, 25 March 2015

Chief Executive's Report



YUE Yi

Vice Chairman & Chief Executive

2014 marked another year of success for the Group in terms of our business development and growth, with record high results achieved in revenue and profits. The overall operating conditions for banks in Hong Kong during the year remained challenging in a highly competitive environment with weaker demand. On the other hand, the offshore RMB markets continued to expand with the introduction of some important initiatives. We succeeded in capturing considerable business opportunities by leveraging our competitive edge in the RMB business and our close collaboration with our parent bank, Bank of China ("BOC"). In addition, we were proactive in managing our balance sheet to enhance returns and support our business development. All key financial ratios stayed sound with a solid capital and liquidity position, providing us with a strong foundation for further growth. In recognition of our solid financial position and ability to drive long-term profitability, we were named the Strongest Bank 2014 in Asia Pacific and Hong Kong by *The Asian Banker*.

The Group delivered a set of strong results, driven by the growth of its core businesses. Net operating income before impairment allowances increased by 9.8% year-on-year to HK\$44,282 million. Profit attributable to the equity holders increased by 10.4% year-on-year to HK\$24,577 million. Return on average total assets (ROA) and return on average shareholders' equity (ROE) were 1.19% and 14.65% respectively. Net interest income rose by 14.3% year-on-year to HK\$31,919 million, thanks to the expansion in both average interest-earning assets and net interest margin.

Net fee and commission income grew by 12.9% to HK\$10,122 million, mainly driven by commission income from loans, insurance, securities and funds distribution. As at 31 December 2014, total assets amounted to HK\$2,189.4 billion, up 7.0% compared with the end of 2013. Customer loans and deposits posted healthy growth of 12.0% and 11.7% respectively.

Key Initiatives and Achievements

Proactive management to enhance returns and support growth

Capital strength reinforced. In a tighter regulatory environment, we continued to deploy capital efficiently and optimise the management of risk-weighted assets when growing our business. The Group's capital adequacy level was further improved, with a total capital ratio of 17.51% and a Tier 1 capital ratio of 12.38%, both up 1.71 percentage points. Our liquidity position was also sound with the average liquidity ratio at 42.17%, up 4.24 percentage points.

Net interest margin improved. During the period, market interest rates were kept low and competition remained keen, making it difficult to improve margins. Nevertheless, our net interest margin improved by 4 basis points to 1.72%. This was attributable to our proactive balance sheet management, after taking into consideration market changes, risk exposure and capital deployment efficiency. We allocated our assets to maximise returns while controlling our deposit costs. Funds were allocated in advances to

customers, RMB bonds, balances and placements with banks, as well as high-quality corporate bonds.

Overall loan quality remained benign. In accordance with our approach of stringent risk management, we maintained our prudent credit policy and focus on customer selection. Overall loan quality remained sound, with the classified or impaired loan ratio staying at a low level of 0.31%, which was below the market average. We also closely monitored pre- and post-lending and carefully managed our exposure in the Mainland of China, where some industries were under pressure owing to slower economic growth. Certain loans by NCB (China), the Group's Mainland operation, were also affected. However, the impact was well contained as these loans only accounted for a small part of the Group's total book.

Strategic investments with continued cost discipline. Total operating expenses increased by 7.4% to HK\$12,972 million but at a slower rate than revenue growth, allowing us to achieve a cost-to-income ratio of 29.29%, down a 0.68 percentage point year-on-year. This was among the lowest in the industry. We maintained discipline in managing our expenses in order to balance profit growth and our long-term business needs. Our human resources continued to be a key area of our investment focus, as did enhancing efficiency and building new business capabilities.

Strongly positioned to capture new business opportunities

Reinforced leadership in the offshore RMB business. Riding on the robust development of offshore RMB markets, we acted decisively to capture opportunities and expanded our business scope. In the ground-breaking Shanghai-Hong Kong Stock Connect programme launched in November 2014, BOCHK was appointed as a designated bank by China Securities Depository and Clearing Corporation Limited at the Hong Kong Securities Clearing Company Limited ("HKSCC"), as well as the designated settlement bank by HKSCC for Northbound Trading. BOCHK was also designated as a Primary Liquidity Provider by the Hong Kong Monetary Authority

for facilitating more efficient liquidity management in the offshore RMB ("CNH") market. In addition, we swiftly provided customers with a comprehensive range of services to equip them for the new investment opportunities through the Shanghai-Hong Kong Stock Connect programme. All these, once again, reflected our active and important role in supporting the development of the offshore RMB market.

Remarkable progress was made across our wide range of offshore RMB businesses, with both RMB deposits and loans recording encouraging growth. We significantly increased our market share in the underwriting of dim-sum bonds and launched a series of RMB investment products that was well received by the market. Following the further relaxation of personal RMB businesses in Hong Kong, the Group introduced services such as direct RMB exchange against other currencies, RMB Currency Linked Investment, A shares margin trading as well as RMB mortgage and personal loans.

Our strong RMB franchise enabled us to successfully establish relationships with central banks and major financial institutions in overseas countries and regions. This helped us secure new business while strengthening the BOC Group's global franchise. Through our new customer relationships, we extended our global banknote distribution network to new markets in Central America, and Central and Southeast Asia and were granted a franchise in managing the Extended Custodial Inventory of a major currency, making us the first Chinese bank to qualify for this role.

As the clearing bank for offshore RMB business in Hong Kong, we continued to enhance our clearing services to support the healthy development of the offshore RMB market. We extended our RMB clearing service hours to 20.5 hours per day, making us the world's first clearing system covering time zones in Europe, America and Asia with the longest operating hours. To improve our RMB clearing efficiency, we successfully migrated to the second generation of the China National Advanced Payment System. In recognition of our comprehensive and outstanding RMB clearing services, our RMB Clearing Centre received

Chief Executive's Report

ISO 9001:2008 Certification – the first Clearing Bank for RMB business to achieve this certification globally.

Strengthened cross-border business capabilities through our synergy with BOC. With the increasing demand for cross-border banking services, we deepened our collaboration with BOC and its overseas branches in order to extend our service coverage. This has enabled us to better serve both Mainland enterprises going global and foreign enterprises expanding into the Mainland. In view of the huge potential of this business, we set up a regular cooperation mechanism with the Guangdong, Hong Kong and Macau operations of BOC for the express purpose of further enhancing the BOC Group's service capabilities in these three regions for both corporate and personal customers.

Riding on the opportunities that arose from the Shanghai Free Trade Zone, the Group successfully set up cash pooling services that facilitate two-way cash sweeping for several large corporates. We also provided cross-border RMB loans to corporates established in the zone. With our franchise in underwriting offshore RMB bonds, we supported BOC's London Branch to complete the first overseas dim-sum bond issuance by the Bank of England. Together with BOC, we continued to support the financing needs of Mainland enterprises expanding abroad. As the Asia-Pacific Syndicated Loan Centre of BOC Group, we participated in a number of significant syndicated loans for Mainland corporates in support of their overseas mergers and acquisitions. For our custody services, we expanded our customer base and established business relationships with a number of new RQFII applicants from the Mainland, Hong Kong, the Taiwan region and other countries.

Capitalising on our cooperation and referral mechanism with BOC, we continued to enhance our cross-border banking services for personal customers, especially the high-net-worth global customers. In collaboration with BOC's branches in the Mainland and overseas, we introduced a range of one-stop global cross-border banking services. In

2014, Private Banking business benefited from this effective cooperation platform to acquire customers.

A comprehensive platform for providing professional and efficient services

We provided more efficient and convenient services.

With the growth in mobile usage for accessing e-banking, we further enriched our mobile banking and payment services. During the period, we introduced applications such as an upgraded mobile banking app with a more user-friendly interface, a Mortgage Expert mobile app, and an e-Wallet for more convenient cross-border RMB/HKD mobile payments. Through our mobile apps, customers can enjoy a wide range of online banking services. These include Hong Kong's first location-based privileges service and BOC Express Cash Mobile Instant Approval service for personal loan applications. To engage with customers better, especially the younger generation, we made greater use of social media during the year. In recognition of our electronic banking platform and outstanding services, we received a number of industry awards in 2014, including Online Securities Platform of the Year – Hong Kong from *Asian Banking and Finance*, as well as other awards from local media.

Services were also improved for our corporate customers, from small businesses to large corporates. These included the continued enhancement of our Corporate Services Centre for our key customers and a streamlined application process, with a one-hour preliminary approval, to give small businesses more flexible financing solutions.

We offered more targeted wealth management services.

Recognising the significant growth potential of wealth management and Private Banking, we made use of our sophisticated customer segmentation strategy to provide more targeted products and services. The launch of Enrich Banking at the end of 2013 and the enhancement of our Wealth Management services enabled us to successfully acquire new customers and increase product penetration

for the mid- and high-end segments. We made satisfactory progress in our Private Banking business during the year by enriching private banking products and services, optimising our business platform and raising brand awareness. In 2014, the Private Banking business recorded encouraging growth in both the number of clients and assets under management.

Performance highlights by business segment

Personal Banking delivered solid growth in 2014. Net operating income before impairment allowances recorded broad-based growth with an increase of 11.0% to HK\$15,210 million. Profit before taxation recorded an increase of 15.8% to HK\$8,021 million. During the year, we maintained our leading position in new mortgage loans. We also provided a broader and timelier range of investment and insurance products and posted satisfactory growth in related fee and commission income. Our card business sustained its growth momentum, and we maintained our leadership in the UnionPay merchant acquiring business and card issuing business in Hong Kong. Wealth management and Private Banking continued to expand with satisfactory growth in customers.

Corporate Banking made encouraging progress in business expansion and recorded steady income growth. Net operating income before impairment allowances and profit before taxation grew by 2.8% to HK\$16,283 million and 0.7% to HK\$11,932 million, respectively. During the period, we successfully grew our Corporate Banking business in the local sector, captured new business opportunities and acquired new customers from financial institutions and central banks. We also continued to support the financing needs of Mainland enterprises expanding abroad through our collaboration with BOC and remained the top mandated arranger in the Hong Kong-Macau syndicated loan market. The corporate loan book grew by 12.1%, although the loan spread declined in the face of intense competition. With the

increase in cross-border activities, we provided a full range of innovative cross-border financial services to meet the diverse needs of our customers.

Treasury recorded strong growth in 2014, with net operating income before impairment allowances increasing by 27.1% to HK\$12,071 million. Profit before taxation rose by 29.7% to HK\$10,829 million. With new market opportunities created by interest rate movements, we selectively increased holdings in RMB-denominated bonds and balances and placements with banks. Average yield on the related assets rose with higher RMB market interest rates. Both of these resulted in higher net interest income, which grew by 46.7%. We also achieved solid progress in the bond underwriting business and significantly increased our market share in the underwriting of dim-sum bonds. In 2014, the Group took advantage of RMB exchange rate fluctuations and collaborated with the BOC Group, to provide value-preservation solutions to customers which led to significant growth in corporate and institution clients businesses.

The Mainland business registered solid growth in income, although profits were dragged down by higher net charge of loan impairment allowances in a challenging environment. Net operating income increased by 18.8%, driven by the growth in net interest income and net fee income. However, slower economic growth in the Mainland put further pressure on certain industries and new classified or impaired loans increased as a result. We remained focused on managing our asset quality through our prudent credit policy and close monitoring of the credit situation. During the year, we enriched our product and service offerings, such as the introduction of QDII-Overseas Fund Products, platinum credit cards, and Bancassurance business. With the start of business by NCB (China)'s Suzhou Branch and Shanghai Free Trade Zone Sub-branch in the second half of 2014, the Group's branches and sub-branches in the Mainland of China had reached a total of 42 by the end of 2014.

Chief Executive's Report

The Insurance segment experienced a decline in net operating income before impairment allowances of 35.8% to HK\$902 million, and profit before taxation decreased by 46.4% to HK\$613 million. The drop was mainly due to a higher provision for insurance liabilities as a result of declining market interest rates and the decrease in return from the equity investments portfolio. Net insurance premium income decreased as demand for RMB insurance products weakened following the devaluation of the RMB. Nevertheless, BOCG Life maintained its leading position in the RMB insurance business in Hong Kong. We also stepped up our marketing efforts by diversifying our distribution channels and establishing partnerships with brokerage houses in order to reach a wider range of customers. Additionally, we introduced a new iPad Sales Kit to our sales team, which improved communication with customers and enhanced our sales performance.

Outlook

Looking ahead, the operating environment for banks will remain challenging as the global recovery may be uncertain and divergent across different economies. On a positive note, we are encouraged by the business opportunities arising from the Mainland's deepening reform and a new round of opening up. We will be proactive in taking advantage of the opportunities associated with the One Belt, One Road initiative, the internationalisation of the RMB, Mainland enterprises going global, the development of Free Trade Zones and the enhancement of Hong Kong's status as a major hub for international financial services, trade, shipping, and the offshore RMB business. We will also deepen our collaboration with BOC to extend the geographical coverage of our business, drive innovation in financial products and services, and expand our customer base in order to sustain our business development and profit growth. In addition to this, we will remain focused on Serving Society, Delivering Excellence while making every effort to contribute to the enhancement of Hong Kong as an international financial hub and the long-term development of its economy.

Rooted in Hong Kong, we are committed to providing comprehensive financial and investment services to corporate customers, government and public institutions, with the aim of becoming the main bank for more local customers. In addition, the Group will continue its role of supporting the business development of BOC Group in Southeast Asia and will strengthen synergy in our cross-border business and other business areas in order to increase our global capabilities. We will also participate in building a financial artery for the One Belt, One Road strategy to support customer expansion in those markets. Additionally, we will leverage our core competitiveness in the offshore RMB business, cross-border business, trade services, overseas acquisition finance, syndicated loans, fund transaction business, bond issuance and underwriting business to further our global financing service capabilities. We are committed to providing quality cross-border banking services to Mainland enterprises going global as well as other regional and international enterprises.

The Group has the most extensive branch network in Hong Kong and a robust customer base. We will continue to optimise our branch network to enhance the coverage of our new concept branches and wealth management centres. We will continue to enrich our product and service portfolio to meet customers' personalised and diverse needs for financial services. To stay abreast of trends in technology and changes in the banking behaviours of our customers, we will develop our electronic channels and mobile banking in order to provide a better customer experience. Capitalising on the franchise of BOC Group's network in the Mainland of China, Hong Kong and overseas, we will enhance our service capabilities to provide integrated transaction, wealth management and investment services for personal banking customers, with the aim of building the global brand value of BOC Group.

We see emerging opportunities in the financial markets business, where the Group is also strong. To capture these opportunities, we will closely monitor market changes and new policies while staying ahead of economic trends and

changes in interest rates and exchange rates. To reinforce our competitive advantages and leading market position, we will continue to introduce new products in a timely manner and improve our innovation and trading capabilities in treasury products. As the RMB business is the Group's key strategic focus, we will capitalise on our franchise and extensive experience in this business and further develop our product and service portfolio in response to policy and market changes. We are committed to becoming the best choice for the RMB requirements of Mainland, local and overseas financial institutions, as well as corporate and personal customers.

We fully understand that we shall face challenges to our risk management in the complex external environment and meet stricter regulatory requirements. Prudent risk management will remain our primary consideration in pursuit of our business development. As a Domestic Systemically Important Authorised Institution in Hong Kong, we will diligently implement the Basel III guidelines and regulatory requirements, proactively manage capital and liquidity, and continually optimise our balance sheet mix. Our goal is to balance business growth with regulatory requirements and deliver stable shareholder returns. To ensure the healthy growth of our credit business and maintain benign asset quality better than industry average, we will strengthen our credit risk management and adhere closely to our prudent credit policy. We are also committed to strengthening our mechanisms and policies in managing the Group's market risk, operational risk and reputational risk, and will step up our efforts in anti-money laundering in accordance with the regulatory requirements. What's more, we will improve our risk management and internal controls in order to support the sustainable and healthy development of the Group.

Finally, I would like to take this opportunity to note some of the changes that have taken place in our senior management team. Mr HE Guangbei, after twelve years of service, resigned as the Vice Chairman and Chief Executive of the Group due to his age, with effect from 6 March 2015. During his years with us, he successfully led the Group in reinforcing its franchise and financial strength,

expanding its business scope and consistently delivering solid results in a fluctuating operating environment. On behalf of the Group, I would like to pay the highest tribute and express our deepest appreciation to Mr HE for his dedication and exceptional contributions. Due to other job engagements, Mr GAO Yingxin resigned as the Group's Deputy Chief Executive (Corporate Banking) this March, and Mr ZHUO Chengwen resigned as the Group's Chief Financial Officer last August. Mr YEUNG Jason Chi Wai also retired as the Group's Deputy Chief Executive (Personal Banking) this March. I would like to thank them all for their valuable contributions to the Group during their tenure with us.

I am greatly honoured to be appointed as the Vice Chairman and Chief Executive of the Group. Apart from myself, we also have two new senior management members, Madam SUI Yang, our Chief Financial Officer and Mrs KUNG YEUNG Ann Yun Chi, our Deputy Chief Executive (Personal Banking). The new management members will add new impetus to the team. The management team's extensive banking and management experience will help ensure the stability of the Group's management and drive business innovation to further our development. I would also like to take this opportunity to thank all members of the Group for their hard work and dedication, as well as our customers and shareholders for their continuous support and to our Board for their wisdom and counsel. All of their contributions have been key to the Group's success. Building on the Group's strong franchise and solid foundation of nearly 100 years in Hong Kong, my colleagues and I will remain committed to realising the Group's vision to become the Premier Bank for our stakeholders.

YUE Yi

Vice Chairman & Chief Executive

Hong Kong, 25 March 2015





Innovative RMB Service



Management's Discussion and Analysis

Financial Performance and Conditions at a Glance

The Group achieved respectable financial results in 2014. Profit attributable to the equity holders reached a new high, driven by the satisfactory growth of its core businesses. Its financial position remained strong and key financial indicators were maintained at solid levels.

Key Performance Trends

Profit Attributable to the Equity Holders



Return on Average Shareholders' Equity¹ ("ROE") and Return on Average Total Assets² ("ROA")



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



Profit attributable to the equity holders achieved a new high

- Profit attributable to the equity holders increased by 10.4% year-on-year to HK\$24,577 million, a new high since listing. Income quality further improved with continuous growth recorded in core businesses.

Solid returns with sustainable growth in core businesses

- ROE was 14.65%, up 0.28 percentage point year-on-year, as the increase in profit outpaced that of average equity.
- ROA was 1.19%.

Return to shareholders

- EPS was HK\$2.3246. DPS was HK\$1.12.

Financial Position

Loan to Deposit Ratio³



as at 31 December

Capital Ratio⁴



as at 31 December

Average Liquidity Ratio⁵



Balanced growth in advances to customers and deposits from customers

- Advances to customers increased by 12.0% while deposits from customers rose by 11.7%. The loan to deposit ratio was 64.79%.

Enhanced capital position to support business growth

- The Group adopted proactive capital management to meet more stringent regulatory requirements and capture long-term business opportunities. The total capital ratio was 17.51% while the Tier 1 capital ratio was 12.38%.

Sound liquidity position

- The average liquidity ratio stood at a sound level of 42.17%.

Key Operating Ratios

Net Interest Margin ("NIM")



Cost to Income Ratio



Classified or Impaired Loan Ratio⁶



as at 31 December

Improvement in NIM with optimised asset mix

- NIM was 1.72%, up 4 basis points year-on-year. The increase was mainly attributable to the growth in higher-yielding assets such as advances to customers, RMB bonds as well as balances and placements with banks.

Cautious cost control

- The cost to income ratio was 29.29%, down 0.68 percentage point year-on-year, which was still among the lowest in the industry.

Classified or impaired loan ratio at a low level

- The classified or impaired loan ratio stood at 0.31%, below the market average.

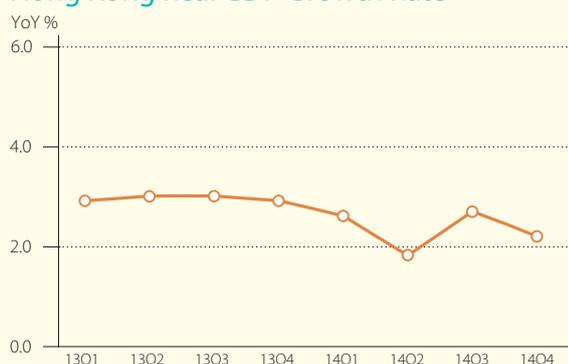
- Return on Average Shareholders' Equity as defined in "Financial Highlights".
- Return on Average Total Assets as defined in "Financial Highlights".
- Loan represents gross advances to customers while deposits from customers include structured deposits reported as "Financial liabilities at fair value through profit or loss".
- The capital ratios are computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules.
- The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the year.
- Classified or impaired loans represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

Management's Discussion and Analysis

Economic Background and Operating Environment

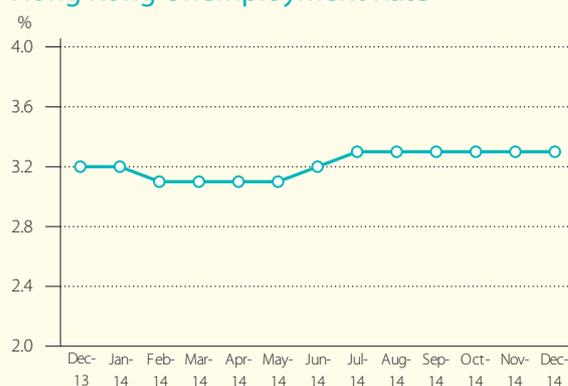
In 2014, the global economy experienced divergent growth. In the US, solid GDP growth and the improved labour market showed that the recovery was based on the economy's underlying strengths. Meanwhile, the sustainability of the growth momentum in the Eurozone remained in doubt amid growing disinflationary pressure. Divergent growth across the advanced economies resulted in different monetary policy paths being taken by the central banks. The Federal Reserve ("the Fed") in the US ended its bond purchase programme in contrast to the introduction of further monetary easing measures by the European Central Bank. In the Mainland of China, economic expansion slowed somewhat, and the Central Government introduced a series of stimulus measures to manage economic growth under the new normal.

Hong Kong Real GDP Growth Rate



Source: HKSAR Census and Statistics Department

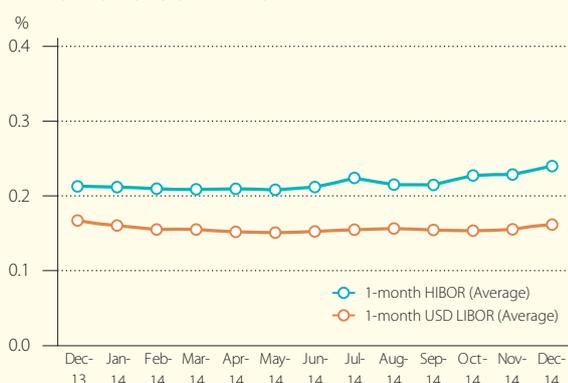
Hong Kong Unemployment Rate



Source: HKSAR Census and Statistics Department

In Hong Kong, the unemployment rate stayed at a low level. Inflationary pressure stayed moderate with the Composite CPI rising by 4.4% year-on-year in 2014. However, economic growth was sluggish owing to subdued external and domestic demand. GDP rose by 2.3% in 2014, underperforming the 2.9% rate of growth in 2013.

HIBOR and USD LIBOR



Source: Bloomberg

Overall liquidity remained strong in the Hong Kong banking sector, and market interest rates were kept at a low level. The average 1-month HIBOR rose slightly from 0.21% in 2013 to 0.22% in 2014, while average 1-month LIBOR fell from 0.19% to 0.16% over the same period. The average 10-year HKD swap rate and USD swap rate rose from 2.26% and 2.47% in 2013 to 2.53% and 2.65% respectively in 2014.

The Hong Kong stock market trended downwards in the first half of the year but rebounded in the second half on various positive factors, including indications by the Fed that it would keep interest rates low for the foreseeable future, a series of stimulus measures unveiled by Mainland Chinese authorities, and the launch of the Shanghai-Hong Kong Stock Connect. The Hang Seng Index reached the lowest point of the year at 21,182 in March and closed at 23,605 at the end of 2014, up 1.3% on a yearly basis.

The local residential property market remained static in the first quarter of the year but turned more active from the second quarter with transaction volume picking up and property prices resuming moderate growth. As a result, the level of transaction activity in 2014, in terms of the number of agreements for sale and purchase for residential building units, registered an increase over 2013. During the year, there was a year-on-year increase in the price of private domestic properties.

In 2014, the offshore RMB business in Hong Kong continued to grow at a robust pace. The total balance of RMB deposits in Hong Kong amounted to RMB1,003.6 billion at the end of 2014, representing an increase of 16.6% from 2013. The turnover of Hong Kong's RMB Real Time Gross Settlement system in 2014 also experienced substantial growth compared with 2013, reflecting a considerable rise in the use of RMB in trade, investment and financing activities. Meanwhile, a number of initiatives were introduced by regulatory authorities to promote the use of RMB globally and hasten the development of the offshore RMB business. These included the widening of the daily exchange rate trading band of onshore RMB; the release of detailed rules for the free trade account system in the China (Shanghai) Pilot Free Trade Zone ("Shanghai Free Trade Zone"); and the launch of Shanghai-Hong Kong Stock Connect. Furthermore, the HKMA announced enhancements to the operation of the RMB liquidity facility, including the extension of operating hours for the provision of overnight RMB funds and the offer of intraday RMB funds; the designation of seven banks as Primary Liquidity Providers with provision of a dedicated repo facility for each. The HKMA also removed the RMB currency conversion limit imposed on Hong Kong residents. All of these developments will help further strengthen Hong Kong's role as a premier offshore RMB centre.

The banking industry in Hong Kong continued to operate in a challenging environment in 2014. Weak external demand and keen market competition put pressure on banks' profitability, as did a number of new regulatory requirements placed on banks during the year. Nevertheless, opportunities arose for banks to expand their business and capture new customers with the introduction of new financial policies in the Mainland of China.

Outlook for 2015

Heading into 2015, the overall operating environment for banks in Hong Kong is likely to be mixed. The diverging monetary policy paths taken in the advanced economies will pose considerable uncertainties in the global economic outlook. Multi-dimensional capital flows around the world and fluctuations caused by fund flows may result in greater challenges for banks in managing their liquidity. In the Mainland of China, the slower-than-expected growth and structural economic reform may have an adverse impact on the region's growth outlook and placed increased credit risk pressures on banks' Mainland exposures. It is also expected that the growth momentum of the Hong Kong economy will remain weak and personal consumption will slow down, both of which could hinder business growth of banks. In addition, banks will have to comply with more stringent regulatory requirements on liquidity risk management following the implementation of Liquidity Coverage Ratio which came into operation on 1 January 2015.

On a more positive note, the robust development of offshore RMB markets will continue. Hong Kong, as a major offshore RMB hub, has shown its first-mover advantage both in terms of breadth and depth of RMB services, which will lead to the further expansion of this business. The preferential policies that are being piloted in the Shanghai Free Trade Zone and the further expansion of these policies to different parts of the Mainland will enable Hong Kong banks to expand their cross-border business. In addition, the Central Government's strategic initiative of "One Belt, One Road" is expected to deepen and expand the cooperation between the Mainland of China and its neighbouring countries. This, together with the accelerated pace of RMB internationalisation and the economic and financial reform in the Mainland of China will provide banks with more business opportunities.

Management's Discussion and Analysis

Consolidated Financial Review

Financial Highlights

Profit attributable to the equity holders



Net operating income before impairment allowances



HK\$m, except percentages

	2014	2013	Change (%)
Net operating income before impairment allowances	44,282	40,313	9.8
Operating expenses	(12,972)	(12,083)	7.4
Operating profit before impairment allowances	31,310	28,230	10.9
Operating profit after impairment allowances	30,260	27,493	10.1
Profit before taxation	30,663	27,793	10.3
Profit attributable to the equity holders of the Company	24,577	22,252	10.4

In 2014, the Group achieved a new high in revenues and profits. This was a reflection of the Group's sustainable growth strategy and continuous efforts to build on its franchise in core businesses. It consolidated its strong franchise in the development of the RMB business and continued to collaborate closely with BOC to expand its business and customer base while maintaining stringent risk management and credit control to safeguard asset quality. The financial position of the Group remained solid during the year, with key financial ratios at healthy levels.

The Group's net operating income before impairment allowances increased by HK\$3,969 million or 9.8% to HK\$44,282 million. The increase was driven by the rise in net interest income and net fee and commission income which both registered double-digit growth. Net interest income was up by 14.3%, as a result of the growth in advances to customers and higher-yielding RMB assets such as bonds and balances and placements with banks. Net fee and commission income increased by 12.9%. The net gain from the disposal of certain equity instruments also contributed to the increase in net operating income. The increases were partially offset by the decline in net operating income of the Group's insurance segment and lower net trading gain. Operating expenses were higher in 2014, as the Group continued to invest in long-term growth. The net charge of loan impairment allowances increased year-on-year. As a result, profit attributable to the equity holders rose by HK\$2,325 million, or 10.4%, compared with 2013.

As compared with the first half of 2014, net operating income before impairment allowances increased by HK\$984 million or 4.5% in the second half. This growth in income was mainly driven by the increase in net interest income and net fee and commission income as well as the net gain from the disposal of certain equity instruments. The increases were partly offset by the lower net trading gain. Increases were registered in both operating expenses and the net charge of loan impairment allowances. As a result, profit attributable to the equity holders rose by HK\$411 million or 3.4% on a half-on-half basis.

Factors Affecting the Group's Performance in 2014

Key factors contributing to the Group's financial performance in 2014 are outlined below:

- Maintained *healthy growth in both advances to customers and deposits from customers* with *effective management of pricing under keen market competition*.
- Stepped up *capital management* initiatives, including adjustments to the target dividend payout range in order to *strengthen capital base* and the optimisation of *risk-weighted asset management to improve capital efficiency*. Both of these initiatives enabled the Group to support long-term business growth under the Basel III capital regime.
- Enhancements of service capabilities and businesses which resulted in *a broad-based growth in net fee and commission income*.
- Proactive in capturing business opportunities from the *offshore RMB business* and enhanced the income contribution from the RMB business. The better deployment of RMB funds is one of the key factors that contributed to the rise in income.
- Further improved *operational efficiency* and achieved *a cost to income ratio that is among the lowest in the industry*.

The Group's financial performance in 2014 was also affected by the following key negative factors:

- The low market interest rates and intense market competition constrained the Group's *interest spread*.
- Slower economic growth on the Mainland put pressure on certain industries, which resulted in a *worsening of asset quality* in the Group's Mainland business and hence a *higher net charge of loan impairment allowances*.

Income Statement Analysis

Net Interest Income and Margin

HK\$m, except percentages	2014	2013	Change (%)
Interest income	47,952	39,379	21.8
Interest expense	(16,033)	(11,463)	39.9
Net interest income	31,919	27,916	14.3
Average interest-earning assets	1,860,620	1,657,215	12.3
Net interest spread	1.59%	1.58%	
Net interest margin*	1.72%	1.68%	

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

The Group's net interest income increased by HK\$4,003 million or 14.3% year-on-year, driven by both the growth in average interest-earning assets and the widening of net interest margin. Average interest-earning assets expanded by HK\$203,405 million or 12.3%, mainly supported by the increase in deposits from customers and an increase in RMB funds from the clearing bank business. Net interest margin was 1.72%, up 4 basis points compared with 2013, mainly attributable to the increase in higher-yielding assets such as advances to customers, RMB bonds and balances and placements with banks. The net interest margin was also enhanced by the increase in average yield of balances and placements with banks and RMB bonds. The positive impact was partly offset by the narrowing of the loan and deposit spread as deposit costs rose due to keen market competition.

Management's Discussion and Analysis

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

	Year ended 31 December 2014		Year ended 31 December 2013	
	Average balance HK\$'m	Average yield %	Average balance HK\$'m	Average yield %
ASSETS				
Balances and placements with banks and other financial institutions	447,579	3.08	330,475	2.60
Debt securities investments	475,037	2.43	498,493	2.15
Advances to customers	922,492	2.43	813,964	2.44
Other interest-earning assets	15,512	1.41	14,283	1.48
Total interest-earning assets	1,860,620	2.58	1,657,215	2.38
Non interest-earning assets	252,002	–	233,188	–
Total assets	2,112,622	2.27	1,890,403	2.08

	Average balance HK\$'m	Average rate %	Average balance HK\$'m	Average rate %
	LIABILITIES			
Deposits and balances from banks and other financial institutions	190,441	0.87	155,896	0.67
Current, savings and time deposits	1,361,986	0.99	1,206,583	0.82
Certificates of deposit issued	239	1.01	–	–
Subordinated liabilities	19,614	1.38	24,150	0.49
Other interest-bearing liabilities	51,794	1.18	52,375	0.89
Total interest-bearing liabilities	1,624,074	0.99	1,439,004	0.80
Non interest-bearing deposits	97,898	–	86,504	–
Shareholders' funds* and other non interest-bearing liabilities	390,650	–	364,895	–
Total liabilities	2,112,622	0.76	1,890,403	0.61

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

Second Half Performance

Compared with the first half of the year, net interest income increased by HK\$607 million, or 3.9%, to HK\$16,263 million. The increase was mainly driven by the 5.0% growth in average interest-earning assets, supported by the increase in deposits from customers.

Net interest margin was 1.69%, narrowing by 5 basis points half-on-half, mainly due to the decrease in the average yield of RMB assets caused by drop in RMB market interest rates and the increase in lower-yielding assets in short-term debt securities investments. Nevertheless, the Group was proactive in managing its assets and liabilities and was effective in controlling its deposit pricing. It increased higher-yielding assets of RMB balances and placements with banks as well as bonds. The loan and deposit spread widened. All these partly offset the above negative impact.

Net Fee and Commission Income

HK\$m, except percentages	2014	2013	Change (%)
Credit cards business	3,673	3,516	4.5
Securities brokerage	2,676	2,432	10.0
Loan commissions	2,185	1,900	15.0
Insurance	1,562	1,285	21.6
Funds distribution	1,035	821	26.1
Bills commissions	810	819	(1.1)
Payment services	604	665	(9.2)
Trust and custody services	450	387	16.3
Safe deposit box	264	244	8.2
Currency exchange	231	197	17.3
Others	515	450	14.4
Fee and commission income	14,005	12,716	10.1
Fee and commission expenses	(3,883)	(3,751)	3.5
Net fee and commission income	10,122	8,965	12.9

Net fee and commission income grew by HK\$1,157 million, or 12.9%, to HK\$10,122 million in 2014. The increase was broad-based, reflecting the Group's efforts to broaden its fee income sources through diversified businesses. Loan commissions rose by 15.0%, due mainly to higher commission income from corporate loans. Income from insurance grew by 21.6%, owing to the rise in business volume that resulted from the Group's enriched product offerings from its insurance partner. The optimisation of wealth management solutions drove the growth by 26.1% in commission income from funds distribution while the favourable market sentiment in the second half of the year led to the 10.0% increase in commission income from securities brokerage. Commission income from credit cards, trust and custody services as well as currency exchange also recorded healthy growth. However, commission income from payment services and bills declined as affected by the volume of customer transactions. The increase in fee and commission expenses was mainly caused by higher insurance, credit cards and securities brokerage related expenses.

Second Half Performance

Compared with the first half of 2014, net fee and commission income was up by HK\$492 million, or 10.2%, in the second half of the year. Market sentiment improved following the launch of Shanghai-Hong Kong Stock Connect, leading to an encouraging growth in commission income from securities brokerage. Commission income from insurance also recorded a strong growth, while income from credit cards, trust and custody services as well as currency exchange experienced continuous growth momentum from the first half. Loan and bills commissions, however, declined.

Management's Discussion and Analysis

Net Trading Gain/(Loss)

HK\$'m, except percentages	2014	2013	Change (%)
Foreign exchange and foreign exchange products	1,404	1,952	(28.1)
Interest rate instruments and items under fair value hedge	727	573	26.9
Commodities	60	91	(34.1)
Equity and credit derivative instruments	(29)	341	N/A
Net trading gain	2,162	2,957	(26.9)

Net trading gain was HK\$2,162 million, down HK\$795 million, or 26.9%, year-on-year. Net trading gain from foreign exchange and foreign exchange products dropped by HK\$548 million, primarily due to the higher net trading loss from foreign exchange swap contracts*. Net trading gain from interest rate instruments and items under fair value hedge rose by HK\$154 million, mainly attributable to the mark-to-market changes of certain debt securities caused by market interest rate movements. The decrease in net trading gain from commodities was due to the decline in bullion transactions. There was a net trading loss from equity and credit derivative instruments as opposed to a net gain in 2013, mainly due to the mark-to-market changes and the net trading loss from certain equity instruments.

Second Half Performance

Compared with the first half of 2014, net trading gain decreased by HK\$496 million, or 37.3%. This was mainly due to the increase in net trading loss from foreign exchange swap contracts* and the decrease of the mark-to-market gain of certain debt securities.

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

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

HK\$'m, except percentages	2014	2013	Change (%)
Net gain/(loss) on financial instruments designated at fair value through profit or loss	25	(159)	N/A

In 2014, the Group recorded a net gain of HK\$25 million on financial instruments designated at FVTPL, compared with a net loss of HK\$159 million in 2013. The change was mainly due to the mark-to-market changes of debt securities investments of BOCG Life, which was caused by market interest rate movements. The changes in market value of its securities portfolio were offset by the corresponding changes in policy reserves, as reflected in the changes in net insurance benefits and claims which were attributable to the movement of market interest rates.

Second Half Performance

A net gain of HK\$7 million was recorded in the second half of the year, down HK\$11 million as compared with a net gain of HK\$18 million in the first half. The decrease in net gain was mainly attributable to the mark-to-market changes of certain debt securities investments.

Operating Expenses

HK\$m, except percentages	2014	2013	Change (%)
Staff costs	7,268	6,819	6.6
Premises and equipment expenses (excluding depreciation)	1,679	1,576	6.5
Depreciation on owned fixed assets	1,829	1,663	10.0
Other operating expenses	2,196	2,025	8.4
Total operating expenses	12,972	12,083	7.4

	At 31 December 2014	At 31 December 2013	Change (%)
Staff headcount measured in full-time equivalents	14,926	14,647	1.9

Total operating expenses increased by HK\$889 million, or 7.4%, compared with 2013, reflecting the Group's continuous investments in service capabilities and new businesses. The Group remained focused on disciplined cost control while continuing to support long-term business growth.

Staff costs increased by 6.6%, mainly due to higher salaries as a result of the annual salary increment and increased headcount.

Premises and equipment expenses were up 6.5%, owing to higher rents for branches in Hong Kong and the Mainland of China, as well as higher IT costs.

Depreciation on owned fixed assets rose by 10.0% due to the larger depreciation charge on premises following the upward property revaluation in Hong Kong and on IT equipment as the Group continued to invest in IT infrastructure.

Other operating expenses were up 8.4% mainly due to higher expenses in connection with the increasing business volume and higher business taxes of NCB (China).

At the end of 2014, the total headcount measured in full-time equivalents rose by 1.9% to 14,926.

Second Half Performance

Compared with the first half of 2014, operating expenses rose by HK\$540 million, or 8.7%. The increase was due to higher staff and advertising costs, as well as depreciation and maintenance expenses in the second half of the year.

Management's Discussion and Analysis

Net Charge of Loan Impairment Allowances

HK\$m, except percentages	2014	2013	Change (%)
Net charge of allowances before recoveries			
– individual assessment	(748)	(313)	139.0
– collective assessment	(485)	(705)	(31.2)
Recoveries	202	288	(29.9)
Net charge of loan impairment allowances	(1,031)	(730)	41.2

Net charge of loan impairment allowances increased by HK\$301 million, or 41.2% from 2013.

Net charge of individually assessed impairment allowances amounted to HK\$748 million, up HK\$435 million or 139.0%, mainly caused by the downgrade of a few corporate advances due to the worsening asset quality situation in the Mainland of China.

Net charge of collectively assessed impairment allowances amounted to HK\$485 million, down HK\$220 million or 31.2%. The lower net charge in 2014 was due to the periodic update of the parameter values in the assessment model.

Recoveries amounted to HK\$202 million, down HK\$86 million or 29.9% from 2013.

Second Half Performance

Net charge of loan impairment allowances rose by HK\$277 million or 73.5% from the first half of the year. The increase was mainly caused by the downgrade of a few corporate advances extended by the Group's Mainland business.

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

	At 31 December 2014	At 31 December 2013
Loan impairment allowances		
– individual assessment	0.11%	0.10%
– collective assessment	0.37%	0.39%
Total loan impairment allowances	0.48%	0.49%

Balance Sheet Analysis

Asset Deployment

HK\$m, except percentages	At 31 December 2014		At 31 December 2013	
	Amount	% of total	Amount	% of total
Cash and balances with banks and other financial institutions	398,673	18.2	353,741	17.3
Placements with banks and other financial institutions maturing between one and twelve months	37,436	1.7	46,694	2.3
Hong Kong SAR Government certificates of indebtedness	90,770	4.2	99,190	4.8
Securities investments ¹	492,820	22.5	484,213	23.6
Advances and other accounts	1,014,129	46.3	924,943	45.2
Fixed assets and investment properties	69,766	3.2	66,955	3.3
Other assets ²	85,773	3.9	71,200	3.5
Total assets	2,189,367	100.0	2,046,936	100.0

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

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

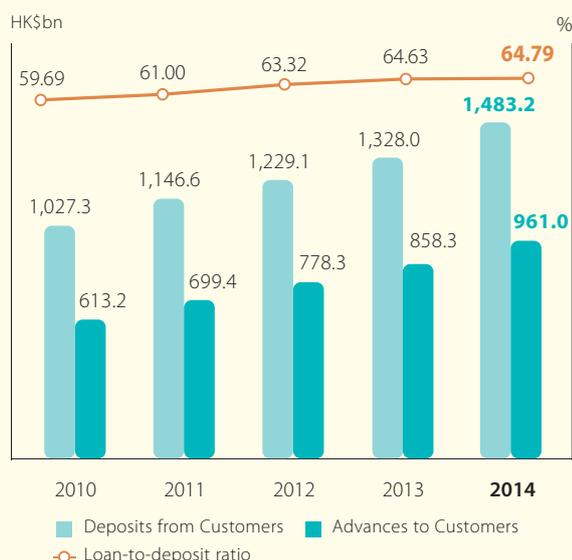
As at 31 December 2014, total assets amounted to HK\$2,189,367 million, increasing by HK\$142,431 million or 7.0% from the end of 2013. The Group proactively managed its assets and liabilities and continued to optimise asset allocation in order to enhance returns.

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

- Cash and balances with banks and other financial institutions increased by 12.7%, mainly due to the increase in balances and placements with banks relating to the Group's RMB business.
- Placements with banks and other financial institutions maturing between one and twelve months decreased by 19.8% as the Group redeployed its funds in higher-yielding assets such as advances to customers and securities investments.
- Securities investments increased by 1.8% as the Group increased its holdings in high-quality corporate bonds and RMB-denominated bonds.
- Advances and other accounts rose by 9.6%, with the growth in advances to customers by 12.0%.
- Other assets grew by 20.5%, which was led by the increase in reinsurance assets and derivative financial instruments.

Management's Discussion and Analysis

Advances to customers and deposits from customers¹



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

Advances to Customers

HK\$m, except percentages	At 31 December 2014		At 31 December 2013	
	Amount	% of total	Amount	% of total
Loans for use in Hong Kong	575,401	59.9	507,971	59.2
Industrial, commercial and financial	308,141	32.1	267,632	31.2
Individuals	267,260	27.8	240,339	28.0
Trade finance	86,316	9.0	85,413	9.9
Loans for use outside Hong Kong	299,272	31.1	264,948	30.9
Total advances to customers	960,989	100.0	858,332	100.0

The Group continued to adopt stringent risk management and focus on customer selection to achieve quality growth. Advances to customers grew by HK\$102,657 million or 12.0% to HK\$960,989 million in 2014.

Loans for use in Hong Kong grew by HK\$67,430 million or 13.3%.

- Lending to the industrial, commercial and financial sectors increased by HK\$40,509 million, or 15.1%. Lending to the property development, transport and transport equipment, wholesale and retail, manufacturing and information technology sectors grew by 18.3%, 19.4%, 15.7%, 26.6% and 22.9% respectively.
- Lending to individuals increased by HK\$26,921 million, or 11.2%. Residential mortgage loans (excluding those under the Government-sponsored home purchasing schemes) grew by 7.2%. Credit card advances rose by 6.5% while other individual loans increased by 45.3%.

Trade finance rose by HK\$903 million, or 1.1%, while loans for use outside Hong Kong increased by HK\$34,324 million, or 13.0%.

Second Half Performance

Advances to customers increased by HK\$12,285 million, or 1.3%, amid slowing loan demand in the second half of the year. The growth in loans for use in and outside Hong Kong was partly offset by the decrease in trade finance.

Loan Quality

HK\$'m, except percentages	At 31 December 2014	At 31 December 2013
Advances to customers	960,989	858,332
Classified or impaired loan ratio	0.31%	0.28%
Impairment allowances	4,616	4,235
Regulatory reserve for general banking risks	10,011	8,994
Total allowances and regulatory reserve	14,627	13,229
Total allowances as a percentage of advances to customers	0.48%	0.49%
Impairment allowances ¹ as a percentage of classified or impaired advances	38.20%	36.09%
Residential mortgage loans ² – delinquency and rescheduled loan ratio ³	0.02%	0.02%
Card advances – delinquency ratio ³	0.17%	0.18%

	2014	2013
Card advances – charge-off ratio ⁴	1.42%	1.43%

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

Classified or impaired loan ratio



* as at 31 December

The classified or impaired loan ratio was 0.31%. Classified or impaired advances to customers rose by HK\$575 million to HK\$3,008 million, mainly due to the downgrade of a few corporate advances extended by the Group's Mainland business.

Total impairment allowances, including both individual assessment and collective assessment, amounted to HK\$4,616 million. Total impairment allowances on classified or impaired advances as a percentage of total classified or impaired advances was 38.20%.

The credit quality of the Group's residential mortgage loans and card advances remained sound. The combined delinquency and rescheduled loan ratio stood at 0.02% at the end of 2014. As compared with 2013, the charge-off ratio of card advances decreased by a 0.01 percentage point to 1.42%.

Management's Discussion and Analysis

Deposits from Customers*

HK\$m, except percentages	At 31 December 2014		At 31 December 2013	
	Amount	% of total	Amount	% of total
Demand deposits and current accounts	116,361	7.8	104,784	7.9
Savings deposits	672,826	45.4	636,137	47.9
Time, call and notice deposits	690,922	46.6	583,227	43.9
	1,480,109	99.8	1,324,148	99.7
Structured deposits	3,115	0.2	3,832	0.3
Deposits from customers	1,483,224	100.0	1,327,980	100.0

* Including structured deposits

The Group maintained a flexible deposit strategy to support business growth while proactively managing deposit pricing in response to market changes. Total deposits from customers amounted to HK\$1,483,224 million at 31 December 2014, up HK\$155,244 million, or 11.7%, from the end of 2013. Demand deposits and current accounts grew by 11.0%, while savings deposits increased by 5.8%. Time, call and notice deposits also increased by 18.5%. The loan to deposit ratio was 64.79% at the end of 2014, up 0.16 percentage point from the end of 2013.

Second Half Performance

Total deposits from customers increased by HK\$42,848 million, or 3.0%, in the second half of 2014. Demand deposits and current accounts increased by 12.9%, while savings deposits went up by 8.3%. Time, call and notice deposits declined by 2.9%.

Capital and Reserves Attributable to the Equity Holders of the Company

HK\$m	At 31 December 2014	At 31 December 2013
Share capital	52,864	52,864
Premises revaluation reserve	37,510	34,682
Reserve for fair value changes of available-for-sale securities	1,930	488
Regulatory reserve	10,011	8,994
Translation reserve	778	1,051
Retained earnings	73,621	60,734
Reserves	123,850	105,949
Capital and reserves attributable to the equity holders of the Company	176,714	158,813

Capital and reserves attributable to the equity holders of the Company increased by HK\$17,901 million, or 11.3%, to HK\$176,714 million as at 31 December 2014. Retained earnings rose by 21.2%, reflecting the 2014 profit after the appropriation of dividends. The premises revaluation reserve increased by 8.2%, which was attributable to the increase in property prices in 2014. Regulatory reserve rose by 11.3%, mainly due to growth in advances to customers. Reserve for fair value changes of available-for-sale securities increased by 295.5%, due to lowering market interest rates.

Capital and Liquidity Ratio

HK\$m, except percentages	At 31 December 2014	At 31 December 2013
Consolidated capital after deductions		
Common Equity Tier 1 capital	110,440	92,112
Additional Tier 1 capital	733	894
Tier 1 capital	111,173	93,006
Tier 2 capital	46,035	44,683
Total capital	157,208	137,689
Total risk-weighted assets	897,812	871,618
Common Equity Tier 1 capital ratio	12.30%	10.57%
Tier 1 capital ratio	12.38%	10.67%
Total capital ratio	17.51%	15.80%

	2014	2013
Average liquidity ratio	42.17%	37.93%

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

In order to meet more stringent regulatory requirements and capture future business opportunities, the Group adopted proactive measures to manage its capital for sustainable growth. In 2013, the Group adjusted its target dividend payout range for the purpose of strengthening its capital base through internal retention. During the year, the Group continued to optimise the risk-weights of its assets. The Group's aim is to maintain a solid capital adequacy level to support an appropriate rate of growth.

The total capital ratio at 31 December 2014 was 17.51%, up 1.71 percentage points from that at the end of 2013. Total capital expanded by 14.2% to HK\$157,208 million, mainly due to the increase in retained earnings, the reserve for fair value changes of available-for-sale securities and premises revaluation reserve. Total risk-weighted assets were up 3.0%, mainly from changes in credit risk-weighted assets due to growth in advances to customers in 2014.

The average liquidity ratio in 2014 remained sound at 42.17%.

Management's Discussion and Analysis

Business Review

2014 Business Highlights

Personal Banking

- Maintained leading position in new residential mortgages and the UnionPay card business.
- The Group's refined customer segmentation strategy improved total relationship management. The enhanced service capability resulted in the satisfactory growth of the investment and insurance business.
- Launched comprehensive A shares investment services, and took the lead in the market with the launch of A shares margin services.
- Launched the BOCHK Credit Card WeChat official account.
- The Group received the Online Securities Platform of the Year – Hong Kong by Asian Banking and Finance and the Outstanding Retail Banking Business – Internet Banking award at the RMB Business Outstanding Awards 2014 organised by Metro Finance, Metro Finance Digital and Hong Kong Wen Wei Po for the second consecutive year.

Corporate Banking

- Remained the top mandated arranger in the Hong Kong-Macau syndicated loan market.
- Expanded the customer base and captured new business opportunities with leading enterprises from the Mainland, as well as financial institutions and central banks from overseas.
- Set up a regular co-operation mechanism among BOC Group's Guangdong, Hong Kong and Macau operations.
- Participated in a number of significant syndicated loans for Mainland enterprises in support of their overseas expansion.
- The Group received the Best SME's Partner Award for the seventh consecutive year.

Treasury

- Selectively increased investments in high-quality corporate bonds and RMB-denominated bonds.
- Launched a US commercial paper programme for enhancing liquidity management and diversifying its funding sources.
- The Group extended its global banknote distribution network to new market districts of Central America, Central and Southeast Asia and was granted a franchise in managing the Extended Custodial Inventory of a major currency.

RMB Business in Hong Kong

- Maintained leading position in cross-border trade settlement, RMB deposits, RMB insurance and currency exchange services.
- Helped corporates set up cross-border cash pooling services in RMB and underwrote cross-border RMB loans for corporates established in the Shanghai Free Trade Zone.
- Launched RMB settlement services for member institutions of UnionPay International Co. Ltd.
- Extended the RMB clearing service hours to 20.5 hours per day in order to cover time zones in Europe, America and Asia – the longest RMB clearing service hours globally.
- BOCHK was designated by the HKMA as the Primary Liquidity Provider to provide liquidity support to the market.
- BOCHK acted as a designated bank of China Securities Depository and Clearing Corporation Limited at the Hong Kong Securities Clearing Company Limited ("HKSCC"), as well as the designated settlement bank of HKSCC for northbound trading under the Shanghai-Hong Kong Stock Connect.
- Successfully migrated to the second generation of the China National Advanced Payment System in order to reinforce its RMB clearing efficiency and service capability.

Other new businesses

- The asset management business recorded encouraging growth in assets under management and expanded its geographical presence. Its BOCHK RMB High Yield Bond Fund was redomiciled to Luxemburg, allowing the fund to be distributed in Europe. The fund was awarded the Best RMB Bonds, Offshore, Three Years by Asia Asset Management for its 2014 Best of the Best Awards. Meanwhile, BOCHK AM was named the Best RMB Manager by Asia Asset Management under the same award. It also received the Best in Class RMB Fixed Income in the BENCHMARK Fund of the Year Award 2014.
- Further expanded the custody business and client base and remained one of the largest RQFII service providers in Hong Kong.
- Cash management services won the Achievement Award for Best Cash Management Bank in Hong Kong by The Asian Banker for two consecutive years in a row, as well as the Hong Kong Domestic Cash Management Bank of the Year in 2014 awarded by Asian Banking and Finance.
- The private banking business enriched its product and service offering and stepped up collaboration with BOC's branches in the Mainland and overseas to provide cross-border services.

Business Segment Performance

Profit before Taxation by Business Segments

HK\$m, except percentages	2014	% of total	2013	% of total
Personal Banking	8,021	26.2	6,926	24.9
Corporate Banking	11,932	38.9	11,844	42.6
Treasury	10,829	35.3	8,347	30.0
Insurance	613	2.0	1,144	4.1
Others	(732)	(2.4)	(468)	(1.6)
Total profit before taxation	30,663	100.0	27,793	100.0

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

Personal Banking

Financial Results

Personal Banking recorded an increase of HK\$1,095 million, or 15.8%, in profit before taxation in 2014 compared with the previous year. The growth was mainly attributable to the increases in net interest income and net fee and commission income as well as the net gain from the disposal of certain equity instruments. The increase was, however, partly offset by the lower net trading gain and higher operating expenses.

Net interest income increased by 6.9%. This was mainly driven by the improvement in the deposit spread coupled with the increase in the average balance of deposits and loans.

Net fee and commission income rose by 13.5%. This robust growth was attributable to the higher income from insurance, securities brokerage, funds distribution and credit cards.

During the year, the Group captured market opportunities to dispose of certain equity instruments and realised a net gain.

Net trading gain declined by 31.6%, mainly caused by mark-to-market changes of equity instruments and a lower net gain from foreign exchange related products.

Business operations

The Group's Personal Banking business continued to achieve steady growth in 2014. It maintained its leading position in new mortgage loans and registered satisfactory growth in fee and commission income from funds distribution, insurance and securities brokerage. It also maintained its market leadership position in the UnionPay card business. During the year, the Group's refined customer segmentation strategy, including Wealth Management for customers with wealth management needs; Enrich Banking for mid-segment customers and i-Free Banking for the younger generation of clientele, resulted in the building of stronger relationships with customers. With its tailored sales and promotional campaigns targeted at different customer segments, the Group developed a competitive edge in cross-border services that resulted in the expansion of its client base and an improved customer mix.

Management's Discussion and Analysis

Maintaining its market leadership in residential mortgages

In 2014, despite a slowdown in the first quarter, residential property market activities picked up from the second quarter of the year. By developing its strategic initiatives on market conditions and pricing, the Group maintained its leadership position in new residential mortgage loans. These included the launch of the Mortgage Expert mobile application, a one-stop mortgage service, including the first of its kind property valuation alert service that provides upside and downside triggers, mortgage application review and application appointment services. The Group also introduced new mortgage insurance business partners to strengthen its sales channel network. Meanwhile, it continued its mortgage top-up and re-financing promotions in order to provide an extensive range of products and services across all channels. In addition, with the launch of HKMA's new measures on the personal RMB business in Hong Kong, the Group rolled out the first of its kind RMB mortgage loan service to Hong Kong residents to reinforce the Group's RMB lending business.

Satisfactory growth in the investment and insurance businesses

Investment and insurance businesses registered encouraging performance with satisfactory growth in commission income from securities brokerage, funds distribution and insurance. Through the Group's Securities Club and promotion of Family Securities Accounts, it was able to increase the number of new accounts during the year. In order to strengthen investor education before the launch of Shanghai-Hong Kong Stock Connect, the Group took a leadership role in the market and launched an A Shares Information Web Page, providing free A share stock quotes and information. The Group also held customer seminars in Hong Kong and the Mainland of China to widen customers' understanding of these two stock markets. With the official launch made in November, the Group also became one of the first banks to provide A share-related services by enabling customers to trade in A shares and conduct RMB exchange transactions conveniently through multiple trading channels, including internet banking, a trading hotline and the Group's branches. In addition, the Group took the lead in the market to launch A shares margin services and various promotional campaigns were launched to acquire new customers and stimulate customer activity and securities turnover.

In the funds distribution business, the Group continued to broaden its product offerings. A number of currency-hedged funds including RMB and AUD were introduced to meet customers' investment needs. Based on customer research, the Group provided time-to-market products and launched themed marketing campaigns that led to an encouraging growth in commission income from funds distribution over the previous year.

In the Bancassurance business, the Group continued to maintain its leading position in the Hong Kong RMB insurance market and developed appropriate product bundles to meet customers' needs. The Group also ran a series of marketing campaigns to reinforce the Group's brand image. Insurance commission income grew satisfactorily, with increased contribution from whole-life insurance and annuity products.

A recognised leader in the UnionPay card business

With the Group's credit card business sustaining its growth momentum in 2014, it maintained its leadership in the UnionPay merchant acquiring business and card issuing business in Hong Kong. The BOCHK e-Wallet – Mobile Payment Services introduced in 2013 was further extended to support UnionPay QuickPass payment. This was the first such service in the market allowing customers to enjoy cross-border dual-currency mobile payment. The Group also introduced a mobile application to reach out to customers. Additionally, the Group launched BOCHK Credit Card WeChat official account and introduced the BOC Express Cash Mobile Instant Approval service, which allows customers to apply for personal loans and receive instant approvals. With UnionPay International Co. Ltd., the Group launched a new premium credit card, the BOC CUP Dual Currency Diamond Card, with enhanced services for affluent cardholders.

A growing customer base for its wealth management services

During the year, the Group continued to focus on customer segmentation in order to promote total relationship management and provide more targeted products and personalised services that meet customers' needs. Targeting potential customers for Wealth Management and Enrich Banking, the Group rolled out a large-scale marketing programme to strengthen brand awareness and create a better customer experience. Satisfactory growth was recorded in terms of number of customers and the related Total Relationship Balance.

The Group's Private Banking business continued to make good progress during the year by enriching designated private banking products and services, optimising its business platform and raising brand awareness. The Group also introduced designated share trading and estate planning services as well as treasury and RMB-related products. In addition, it offered portfolio lending and premium financing to provide additional liquidity for customers. In collaboration with BOC's branches in the Mainland and overseas, the Group introduced a range of one-stop global cross-border banking services. As a result, it achieved encouraging growth in both the number of Private Banking clients and their assets under management.

Improved electronic banking

In 2014, the Group continued to optimise its distribution channels to meet the needs of customers. At the end of 2014, the Group's service network in Hong Kong comprised 262 branches, including 134 wealth management centres. It added to this network by expanding the number of automated banking channels in terms of coverage points and facilities. Other service improvements included the launch of a brand new mobile application, upgraded mobile banking and 24-hour Online Chat service at its call centres for Wealth Management customers. In recognition of its well-received electronic platform and outstanding services, the Group received various industry awards during the year.

Corporate Banking

Financial Results

Corporate Banking recorded a growth of HK\$88 million, or 0.7%, in profit before taxation. Both net interest income and net fee and commission income increased. The increase was, however, partly offset by the higher net charge of loan impairment allowances.

Net interest income rose by 1.6%, mainly driven by the improvement in deposit spread coupled with the increase in average balance of loans and deposits. The growth was partly offset by the decline in loan spread amid keen market competition.

Net fee and commission income increased by 7.2%, largely led by the growth in commission income from loans and trust services.

Net charge of loan impairment allowances was up 45.9%, mainly due to the higher net charge of individually assessed impairment allowances incurred by the Group's Mainland business.

Business operations

The Group's Corporate Banking business continued to grow in the local sector while its cohesive relationship with BOC enabled the Group to capture the increasing demand for cross-border banking services from BOC Group's customers around the globe. Together with BOC, the Group continued to support the financing needs of Mainland enterprises expanding abroad. It also extended its geographical presence by securing relationships with financial institutions and central banks in various overseas regions. In the cash management business, the Group further leveraged its competitive advantages and became the arranger for cross-border cash pooling services for various major corporates. In the custody business, the Group continued to expand its business coverage over different geographical locations.

Management's Discussion and Analysis

Increasing its cooperation with BOC in corporate lending

In 2014, the Group deepened its collaboration with BOC and its overseas branches. With opportunities arising from Mainland enterprises going global and foreign enterprises expanding into the Mainland, it successfully expanded its customer base and captured new business opportunities with leading enterprises in Hong Kong, the Mainland and overseas. Riding on its strong franchise in the RMB business, the Group secured relationships with financial institutions and central banks in overseas regions. A two-way information exchange and business referral channel established with BOC continued to serve its major purpose. Its regular co-operation mechanism set up among BOC Group's Guangdong, Hong Kong and Macau operations raised the BOC Group's service capabilities in these three areas. Meanwhile, capitalising on its edge as the Asia-Pacific Syndicated Loan Centre of BOC Group, the Group participated in a number of significant syndicated loans for Mainland corporates in support of their overseas mergers and acquisitions. Through these activities, it remained the top mandated arranger in the Hong Kong-Macau syndicated loan market. At the same time, business opportunities were also made possible by the Shanghai Free Trade Zone. During the year, it helped corporates set up cross-border cash pooling services in RMB and other currencies, and underwrote cross-border RMB loans to corporates established in the Shanghai Free Trade Zone. At the end of 2014, the Group's balance of corporate advances grew by 12.1% from the end of 2013.

A full range of innovative cross-border financial services for SMEs

The Group constantly focused on ways to enhance the customer experience for SME customers. In 2014, the Group optimised its Business Integrated Account to provide SME customers with a variety of products and business privileges. This included its BOC Small Business Loan, which was enhanced with a streamlined application and approval service as part of a prompt and flexible financing solution for small businesses. With closer collaboration with BOC, the Group continued to provide a full range of innovative cross-border financial services to meet the diverse needs of customers. It also maintained contact with local trade associations and provided them with the latest market information at regular economics and business seminars, which reinforced its connections in the local business sector. In recognition of its long-standing support of SMEs in Hong Kong, the Group received the Best SME's Partner Award from the Hong Kong General Chamber of Small and Medium Business for the seventh consecutive year.

Growth in the customer base for custody services

During the year, the Group successfully expanded its customer base for custody services and established its business relationships with a number of new RQFII applicants from the Mainland of China, Hong Kong, Taiwan and other countries and regions. In 2014, it remained one of the largest RQFII service providers in Hong Kong. It also secured mandates from RQFII-ETFs and various types of RQFII and QDII products. In addition to this, the Group made closer collaboration with BOC and its branches to enhance their service capabilities. At the end of 2014, excluding the RMB fiduciary account for participating banks, total assets under the Group's custody were valued at HK\$735.3 billion.

Expansion of cross-border cash management service capabilities

The Group continued to strengthen its cross-border cash management service capabilities during the year. To solidify its competitive edge in RMB business, the Group launched RMB settlement services for member institutions of UnionPay International Co. Ltd., making it the first bank to provide such services in Hong Kong. It also worked closely with BOC to successfully complete the implementation of cash pooling services that will facilitate two-way cash sweeping for several large corporates. With the launch of Shanghai-Hong Kong Stock Connect, BOCHK acts as a designated bank of the China Securities Depository and Clearing Corporation Limited at HKSCC, as well as the designated settlement bank of HKSCC for the northbound trading. In recognition of its outstanding cash management services, BOCHK was presented with the Achievement Award for Best Cash Management Bank in Hong Kong by The Asian Banker for the second consecutive year. It also received the Hong Kong Domestic Cash Management Bank of the Year award in 2014 by Asian Banking and Finance.

Proactive measures to contain risk

In 2014, the Group adhered to a prudent credit policy under the principle of Know Your Customers. It closely monitored the credit positions of customers and industries that could be adversely affected by the volatile economic environment, with an eye to a possible continuous slowdown of economic growth in the Mainland and withdrawal of stimulus measures in the US. The Group also stayed alert to its Mainland exposures and maintained vigilance in monitoring customers in certain vulnerable industries with overcapacity. Other measures included establishing a trigger point to manage the concentration risk of Mainland exposures and rigorous pre- and post-lending monitoring to track early negative signs, with timely ad hoc credit reviews and precautionary measures.

Mainland Business**Operating income maintained steady growth**

The Group's Mainland business maintained steady growth during the year amid a challenging operating environment. Total operating income increased by 18.8% year-on-year, driven by the growth in net interest income and net fee income. Slower economic growth on the Mainland placed pressure on certain industries, resulting in an increase in new classified or impaired advances in 2014 and hence a higher net charge of loan impairment allowances. Deposits from customers and advances to customers dropped by 4.0% and 7.1% respectively from the end of last year.

Continuous enrichment of new products and services

The Group remained committed to enriching and diversifying its product and service offerings throughout 2014. These included a number of innovative products and business models to meet different customer needs. For example, Supply Chain Finance was launched to enhance its SME business, providing financing services to both upstream and downstream companies in the supply chain. Both the trade finance and treasury products businesses were also strengthened with the launch of new products. Additionally, the Group introduced QDII-Overseas Fund Products to allow Mainland customers to capture overseas investment opportunities by leveraging the cross-border synergy between Hong Kong and the Mainland of China. Beyond this, it introduced a China Securities Index 300 Index-linked product and launched a new series of structured wealth management products called Yiishun. What's more, the Group expanded its credit card business with the introduction of platinum credit cards. The Bancassurance business was also enhanced with improved sales management and the introduction of new business partners and insurance products.

New electronic platforms

The Group continued to enhance both its personal and corporate e-Banking platforms during the year. Several e-platforms were established to facilitate cross-border transactions as well as additional online services. During the year, NCB (China)'s Suzhou Branch and Shanghai Free Trade Zone Sub-branch commenced business. The Group's total number of branches and sub-branches in the Mainland of China reached 42 at the end of 2014.

Treasury**Financial Results**

Treasury recorded a strong increase of 29.7% in profit before taxation from the previous year.

Net interest income increased by 46.7%, mainly due to the increases in RMB bonds and balances and placements with banks. Average yield on the related assets also rose with higher market interest rates.

Net trading gain was down 34.8%. The decrease was mainly caused by the net trading loss from foreign exchange swap contracts and the mark-to-market changes of certain interest rate instruments.

Management's Discussion and Analysis

Business Operations

A proactive investment strategy and a diversified funding source

In 2014, the Group continued to take a proactive approach in managing its banking book investments. It closely monitored market changes and acted swiftly to adjust its investment portfolio to enhance returns while remaining alert to risks. The Group adjusted its investment portfolio in anticipation of the upcoming US interest rate hike cycle and selectively increased its holdings in high-quality corporate bonds to improve returns. The Group also increased its investments in RMB-denominated bonds. Meanwhile, BOCHK launched a US commercial paper programme for enhancing liquidity management and diversifying its funding sources.

Satisfactory growth recorded in RMB foreign exchange businesses

In 2014, the Group took advantage of RMB exchange rate fluctuations and collaborated with the BOC Group, to provide value-preservation solutions to customers which led to significant growth in corporate and institution clients businesses. Leveraging its competitive edge in the RMB business, the Group launched a series of RMB investment products, including RMB Equity Linked Investment and the inclusion of bearish option in RMB Structured Deposits, which were well received by the market. Following the removal of the daily RMB exchange quota by Hong Kong residents, the Group launched various services including RMB exchange against other currencies and RMB Currency Linked Investment.

Strengthening intragroup cooperation in Debt Capital Markets business

The Group continued to achieve solid progress in the bond underwriting business during the year and significantly increased its market share in the underwriting of dim-sum bonds. It also strengthened cooperation with BOC's branches in the Debt Capital Markets business. It became the first Chinese bank to act as the joint lead manager and joint bookrunner for a major global USD bond issuance by a South American corporation. Other overseas activities included support for BOC's London Branch to complete the first overseas dim-sum bond issuance by the Bank of England and assisted BOC's other overseas branches in the issuance of overseas dim-sum bonds.

Global expansion of its banknote business

The Group made significant progress with the expansion of its global banknote business. It successfully became an international banknotes wholesale bank. In addition to major markets, the Group established banknotes business relationships with central banks and extended its global banknote distribution network to new market districts of Central America, Central and Southeast Asia. In addition, the Group was granted a franchise in managing the Extended Custodial Inventory of a major currency, making it the first Chinese bank to qualify for this role and fully recognising its expertise in banknotes management. Meanwhile, the Group continued to establish relationships with central banks, commercial banks and BOC's branches in other overseas countries and regions for its banknotes business.

Improved clearing support for the RMB business

In the year, the Group continued to develop better infrastructure to ensure the stable development and continuous improvement of RMB clearing services in both Hong Kong and overseas. It extended its RMB clearing service hours to 20.5 hours per day with effect from 1 October, which distinguished Hong Kong as the world's first clearing system to cover time zones in Europe, America and Asia with the longest operating hours globally. BOCHK also successfully migrated to the second generation of the China National Advanced Payment System ("CNAPS"), reinforcing its RMB clearing efficiency and service capability.

In addition, BOCHK was designated by the HKMA as the Primary Liquidity Provider to provide additional RMB liquidity support to the market. This designation reinforced the Group's leading position in the offshore RMB market.

Insurance

Financial Results

Profit before taxation in the Group's Insurance segment was HK\$613 million in 2014, down 46.4% from 2013. The decline was mainly caused by a higher provision for insurance liabilities as a result of declining market interest rates, which outweighed the corresponding mark-to-market changes of debt securities. This, coupled with the decrease in return from its equity investments portfolio resulted in a decline in profits.

Net interest income grew by 13.0%, which was mainly driven by the expansion of securities investments acquired with the new premiums received.

Net gain on other financial assets amounted to HK\$169 million which compared with a net loss of HK\$63 million in 2013, owing to market opportunities for disposing of certain debt securities.

Business Operations

A focus on product enhancement and diversified distribution channels

During the year, the Group continued to broaden its product offerings, diversify its distribution channels and establish partnerships with insurance broker firms to reach out to a wider range of customers. New products launched in 2014 included Plenteous Life Coupon Plan which integrates both life insurance and savings elements; BestCare Critical Illness Plan which covers both critical illness and life protection; and Good Year Cash Coupon Insurance Plan which meets the life insurance and wealth management needs of customers through the telemarketing channel. These new products were well received by customers. The introduction of the new iPad Sales Kit to the Bank's sales team and the inbound sales model to the telemarketing channel improved its efficiency in both customer communications and sales performance. Continuous optimisation of the broker and tied agency channels provided customers with a broader spectrum of services. BOCG Life was honoured to receive a number of international and industry awards including the global award of Best Life Insurance Company 2014, Hong Kong presented by World Finance.

Leadership in RMB insurance products

The Group's leading position in Hong Kong RMB insurance market was consolidated through product optimisation and innovation in 2014. Popular RMB insurance products such as the IncomeGrowth Annuity Insurance Plan, Target 5 Years Insurance Plan Series and RMB Universal Life Insurance Plan continued to attract substantial new business. During the year, it launched whole life products, Plenteous Life Coupon Plan and Good Year Cash Coupon Insurance Plan, to customers, offering life protection and savings. BOCG Life maintained its leading position in the RMB insurance market. In recognition of its outstanding performance, BOCG Life received all three product awards in the RMB Business Outstanding Awards 2014 – Outstanding Insurance Business, organised by Metro Finance, Metro Finance Digital and Hong Kong Wen Wei Po.

Others

Asset management service reinforced local business and expanded geographical presence

BOCHK Asset Management Limited ("BOCHK AM") continued to make solid progress in 2014 with a satisfactory growth in asset under management compared with the end of 2013. The BOCHK All Weather HK & China Equity Fund, a retail fund launched in 2013, performed strongly in terms of asset growth, while the BOCHK RMB High Yield Bond Fund was redomiciled to Luxemburg in September 2014. This not only allowed the fund to be widely and effectively distributed in Europe but also established the Group's footprint in the continent while positioning BOCHK AM for distribution of its fund products in other Asian countries in the future. In addition, new distribution channels were developed and partnerships established with BOC's branches and other banks in Macau.

In recognition of its outstanding offshore RMB bond performance, BOCHK AM won the Best RMB Manager by Asia Asset Management for its 2014 Best of the Best Awards. The BOCHK RMB High Yield Bond Fund was awarded the Best RMB Bonds, Offshore, Three Years by Asia Asset Management under the same award. BOCHK AM was also granted the Best in Class RMB Fixed Income award in the BENCHMARK Fund of the Year Award 2014.

Management's Discussion and Analysis

Business Focuses for 2015

The year 2015 will bring both opportunities and challenges to banks in Hong Kong. To capture new business opportunities, the Group will respond rapidly to market changes in order to achieve balanced growth in all areas of its business. At the same time, it will maintain its stringent risk management and controls to safeguard its financial strength and asset quality.

The Group will also develop its high-quality and professional wealth management services further to meet the growing demand for wealth management consultancy services. In addition, it will strengthen its dedicated professional service team and construct a more diversified sales and service system to improve its overall service capabilities. Elevate awareness of its brand will also be critical for improving customer perception and recognition.

With regards to its infrastructure, the Group will improve and integrate its multifunctional service chains and platforms. It will also extend its cash management services regionally to support customers expanding overseas. Other measures to be taken up in 2015 include enhancing its management capability of the custody business, strengthening its treasury products by serving central banks in other time zones and reaching out to other overseas markets with its asset management services.

The Group will also take advantage of opportunities in the offshore RMB business as this will promote its overseas development. It will focus on expanding its RMB-related products and services to markets worldwide with the aim of increasing the global service capabilities of the BOC Group. Cooperation with BOC's overseas branches to cultivate new customer groups in the Southeast Asia and other overseas markets will also be part of this initiative.

Finally, the Group will continue to strengthen its collaboration with BOC. It will leverage on its professional expertise and efficient business platforms to enhance cooperation and coordination with BOC in the development of products, customers and regions in order to raise the service coverage and overall synergy of the BOC Group.

Regulatory Developments

Implementation of Basel III Liquidity Coverage Ratio

Following the negative vetting of the Banking (Liquidity) Rules by the Legislative Council, the implementation of Basel III Liquidity Coverage Ratio ("LCR") came into operation on 1 January 2015. The implementation of the LCR seeks to promote banks' resilience to short-term liquidity risks by ensuring they have sufficient high quality liquid assets to meet their obligations for at least 30 calendar days under an acute stress scenario. The Group has completed all relevant preparatory work to ensure the efficient implementation of the LCR. These included the development of a system for calculation of the LCR for both regulatory reporting and internal risk management purposes; the formulation of a working manual and the introduction of training workshops to all business units to incorporate the LCR requirements into the daily business decision-making process; and the establishment of limit and risk appetite for setting the risk tolerance level and the inclusion of all requirements of LCR in the formulation of the Group's business plan.

Technology And Operations

The Group continued to upgrade its information technology and business operation infrastructure in 2014 to support its business growth and enhance operational efficiency. The revamp of the Group's data center was carried out as part of this exercise and the expansion phase was completed. The Group also launched a series of services to provide a better customer experience and support the growth of the Personal Banking, SME and Corporate Banking businesses. With the launch of Shanghai-Hong Kong Stock Connect, system enhancements were made to support cross-boundary clearing and settlement as well as the provision of counter and e-channel services. During the year, the Group Customer Services Centre for corporate customers was established to offer a new service model to selected customers with one-stop quality and professional after-sales services.

Credit Ratings

As at 31 December 2014	Long-term	Short-term
Standard & Poor's	A+	A-1
Moody's	Aa3	P-1
Fitch	A	F1

On 29 December 2014, Standard & Poor's affirmed the 'A+' long-term and 'A-1' short-term issuer credit ratings of BOCHK. The outlook is stable.

On 14 October 2014, Moody's Investors Service affirmed 'Aa3' long-term and 'P-1' short-term local and foreign currency bank deposit ratings; and the 'C+' bank financial strength rating on BOCHK. The outlook is stable.

On 21 October 2014, Fitch Ratings affirmed 'A' long-term and 'F1' short-term foreign currency issuer default ratings on BOCHK. The outlook is stable.

Risk Management

Banking Group

Overview

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

Credit Risk Management

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

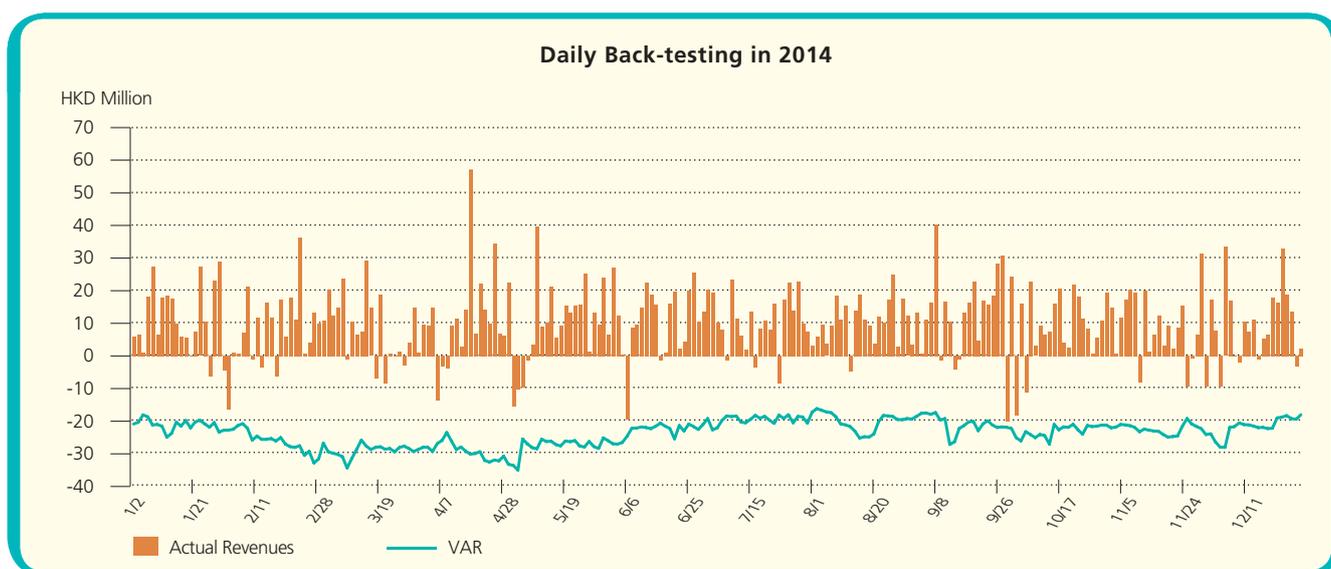
Management's Discussion and Analysis

Market Risk Management

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

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

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



There were no actual losses exceeding the VAR for the Group in 2014 as shown in the back-testing results.

Interest Rate Risk Management

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

Liquidity Risk Management

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

Operational Risk Management

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

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

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

Reputation Risk Management

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

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

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

Management's Discussion and Analysis

Legal and Compliance Risk Management

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

Strategic Risk Management

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

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

Capital Management

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

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

Stress Testing

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

BOCG Life

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

Insurance Risk Management

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

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

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

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

Interest Rate Risk Management

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

Liquidity Risk Management

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

Credit Risk Management

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

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

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

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





New Customer Experience



Corporate Information

Board of Directors

Chairman

TIAN Guoli[#]

Vice Chairmen

CHEN Siqing[#] (appointment as Vice Chairman effective from 25 March 2014)

YUE Yi (appointment as Non-executive Director with effect from 22 May 2014, re-designation as Executive Director and appointment as Vice Chairman effective from 6 March 2015)

LI Lihui[#] (resignation effective from 25 March 2014)

HE Guangbei (resignation effective from 6 March 2015)

Directors

LI Zaohang[#]

ZHU Shumin[#] (appointment effective from 22 May 2014)

GAO Yingxin[#] (re-designation as Non-executive Director effective from 11 March 2015)

CHENG Eva* (appointment effective from 30 October 2014)

KOH Beng Seng*

SHAN Weijian*

TUNG Savio Wai-Hok*

ZHOU Zaiqun[#] (retirement effective from 25 March 2014)

FUNG Victor Kwok King* (retirement effective from 11 June 2014)

NING Gaoning* (resignation effective from 30 October 2014)

[#] Non-executive Directors

* Independent Non-executive Directors

Senior Management

Chief Executive

YUE Yi (appointment effective from 6 March 2015)

HE Guangbei (resignation effective from 6 March 2015)

Deputy Chief Executive

GAO Yingxin (resignation effective from 11 March 2015)

Deputy Chief Executive

YEUNG Jason Chi Wai (retirement effective from 1 March 2015)

Chief Risk Officer

LI Jiuzhong

Chief Financial Officer

SUI Yang (appointment effective from 22 August 2014)

ZHUO Chengwen (resignation effective from 22 August 2014)

Chief Operating Officer

LEE Alex Wing Kwai

Deputy Chief Executives

ZHU Yanlai

HUANG Hong

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

Company Secretary

CHAN Chun Ying

Registered Office

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

Auditor

Ernst & Young

Share Registrar

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

ADR Depositary Bank

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

Website

www.bochk.com

Board of Directors and Senior Management

DIRECTORS



Mr TIAN Guoli

Chairman

Aged 54, is the Chairman of the Board of Directors and the Chairman of the Nomination Committee of the Company and BOCHK. He is currently the Chairman and Executive Director of BOC and also a Director of BOC (BVI) and BOCHKG. Prior to joining BOC in April 2013, Mr TIAN served as Vice Chairman of the Board of Directors and General Manager of China CITIC Group from December 2010 to April 2013. During this period, he served as Chairman of the Board of Directors and Non-executive Director of China CITIC Bank. From April 1999 to December 2010, Mr TIAN successively served as Vice President and President of China Cinda Asset Management Company, and Chairman of the Board of Directors of China Cinda Asset Management Corporation Limited. From July 1983 to April 1999, Mr TIAN held various positions in China Construction Bank ("CCB"), including General Manager of sub-branch, Deputy Branch General Manager, Department General Manager of CCB Head Office and Assistant Executive President of CCB. Mr TIAN graduated from Hubei Institute of Finance and Economics in 1983 and was awarded a Bachelor's Degree in Economics.



Mr CHEN Siqing

Vice Chairman

(appointment as Vice Chairman effective from 25 March 2014)

Aged 54, is the Vice Chairman of the Board of Directors and a member of the Remuneration Committee and the Nomination Committee of the Company and BOCHK. He is currently the Vice Chairman, Executive Director and President of BOC. He is also a Director of BOC (BVI) and BOCHKG. Mr CHEN joined BOC in 1990 and worked in the Hunan Branch before he was seconded to the Hong Kong Branch of China and South Sea Bank Ltd. as Assistant General Manager. Mr CHEN held various positions in BOC from June 2000 to May 2008, including Assistant General Manager, Vice General Manager of the Fujian Branch, General Manager of the Risk Management Department of BOC and General Manager of the Guangdong Branch. He served as Executive Vice President of BOC from June 2008 to February 2014. Mr CHEN has been serving as the Chairman of the Board of Directors of BOC Aviation Private Limited since December 2011, the Chairman of the Board of Directors of China Culture Industrial Investment Fund Co., Ltd. since December 2010, a Director of Trade Finance Committee of China Banking Association since April 2011 and the Vice Chairman of China Chamber of International Commerce since August 2012. Mr CHEN graduated from Hubei Institute of Finance and Economics in 1982 and obtained an MBA from Murdoch University, Australia in 1999. He is a Certified Public Accountant.



Mr YUE Yi

Vice Chairman, Executive Director and Chief Executive

(appointment as Non-executive Director effective from 22 May 2014; re-designation as Executive Director, appointment as Vice Chairman and Chief Executive effective from 6 March 2015)

Aged 58, was a Non-executive Director and a member of the Strategy and Budget Committee and the Risk Committee of the Company and BOCHK during the year. He was the Executive Vice President of BOC from August 2010 to March 2015. Mr YUE joined BOC in 1980 and has been working in the Beijing Branch, Seoul Branch and the Head Office of BOC. He served as the Vice President of BOC Beijing Branch from January 1993 to January 2000, as General Manager of Seoul Branch from January 2000 to October 2003, as Deputy General Manager/General Manager of the Retail Banking Department from October 2003 to February 2005, as General Manager of the Personal Banking Department from February 2005 to March 2008, as member of the Group Executive Committee, Vice Chairman of Personal Banking Committee, Global Head of Personal Banking Business from March 2008 to March 2009, as member of the Group Executive Committee, Vice Chairman of Financial Markets Committee, Global Head of Financial Markets Business from March 2009 to October 2010. He was the Executive Vice President of BOC since August 2010, as well as a member of the Group Executive Committee and Chairman of the Risk Management & Internal Control Committee. He has been serving as Chairman of Bank of China (UK) Limited since September 2010, as Chairman of the Board of Directors of BOC International Holdings Limited since November 2011, as Chairman of Bohai Industrial Investment Fund Management Co., Ltd. since March 2012, as Chairman of the Board of Directors of Bank of China (Luxembourg) S.A. since January 2014. Mr YUE is a master degree holder and he received his Master's Degree in Finance from Wuhan University in 1999.

On 6 March 2015, Mr YUE has been re-designated from Non-executive Director to Executive Director, appointed as Vice Chairman, Chief Executive and ceased to be a member of the Risk Committee of the Company and BOCHK. He remains as a member of the Strategy and Budget Committee.

Board of Directors and Senior Management



Mr HE Guangbei

Vice Chairman and Chief Executive

(resignation effective from 6 March 2015)

Aged 60, was the Vice Chairman and the Chief Executive with overall responsibility for the business and operations of BOCHK and a member of the Strategy and Budget Committee of the Company and BOCHK during the year. Mr HE was also Chairman of NCB (China), Chiyu, BOCG Life and BOCHK Charitable Foundation. He was Director of each of Hong Kong Interbank Clearing Limited and HKICL Services Limited, a Director of Hong Kong Note Printing Limited. He was the designated representative of BOCHK to the Hong Kong Association of Banks where he served as the presiding Chairman in 2014 and a council member of Hong Kong Trade Development Council in the same year. He held various public positions which include member of the 12th National Committee of the Chinese People's Political Consultative Conference, representative of Hong Kong, China to the Asia-Pacific Economic Cooperation Business Advisory Council, member of the HKMA Exchange Fund Advisory Committee, member of the Banking Advisory Committee, member of General Committee of Hong Kong General Chamber of Commerce, member of Hong Kong-United States Business Council, member of Advisory Committee of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, deputy officer of the Finance Committee of Guangdong's Association for promotion of cooperation between Guangdong, Hong Kong & Macau and Honorary Chairman of the Hong Kong Chinese Enterprises Association. Mr HE joined BOC in 1980 and since then, he has assumed various positions at BOC and was posted to its New York Branch and Paris Branch. He was Managing Director of BOC from 1999 to 2004 and Executive Vice President from 2000 to 2003. Mr HE graduated from the Beijing Second Foreign Languages Institute in 1979 with a Bachelor's Degree and obtained a Master's Degree in International Management Studies from the University of Texas at Dallas in 1985.

On 6 March 2015, Mr HE resigned as Vice Chairman, Executive Director and Chief Executive and ceased to be a member of the Strategy and Budget Committee of the Company and BOCHK.



Mr LI Zaohang

Non-executive Director

Aged 59, is a Non-executive Director, Chairman of the Strategy and Budget Committee and a member of the Remuneration Committee of the Company and BOCHK. He joined CCB in 1980 and had held various positions including Manager, Branch Manager, General Managers of various departments at CCB's Head Office and Executive Vice President. In 2000, Mr LI joined BOC as Executive Vice President and has served as Managing Director and Executive Director successively. Mr LI graduated from Nanjing University of Information Science and Technology.



Mr ZHU Shumin

Non-executive Director

(appointment effective from 22 May 2014)

Aged 54, is a Non-executive Director and a member of the Strategy and Budget Committee and the Risk Committee of the Company and BOCHK. He is currently the Executive Vice President of BOC. Mr ZHU joined BOC in 1988 and served as Global Head of Personal Banking Business from May 2009 to July 2010. He served as General Manager of the Jiangsu Branch from July 2003 to May 2009 and as Deputy General Manager of the Jiangsu Branch and General Manager of the Suzhou Branch from November 2000 to July 2003. He previously held various positions in the Suzhou Branch, the Taizhou Branch and the Yangzhou Branch of Jiangsu. Mr ZHU has been serving as Chairman of the Board of Directors of Bank of China Consumer Finance Company Limited since June 2010. He received an MBA from Fudan University in 2008.



Mr GAO Yingxin

Non-executive Director

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

Aged 52, was an Executive Director of the Company and BOCHK as well as the Deputy Chief Executive in charge of Corporate Banking and Financial Institutions during the year. He was also Chairman of NCB, Vice Chairman of NCB (China) and Director of BOCG Insurance during the year. Before joining BOCHK, he was President and Chief Operating Officer of BOCI. Mr GAO joined the BOC Group in 1986 where he began working on financing projects for various industries at BOC's Head Office in Beijing. In 1999, he became General Manager of Corporate Banking at BOC Head Office where he was responsible for managing and building BOC Group's customer relationships with and global financing for multinational corporations and premium domestic clients in the Mainland of China. He was also in charge of BOC's major financing projects. From 1995 to 1996, he worked for the Finance Department of Northern Telecom (Nortel) Head Office in Canada. Mr GAO graduated from the East China University of Science and Technology with a Master's Degree in Engineering in 1986.

On 11 March 2015, Mr GAO has been re-designated from Executive Director to Non-executive Director, resigned as Deputy Chief Executive and appointed as member of each of the Risk Committee and the Strategy and Budget Committee. He also resigned from all his other positions within the Group on the same day.

Board of Directors and Senior Management



Mdm CHENG Eva

Independent Non-executive Director

(appointment effective from 30 October 2014)

Aged 54, is an Independent Non-executive Director and a member of the Audit Committee and the Strategy and Budget Committee of the Company and BOCHK. She was the former Secretary for Transport and Housing of the Government of the Hong Kong Special Administrative Region ("HKSAR"). She joined the government's Administrative Service in August 1983 and was posted to various bureaux and departments, including serving as the Permanent Secretary for Economic Development and Labour (Economic Development) and Commissioner for Tourism. She retired from the Government of the HKSAR on 30 June 2012. Mdm CHENG holds a Bachelor's Degree in Social Sciences from University of Hong Kong. She was the Chairman of the Hong Kong Housing Authority and a Non-executive Director of MTR Corporation Limited, a company listed in Hong Kong, from 2007 to 2012.



Mr KOH Beng Seng

Independent Non-executive Director

Aged 64, is an Independent Non-executive Director, Chairman of the Risk Committee and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company and BOCHK. Mr KOH is currently the Chief Executive Officer of Octagon Advisors Pte Ltd, a business and management consulting company based in Singapore. He is also the non-executive chairman of Great Eastern Holdings Limited since 1 September 2014, Independent Non-executive Director of Singapore Technologies Engineering Ltd and United Engineers Limited, all listed in Singapore. Mr KOH is also a Director of Sing Han International Financial Services Limited and Hon Sui Sen Endowment CLG Limited. He was formerly an Independent Non-executive Director of Fraser and Neave Limited, a company listed in Singapore. Mr KOH was Deputy President of United Overseas Bank ("UOB") and a member of UOB's Executive Committee from 2000 to 2004. During this period, he was in charge of UOB's operations, delivery channels, information technology, corporate services, risk management and compliance functions and played a key role in driving the successful integration of Overseas Union Bank and UOB in 2001. Prior to that, Mr KOH has spent over 24 years at the Monetary Authority of Singapore where he made significant contributions to the development and supervision of the Singapore financial sector in his capacity as Deputy Managing Director, Banking & Financial Institutions Group. He has also served as a Director of Chartered Semiconductor Manufacturing and as a part-time adviser to the International Monetary Fund. Mr KOH holds a Bachelor's Degree in Commerce from Nanyang University in Singapore and a Master's Degree in Business Administration from Columbia University in the United States.



Mr SHAN Weijian

Independent Non-executive Director

Aged 61, is an Independent Non-executive Director, Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company and BOCHK. Mr SHAN is the Chairman and Chief Executive Officer of PAG, an investment firm. He is also a director of TCC International Holdings Limited, a company listed on the Stock Exchange. Mr SHAN is also a Governor of China Venture Capital and Private Equity Association Limited. Mr SHAN resigned as a Director of Taishin Financial Holding Co., Ltd. and Taiwan Cement Corporation, both are companies listed in Taiwan, in May 2012 and June 2012 respectively. He was Senior Partner of TPG, Co-Managing Partner of Newbridge Capital, Managing Director of JP Morgan, an assistant professor at the Wharton School of the University of Pennsylvania and an Investment Officer at the World Bank in Washington DC. Mr SHAN graduated from the Beijing Institute of Foreign Trade with a major in English in 1979. He obtained a Master's Degree in Business Administration from the University of San Francisco in 1981, and received a Master of Arts Degree in Economics and a PhD Degree in Business Administration from the University of California at Berkeley in 1984 and 1987 respectively.



Mr TUNG Savio Wai-Hok

Independent Non-executive Director

Aged 63, is an Independent Non-executive Director, Chairman of the Remuneration Committee and a member of the Audit Committee, the Nomination Committee, the Risk Committee and the Strategy and Budget Committee of the Company and BOCHK. Mr TUNG is currently the Chief Investment Officer and one of the founding partners of Investcorp. Mr TUNG was appointed a Director, a member of the Audit Committee and the Governance and Nominating Committee of Tech Data Corporation, a company listed on NASDAQ, in June 2010. Before joining Investcorp in 1984, he worked for Chase Manhattan Bank for about 11 years, holding various positions in its front, middle and back offices and served in its offices in New York, Bahrain, Abu Dhabi and London. Mr TUNG has served on the boards of many of Investcorp portfolio companies, including Club Car, Circle K, Saks Fifth Avenue, Simmons Mattresses, Star Market, and Stratus Computer. He is also a board member and treasurer of the Aaron Diamond AIDS Research Center, an affiliate of Rockefeller University. Mr TUNG holds a BSc in Chemical Engineering from Columbia University of New York, where he is also a trustee emeritus and a member of the Columbia University Medical Center Board of Visitors.

Board of Directors and Senior Management

SENIOR MANAGEMENT



Mr LI Jiuzhong

Chief Risk Officer

Aged 52, is the Chief Risk Officer of the Group in charge of the Group's overall risk management function, overseeing BOCHK's Risk Management Department, Compliance and Operational Risk Management Department. He is also a Director of NCB, NCB (China), BOCCC and BOCG Life. Mr LI has over 30 years' experience in the banking industry. Mr LI joined BOC in 1983 and, since then, he has assumed various positions at BOC Head Office and overseas branch. He served as Assistant General Manager and became Deputy General Manager of BOC London Branch from 1996 to 2002, Deputy General Manager of Corporate Banking Department of BOC Head Office from 2002 to 2004, and also General Manager of Corporate Banking Department, Risk Management Department, and Global Markets Department of BOC Head Office from 2004 to 2009. Mr LI graduated from Northeast Petroleum University in 1983 with a Bachelor's Degree in Science in Oilfield Development and Management and obtained a Master's Degree in Science in International Banking and Financial Studies from Heriot-Watt University (UK) in 1993.



Mdm SUI Yang

Chief Financial Officer

Aged 41, is the Chief Financial Officer of the Group. Prior to joining the Group in August 2014, Mdm SUI served as Deputy General Manager of Financial Management Department of BOC. She joined BOC in April 1997 and assumed various positions in Finance & Accounting Department of BOC including Deputy General Manager of Management Information System ("MIS") Centre of BOC from September 2008 to March 2011, Assistant General Manager of MIS Centre of BOC from March 2007 to September 2008 and Assistant General Manager of MIS Centre and Finance & Accounting Department of BOC from August 2006 to March 2007. Mdm SUI possesses extensive knowledge and experience in financial management. She obtained a Master's Degree and a Bachelor's Degree in Economics from the Central University of Finance & Economics (formerly the Central Institute of Finance and Banking). Mdm SUI is a member of the Chinese Institute of Certified Public Accountants.



Mr LEE Alex Wing Kwai

Chief Operating Officer

Aged 56, is the Chief Operating Officer of the Group. He is also a Director of BOCCC. Prior to joining the Group, Mr LEE was the Managing Director responsible for the operations and technology of the entire business of Citigroup in Hong Kong. Mr LEE held various leadership roles within Citigroup. He has strong experience in operation and technology with major financial institutions for over 30 years. Mr LEE graduated from the Arizona State University with a Bachelor's Degree in General Business Administration in 1981 and a MBA Degree specialised in Accounting in 1983. Mr LEE passed the uniform examination of the American Institute of Certified Public Accountants in 1984. He has been an Associate Member of the Institute of Internal Auditor and a Chartered Bank Auditor of the Bank Administration Institute of the United States of America since 1986.



Mdm ZHU Yanlai

Deputy Chief Executive

Aged 60, is the Deputy Chief Executive of the Group in charge of overall leadership for the planning and implementation of the Group's strategy, market positioning, and sustainable development. Her responsibilities also include the coordination of the Group's Renminbi related businesses and the Chief Executive's Office. Mdm ZHU is currently a Director of NCB. She was the Assistant Chief Executive from May 2010 to April 2013, and the General Manager of Economics and Strategic Planning Department of BOCHK since the merger of the Group in October 2001. Mdm ZHU joined BOC in 1997 and was the Head of Business Development of BOC (Canada), and Assistant General Manager of Hong Kong and Macau Regional Office of BOC. Prior to joining BOC, Mdm ZHU worked for Royal Bank of Canada and Nesbitt Burns with Bank of Montreal Group. She was previously the lecturer in Renmin University of China, and the visiting scholar of York University in Canada. Mdm ZHU obtained a Master's Degree in Sociology from the University of Regina, Sask, Canada, and graduated from Renmin University of China with both Bachelor's and Master's Degrees in Philosophy.

Board of Directors and Senior Management



Mr HUANG Hong

Deputy Chief Executive

Aged 55, is the Deputy Chief Executive of the Group with overall responsibility for the financial market businesses which include Global Transaction Banking, Global Markets, Investment Management, Insurance, Asset Management and other capital market-related businesses. He is also a Director of BOCG Life, a Director and Chairman of BOCI-Prudential Trustee Limited and BOC Group Trustee Company Limited. Mr HUANG joined BOC in February 1981 and, since then, he has assumed various positions in Foreign Exchange Department of BOC London Branch and Treasury Department of BOC Shanghai Branch. He used to be the Department Head of Capital Planning Department, BOC Shanghai Branch since June 1999. From March 2002, he served as the Deputy General Manager of BOC Shanghai Branch. From February 2007 to June 2013, Mr HUANG was the General Manager of BOC Luxembourg Branch, Executive Director and Chief Executive Officer of Bank of China (Luxembourg) S.A. He was the Chairman of the Board of Bank of China (Suisse) S.A. from April 2010 to September 2012 and the Chairman of the Board of BOC (Suisse) Fund Management S.A. from April 2010 to December 2010. With over 30 years' working experience in banking industry, Mr HUANG possesses comprehensive banking knowledge and solid experience in management. Mr HUANG obtained a MBA Degree co-organised by the East China University of Science and Technology and the University of Canberra, Australia.



Mrs KUNG YEUNG Ann Yun Chi

Deputy Chief Executive

(appointment effective from 1 March 2015)

Aged 52, is the Deputy Chief Executive of the Group in charge of Personal Banking and Product Management, Channel Management, Private Banking and BOCCC. She is also the Vice Chairman of BOCCC and a Director of BOCG Life. Mrs KUNG joined BOCHK in August 2007 as Head of Channel Management. She was appointed as the Head of Personal Banking in April 2011, and was promoted to her current role in March 2015. Prior to joining the Group, Mrs KUNG was the General Manager of Branch and Direct Banking of Standard Chartered Bank (Hong Kong) Limited and had held various senior positions covering banking products, customer segments, wealth management and marketing within the organization. With over 25 years of experience in the industry, Mrs KUNG possesses extensive knowledge in personal banking and a strong background in financial services. Mrs KUNG graduated from the University of Southern California in the U.S. where she obtained her Bachelor of Science Degree in Business Administration with a concentration in Accounting.

Report of the Directors

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

Principal Activities

The principal activities of the Group are the provision of banking and related financial services. An analysis of the Group's performance for the year by business segments is set out in Note 49 to the Financial Statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 110.

The Board has recommended a final dividend of HK\$0.575 per share, amounting to approximately HK\$6,080 million, subject to the approval of shareholders at the forthcoming annual general meeting to be held on Tuesday, 16 June 2015. If approved, the final dividend will be paid on Friday, 3 July 2015 to shareholders whose names appear on the Register of Members of the Company on Thursday, 25 June 2015. Together with the interim dividend of HK\$0.545 per share declared in August 2014, the total dividend payout for 2014 would be HK\$1.120 per share.

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

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to attend and vote at the Annual General Meeting of the Company, from Thursday, 11 June 2015 to Tuesday, 16 June 2015 (both days inclusive), during which period no transfer of shares will be registered. In order to attend and vote at the Annual General Meeting of the Company, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Wednesday, 10 June 2015. The Annual General Meeting of the Company will be held at 2:00 p.m. on Tuesday, 16 June 2015.

Closure of Register of Members for Entitlement to Final Dividend

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the proposed final dividend, from Monday, 22 June 2015 to Thursday, 25 June 2015 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Friday, 19 June 2015. Shares of the Company will be traded ex-dividend as from Thursday, 18 June 2015.

Reserves

Details of movements in the reserves of the Group are set out in the consolidated statement of changes in equity on page 115.

Donations

Charitable and other donations made by the Group during the year amounted to approximately HK\$8 million.

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

Properties, Plant and Equipment

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

Share Capital

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

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

Report of the Directors

Distributable Reserves

Distributable reserves of the Company as at 31 December 2014, calculated under Part 6 of the Hong Kong Companies Ordinance (Chapter 622), amounted to approximately HK\$6,507 million.

Five-year Financial Summary

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

Directors

The list of Directors of the Company is set out on page 48. The biographical details of the Directors and senior management are set out on pages 50 to 58 of this Annual Report. The term of office for each Non-executive Director is approximately three years.

Mr CHEN Siqing was appointed as Vice Chairman effective from 25 March 2014. Mr ZHU Shumin and Mr YUE Yi were appointed as Non-executive Directors both effective from 22 May 2014 and have been re-elected as Non-executive Directors at the 2014 annual general meeting held on 11 June 2014. Mdm CHENG Eva was appointed as an Independent Non-executive Director effective from 30 October 2014. Mr YUE Yi, a Non-executive Director, has been re-designated as Executive Director and appointed as Vice Chairman and Chief Executive effective from 6 March 2015. Mr GAO Yingxin, an Executive Director, has been re-designated as Non-executive Director effective from 11 March 2015. Mr LI Lihui resigned as Vice Chairman and Non-executive Director with effect from 25 March 2014. Mr ZHOU Zaiqun retired as Non-executive Director with effect from 25 March 2014. Dr FUNG Victor Kwok King retired as an Independent Non-executive Director after the conclusion of the 2014 annual general meeting held on 11 June 2014. Mr NING Gaoning resigned as an Independent Non-executive Director with effect from 30 October 2014. Mr HE Guangbei resigned as Vice Chairman, Executive Director and Chief Executive effective from 6 March 2015. The Board would like to express its sincere gratitude and the highest respect to Mr LI, Mr ZHOU, Dr FUNG, Mr NING and Mr HE for their valuable contributions in all aspects during their tenure of office.

In accordance with Article 98 of the Articles of Association and pursuant to Code A.4.2 of the Corporate Governance Code, the terms of office of Mr CHEN Siqing, Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok will expire at the forthcoming annual general meeting. All the retiring Directors being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Further, pursuant to Article 102 of the Articles of Association, any Director appointed by the Board during the year shall hold office only until the next following annual general meeting 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, will offer herself for re-election.

Directors' Service Contracts

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

Directors' Interests in Contracts of Significance

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

Directors' Interests in Competing Business

Mr TIAN Guoli, 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). During the year, Mr LI Lihui was an Executive Director of BOC.

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

Further, the Board's Mandate also expressly provides that unless permissible under applicable laws or regulations, if a substantial shareholder or a Director has a conflict of interest in the matter to be considered by the Board, the matter shall not be dealt with by way of written resolutions, but a Board

meeting attended by Independent Non-executive Directors who have no material interest in the matter shall be held to deliberate on the same.

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

Directors' Rights to Acquire Shares

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

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

As at 31 December 2014, the Directors, the Chief Executive and their respective associates had the following interests in the shares and underlying shares of the Company, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers:

Name of Director	Number of shares/underlying shares held					Total	Approximate % of the total issued shares
	Personal interests	Family interests	Corporate interests	Other interests			
HE Guangbei	100,000	–	–	–	100,000	0.0009%	
Total	100,000	–	–	–	100,000	0.0009%	

Save as disclosed above, as at 31 December 2014, none of the Directors or the Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

Report of the Directors

Substantial Interests in Share Capital

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31 December 2014, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

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

Notes:

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

All the interests stated above represented long positions. Apart from the disclosure above, according to the register maintained by the Company pursuant to section 336 of the SFO, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. BOC and Central Huijin are deemed to be interested in such amount of shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at 31 December 2014.

Management Contracts

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

Purchase, Sale or Redemption of the Company's Shares

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

Major Customers

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

Connected Transactions

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

- (i) entered into in the ordinary and usual course of business of the Group;
- (ii) conducted on normal commercial terms or better;
- (iii) entered into according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (iv) in each case where an annual cap had been set, that such cap was not exceeded.

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

Budgetary Discipline and Reporting

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

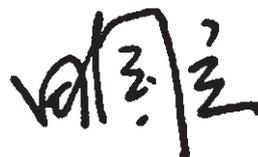
Compliance with the Banking (Disclosure) Rules and the Listing Rules

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

Auditor

The financial statements for the year 2014 have been audited by Ernst & Young ("EY") who has been appointed as new auditor of the Company at the annual general meeting of the Company held on 28 May 2013 upon the retirement of PricewaterhouseCoopers. EY will retire and offer themselves for re-appointment at the 2015 annual general meeting.

On behalf of the Board



TIAN Guoli

Chairman

Hong Kong, 25 March 2015

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.

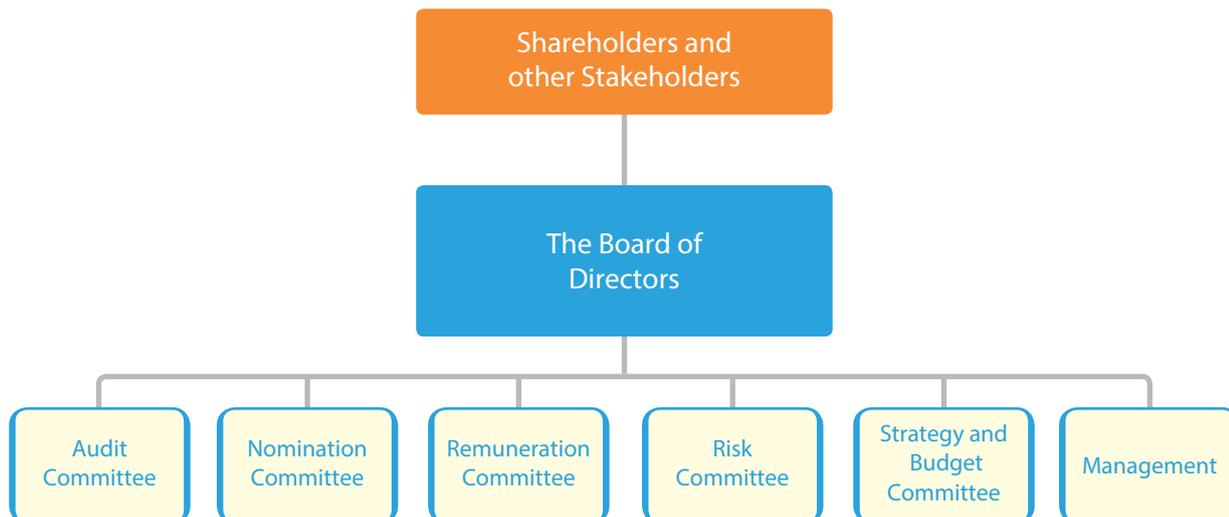
Board Committees

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.

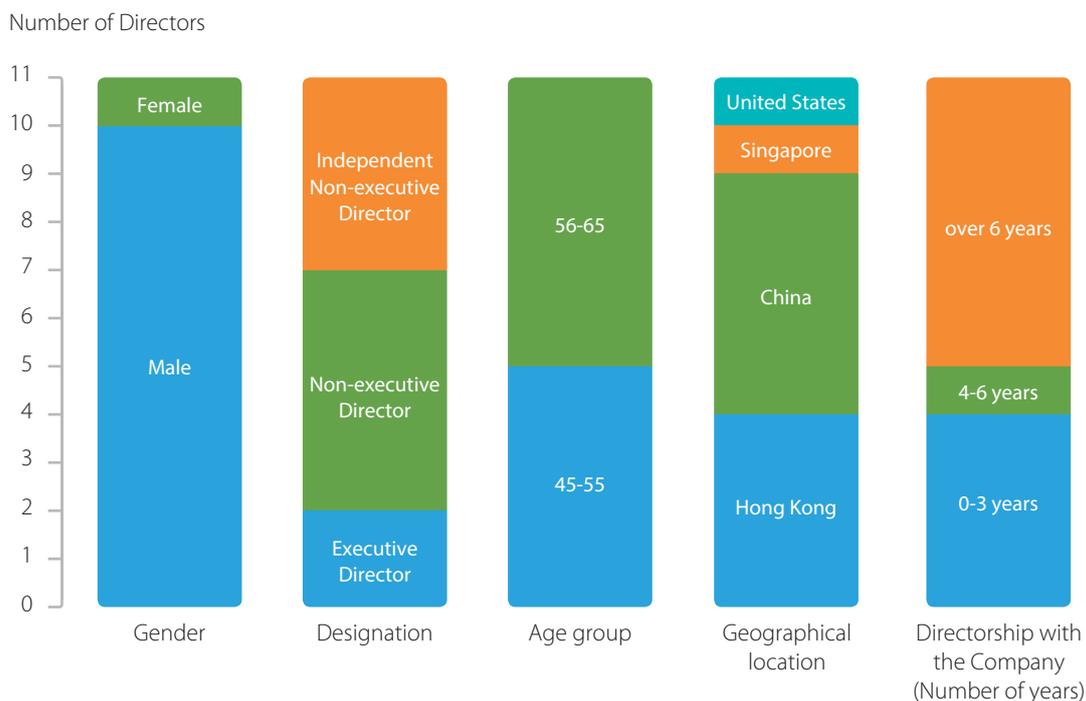
Diversity and Independence of the Board Members

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.

Corporate Governance

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.

Investor Relations

Investor Relations Policy and Guidelines

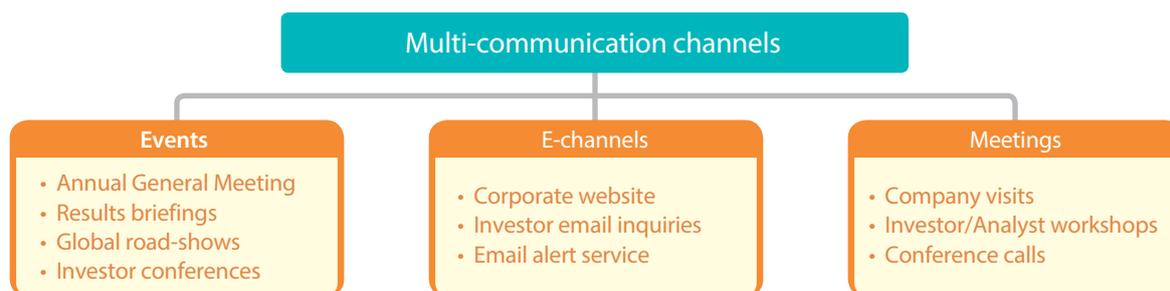
The Company recognises the fundamental importance of maintaining effective communication with its existing and potential investors. We aim to provide clear and timely information that is reasonably required to make a fair investment decision with regard to the Company's equity and debt securities. We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

Investor Relations Programmes

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

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

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



Information Disclosure Policy

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

website for public reference. The policy contains clear guidelines to ensure the following:

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

Investor Relations

Access to Corporate Information

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

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

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

Overview of Investor Relations Activities in 2014

In 2014, the Company continued its efforts to provide effective channels for communication with the investment community.

Annual General Meeting

At the Annual General Meeting held in June 2014, the Vice Chairman of the Board, the Chairmen of the Risk Committee and the former Nomination and Remuneration Committee respectively, members of the Audit Committee as well as the Strategy and Budget Committee respectively, the Company's senior management and external auditor were present to respond to questions and comments from shareholders. A total of 1,305 registered shareholders, 428 authorised corporate representatives and 649 authorised proxies holding an aggregate of 10,336,023,791 shares, representing 97.76% of the total issued share capital of the Company, were present. Minutes of the 2014 Annual General Meeting were made available to shareholders on the Company's website.

Results Announcements

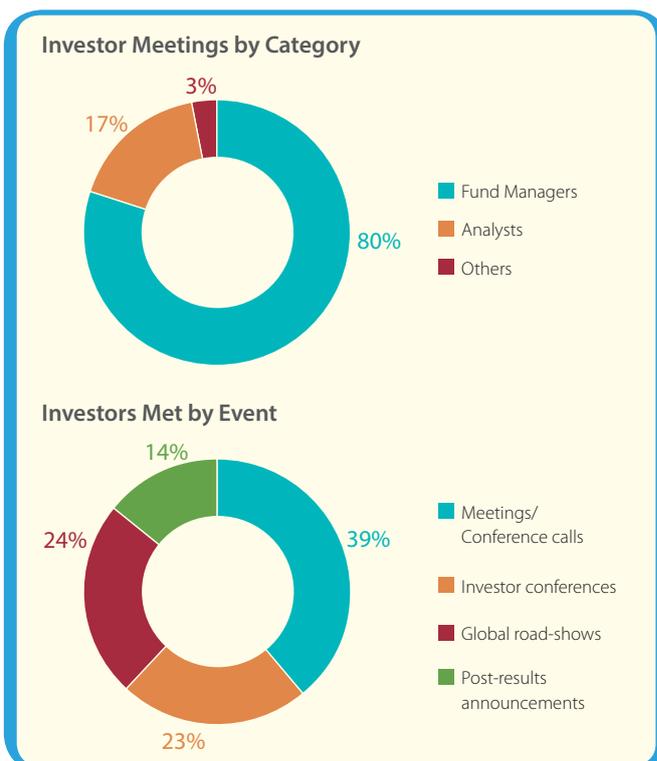
At the Company's 2013 annual results announcement and 2014 interim results announcement, the senior management led by the Chief Executive conducted briefings with analysts and the press to apprise them of the Company's operating and financial results, business strategies and outlook. The presentation materials, announcements and webcasts were available to the public on the Company's website.

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

Communication with the Investment Community

In 2014, the Company held about 130 meetings with investors and analysts across the world, with a total attendance of approximately 400. These meetings, which were conducted to give investors a better understanding of the Company's strategies and new business initiatives, were held during global road-shows, investor conferences, company visits and conference calls. The Company is widely covered by more than 15 securities research institutions.

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



Investor Relations Awards

In 2014, BOC Hong Kong (Holdings) received the Best Investor Relations Company of the Asian Excellence Recognition Awards 2014 by *Corporate Governance Asia*. This accolade is based both on the scores from the data that were submitted by the publication's readers and from interviews conducted with investors. The award reflects the investment community's recognition of the Company's achievements in investor relations.

Going Forward

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

Investor Relations Contact

Enquiries can be directed to:

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

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

Shareholder Information

Financial Calendar 2015

Major Events	Dates
Announcement of 2014 annual results	25 March (Wednesday)
Latest time for lodging transfers for entitlement to attend and vote at the 2015 Annual General Meeting	10 June (Wednesday) 4:30 p.m.
Book closure period (both days inclusive)	11 June (Thursday) to 16 June (Tuesday)
Latest time for lodging proxy forms for the 2015 Annual General Meeting	14 June (Sunday) 2:00 p.m.
2015 Annual General Meeting	16 June (Tuesday) 2:00 p.m.
Last day in Hong Kong for dealing in the Company's shares with entitlement to final dividend	17 June (Wednesday)
Ex-dividend date	18 June (Thursday)
Latest time for lodging transfers for entitlement to final dividend	19 June (Friday) 4:30 p.m.
Book closure period (both days inclusive)	22 June (Monday) to 25 June (Thursday)
Record date for final dividend	25 June (Thursday)
Final dividend payment date	3 July (Friday)
Announcement of 2015 interim results	Mid to late August

Annual General Meeting

The 2015 Annual General Meeting will be held at 2:00 p.m. on Tuesday, 16 June 2015 at Four Seasons Grand Ballroom, Level 2, Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong.

Investor Relations

Share Information

Listing and Stock Codes

Ordinary Shares

The Company's ordinary shares are listed and traded on The Stock Exchange of Hong Kong Limited ("HKEX").

Stock codes

HKEX	2388
Reuters	2388.HK
Bloomberg	2388 HK

Level 1 ADR Programme

The Company maintains a Level 1 ADR facility for its ADSs. Each ADS represents 20 ordinary shares of the Company.

Stock codes

CUSIP No.:	096813209
OTC Symbol:	BHKLY

Market Capitalisation and Index Recognition

As at 31 December 2014, the Company's market capitalisation was HK\$274.4 billion, among the top 20 leading stocks on the Main Board of Hong Kong Stock Exchange in terms of market capitalisation. Given the Company's market capitalisation and liquidity, its shares are a constituent of Hang Seng Index, MSCI Index and FTSE Index series. In addition, the Company is a constituent of Hang Seng Corporate Sustainability Index Series and Hang Seng High Dividend Yield Index, which recognises its performance in related areas.

Debt Securities

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

Subordinated Notes

Description : Bank of China (Hong Kong) Limited 5.55% Subordinated Notes due 2020

Issue size : US\$2,500 million

Stock codes	: HKEX	4316
	: ISIN	USY1391CAJ00 (Regulation S)
		US061199AA35 (Rule 144A)
	: Bloomberg	E11388897

Senior Notes

Description : Bank of China (Hong Kong) Limited 3.75% Senior Notes due 2016 issued under the Medium Term Note Programme of US\$15 billion

Issue size : US\$750 million

Stock codes	: HKEX	4528
	: ISIN	USY1391CDU28 (Regulation S)
		US061199AB18 (Rule 144A)
	: Bloomberg	E18623411

Share Price and Trading Information

Share price (HK\$)	2014	2013	2012
Closing price at year end	25.95	24.85	24.10
Highest trading price during the year	27.95	28.00	25.00
Lowest trading price during the year	21.50	22.85	18.18
Average daily trading volume (m shares)	11.05	11.47	11.77
Number of ordinary shares issued (shares)	10,572,780,266		
Public float	Approximately 34%		

Dividends

The Board of Directors has recommended a final dividend of HK\$0.575 per share, which is subject to the approval of shareholders at the 2015 Annual General Meeting. With the interim dividend per share of HK\$0.545 paid during 2014, the total dividend per share will amount to HK\$1.120 for the full year.

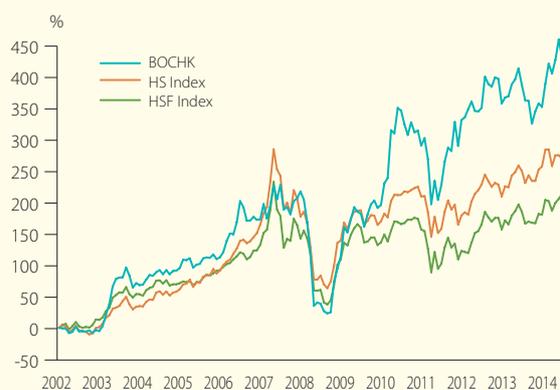
Dividend Per Share and Dividend Yield⁽¹⁾



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

(2) 2014 proposed final dividend will be subject to shareholders' approval at the Company's forthcoming Annual General Meeting.

Total Shareholder Return since Initial Public Offering



Source: Bloomberg

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

Credit Ratings (long-term)

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

Shareholding Structure and Shareholder Base

As at 31 December 2014, the Company had 10,572,780,266 shares in issue of which approximately 34% was held by the public and 0.47% was held in the form of ADSs. The Company's 82,529 registered shareholders were distributed in various parts of the world, including Asia, Europe, North America and Australia. Apart from BOC, the Company is not aware of any major shareholders with a shareholding of more than 5% which has to be reported under the SFO.

During the year, the shareholder structure of the Company remained stable. The following table shows the distribution of ownership according to the register of members which includes registered shareholders and shareholders recorded in the participant shareholding report generated from the Central Clearing and Settlement System as at 31 December 2014:

Category	Number of registered shareholders	% of registered shareholders	Number of shares held by registered shareholders	% of total issued share capital
Individuals	82,394	99.84	235,822,577	2.23
Institutions, corporates and nominees ^{Note}	134	0.16	3,395,879,933	32.12
Bank of China Group ^{Note}	1	0.00	6,941,077,756	65.65
Total	82,529	100.00	10,572,780,266	100.00

Note:

As recorded in the register maintained by the Company pursuant to section 336 of the SFO, the total number of shares held by Bank of China Group was 6,984,274,213 shares, representing 66.06% of the total issued share capital of the Company as at 31 December 2014. This figure included certain numbers of shares held for Bank of China Group in the securities account opened with BOCI Securities Limited, a participant of Central Clearing and Settlement System. Accordingly, these shares are included under the category of 'Institutions, corporates and nominees'.

Shareholder Enquiries

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

Hong Kong

Computershare Hong Kong Investor Services Limited
 17M Floor, Hopewell Centre
 183 Queen's Road East, Wan Chai, Hong Kong
 Telephone: (852) 2862 8555
 Facsimile: (852) 2865 0990
 E-mail: hkinfo@computershare.com.hk

USA

Citibank Shareholder Services
 250 Royall Street
 Canton, MA 02021, USA
 Telephone: 1-877-248-4237 (toll free)
 1-781-575-4555 (outside USA)
 E-mail: Citibank@shareholders-online.com

Other Information

This Annual Report is available in both English and Chinese. A copy prepared in the language different from that in which you have received is available by writing to the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or email to bochk.ecom@computershare.com.hk. This Annual Report is also available (in both English and Chinese) on the Company's website at www.bochk.com and the

Stock Exchange's website at www.hkexnews.hk. You are encouraged to access the corporate communications of the Company through these websites in lieu of receiving printed copies to help protect the environment. We believe that it is also the most efficient and convenient method of communication with our shareholders.

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

Cross-border
Services

RMB¥

HK Stocks

RMB¥

RMB¥

RMB¥



Shanghai-H
Stock Conn
HKD\$

HKD\$
RMB¥ HKD\$
HKD\$
HKD\$



Corporate Social Responsibility



Customers



Employees



Environment

Community



As a leading banking group in Hong Kong, we implement a full spectrum of Corporate Social Responsibility ("CSR") initiatives that contribute towards the sustainable development of the economy, society and the environment. We undertake this commitment because we recognise that fulfilling our CSR objectives is crucial for maintaining our long-term core competitiveness and forging closer relationships with our stakeholders. It also helps us achieve our vision of becoming the premier choice for customers, employees, shareholders and investors.

Embedded in our core business strategies and operations is our commitment to sustainability and stakeholder engagement. We have put in place policies for CSR, Environment and Sustainable Procurement to ensure that our CSR strategy is applied and integrated across the Group. This begins with maintaining effective communication with our stakeholders so that we can identify areas for improvement. During the year, we continued to seek their feedback in independent interviews under our Five-Year Stakeholder Engagement Plan from 2012 to 2016. To provide transparent disclosure of our CSR progress, we publish an annual CSR Report that makes reference to both international and local Environmental, Social and Governance ("ESG") reporting guidelines.

Our commitment to CSR has earned us wide recognition. For five years in a row, BOC Hong Kong (Holdings) Limited has been included as a constituent of the Hang Seng Corporate Sustainability Index Series. In acknowledgement of our efforts to implement family-friendly employment practices, we were presented the Award of Distinguished Family-Friendly Employer 2013/2014 by the Family Council. BOCHK has also been named a Caring Company by the Hong Kong Council of Social Service every year since 2003.



Access to Banking and Finance

We believe that people from all walks of life in the community, including the underprivileged and grassroots of society, should have access to banking services.



Caring Banking Services

100% 
ATMs provide protruding symbols

The Group provides ATMs with special functions and features, as part of our ongoing efforts to make our banking services more accessible. We are the first and only local bank to introduce Voice Navigation

ATMs for the convenience of the visually impaired and, in 2014, extended access to self-service banking by setting up new Voice Navigation ATMs in different districts. Protruding symbols are provided on all of our ATMs, while around 94% have soft keypads on both sides of the screen to aid in account/service selection. We also review the design and planning of our ATMs on a continuous basis in order to better serve our customers with special needs.

Account holders above the age of 65 or below 18, as well as recipients of government financial assistance, can enjoy service fee waivers on counter transactions. We also provide a HKD savings account with no minimum balance requirements and a free ATM card. In addition, no service fee is charged on dormant accounts in support of the Hong Kong Monetary Authority's Treat Customers Fairly Charter.

The Group serves customers looking for flexible retirement financial solutions. As a leading bank in the Reverse Mortgage Programme, we organised a series of seminars during the year to help retirees and the soon-to-be retired plan for their financial security.

Capitalising on our convenient banking platform, we offer NGOs a complete banking solution, including counter and payroll services to reduce their banking expenses. Additionally, we help increase their administrative efficiency through our comprehensive cash management solutions and facilitate donation collections with our Electronic Bill Presentment and Payment Service. We also waive the transaction processing fees for donations made through BOC credit cards.



As a leading bank in the Reverse Mortgage Programme, we organise a series of seminars to help retirees plan for their financial security

Diversified Financing Solutions

The SME sector is an important pillar for the economic growth of Hong Kong. We therefore have been lending tremendous support to SMEs with a wide range of financing solutions and services to meet their diverse liquidity needs for business

development. These include the BOC Small Business Loan, the Hong Kong Mortgage Corporation Limited's Microfinance and SME Financing Guarantee schemes as well as the Trade and Industry Department's SME Loan Guarantee Scheme. Through our sponsorship of SME One, a consultancy centre set up by the Hong Kong Productivity Council, we helped SMEs stay abreast of the latest market trends, IT solutions and financing developments for the third consecutive year.

To foster the growth of SMEs, we have been sponsoring the Young Industrialist Awards of Hong Kong and the Industrialist of the Year Award, as well as the Hong Kong Awards for Industries. Our long-term support for SMEs has earned us recognition as the Best SME's Partner by the Hong Kong General Chamber of Small and Medium Business for seven consecutive years.

The Group has been sponsoring the Young Industrialist Awards of Hong Kong and the Industrialist of the Year Award in recognition of the outstanding achievements of local business elites



Conserving our Resources for the Environment

We endeavour to minimise our environmental impacts by reducing our carbon footprint, using resources more efficiently and effectively, and promoting environmentally responsible business practices.



With an aim of promoting low-carbon living, we have supported the 1,000 Environment-Friendly Youth Ambassadors Action Programme since 2011

Building a Green Bank

In our operations, we make extensive use of electronic services to reduce paper consumption by encouraging customers to access e-posters and LED monitors in our renovated branches. In addition to our convenient internet and mobile banking services, we have implemented a paperless branch teller model in all our branches in Hong Kong and the average transaction

time is reduced by 24%. In 2014, over 90% of cash withdrawal transactions were conducted via ATMs, while more than 75% of financial transactions and over 80% of securities trading were completed through e-channels. The number of customers choosing to receive consolidated e-statements also continued to grow.

> 75%
of financial
transactions and
> 80%
of securities trading were
completed through e-channels



To encourage greener practices among our corporate customers and suppliers, we have incorporated ESG factors into our lending and procurement assessment. In 2014, we continued to offer our Energy Efficiency Loan Scheme, which was launched together with the two local electricity companies, to extend loans to commercial and industrial customers carrying out energy-saving initiatives. As to our suppliers, we request that they complete a Self-Assessment Questionnaire to ensure compliance with our Supply Chain Code of Conduct.

We have also implemented energy-efficient and water-saving measures in our own buildings. Bank of China Tower, Bank of China Building, Bank of China Centre and Bank of China Wanchai Commercial Centre have all been awarded international and local certifications for environmental performance over the past few years. Significant electricity

reduction was achieved in our Data Centre as a result of the energy-efficient cooling systems we installed there.

For our staff, we have in-house recycling programmes for paper, plastic bottles, cans, batteries, lighting fixtures, toner cartridges and food waste. In addition, we provide a green menu every Monday to tie in with the Green Monday School Programme supported by the BOCHK Charitable Foundation ("the Foundation") that advocates a vegetarian diet to help reduce carbon emissions. As a sponsor of the Greeners Action's Red Packet Recycling Programme, we collect used red packets in our buildings and branches for processing and distribution to the public for use in the following year.

Promoting Carbon Reduction in the Community

Environmental education in the community is another key focus of our CSR work. The Foundation offers its continuous support to various green campaigns through key partnerships that promote low-carbon living at both the school and community levels.



As the title sponsor of the Green Monday School Programme, we help advocate a vegetarian diet on campuses

Corporate Social Responsibility

As the title sponsor of the Green Monday 2013-2015 School Programme, we encourage students to follow a vegetarian diet. We made good progress with this programme in 2014, achieving a substantial increase in the number of participating schools from 400 to 800 and reaching 600,000 students. The meatless meal order rate also recorded a significant increase of 35.7% to 228,000. Other initiatives introduced during the year included organising the Short Film Competition and the Chinese University Go Veggie Campaign for tertiary school students and serving green recipes to kindergarten students.



The meatless meal order rate at schools recorded a significant increase of **35.7%**

Over the years, the Foundation has cooperated with the Association for Geoconservation, Hong Kong to implement a number of green campaigns. For example, we launched the world's first-ever *Global Geoparks iBook Series* in 2014 to promote global geoparks in the Mainland of China and Hong Kong through an interactive electronic platform. As a sponsor of the 1,000 Environment-Friendly Youth Ambassadors Action Programme since 2011, we have supported the training of



The Foundation fully supported the launch of the world's first-ever Global Geoparks iBook Series to promote global geoparks

more than 5,000 youths from the Mainland. These ambassadors play an active role in raising public awareness of the need for energy saving and carbon reduction.

Ever since we first spearheaded the Hong Kong Geopark Charity Green Walk in 2009, we have been constantly enriching this programme. Recent activities have included the 2013/2014 BOCHK's LOHAS Community – Eco Charity Walk and Photo Tours, 2014/2015 Hong Kong Coastal Geology and Ecology Tours and a dedicated social media page to promote geopark conservation. We have received an overwhelming response to these programmes, with more than 13,600 participants in over 130 eco-tours. Our new Shoreline Clean-up Volunteer Programme has been included as part of the activities organised by the Environmental Protection Department to encourage marine conservation.



While enjoying healthy hiking activity, participants of the Hong Kong Coastal Geology and Ecology Tours are encouraged to join our Shoreline Clean-up programme





Contributing to Society

Rooted in Hong Kong, we actively participate in a wide range of charitable activities to spread the message of caring for all members of society. Over the past 20 years, the Foundation has contributed over HK\$200 million to the community and in 2014 sponsored a total of 29 programmes.

We help support the chronically ill through music

Caring for the Communities We Serve

We reach out to the wider community by continuing to support activities organised by charitable organisations. In 2014, the Foundation sponsored the New Territories Walk for Millions – Stonecutters Bridge and the Community Chest BOCHK Cycling Challenge organised by the Community Chest of Hong Kong (“the Chest”), helping to raise over HK\$8 million for children and youth services. As the title sponsor of the Chest’s Charity Golf Tournament for four consecutive years, we helped raise

HK\$1.5 million in 2014 for psychiatric patients and rehabilitation services.

To spread the message of caring through music, the Foundation has been working with the Hospital Authority Chinese Orchestra under the 2014/2015 Caring Programme. Through a series of seasonal concerts and Chinese music therapy workshops at public hospitals, we helped support the chronically ill, medical staff and the elderly. Over 2,000 tickets were donated to them to enjoy the large-scale music concert.



BOCG Life is the sponsor of the three-year Health Engineer Programme, which encourages primary students to develop healthy habits by taking more exercise

Under the 2013/2014 Caritas BOCHK Computer Donation Scheme, we provided refurbished computers and donations to the Caritas Computer Workshop, giving the disadvantaged access to electronic devices.

The three-year Health Engineer Programme and five-year Kids The Future Programme, sponsored by our insurance arm BOCG Life, continued to organise health seminars and special interest classes for over 8,000 participants from local primary schools. Our Mainland subsidiary, NCB (China) supported homes for the elderly, victims of natural disasters and Yangping School on the Mainland through its donations.

Supporting Educational Programmes

To nurture the next generation, we have awarded HK\$17.57 million in scholarships and bursaries to nine universities in Hong Kong, benefitting a total of 1,910 students since 1990. The Group also provides local and Mainland summer internship opportunities that enable university students to gain personal experience in an actual workplace environment.

Our insurance arm sponsored the BOCG Life Young Reporter Programme organised by the *South China Morning Post*. This three-month programme is designed to enhance the communication skills of secondary students, equipping them for their future careers.

We recognise that caring has no boundaries. In 2014, we sponsored the Education Walkathon and the Charity Golf Tournament of Sowers Action, both of which raise funds to help improve rural education on the Mainland. Over HK\$1.5 million was raised by the Education Walkathon to Jiangxi Province.

Promoting Sports Development

Participation in sports not only promotes good health but also develops a positive mindset. In support of badminton, the Foundation has donated a total of more than HK\$15.85 million over the past 16 years to fund a diverse range of activities that benefitted more than 1.2 million participants.

To promote sporting excellence among young athletes, the Foundation has sponsored the Hong Kong Island and Kowloon Regional Inter-school Sports Competition for 12 consecutive years. In 2014, this popular event achieved around 80,000 athlete enrolments from over 270 schools at more than 8,000 matches. The first-ever BOCHK Schools Sports Volunteer Scheme launched in 2013 offered volunteer training to over 400 students from more than 50 secondary schools, who contributed over 6,200 hours of service in inter-school sports events. As a result of the Scheme, students were successfully educated in the concept of lending a helping hand to others in the community.



We invited Ms Yip Pui Yin and Mr Ng Ka Long, the Hong Kong badminton team members, to help promote among the public the benefits of playing badminton

Promoting Culture

As culture enriches our lives and enhances creativity, the

Group continued to support cultural events and performances during the year.

In 2014, the Group sponsored the Paris Chinese Painting Legacy of 20th Century Chinese Masters presented during Le French May. This exhibition showcased a magnificent ensemble of more than 100 works by painters such as Wu Guanzhong and Lin Fengmian, giving the public the opportunity to appreciate the exceptional artistry of these famous Chinese artists. We also supported the Hong Kong Trade Development Council's Tea Sharing for the fourth consecutive year to promote the tea culture.

Moreover, we sponsored a performance of the Hong Kong Philharmonic featuring the world-famous pianist Lang Lang, who played a selection of enchanting piano classics. Our support of the Hong Kong Chinese Orchestra – Majestic Drums concert promoted the spirit of vitality that the drums represent.

The VIP guests officiated at the ceremony of the Paris Chinese Painting Legacy of 20th Century Chinese Masters



A People-oriented Bank

People are at the heart of our sustainable development programmes. As at the end of 2014, the Group employed a staff of over 14,800, including talented professionals with diverse backgrounds and experiences.



The Group provides multi-faceted training, including the Leadership Development Programme



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

Staff Training and Development

We have laid a solid foundation for our future business development with comprehensive talent management and training programmes at various staff levels.

To align our staff development plan with the Group's medium- and long-term business strategies, we set up a Leadership Model and Fundamental Competency Model in 2014 to specify the respective competency levels for leadership and non-leadership roles. Both models provide clear objectives for personal development and serve as the foundation for our talent recruitment and staff performance assessments.

Our systematic training mechanism includes multi-faceted training programmes, such as our Leadership Development Programme for management staff, as well as in-house training and cross-postings for other staff. By making compliance training courses mandatory for every employee, we have strengthened our compliance culture throughout the Group. We also encourage continuous self-learning via e-platform to fulfil our staff's learning objectives.



Corporate Social Responsibility

Employee Engagement and Well-being

The Group conducts a staff opinion survey which contributes to the continuous enhancement of our working environment and staff management policies. As a family-friendly employer, we provide free annual body checks, competitive medical schemes and counselling services. Our staff can also enjoy early leave on their birthdays and festivals, as well as paid paternity leave. To promote work-life balance, we organise a variety of recreational activities and sports competitions. Our staff fun day at Hong Kong Disneyland in September 2014 recorded a phenomenal turnout of over 27,000 participants. Outstanding staff and distinguished teams are recognised at an annual award presentation, which motivates staff to strive for excellence.



We organised a Staff Fun Day at Hong Kong Disneyland and various recreational activities for our colleagues and their families to participate



BOCHK Choir won the Gold Award at the finals of the "On Stage of Hong Kong Coliseum" Choir Contest

In recognition of our staff development efforts and involvement, we received the Employee Engagement Award – Banking: Best-in-Class from *Benchmark* in 2014.

Employee Volunteering

Involving our employees in meaningful community initiatives benefits both our staff and the community. As at the end of 2014, over 1,400 employees registered as members of BOCHK Dynamic Volunteer Team. Their hours of service grew significantly in 2014 by 81% over the year before. In addition to





We enthusiastically supported the HKAB's Little Volunteers, Big Hearts to proactively spread the message of caring and help build a harmonious society

As at the end of 2014,
> 1,400  Employees
 registered as members of our
 Dynamic Volunteer Team

As the alternate chairman bank of the Hong Kong Association of Banks ("HKAB") this year, we enthusiastically supported the launch of the Little Volunteers, Big Hearts volunteering programme. Our staff represented the Group and joined with student volunteers on visits to low-income families. To promote financial literacy, our team participated in educational activities organised by HKAB. These included the Junior Banker Induction Programme for secondary students, Financial Education Workshops for low-income families and the ATM Education Programme for the elderly.

In recognition of our staff's community service, we have received the Gold Award for Volunteer Service by the Social Welfare Department for five consecutive years.

For 2015 and beyond, we will continue to enhance our CSR initiatives in order to create greater value for all of our stakeholders.

81% 
 increase of volunteer
 service hours in 2014

taking part in various community activities for children, the elderly and the disabled, our team supported the Group's CSR programmes such as providing computer training

for the underprivileged and assisting in eco-tours as well as music concerts and workshops. We also continued to arrange volunteer training for staff to strengthen their communication skills in serving those in need so that they can enjoy more rewarding volunteer experiences.



BOCHK Dynamic Volunteer Team took part in an astronomy class with the physically disabled

Our volunteers provide computer training to grassroot families



Awards and Recognition

With our solid financial position and outstanding business performance, we earned various honours which have further reinforced our leadership in the market. During the year, we were named the Strongest Bank in Asia Pacific and Hong Kong by *The Asian Banker* in recognition of our competence to drive long-term profitability. In addition, we won a number of accolades acknowledging the achievements we have made in enhancing customer experience through continuous product innovation and channel optimisation. These include awards for our RMB business, cash management, asset management, SME, internet and mobile banking, and credit card services. We also received wide recognition for our commitment to the sustainable development of the economy, society and the environment.

Financial Strength and Corporate Governance

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



RMB Business

- ISO 9001:2008 Quality Management System Certification presented to RMB Clearing Centre (**SGS Hong Kong Limited**)
- Shenzhen Financial Settlement System Innovation Award (**Shenzhen Financial Electronic Settlement Centre**)
- The Best RMB Bonds, Offshore (Three Years) and the Best RMB Manager in Hong Kong (**Asia Asset Management**)
- The Hong Kong Offshore RMB Centre – RMB Business Outstanding Awards (**Metro Finance, Metro Finance Digital and Wen Wei Po**):
 - Outstanding Corporate/Commercial Banking – Cross-border Trade
 - Outstanding Retail Banking – Multi-businesses
 - Outstanding Retail Banking – Electronic Banking Business
 - Outstanding Retail Banking – Credit Card
 - Outstanding Cross-border Mobile Payment Service
 - Outstanding Insurance – Annuity
 - Outstanding Insurance – Universal Life
 - Outstanding Insurance – Endowment
- Excellent Brand of RMB Banking Services (**Metro Finance and Metro Finance Digital**)
- The Best RMB Service Gold Award (**Metro Prosperity**)
- RMB Fixed Income Mutual Fund: Best-in-Class (**Benchmark**)





Service Excellence

- Best Retail Bank in Hong Kong and Achievement Award for the Best Cash Management Bank in Hong Kong (*The Asian Banker*)
- Hong Kong Domestic Cash Management Bank of the Year and Online Securities Platform of the Year – Hong Kong (*Asian Banking and Finance*)
- Top bank in the Hong Kong-Macau syndicated loan market (*Basis Point*)
- Operational Excellence Appreciation Award (*Wells Fargo Bank N.A., New York*)
- Quality Recognition Award for Outstanding Achievement (*J.P. Morgan Chase Bank, New York*)
- The Best Life Insurance Company in Hong Kong (*World Finance*)
- The Best SME's Partner Award (*The Hong Kong General Chamber of Small and Medium Business*)
- Eleven honours in the Outstanding Financial Management Planner Awards, including two Grand Awards and the Best Presentation Award (*The Hong Kong Institute of Bankers*)
- Four honours in the HKCCA Awards, including the Mystery Caller Assessment Award – Best of the Best (*The Hong Kong Call Centre Association*)
- Three honours in the Customer Service Excellence Award, including the Outstanding Customer Service Programme Award (*The Hong Kong Association for Customer Service Excellence*)
- Top Performer (Bank and Services) in the Quality Service Scheme and Mid-Year Encouragement Award (*Mass Transit Railway Corporation Limited*)
- Product and Service Innovation: Outstanding Achiever, Customer Commitment and Engagement – Insurance: Best-in-Class and Customer Insight – Insurance: Best-in-Class (*Benchmark*)



Awards and Recognition

- The Hong Kong Leaders' Choice Brand Awards (**Metro Finance and Metro Finance Digital**):
Excellent Brand of Mortgage – Banking
Excellent Brand of Securities Services – Banking
Excellent Brand of Import and Export Trade Services – Banking
Excellent Brand of Foreign Exchange Services
Excellent Brand of Cross-border Banking Services
Excellent Brand of Personal Credit Card
Excellent Brand of Mobile Payments
- The Best of Consumer e-Banking Service Provider and the Best of Mobile Banking Service Provider (**e-zone**)
- The Best Retail Bank Gold Award (**Metro Prosperity**)
- My Most Favourite Credit Card for Travelling Award (**U Magazine**)
- Celent Model Insurer Asia – Product Design/Product Definition (**Celent**, a research and consulting company in the U.S.)

UnionPay International:

- Bank of the Year Award and Highest UPOP Acquiring Volume – Gold Award in Hong Kong and Macau, as well as Highest Acquiring Volume – Gold Award in Hong Kong
- Highest UPOP Issuing Volume Award in Hong Kong and Macau, as well as Largest Card Number Award (Commercial Credit Card) in Hong Kong
- Largest Card Number, Highest Card Volume and Highest Card Volume Growth – Credit Card Gold Awards in Hong Kong

Visa International:

- Risk Management Best Fraud Control (Issuing) in Hong Kong and Macau
- Commercial Card (Business Card) and Infinite Card Largest Payment Volume Growth in Hong Kong
- Bank of the Year in Macau
- Platinum Card Highest Payment Volume and five other awards in payment and sales volumes in Macau
- Customer Service Standard: ISO 10002 Customer Complaint Management Certification presented to BOCCC (**Hong Kong Quality Assurance Agency**)
- ISO 9001:2008 Quality Management System Certification presented to Branch Services Centre (**SGS Hong Kong Limited**)
- Person-to-Person Telemarketing Code of Practice Certification presented to Call Centre (**Hong Kong Call Centre Association**)

Social Responsibility

Caring for Society

- Included as a constituent of the **Hang Seng Corporate Sustainability Index** and **Hang Seng (Mainland and HK) Corporate Sustainability Index** respectively, and a constituent of the **Hang Seng Corporate Sustainability Benchmark Index**
- President's Award (**The Community Chest of Hong Kong**)
- A Caring Company (**The Hong Kong Council of Social Service**)
- A Distinguished Family-Friendly Employer (**Family Council**)
- Gold Award for Volunteer Service and Award of 10,000 hours for Volunteer Service (**Social Welfare Department**)
- Corporate Citizenship – Banking: Outstanding Achiever (**Benchmark**)





Environmental Protection

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

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

BOC Tower, BOC Centre and BOC Wanchai Commercial Centre:

- ISO 50001:2011 Energy Management System Certification (**UKAS/SGS Hong Kong Limited**)

BOC Tower, BOC Building, BOC Centre and BOC Group Life Assurance Tower:

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



Talent Development Management

- Social Capital Builder Award (**Labour and Welfare Bureau as well as Community Investment and Inclusion Fund**)
- Qualifications Framework Partnerships Commendation (**Education Bureau**)
- Four honours in the Awards for Excellence in Training and Development, including the Bronze Award for the Training and Development Programme (**Hong Kong Management Association**)
- Employee Engagement – Banking: Best-in-Class (**Benchmark**)
- Gold Award presented to BOCHK Choir at the finals of the “On Stage of Hong Kong Coliseum” Choir Contest (**Hong Kong Celebrations Association**)

Promotional Campaigns

- Outstanding Corporate Image Award (**TVB Weekly**)
- Metro Creative Awards – The Best CSR Ad (**Metro Daily**)
- Silver Award for Promotion – Product Launch: Enrich Banking Service (**Astrid Awards**)
- Silver Award for Advertisements/Commercials – Banks/Credit Cards: “Power Up Your Wealth” TVC (**Questar Awards**)
- Bronze Award for Interior Design and Honours for the Cover Photo/Design (Hong Kong/PRC) in the Banking and Financial Services Category: BOC Hong Kong (Holdings) Limited’s Annual Report 2013 (**International ARC Awards**)

109	Independent Auditors' Report
110	Consolidated Income Statement
111	Consolidated Statement of Comprehensive Income
112	Statement of Comprehensive Income
113	Consolidated Balance Sheet
114	Balance Sheet
115	Consolidated Statement of Changes in Equity
116	Statement of Changes in Equity
117	Consolidated Cash Flow Statement
118	Notes to the Financial Statements
262	Unaudited Supplementary Financial Information

Independent Auditors' Report



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

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

We have audited the consolidated financial statements of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 110 to 261, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated income statement, the consolidated and company statements of comprehensive income, the consolidated and company statements of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the Hong Kong Companies Ordinance (Chapter 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong, 25 March 2015

Consolidated Income Statement

For the year ended 31 December	Notes	2014 HK\$'m	2013 HK\$'m
Interest income		47,952	39,379
Interest expense		(16,033)	(11,463)
Net interest income	6	31,919	27,916
Fee and commission income		14,005	12,716
Fee and commission expense		(3,883)	(3,751)
Net fee and commission income	7	10,122	8,965
Gross earned premiums		16,741	17,966
Gross earned premiums ceded to reinsurers		(9,086)	(8,796)
Net insurance premium income		7,655	9,170
Net trading gain	8	2,162	2,957
Net gain/(loss) on financial instruments designated at fair value through profit or loss		25	(159)
Net gain on other financial assets	9	846	83
Other operating income	10	721	654
Total operating income		53,450	49,586
Gross insurance benefits and claims		(19,146)	(18,277)
Reinsurers' share of benefits and claims		9,978	9,004
Net insurance benefits and claims and movement in liabilities	11	(9,168)	(9,273)
Net operating income before impairment allowances		44,282	40,313
Net charge of impairment allowances	12	(1,050)	(737)
Net operating income		43,232	39,576
Operating expenses	13	(12,972)	(12,083)
Operating profit		30,260	27,493
Net gain from disposal of/fair value adjustments on investment properties	14	393	264
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	15	(24)	1
Share of profits less losses after tax of associates and a joint venture	29	34	35
Profit before taxation		30,663	27,793
Taxation	16	(5,558)	(4,718)
Profit for the year		25,105	23,075
Profit attributable to:			
Equity holders of the Company		24,577	22,252
Non-controlling interests		528	823
		25,105	23,075
Dividends	18	11,842	10,679
		HK\$	HK\$
Earnings per share for profit attributable to the equity holders of the Company			
Basic and diluted	19	2.3246	2.1046

The notes on pages 118 to 261 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Notes	2014 HK\$'m	2013 HK\$'m
Profit for the year		25,105	23,075
Items that will not be reclassified subsequently to income statement:			
Premises:			
Revaluation of premises		3,309	4,129
Deferred tax	39	(451)	(666)
		2,858	3,463
Items that may be reclassified subsequently to income statement:			
Available-for-sale securities:			
Change in fair value of available-for-sale securities		2,918	(6,570)
Release upon disposal of available-for-sale securities reclassified to income statement		(813)	(116)
Amortisation with respect to available-for-sale securities transferred to held-to-maturity securities reclassified to income statement		304	–
Deferred tax	39	(706)	1,203
		1,703	(5,483)
Change in fair value of hedging instruments under net investment hedges		49	(54)
Currency translation difference		(288)	331
		1,464	(5,206)
Other comprehensive income for the year, net of tax		4,322	(1,743)
Total comprehensive income for the year		29,427	21,332
Total comprehensive income attributable to:			
Equity holders of the Company		28,580	20,933
Non-controlling interests		847	399
		29,427	21,332

The notes on pages 118 to 261 are an integral part of these financial statements.

Statement of Comprehensive Income

For the year ended 31 December	Note	2014 HK\$'m	2013 HK\$'m
Profit for the year	17	6,128	13,519
Items that may be reclassified subsequently to income statement:			
Available-for-sale securities:			
Change in fair value of available-for-sale securities		(137)	273
Other comprehensive income for the year, net of tax		(137)	273
Total comprehensive income for the year		5,991	13,792

The notes on pages 118 to 261 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December	Notes	2014 HK\$'m	2013 HK\$'m
ASSETS			
Cash and balances with banks and other financial institutions	22	398,673	353,741
Placements with banks and other financial institutions maturing between one and twelve months		37,436	46,694
Financial assets at fair value through profit or loss	23	53,994	43,493
Derivative financial instruments	24	33,353	25,348
Hong Kong SAR Government certificates of indebtedness		90,770	99,190
Advances and other accounts	25	1,014,129	924,943
Investment in securities	27	438,826	440,720
Interests in associates and a joint venture	29	324	292
Investment properties	30	14,559	14,597
Properties, plant and equipment	31	55,207	52,358
Deferred tax assets	39	167	304
Other assets	32	51,929	45,256
Total assets		2,189,367	2,046,936
LIABILITIES			
Hong Kong SAR currency notes in circulation	33	90,770	99,190
Deposits and balances from banks and other financial institutions		235,780	278,273
Financial liabilities at fair value through profit or loss	34	12,260	13,580
Derivative financial instruments	24	20,787	18,912
Deposits from customers	35	1,480,109	1,324,148
Debt securities and certificates of deposit in issue	36	11,901	5,684
Other accounts and provisions	37	51,957	48,149
Current tax liabilities		2,778	2,562
Deferred tax liabilities	39	8,081	6,944
Insurance contract liabilities	40	73,796	66,637
Subordinated liabilities	41	19,676	19,849
Total liabilities		2,007,895	1,883,928
EQUITY			
Share capital	42	52,864	52,864
Reserves	43	123,850	105,949
Capital and reserves attributable to the equity holders of the Company		176,714	158,813
Non-controlling interests		4,758	4,195
Total equity		181,472	163,008
Total liabilities and equity		2,189,367	2,046,936

The notes on pages 118 to 261 are an integral part of these financial statements.

Approved by the Board of Directors on 25 March 2015 and signed on behalf of the Board by:



TIAN Guoli
Director



YUE YI
Director

Balance Sheet

As at 31 December	Notes	2014 HK\$'m	2013 HK\$'m
ASSETS			
Bank balances with a subsidiary		97	84
Investment in securities	27	2,664	2,801
Investment in subsidiaries	28	54,834	54,834
Amounts due from a subsidiary		3,185	7,747
Other assets		1	1
Total assets		60,781	65,467
LIABILITIES			
Amounts due to a subsidiary		2	–
Total liabilities		2	–
EQUITY			
Share capital	42	52,864	52,864
Reserves	43	7,915	12,603
Total equity		60,779	65,467
Total liabilities and equity		60,781	65,467

The notes on pages 118 to 261 are an integral part of these financial statements.

Approved by the Board of Directors on 25 March 2015 and signed on behalf of the Board by:



TIAN Guoli
Director



YUE Yi
Director

Consolidated Statement of Changes in Equity

	Attributable to the equity holders of the Company								
	Share capital HK\$'m	Premises revaluation reserve HK\$'m	Reserve for fair value changes of available- for-sale securities HK\$'m	Regulatory reserve* HK\$'m	Translation reserve HK\$'m	Retained earnings HK\$'m	Total HK\$'m	Non- controlling interests HK\$'m	Total equity HK\$'m
At 1 January 2013	52,864	31,259	5,510	7,754	771	52,811	150,969	4,105	155,074
Profit for the year	-	-	-	-	-	22,252	22,252	823	23,075
Other comprehensive income:									
Premises	-	3,420	-	-	-	-	3,420	43	3,463
Available-for-sale securities	-	-	(5,009)	-	-	-	(5,009)	(474)	(5,483)
Change in fair value of hedging instruments under net investment hedges	-	-	-	-	(50)	-	(50)	(4)	(54)
Currency translation difference	-	3	(13)	-	330	-	320	11	331
Total comprehensive income	-	3,423	(5,022)	-	280	22,252	20,933	399	21,332
Transfer from retained earnings	-	-	-	1,240	-	(1,240)	-	-	-
Dividends	-	-	-	-	-	(13,089)	(13,089)	(309)	(13,398)
At 31 December 2013	52,864	34,682	488	8,994	1,051	60,734	158,813	4,195	163,008
At 1 January 2014	52,864	34,682	488	8,994	1,051	60,734	158,813	4,195	163,008
Profit for the year	-	-	-	-	-	24,577	24,577	528	25,105
Other comprehensive income:									
Premises	-	2,837	-	-	-	-	2,837	21	2,858
Available-for-sale securities	-	-	1,399	-	-	-	1,399	304	1,703
Change in fair value of hedging instruments under net investment hedges	-	-	-	-	46	-	46	3	49
Currency translation difference	-	(3)	43	-	(319)	-	(279)	(9)	(288)
Total comprehensive income	-	2,834	1,442	-	(273)	24,577	28,580	847	29,427
Release upon disposal of premises	-	(6)	-	-	-	6	-	-	-
Transfer from retained earnings	-	-	-	1,017	-	(1,017)	-	-	-
Dividends	-	-	-	-	-	(10,679)	(10,679)	(284)	(10,963)
At 31 December 2014	52,864	37,510	1,930	10,011	778	73,621	176,714	4,758	181,472
Representing:									
2014 final dividend proposed (Note 18)						6,080			
Others						67,541			
Retained earnings as at 31 December 2014						73,621			

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

The notes on pages 118 to 261 are an integral part of these financial statements.

Statement of Changes in Equity

	Share capital HK\$'m	Reserve for fair value changes of available-for-sale securities HK\$'m	Retained earnings HK\$'m	Total equity HK\$'m
At 1 January 2013	52,864	1,272	10,628	64,764
Profit for the year	–	–	13,519	13,519
Other comprehensive income:				
Available-for-sale securities	–	273	–	273
Total comprehensive income	–	273	13,519	13,792
Dividends	–	–	(13,089)	(13,089)
At 31 December 2013	52,864	1,545	11,058	65,467
At 1 January 2014	52,864	1,545	11,058	65,467
Profit for the year	–	–	6,128	6,128
Other comprehensive income:				
Available-for-sale securities	–	(137)	–	(137)
Total comprehensive income	–	(137)	6,128	5,991
Dividends	–	–	(10,679)	(10,679)
At 31 December 2014	52,864	1,408	6,507	60,779

The notes on pages 118 to 261 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December	Notes	2014 HK\$'m	2013 HK\$'m
Cash flows from operating activities			
Operating cash inflow before taxation	44(a)	66,932	145,223
Hong Kong profits tax paid		(4,480)	(3,766)
Overseas profits tax paid		(750)	(401)
Net cash inflow from operating activities		61,702	141,056
Cash flows from investing activities			
Purchase of properties, plant and equipment	31	(1,025)	(1,096)
Purchase of investment properties	30	–	(2)
Proceeds from disposal of properties, plant and equipment		44	4
Dividend received from associates and a joint venture	29	2	2
Net cash outflow from investing activities		(979)	(1,092)
Cash flows from financing activities			
Dividend paid to the equity holders of the Company		(10,679)	(13,089)
Dividend paid to non-controlling interests		(284)	(309)
Repayment of subordinated loans		–	(6,668)
Interest paid for subordinated liabilities		(410)	(494)
Net cash outflow from financing activities		(11,373)	(20,560)
Increase in cash and cash equivalents		49,350	119,404
Cash and cash equivalents at 1 January		363,201	242,955
Effect of exchange rate changes on cash and cash equivalents		(8,723)	842
Cash and cash equivalents at 31 December	44(b)	403,828	363,201

The notes on pages 118 to 261 are an integral part of these financial statements.

Notes to the Financial Statements

1. Principal activities

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

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

2. Summary of significant accounting policies

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

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA and the requirements of the Hong Kong Companies Ordinance which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Chapter 32), in accordance with transitional and saving arrangements for Part 9 of the newly enacted Hong Kong Companies Ordinance (Chapter 622).

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, precious metals at fair value, investment properties which are carried at fair value and premises which are carried at fair value or revalued amount less accumulated depreciation and accumulated impairment losses.

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

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) **Amendments and interpretation that are already mandatorily effective for accounting periods beginning on 1 January 2014**

Amendments/ Interpretation	Content	Applicable for financial years beginning on	Currently relevant to the Group
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014	Yes
HKAS 36 (Amendment)	Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014	Yes
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	Yes
HKFRS 10, 12 and HKAS 27 (Amendments)	Investment Entities	1 January 2014	No
HK(IFRIC) – Int 21	Levies	1 January 2014	Yes

- HKAS 32 (Amendment), “Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities”. The amendment addresses inconsistencies in current practice when applying the offsetting criteria and clarifies the meaning of “currently has a legally enforceable right of set-off” including the circumstances of default event or insolvency for any one of all the parties; and the application of offsetting criteria to some gross settlement systems (such as central clearing house systems) that may be considered equivalent to net settlement. The adoption of this amendment does not have a material impact on the Group’s financial statements.
- HKAS 36 (Amendment), “Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets”. The amendment aligns the disclosure requirements with its original intention which does not intend to disclose at level of cash generating unit if it is not impaired. It also requires additional disclosure about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The adoption of this amendment does not affect the disclosure of the Group’s financial statements.
- HKAS 39 (Amendment), “Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting”. The amendment introduces a relief to allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation. The adoption of this amendment does not have a material impact on the Group’s financial statements.

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) **Amendments and interpretation that are already mandatorily effective for accounting periods beginning on 1 January 2014 (continued)**

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

(b) **Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2014**

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

Standards/Amendments	Content	Applicable for financial years beginning on/after	Currently relevant to the Group
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants	1 January 2016	No
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	No
HKAS 19 (2011) (Amendment)	Employee Benefits: Defined Benefit Plans	1 July 2014	No
HKAS 27 (2011) (Amendment)	Equity Method in Separate Financial Statements	1 January 2016	Yes
HKAS 28 (2011) and HKFRS 10 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016	Yes
HKFRS 9 (2014)	Financial Instruments	1 January 2018	Yes
HKFRS 11 (Amendment)	Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	No
HKFRS 14	Regulatory Deferral Accounts	1 January 2016	No
HKFRS 15	Revenue from Contracts with Customers	1 January 2017	Yes

- HKAS 27 (2011) (Amendment), “Equity Method in Separate Financial Statements”. The amendment restores the option to allow an entity to apply the equity method to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Early application is permitted. Entities electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. This amendment will not have any impact on the Group’s financial statements.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2014 (continued)

- HKAS 28 (2011) and HKFRS 10 (Amendment), "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The amendments address an acknowledged inconsistency between the requirements in HKFRS 10 and those in HKAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are to be applied prospectively, early application is permitted. The application of these amendments will not have a material impact on the Group's financial statements.
- HKFRS 9 (2014), "Financial Instruments". The issuance of IFRS 9 (2014) "Financial Instruments" completes the International Accounting Standards Board's comprehensive response to the financial crisis. HKFRS 9 (2014), the equivalent standard of IFRS 9 (2014) under HKFRS, includes a logical model for classification and measurement, a single, forward-looking "expected loss" impairment model and a tighter linkage of risk management to hedge accounting. The changes introduced in HKFRS 9 are highlighted as follows:

(i) Classification and Measurement

Financial assets

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

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2014 (continued)

(i) Classification and Measurement (continued)

Financial assets (continued)

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

Financial Liabilities

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

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

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

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the Group in 2014 (continued)

(ii) Impairment

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

(iii) Hedge accounting

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

Early application of HKFRS 9 in its entirety at the same time is permitted. Only the part related to own credit risk can be elected to be early applied in isolation. The Group is considering the financial impact of the standard and the timing of its application.

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) Improvements to HKFRSs

"Improvements to HKFRSs" contains numerous amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. The amendments are either effective and adopted for annual periods beginning on or after 1 July 2014 or will be effective on or after 1 January 2016. The adoption of these improvements does not have a material impact on the Group's financial statements.

In addition, the requirements of Part 9 "Accounts and Audit" of the newly enacted Hong Kong Companies Ordinance (Chapter 622) will be applied from the Company's first financial year commencing after 3 March 2014 in accordance with section 358 of that Ordinance, which will be the year ending 31 December 2015. The Group is still assessing the expected impact of the changes in the period of initial application. So far assessed, the impact is unlikely to be significant and will primarily affect the presentation and disclosure of information in the consolidated financial statements.

2.2 Consolidation

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

(1) Subsidiaries

Subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(i) Business combinations not under common control

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

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

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(1) Subsidiaries (continued)

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

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

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

(ii) Business combinations under common control

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

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

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(2) Transactions with non-controlling interests

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

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

(3) Associates and joint venture

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.3 Segmental reporting

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

2.4 Foreign currency translation

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

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

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

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

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

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

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting

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

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

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

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

- (a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or
- (b) hedges of a particular risk associated with a highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way.

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

(a) Fair value hedge

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

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

2. Summary of significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting (continued)

(a) Fair value hedge (continued)

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

(b) Cash flow hedge

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

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

(c) Net investment hedge

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

2.6 Offsetting financial instruments

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.8 Financial assets

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

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

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

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

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

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

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

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

(2) Loans and receivables

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

(3) Held-to-maturity

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

(4) Available-for-sale

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

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

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

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

2. Summary of significant accounting policies (continued)

2.9 Financial liabilities

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

(1) Trading liabilities

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

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

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

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

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

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

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

2.10 Financial guarantee contracts

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

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

2.11 Recognition and derecognition of financial instruments

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

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

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

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

2. Summary of significant accounting policies (continued)

2.12 Fair value measurement

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

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

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

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

2.13 Precious metals

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

2.14 Impairment of financial assets

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

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payment;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market or downgrading below investment grade level for that financial asset because of financial difficulties; or

2. Summary of significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

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

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

(1) Assets carried at amortised cost

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

(1) Assets carried at amortised cost (continued)

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

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

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

(2) Assets classified as available-for-sale

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

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

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

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

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

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

2.16 Investment properties

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

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

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

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

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

2.17 Properties, plant and equipment

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

2. Summary of significant accounting policies (continued)

2.17 Properties, plant and equipment (continued)

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

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

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

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

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

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

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

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

2.18 Leases

(1) Operating leases

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

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

(2) Finance leases

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

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

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

2.19 Insurance contracts

(1) Insurance contracts classification, recognition and measurement

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

The Group issues insurance contracts, which are contracts that transfer significant insurance risk. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefit payable if the insured event did not occur. The Group issues long term business insurance contracts, which insure events covered by life policies (for example death, survival, or total permanent disability) over a long duration. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised.

2. Summary of significant accounting policies (continued)

2.19 Insurance contracts (continued)

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

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

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

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

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

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

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

(2) Liability adequacy test

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

2.20 Cash and cash equivalents

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

2.21 Provisions

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

2.22 Employee benefits

(1) Retirement benefit costs

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

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

(2) Leave entitlements

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

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

(3) Bonus plans

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

2. Summary of significant accounting policies (continued)

2.23 Current and deferred income taxes

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

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

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

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

Deferred income tax liabilities are provided in full on all taxable temporary differences and deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

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

2.24 Repossessed assets

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

2.25 Fiduciary activities

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

2.26 Contingent liabilities and contingent assets

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

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

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

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

2.27 Related parties

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

3. Critical accounting estimates and judgements in applying accounting policies

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

3.1 Impairment allowances on loans and advances

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

Carrying amounts of loans and advances as at 31 December 2014 are shown in Note 25.

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

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

Carrying amounts of investment in securities as at 31 December 2014 are shown in Note 27.

Notes to the Financial Statements

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

3.3 Fair values of derivative financial instruments

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

Carrying amounts of derivative financial instruments as at 31 December 2014 are shown in Note 24.

3.4 Held-to-maturity securities

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

Carrying amounts of held-to-maturity securities as at 31 December 2014 are shown in Note 27.

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

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

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

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

Were the number of deaths in future years to differ by 10% (2013: 10%) from the Management's estimate, the long term business fund liability would increase by approximately HK\$106 million (2013: approximately HK\$79 million), which accounts for 0.17% (2013: 0.14%) of the liability. In this case, it is assumed there is no relief arising from reinsurance contracts held.

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

Estimates are also made as to future investment income arising from the assets backing long term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Were the average future investment returns to decrease by 50 basis points (2013: 50 basis points) from the Management's estimates, the long term business fund liability would increase by approximately HK\$1,132 million (2013: approximately HK\$941 million). In this case, it is assumed there is no relief arising from reinsurance contracts held.

The Group has also assessed whether a provision for expense is necessary in accordance with the Insurance Companies Ordinance. A provision for expense is the amount required to meet the total net cost that would likely be incurred in fulfilling contracts if the Group were to cease to transact new business 12 months after the valuation date.

A resilience reserve was set up and included in long term business fund liabilities in accordance with the Insurance Companies (Determination of Long Term Liabilities) Regulation to provide a prudent provision against the effects of possible future changes to the value of the assets to meet the liabilities. The resilience reserve was set up based on the appointed actuary's advice of a 33 basis points (2013: 35 basis points) change in market yield of the underlying assets and valuation interest rates. The amount of resilience reserve set up depends on the degree of change in interest rate assumed.

Notes to the Financial Statements

4. Financial risk management

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

Financial risk management framework

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

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

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

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

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

4. Financial risk management (continued)

Financial risk management framework (continued)

The Group's principal banking subsidiaries, NCB, NCB (China) and Chiyu, are subject to risk policies that are consistent with those of the Group. Moreover, the Group's non-banking subsidiaries, such as BOCG Life, are subject to the Group's risk management requirements. These subsidiaries are required to formulate their respective risk management policies based on the characteristics of their own industries, perform daily risk management responsibilities and report to BOCHK on a regular basis. Risk management units of BOCHK monitor the risk management status of these subsidiaries.

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

Product development and risk monitoring

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

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

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

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

Notes to the Financial Statements

4. Financial risk management (continued)

4.1 Credit Risk

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, as well as from on- and off-balance sheet transactions of the Group. It arises principally from lending, trade finance and treasury businesses.

Credit risk management framework

The Group has formulated a comprehensive set of credit risk management policies and procedures, and appropriate credit risk limits to manage and control credit risk that may arise. These policies, procedures and credit risk limits are regularly reviewed and updated to cope with changes in market conditions and business strategies.

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

The Chief Credit Officer, who reports directly to the CRO, takes charge of credit risk management and is also responsible for the control of credit risk exposures of subsidiaries in line with the credit risk management principles and requirements set by the Group. Various units of the Group have their respective credit risk management responsibilities. Business units act as the first line of defence. The Risk Management Department ("RMD"), which is independent from the business units, is responsible for the day-to-day management of credit risks and has the primary responsibility for providing an independent due diligence through identifying, measuring, monitoring and controlling credit risk to ensure an effective checks and balances, as well as drafting, reviewing and updating credit risk management policies and procedures. It is also responsible for the design, development and maintenance of the Group's internal rating system and ensures the system complies with the relevant regulatory requirements.

In accordance with Group's operating principle, the Group's principal banking subsidiaries, NCB, NCB (China) and Chiyu, have also formulated their own credit risk policies that are consistent with those of the Group. These subsidiaries execute their risk management strategies independently and report to the Group's Management on a regular basis.

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

4. Financial risk management (continued)

4.1 Credit Risk (continued)

Credit risk measurement and control

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

Advances

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

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

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

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

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

In the year of 2014, the Group continues to adopt loan grading criteria which divide credit assets into 5 categories with reference to HKMA's guidelines, as below:

"Pass" represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the Group's position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

Notes to the Financial Statements

4. Financial risk management (continued)

4.1 Credit Risk (continued)

Credit risk measurement and control (continued)

Advances (continued)

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

"Doubtful" represents loans where collection in full is improbable and the Group expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

"Loss" represents loans which are considered uncollectible after all collection options (such as the realisation of collateral or the institution of legal proceedings) have been exhausted.

Debt securities and derivatives

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

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

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

4. Financial risk management (continued)

4.1 Credit Risk (continued)

Collateral held as security and other credit enhancements

The valuation and management of collateral have been documented in the credit risk management policies and procedures which cover acceptance criteria, validity of collateral, loan-to-value ratio, haircut ratio, valuation and insurance, etc. The collateral is revalued on a regular basis, though the frequency and the method used varies with the type of collateral involved and the nature and the risk of the underlying credit. The Group has established a mechanism to update the value of its main type of collateral, real estate properties, with the use of public indices on a portfolio basis. Collateral is insured with the Group as the beneficiary. In the personal sector, the main types of collateral are real estate properties, cash deposits and securities. In the commercial and industrial sector, the main types of collateral are real estate properties, securities, receivables, cash deposits and machinery.

For loans guaranteed by a third party, the Group will assess the guarantor's financial condition, credit history and ability to meet obligations.

As at 31 December 2014, the Group did not hold any collateral that it was permitted to sell or re-pledge in the absence of default by the borrower (2013: Nil).

(A) Credit exposures

The maximum credit exposure is the worst case scenario of exposure to the Group without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the maximum exposure to credit risk equals their carrying amount. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the Group could be required to pay if the guarantees are called upon. For loan commitment and other credit related liabilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The nature of the collateral held and other credit enhancements and their financial effect to the different classes of the Group's financial assets are as follows.

Balances and placements with banks and other financial institutions

These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these assets.

Notes to the Financial Statements

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(A) Credit exposures (continued)

Financial assets at fair value through profit or loss and investment in securities

Collateral is generally not sought on debt securities.

Derivative financial instruments

The Master Agreement published by the International Swaps and Derivatives Association, Inc., ("ISDA Master Agreement") is the preferred agreement for documenting derivatives activities of the Group. It provides the contractual framework under which dealing activities of OTC transactions are conducted, and sets out close-out netting provisions upon termination following the occurrence of an event of default or a termination event. In addition, if deemed necessary, Credit Support Annex ("CSA") will be included to form part of the Schedule to the ISDA Master Agreement. Under a CSA, collateral is passed from one counterparty to another, as appropriate, to mitigate the exposures.

Advances and other accounts, contingent liabilities and commitments

The general types of collateral are disclosed on page 153. Advances and other accounts, contingent liabilities and commitments are collateralised to the extent considered appropriate by the Group taking account of the risk assessment of individual exposures. The collateral coverage of advances to customers is analysed on pages 162 to 163. The components and nature of contingent liabilities and commitments are disclosed in Note 45. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would assess the necessity to withdraw the credit line in case where the credit quality of a borrower deteriorates. For contingent liabilities and commitments, 9.4% (2013: 11.6%) is covered by collateral as at 31 December 2014.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts

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

	2014 HK\$m	2013 HK\$m
Advances to customers		
Personal		
– Mortgages	223,527	208,502
– Credit cards	14,059	12,678
– Others	46,421	33,365
Corporate		
– Commercial loans	590,666	518,374
– Trade finance	86,316	85,413
	960,989	858,332
Trade bills	57,756	70,846
Total	1,018,745	929,178

Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously outside the approved limit that was advised to the borrower.

Advances are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred and that loss event(s) has an impact on the estimated future cash flows of the advances that can be reliably estimated.

If there is objective evidence that an impairment loss on advances has been incurred, the amount of loss is measured as the difference between the carrying amount and the present value of estimated future cash flows generated by the advances. Objective evidence that advances are impaired includes observable data that comes to the attention of the Group about the loss events.

Notes to the Financial Statements

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty incurred by the borrower;
- A breach of contract, such as a default or delinquency in principal or interest payment;
- For economic or legal reasons related to the borrower's financial difficulty, the Group has granted to the borrower a concession that it would not otherwise consider;
- Probable that the borrower will become bankrupt or undergo other financial reorganisation; or
- Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such advances.

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

(a) Advances neither overdue nor impaired

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

	2014			
	Pass HK\$'m	Special mention HK\$'m	Substandard or below HK\$'m	Total HK\$'m
Advances to customers				
Personal				
– Mortgages	220,848	172	41	221,061
– Credit cards	13,456	–	–	13,456
– Others	45,861	60	21	45,942
Corporate				
– Commercial loans	584,069	2,987	747	587,803
– Trade finance	85,659	212	2	85,873
	949,893	3,431	811	954,135
Trade bills	57,756	–	–	57,756
Total	1,007,649	3,431	811	1,011,891

	2013			
	Pass HK\$'m	Special mention HK\$'m	Substandard or below HK\$'m	Total HK\$'m
Advances to customers				
Personal				
– Mortgages	205,805	178	45	206,028
– Credit cards	12,213	–	–	12,213
– Others	32,774	125	11	32,910
Corporate				
– Commercial loans	510,777	4,908	119	515,804
– Trade finance	84,973	148	1	85,122
	846,542	5,359	176	852,077
Trade bills	70,846	–	–	70,846
Total	917,388	5,359	176	922,923

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

Notes to the Financial Statements

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

(b) Advances overdue but not impaired

The gross amount of advances overdue but not impaired is analysed as follows:

	2014				Total HK\$'m
	Overdue for three months or less HK\$'m	Overdue for six months or less but over three months HK\$'m	Overdue for one year or less but over six months HK\$'m	Overdue for over one year HK\$'m	
Advances to customers					
Personal					
– Mortgages	2,389	23	21	12	2,445
– Credit cards	529	–	–	–	529
– Others	423	6	–	7	436
Corporate					
– Commercial loans	1,276	19	9	20	1,324
– Trade finance	96	–	–	–	96
Total	4,713	48	30	39	4,830

	2013				Total HK\$'m
	Overdue for three months or less HK\$'m	Overdue for six months or less but over three months HK\$'m	Overdue for one year or less but over six months HK\$'m	Overdue for over one year HK\$'m	
Advances to customers					
Personal					
– Mortgages	2,407	9	14	16	2,446
– Credit cards	436	1	–	–	437
– Others	408	–	5	4	417
Corporate					
– Commercial loans	740	20	2	32	794
– Trade finance	32	–	1	–	33
Total	4,023	30	22	52	4,127

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

(c) Impaired advances

Advances individually identified to be impaired are analysed by product type as follows:

	2014		2013	
	Gross advances HK\$'m	Market value of collateral HK\$'m	Gross advances HK\$'m	Market value of collateral HK\$'m
Advances to customers				
Personal				
– Mortgages	21	15	28	31
– Credit cards	74	–	28	–
– Others	43	10	38	6
Corporate				
– Commercial loans	1,539	1,356	1,776	1,559
– Trade finance	347	173	258	183
Total	2,024	1,554	2,128	1,779
Impairment allowances made in respect of such advances	1,145		875	

	2014 HK\$'m	2013 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	1,554	1,779
Covered portion of such advances to customers	1,204	1,550
Uncovered portion of such advances to customers	820	578

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

As at 31 December 2014, there were no impaired trade bills (2013: Nil).

Notes to the Financial Statements

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

(c) Impaired advances (continued)

Classified or impaired advances to customers are analysed as follows:

	2014 HK\$'m	2013 HK\$'m
Gross classified or impaired advances to customers	3,008	2,433
Gross classified or impaired advances to customers as a percentage of gross advances to customers	0.31%	0.28%
Individually assessed impairment allowances made in respect of such advances	1,096	840

Classified or impaired advances to customers represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

(d) Advances overdue for more than three months

The gross amount of advances overdue for more than three months is analysed as follows:

	2014		2013	
	Amount HK\$'m	% of gross advances to customers	Amount HK\$'m	% of gross advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	512	0.05%	266	0.03%
– one year or less but over six months	555	0.06%	97	0.01%
– over one year	240	0.03%	314	0.04%
Advances overdue for over three months	1,307	0.14%	677	0.08%
Individually assessed impairment allowances made in respect of such advances	768		406	

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

(d) Advances overdue for more than three months (continued)

	2014 HK\$'m	2013 HK\$'m
Current market value of collateral held against the covered portion of such advances to customers	1,230	723
Covered portion of such advances to customers	749	245
Uncovered portion of such advances to customers	558	432

Collateral held against overdue or impaired loans is principally represented by charges over business assets such as commercial and residential premises for corporate loans and mortgages over residential properties for personal loans.

As at 31 December 2014, there were no trade bills overdue for more than three months (2013: Nil).

(e) Rescheduled advances

	2014		2013	
	Amount HK\$'m	% of gross advances to customers	Amount HK\$'m	% of gross advances to customers
Rescheduled advances to customers net of amounts included in "Advances overdue for more than three months"	25	–	1,012	0.12%

Rescheduled advances are those advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in "Advances overdue for more than three months".

Notes to the Financial Statements

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

(f) Concentration of advances to customers

(i) Sectoral analysis of gross advances to customers

The following analysis of the gross advances to customers by industry sector is based on the categories with reference to the Completion Instructions for the HKMA return of loans and advances.

	2014					
	Gross advances to customers HK\$'m	% Covered by collateral or other security	Classified or impaired HK\$'m	Overdue HK\$'m	Individually assessed impairment allowances HK\$'m	Collectively assessed impairment allowances HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	48,044	31.88%	1	3	–	158
– Property investment	74,110	87.92%	26	413	2	372
– Financial concerns	4,758	22.51%	–	11	–	31
– Stockbrokers	2,051	64.01%	–	–	–	9
– Wholesale and retail trade	38,014	47.71%	149	592	54	187
– Manufacturing	24,097	26.69%	57	145	31	100
– Transport and transport equipment	40,999	33.37%	735	15	13	192
– Recreational activities	454	11.49%	–	–	–	1
– Information technology	13,334	1.02%	2	5	1	41
– Others	62,280	40.54%	26	98	16	252
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,363	99.92%	25	229	–	6
– Loans for purchase of other residential properties	203,744	99.92%	71	2,036	1	104
– Credit card advances	13,021	–	37	534	–	93
– Others	41,132	66.70%	43	405	7	66
Total loans for use in Hong Kong	575,401	67.24%	1,172	4,486	125	1,612
Trade finance	86,316	13.88%	353	376	181	334
Loans for use outside Hong Kong	299,272	24.96%	1,483	1,623	790	1,574
Gross advances to customers	960,989	49.28%	3,008	6,485	1,096	3,520

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

(f) Concentration of advances to customers (continued)

(i) Sectoral analysis of gross advances to customers (continued)

	2013					
	Gross advances to customers HK\$'m	% Covered by collateral or other security	Classified or impaired HK\$'m	Overdue HK\$'m	Individually assessed impairment allowances HK\$'m	Collectively assessed impairment allowances HK\$'m
Loans for use in Hong Kong						
Industrial, commercial and financial						
– Property development	40,596	37.02%	1	1	–	173
– Property investment	79,103	87.88%	54	275	4	416
– Financial concerns	7,748	11.42%	–	2	–	46
– Stockbrokers	4,215	50.25%	–	–	–	15
– Wholesale and retail trade	32,846	49.28%	95	237	34	173
– Manufacturing	19,031	36.22%	57	112	31	103
– Transport and transport equipment	34,327	31.95%	971	4	271	157
– Recreational activities	492	10.99%	–	1	–	2
– Information technology	10,852	1.55%	2	2	1	37
– Others	38,422	38.08%	42	164	24	172
Individuals						
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	9,773	99.97%	26	241	–	7
– Loans for purchase of other residential properties	190,031	99.98%	59	2,006	–	105
– Credit card advances	12,223	–	28	455	–	84
– Others	28,312	63.53%	36	354	10	50
Total loans for use in Hong Kong	507,971	69.73%	1,371	3,854	375	1,540
Trade finance	85,413	13.84%	266	285	122	375
Loans for use outside Hong Kong	264,948	28.35%	796	1,108	343	1,480
Gross advances to customers	858,332	51.39%	2,433	5,247	840	3,395

Notes to the Financial Statements

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

(f) Concentration of advances to customers (continued)

(i) Sectoral analysis of gross advances to customers (continued)

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

	2014		2013	
	New impairment allowances HK\$'m	Classified or impaired loans written off HK\$'m	New impairment allowances HK\$'m	Classified or impaired loans written off HK\$'m
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	–	–	51	–
– Property investment	5	6	9	2
– Financial concerns	–	–	3	–
– Stockbrokers	–	–	4	–
– Wholesale and retail trade	55	21	19	11
– Manufacturing	17	10	8	19
– Transport and transport equipment	2	–	12	–
– Recreational activities	–	–	–	–
– Information technology	6	–	–	–
– Others	77	5	14	6
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	–	–	–	–
– Loans for purchase of other residential properties	1	–	1	–
– Credit card advances	207	199	183	170
– Others	160	145	132	124
Total loans for use in Hong Kong	530	386	436	332
Trade finance	111	57	94	32
Loans for use outside Hong Kong	1,003	371	597	138
Gross advances to customers	1,644	814	1,127	502

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

(f) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers

The following geographical analysis of advances to customers is based on the location of the counterparties, after taking into account the transfer of risk. For an advance to customer guaranteed by a party situated in a country different from the customer, the risk will be transferred to the country of the guarantor.

Gross advances to customers

	2014 HK\$'m	2013 HK\$'m
Hong Kong	711,795	666,602
Mainland of China	200,208	153,201
Others	48,986	38,529
	960,989	858,332
Collectively assessed impairment allowances in respect of the gross advances to customers		
Hong Kong	2,151	2,232
Mainland of China	1,142	946
Others	227	217
	3,520	3,395

Notes to the Financial Statements

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

(f) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers (continued)

Overdue advances

	2014 HK\$'m	2013 HK\$'m
Hong Kong	4,459	4,010
Mainland of China	1,945	1,084
Others	81	153
	6,485	5,247
Individually assessed impairment allowances in respect of the overdue advances		
Hong Kong	227	209
Mainland of China	642	323
Others	1	28
	870	560
Collectively assessed impairment allowances in respect of the overdue advances		
Hong Kong	108	80
Mainland of China	12	6
Others	1	2
	121	88

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(B) Gross advances and other accounts (continued)

(f) Concentration of advances to customers (continued)

(ii) Geographical analysis of gross advances to customers (continued)

Classified or impaired advances

	2014 HK\$'m	2013 HK\$'m
Hong Kong	1,523	1,743
Mainland of China	1,328	586
Others	157	104
	3,008	2,433
Individually assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	260	488
Mainland of China	771	324
Others	65	28
	1,096	840
Collectively assessed impairment allowances in respect of the classified or impaired advances		
Hong Kong	48	35
Mainland of China	5	1
Others	–	2
	53	38

Notes to the Financial Statements

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(C) Repossessed assets

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

	2014 HK\$m	2013 HK\$m
Industrial properties	3	3
Residential properties	11	51
	14	54

The estimated market value of repossessed assets held by the Group as at 31 December 2014 amounted to HK\$28 million (2013: HK\$118 million). They comprise properties in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

When the repossessed assets are not readily convertible into cash, the Group may consider the following alternatives:

- adjusting the selling prices
- selling the loans together with the assets
- arranging loan restructuring

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(D) Balances and placements with banks and other financial institutions

The following tables present an analysis of balances and placements with banks and other financial institutions that are neither overdue nor impaired as at 31 December by rating agency designation.

	2014			
	Aaa to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Central banks	104,317	–	–	104,317
Banks and other financial institutions	214,253	73,982	33,808	322,043
	318,570	73,982	33,808	426,360

	2013			
	Aaa to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Central banks	139,022	–	–	139,022
Banks and other financial institutions	170,716	61,737	19,504	251,957
	309,738	61,737	19,504	390,979

As at 31 December 2014, there were no overdue or impaired balances and placements with banks and other financial institutions (2013: Nil).

Notes to the Financial Statements

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities and certificates of deposit

The following tables present an analysis of the carrying value of debt securities and certificates of deposit by issue rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	2014					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	64,216	116,869	123,885	21,770	26,720	353,460
Held-to-maturity securities	27,263	30,444	12,763	3,151	3,227	76,848
Loans and receivables	–	–	2,856	–	2,012	4,868
Financial assets at fair value through profit or loss	14,075	19,158	11,844	2,871	3,446	51,394
Total	105,554	166,471	151,348	27,792	35,405	486,570

	2013					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	73,321	150,393	133,961	28,205	25,169	411,049
Held-to-maturity securities	2,315	4,267	5,225	2,960	2,688	17,455
Loans and receivables	–	–	7,270	–	675	7,945
Financial assets at fair value through profit or loss	8,276	17,137	9,960	2,205	3,750	41,328
Total	83,912	171,797	156,416	33,370	32,282	477,777

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities and certificates of deposit (continued)

The following tables present an analysis of debt securities and certificates of deposit neither overdue nor impaired as at 31 December by issue rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	2014					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	64,216	116,869	123,885	21,770	26,720	353,460
Held-to-maturity securities	27,237	30,444	12,762	3,151	3,227	76,821
Loans and receivables	-	-	2,856	-	2,012	4,868
Financial assets at fair value through profit or loss	14,075	19,158	11,844	2,871	3,446	51,394
Total	105,528	166,471	151,347	27,792	35,405	486,543

	2013					
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m
Available-for-sale securities	73,321	150,387	133,961	28,205	25,169	411,043
Held-to-maturity securities	2,271	4,267	5,224	2,960	2,688	17,410
Loans and receivables	-	-	7,270	-	675	7,945
Financial assets at fair value through profit or loss	8,276	17,137	9,960	2,205	3,750	41,328
Total	83,868	171,791	156,415	33,370	32,282	477,726

Notes to the Financial Statements

4. Financial risk management (continued)

4.1 Credit Risk (continued)

(E) Debt securities and certificates of deposit (continued)

The following tables present an analysis of impaired debt securities by issue rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	2014						Of which accumulated impairment allowances HK\$'m
	Carrying values						
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m	
Held-to-maturity securities	26	-	1	-	-	27	1
Of which accumulated impairment allowances	1	-	-	-	-	1	

	2013						Of which accumulated impairment allowances HK\$'m
	Carrying values						
	Aaa HK\$'m	Aa1 to Aa3 HK\$'m	A1 to A3 HK\$'m	Lower than A3 HK\$'m	Unrated HK\$'m	Total HK\$'m	
Available-for-sale securities	-	6	-	-	-	6	-
Held-to-maturity securities	44	-	1	-	-	45	3
Total	44	6	1	-	-	51	3
Of which accumulated impairment allowances	3	-	-	-	-	3	

As at 31 December 2014, there were no impaired certificates of deposit and no overdue debt securities and certificates of deposit (2013: Nil).

4. Financial risk management (continued)

4.2 Market Risk

Market risk refers to the risk of loss arising from movements in the value of foreign exchange, interest rate, equity and commodity positions held by the Group due to the volatility of financial market price (foreign exchange rate, interest rate, equity price, commodity price). The Group adopts a moderate market risk appetite to achieve a balance between risk and return. The Group's objective in managing market risk is to secure healthy growth of the treasury business, by effective management of potential market risk in the Group's business, according to the Group's overall risk appetite and strategy of treasury business on the basis of a well established risk management regime and related management measures.

In accordance with the Group's corporate governance principles in respect of risk management, the Board and RC, senior management and functional departments/units perform their duties and responsibilities to manage the Group's market risk. The RMD (Market Risk Management Division) is mainly responsible for managing market risk, assisting senior management to perform their day-to-day duties, independently monitoring the market risk profile and compliance of management policies and limits of the Group and BOCHK, and ensuring that the aggregate and individual market risks are within acceptable levels.

The Group's market risk management covers BOCHK and its subsidiaries. The Group establishes consistent market risk management policies to regulate BOCHK's and subsidiaries' market risk management; meanwhile, the Group sets up the Group VAR and stress test limits, which are allocated and monitored across the Group, according to the subsidiaries' business requirements and risk tolerance levels. In line with the requirements set in the Group policy, the management of subsidiaries may, subject to prior consent by BOCHK, formulate the detailed policies and procedures and are responsible for managing their daily market risk. The subsidiaries set up independent risk monitoring teams to monitor daily market risk and limit compliance, and submit management information and reports to BOCHK on a regular basis.

The Group sets up market risk indicators and limits to identify, measure, monitor and control market risk. Major risk indicators and limits include but are not limited to VAR, Stop Loss, Open Position, Stress Testing and Sensitivity Analysis (Basis Point Value, Greeks), etc. To meet management requirements, major risk indicators and limits are classified into four levels, and are approved by the RC, MC, CRO and the DCE in charge of the treasury business or the head of the respective business unit respectively. Treasury business units of BOCHK and subsidiaries (as for Group Limit) are required to conduct their business within approved market risk indicators and limits.

Notes to the Financial Statements

4. Financial risk management (continued)

4.2 Market Risk (continued)

(A) VAR

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

The following table sets out the VAR for all general market risk exposure¹ of the Group.

	Year	At 31 December HK\$m	Minimum for the year HK\$m	Maximum for the year HK\$m	Average for the year HK\$m
VAR for all market risk	2014	18.0	16.2	35.1	23.9
	2013	19.2	13.9	40.8	23.1
VAR for foreign exchange risk	2014	11.2	9.6	19.5	13.5
	2013	16.1	10.3	37.8	17.4
VAR for interest rate risk	2014	18.1	16.4	39.5	24.2
	2013	24.0	8.8	39.6	20.0
VAR for equity risk	2014	0.1	0.1	0.7	0.3
	2013	0.1	0.0	3.2	1.1
VAR for commodity risk	2014	0.1	0.0	1.3	0.2
	2013	0.0	0.0	0.7	0.1

Note:

1. Structural FX positions have been excluded.

4. Financial risk management (continued)

4.2 Market Risk (continued)

(A) VAR (continued)

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

- the use of historical market data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Group recognises these limitations by formulating stress test indicators and limits to assess and manage the market risk uncovered by VAR. The stress testing programme of the market risk includes sensitivity testing on changes in risk factors with various degrees of severity, as well as scenario analysis on historical events including the 1987 Equity Market Crash, 1994 Bond Market Crash, 1997 Asian Financial Crisis, 2001 9-11 event and 2008 Financial Tsunami, etc.

(B) Currency risk

The Group's assets and liabilities are denominated in major currencies, particularly the HK dollar, the US dollar and Renminbi. To ensure the currency risk exposure of the Group is kept to an acceptable level, risk limits (e.g. Position and VAR limit) are used to serve as a monitoring tool. Moreover, the Group seeks to minimise the gap between assets and liabilities in the same currency. Foreign exchange contracts (e.g. FX swaps) are usually used to manage FX risk associated with foreign currency-denominated assets and liabilities.

Notes to the Financial Statements

4. Financial risk management (continued)

4.2 Market Risk (continued)

(B) Currency risk (continued)

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

	2014							Total HK\$'m
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	Euro HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	
Assets								
Cash and balances with banks and other financial institutions	320,073	37,932	31,296	3,120	1,031	803	4,418	398,673
Placements with banks and other financial institutions maturing between one and twelve months	23,299	9,613	3,393	90	-	97	944	37,436
Financial assets at fair value through profit or loss	14,220	15,440	24,260	-	-	-	74	53,994
Derivative financial instruments	207	8,070	25,034	5	2	9	26	33,353
Hong Kong SAR Government certificates of indebtedness	-	-	90,770	-	-	-	-	90,770
Advances and other accounts	108,107	285,080	603,715	8,013	389	117	8,708	1,014,129
Investment in securities								
– Available-for-sale securities	82,252	155,625	88,070	5,713	-	7,362	18,088	357,110
– Held-to-maturity securities	28,961	42,254	2,317	-	-	649	2,667	76,848
– Loans and receivables	2,075	294	2,499	-	-	-	-	4,868
Interests in associates and a joint venture	-	-	324	-	-	-	-	324
Investment properties	88	-	14,471	-	-	-	-	14,559
Properties, plant and equipment	831	2	54,374	-	-	-	-	55,207
Other assets (including deferred tax assets)	30,106	4,464	16,705	520	20	23	258	52,096
Total assets	610,219	558,774	957,228	17,461	1,442	9,060	35,183	2,189,367
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	90,770	-	-	-	-	90,770
Deposits and balances from banks and other financial institutions	132,829	63,638	37,170	59	42	16	2,026	235,780
Financial liabilities at fair value through profit or loss	937	15	10,078	-	-	6	1,224	12,260
Derivative financial instruments	334	2,567	17,664	151	2	8	61	20,787
Deposits from customers	342,345	310,232	768,896	13,285	3,388	10,637	31,326	1,480,109
Debt securities and certificates of deposit in issue	-	9,780	-	-	1,993	-	128	11,901
Other accounts and provisions (including current and deferred tax liabilities)	16,220	11,800	32,375	1,099	69	418	835	62,816
Insurance contract liabilities	35,796	6,083	31,917	-	-	-	-	73,796
Subordinated liabilities	-	19,676	-	-	-	-	-	19,676
Total liabilities	528,461	423,791	988,870	14,594	5,494	11,085	35,600	2,007,895
Net on-balance sheet position	81,758	134,983	(31,642)	2,867	(4,052)	(2,025)	(417)	181,472
Off-balance sheet net notional position*	(67,792)	(118,871)	193,742	(2,740)	3,831	1,869	(508)	9,531
Contingent liabilities and commitments	67,295	179,433	311,018	1,937	423	14	1,007	561,127

4. Financial risk management (continued)

4.2 Market Risk (continued)

(B) Currency risk (continued)

	2013							
	Renminbi HK\$'m	US Dollars HK\$'m	HK Dollars HK\$'m	Euro HK\$'m	Japanese Yen HK\$'m	Pound Sterling HK\$'m	Others HK\$'m	Total HK\$'m
Assets								
Cash and balances with banks and other financial institutions	296,496	38,476	14,273	1,264	230	259	2,743	353,741
Placements with banks and other financial institutions maturing between one and twelve months	35,264	10,442	476	107	-	-	405	46,694
Financial assets at fair value through profit or loss	7,261	11,508	24,563	-	-	-	161	43,493
Derivative financial instruments	722	4,598	20,006	2	-	-	20	25,348
Hong Kong SAR Government certificates of indebtedness	-	-	99,190	-	-	-	-	99,190
Advances and other accounts	105,008	259,236	549,916	3,792	459	205	6,327	924,943
Investment in securities								
– Available-for-sale securities	84,103	211,684	89,717	6,024	296	515	22,981	415,320
– Held-to-maturity securities	4,334	9,956	1,646	-	-	-	1,519	17,455
– Loans and receivables	833	4,039	3,073	-	-	-	-	7,945
Interests in associates and a joint venture	-	-	292	-	-	-	-	292
Investment properties	135	-	14,462	-	-	-	-	14,597
Properties, plant and equipment	865	3	51,490	-	-	-	-	52,358
Other assets (including deferred tax assets)	24,821	1,287	18,367	487	111	10	477	45,560
Total assets	559,842	551,229	887,471	11,676	1,096	989	34,633	2,046,936
Liabilities								
Hong Kong SAR currency notes in circulation	-	-	99,190	-	-	-	-	99,190
Deposits and balances from banks and other financial institutions	167,166	58,511	50,607	381	89	106	1,413	278,273
Financial liabilities at fair value through profit or loss	1,590	16	10,842	-	-	7	1,125	13,580
Derivative financial instruments	894	2,433	15,323	187	1	-	74	18,912
Deposits from customers	311,506	272,761	674,425	9,965	3,563	11,270	40,658	1,324,148
Debt securities and certificates of deposit in issue	-	5,684	-	-	-	-	-	5,684
Other accounts and provisions (including current and deferred tax liabilities)	14,382	9,974	30,276	981	148	600	1,294	57,655
Insurance contract liabilities	28,428	6,867	31,342	-	-	-	-	66,637
Subordinated liabilities	-	19,849	-	-	-	-	-	19,849
Total liabilities	523,966	376,095	912,005	11,514	3,801	11,983	44,564	1,883,928
Net on-balance sheet position	35,876	175,134	(24,534)	162	(2,705)	(10,994)	(9,931)	163,008
Off-balance sheet net notional position*	(23,168)	(162,157)	167,162	(17)	2,573	10,966	9,465	4,824
Contingent liabilities and commitments	73,056	146,235	293,677	4,069	501	1,244	4,223	523,005

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

Notes to the Financial Statements

4. Financial risk management (continued)

4.2 Market Risk (continued)

(C) Interest rate risk

Interest rate risk means the risks to a bank's earnings and economic value arising from movements in interest rate and term structures of the bank's asset and liability positions. The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are:

- Repricing risk: mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income;
- Basis risk: different pricing basis for different transactions resulting that the yield on assets and cost of liabilities may change by different amounts within the same repricing period;
- Yield curve risk: non-parallel shifts in the yield curve that may have an adverse impact on net interest income or economic value; and
- Option risk: exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cash flows of assets and liabilities.

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

4. Financial risk management (continued)

4.2 Market Risk (continued)

(C) Interest rate risk (continued)

The Group sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk. The indicators and limits include, but are not limited to, repricing gap limits, basis risk, duration, price value of a basis point ("PVBP"), Greeks, net interest income sensitivity ratio ("NII"), economic value sensitivity ratio ("EV") (including sub-limit for AFS securities), etc. The indicators and limits are classified into three levels, which are approved by the CFO and CRO, ALCO, RC respectively. Risk-taking business units are required to conduct their business within the boundary of the interest rate risk limits. Before launching a new product or business in the banking book, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be submitted to RC for approval.

NII and EV assess the impact of interest rate movement on the Group's net interest income and capital base. They are the Group's key interest rate risk indicators. The former assesses the impact of interest rate movement on net interest income as a percentage to the projected net interest income for the year. The latter assesses the impact of interest rate movement on economic value (i.e. the net present value of cash flows of assets, liabilities and off-balance sheet items discounted using market interest rate) as a percentage to the latest capital base. Limits are set by the RC on these two indicators to monitor and control the Group's banking book interest rate risk.

The Group uses scenario analysis and stress tests to assess the banking book interest rate risk that the Group would face under adverse circumstances. Scenario analyses and stress tests are also used to assess the impact on net interest income and economic value arising from the optionality of savings deposits, the prepayment of mortgage loans and the prepayment of debt securities with embedded options.

Notes to the Financial Statements

4. Financial risk management (continued)

4.2 Market Risk (continued)

(C) Interest rate risk (continued)

The Group is principally exposed to HK Dollar, US Dollar, and Renminbi in terms of interest rate risk. As at 31 December 2014, if HK Dollar, US Dollar and Renminbi market interest rates had a 100 basis point parallel upward shift of the yield curve in relevant currency with other variables held constant, the sensitivities on net interest income over a twelve-month period and on reserves would have been as follows:

	Impact on net interest income over the next twelve months at 31 December		Impact on reserves at 31 December	
	2014 HK\$'m	2013 HK\$'m	2014 HK\$'m	2013 HK\$'m
HK Dollar	891	876	(494)	(505)
US Dollar	(203)	(486)	(4,583)	(6,425)
Renminbi	(810)	(691)	(1,418)	(1,288)

The overall negative impact on net interest income of the above currencies has decreased when compared with 2013 and is mainly because of the narrowed short term negative gaps in relevant currencies. Reserves would have been reduced because of the expected reduction in valuation of available-for-sale securities due to a parallel shift up of 100 basis point in the yield curve. The reduction of reserves is decreased compared with 2013 because the size of available-for-sale securities in capital market is decreased.

The sensitivities above are for illustration only and are based on several assumptions, including (but not limited to) the change in the correlation between interest rates of relevant currencies, parallel movement of interest rates, the absence of actions that would be taken to mitigate the impact of interest rate risk, the effectiveness of hedging accounting, all positions being assumed to run to maturity, behavioural assumptions of products in which actual repricing date differs from contractual repricing date or products without contractual maturity. The above exposures form only a part of the Group's overall interest rate risk exposures.

4. Financial risk management (continued)

4.2 Market Risk (continued)

(C) Interest rate risk (continued)

The tables below summarise the Group's on-balance sheet exposure to interest rate risk as at 31 December. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	2014						Total HK\$m
	Up to 1 month HK\$m	1 to 3 months HK\$m	3 to 12 months HK\$m	1 to 5 years HK\$m	Over 5 years HK\$m	Non- interest bearing HK\$m	
Assets							
Cash and balances with banks and other financial institutions	376,437	-	-	-	-	22,236	398,673
Placements with banks and other financial institutions maturing between one and twelve months	-	17,730	19,706	-	-	-	37,436
Financial assets at fair value through profit or loss	2,721	7,691	12,173	20,180	8,629	2,600	53,994
Derivative financial instruments	-	-	-	-	-	33,353	33,353
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	90,770	90,770
Advances and other accounts	768,749	154,044	66,747	16,279	1,438	6,872	1,014,129
Investment in securities							
– Available-for-sale securities	40,227	52,220	80,734	122,738	57,541	3,650	357,110
– Held-to-maturity securities	943	2,498	4,241	44,823	24,343	-	76,848
– Loans and receivables	2,499	915	1,454	-	-	-	4,868
Interests in associates and a joint venture	-	-	-	-	-	324	324
Investment properties	-	-	-	-	-	14,559	14,559
Properties, plant and equipment	-	-	-	-	-	55,207	55,207
Other assets (including deferred tax assets)	1,604	-	-	-	-	50,492	52,096
Total assets	1,193,180	235,098	185,055	204,020	91,951	280,063	2,189,367
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	90,770	90,770
Deposits and balances from banks and other financial institutions	201,704	6,277	2,705	-	-	25,094	235,780
Financial liabilities at fair value through profit or loss	3,428	4,643	3,190	483	516	-	12,260
Derivative financial instruments	-	-	-	-	-	20,787	20,787
Deposits from customers	1,061,875	210,280	120,810	14,698	-	72,446	1,480,109
Debt securities and certificates of deposit in issue	2,316	2,811	1,074	5,700	-	-	11,901
Other accounts and provisions (including current and deferred tax liabilities)	16,572	2,685	4,055	194	-	39,310	62,816
Insurance contract liabilities	-	-	-	-	-	73,796	73,796
Subordinated liabilities	-	-	-	-	19,676	-	19,676
Total liabilities	1,285,895	226,696	131,834	21,075	20,192	322,203	2,007,895
Interest sensitivity gap	(92,715)	8,402	53,221	182,945	71,759	(42,140)	181,472

Notes to the Financial Statements

4. Financial risk management (continued)

4.2 Market Risk (continued)

(C) Interest rate risk (continued)

	2013						Total HK\$'m
	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Non- interest bearing HK\$'m	
Assets							
Cash and balances with banks and other financial institutions	336,303	-	-	-	-	17,438	353,741
Placements with banks and other financial institutions maturing between one and twelve months	-	33,801	12,893	-	-	-	46,694
Financial assets at fair value through profit or loss	2,691	6,211	10,244	15,198	6,984	2,165	43,493
Derivative financial instruments	-	-	-	-	-	25,348	25,348
Hong Kong SAR Government certificates of indebtedness	-	-	-	-	-	99,190	99,190
Advances and other accounts	699,423	121,716	78,275	18,082	1,004	6,443	924,943
Investment in securities							
– Available-for-sale securities	47,934	58,235	78,309	146,099	80,472	4,271	415,320
– Held-to-maturity securities	1,325	460	4,009	5,250	6,411	-	17,455
– Loans and receivables	1,660	2,931	3,354	-	-	-	7,945
Interests in associates and a joint venture	-	-	-	-	-	292	292
Investment properties	-	-	-	-	-	14,597	14,597
Properties, plant and equipment	-	-	-	-	-	52,358	52,358
Other assets (including deferred tax assets)	608	-	-	-	-	44,952	45,560
Total assets	1,089,944	223,354	187,084	184,629	94,871	267,054	2,046,936
Liabilities							
Hong Kong SAR currency notes in circulation	-	-	-	-	-	99,190	99,190
Deposits and balances from banks and other financial institutions	240,026	3,768	671	-	-	33,808	278,273
Financial liabilities at fair value through profit or loss	5,451	5,406	2,071	382	270	-	13,580
Derivative financial instruments	-	-	-	-	-	18,912	18,912
Deposits from customers	951,236	169,169	124,513	10,589	39	68,602	1,324,148
Debt securities and certificates of deposit in issue	-	-	-	5,684	-	-	5,684
Other accounts and provisions (including current and deferred tax liabilities)	12,198	2,588	4,106	397	-	38,366	57,655
Insurance contract liabilities	-	-	-	-	-	66,637	66,637
Subordinated liabilities	-	-	-	-	19,849	-	19,849
Total liabilities	1,208,911	180,931	131,361	17,052	20,158	325,515	1,883,928
Interest sensitivity gap	(118,967)	42,423	55,723	167,577	74,713	(58,461)	163,008

4. Financial risk management (continued)

4.3 Liquidity Risk

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

The Group's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Customer deposits are the Group's primary source of funds. To ensure stable and sufficient source of funds are in place, the Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market or by issuing bills in the capital market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the Group adjusts its asset structure (including loans, bonds investment, interbank placement, etc.) to maintain sufficient liquid assets which provides adequate funds in support of normal business needs and ensure its ability to raise funds at a reasonable cost to serve external claims in case of emergency. The Group is committed to diversify the source of funds and the use of funds to avoid excessive concentration of assets and liabilities and prevent triggering liquidity risk due to the break of funding strand when problem occurred in one concentrated funding source. The Group has established intra-group liquidity risk management guideline to manage the liquidity funding among different entities within the Group, and to restrict their reliance of funding on each other. The Group also pays attention to manage liquidity risk created by off-balance sheet activities, such as loan commitments, derivatives, options and other complex structured products. The Group has an overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, collateral, intra-day liquidity, intra-group liquidity, the liquidity risk arising from other risks, etc., and has formulated corresponding contingency plan.

The RC is the decision-making authority of liquidity risk management, and assumes the ultimate responsibility of liquidity risk management. As authorised by RC, ALCO exercises its oversight of liquidity risk and ensures the daily operations of the Group are in accordance with risk appetite and policies as set by RC. RMD (Interest Rate and Liquidity Risk Management) is responsible for overseeing the Group's liquidity risk. It cooperates with the Asset and Liability Management Division of Financial Management Department, Investment Management, etc. to assist the ALCO to perform liquidity management functions according to their specific responsibilities.

The Group established liquidity risk management indicators and limits to identify, measure, monitor and control liquidity risk on daily basis. These indicators and limits include, but are not limited to liquidity ratio, loan-to-deposit ratio, Maximum Cumulative Cash Outflow ("MCO") and liquidity buffer asset portfolio. The Group applies cash flow analysis to assess the Group's liquidity condition under normal conditions and also performs a liquidity stress test (including institution specific, general market crisis and combined crisis) and other methods at least on monthly basis to assess the Group's capability to withstand various severe liquidity crises. Also, the Assets and Liabilities Management System is developed to provide data and the preparation for regular management reports to facilitate liquidity risk management duties.

Notes to the Financial Statements

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

In accordance with the requirements of Supervisory Policy Manual LM-2 "Sound Systems and controls for Liquidity Risk Management" issued by the HKMA in 2011, the Group has implemented in 2013 the refinement on the behaviour model and assumptions of cash flow analysis and stress test to enhance the Group's cash flow analysis under both normal and stressed conditions. In cash flow analysis under normal circumstances, refinements have been made to assumptions relating to on-balance sheet items (such as customer deposits) and off-balance sheet items (such as loan commitments). According to various characteristics of the assets, liabilities and off-balance sheet items, the Group forecasts the future cash flow based on contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The Group establishes MCO indicator which predicts the future 30 days maximum cumulative net cash outflow in normal situations based on the above assumptions, to assess if the Group has sufficient financing capacity to meet the cash flow gap in order to achieve the objective of continuing operation. As at 31 December 2014, before taking the cash inflow through the sale of outstanding marketable securities into consideration, BOCHK's 30 day cumulative cash flow was a net cash inflow, amounting to HK\$50,775 million (2013: HK\$27,090 million) and was in compliant with the internal limit requirements.

In the liquidity stress test, a new combined scenario which is a combination of institution specific and general market crisis has been set up in 2013 to assess the Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; drawdown rate of loan commitments and trade-related contingent liabilities; delinquency ratio and rollover rate of customer loans; and haircut of interbank placement and marketable securities. As at 31 December 2014, the Group was able to maintain a positive cash flow under the three stressed scenarios, indicating the Group has the ability to meet financing needs under stressed conditions. In addition, the Group has a policy in place to maintain a liquidity cushion which includes high quality or comparable quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks with 0% or 20% risk weight or non-financial corporate issued or guaranteed marketable securities with a corresponding external credit rating of A- or above (adopt corresponding internal rating if external credit rating is unavailable) to ensure funding needs even under stressed scenarios, as at 31 December 2014, the liquidity cushion (before haircut) was HK\$197,488 million. A contingency plan is being established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of various departments.

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

In certain derivative contracts, the counterparties have right to request from the Group additional collateral if they have concerns about the Group's creditworthiness.

The Group's liquidity risk management also covers new products or business developments. Before launching a new product or business, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying liquidity risk and consideration of the adequacy of the current risk management mechanism. Any material impact on liquidity risk noted during the risk assessment process will be reported to RC for approval.

The Group has established a set of uniform liquidity risk management policies which serve as standards and guidance to all the Group's members for liquidity risk management. On the basis of the Group's uniform policy, each of the subsidiaries develops its own liquidity management policies according to its own characteristics, and assumes its own liquidity risk management responsibility. Subsidiaries are required to report their respective liquidity positions on a regular basis to RMD (Interest Rate and Liquidity Risk Management) of BOCHK, which consolidates this information and evaluates group-wide liquidity risk.

(A) Liquidity ratio

	2014	2013
Average liquidity ratio	42.17%	37.93%

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

The liquidity ratio is computed on the solo basis (the Hong Kong offices only) and is in accordance with the Fourth Schedule to the Banking Ordinance.

Notes to the Financial Statements

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(B) Maturity analysis

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

	2014							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Assets								
Cash and balances with banks and other financial institutions	326,887	60,109	-	-	-	-	11,677	398,673
Placements with banks and other financial institutions maturing between one and twelve months	-	-	17,730	19,706	-	-	-	37,436
Financial assets at fair value through profit or loss								
- held for trading								
- debt securities	-	2,627	6,572	10,606	12,530	3,287	-	35,622
- certificates of deposit	-	142	642	393	251	-	-	1,428
- designated at fair value through profit or loss								
- debt securities	-	45	129	1,109	7,534	5,263	-	14,080
- certificates of deposit	-	-	-	-	264	-	-	264
- fund and equity securities	-	-	-	-	-	-	2,600	2,600
Derivative financial instruments	10,880	3,502	2,813	11,619	1,852	2,687	-	33,353
Hong Kong SAR Government certificates of indebtedness	90,770	-	-	-	-	-	-	90,770
Advances and other accounts								
- advances to customers	113,635	28,987	60,630	171,511	347,232	231,875	2,503	956,373
- trade bills	32	12,779	20,973	23,972	-	-	-	57,756
Investment in securities								
- available-for-sale								
- debt securities	-	8,624	27,253	65,814	135,098	58,323	-	295,112
- certificates of deposit	-	13,284	6,072	24,598	14,187	207	-	58,348
- held-to-maturity								
- debt securities	-	434	2,503	5,111	44,481	24,197	27	76,753
- certificates of deposit	-	-	77	-	-	18	-	95
- loans and receivables								
- debt securities	-	2,499	915	1,454	-	-	-	4,868
- equity securities	-	-	-	-	-	-	3,650	3,650
Interests in associates and a joint venture	-	-	-	-	-	-	324	324
Investment properties	-	-	-	-	-	-	14,559	14,559
Properties, plant and equipment	-	-	-	-	-	-	55,207	55,207
Other assets (including deferred tax assets)	15,705	11,999	149	4,157	7,757	12,301	28	52,096
Total assets	557,909	145,031	146,458	340,050	571,186	338,158	90,575	2,189,367
Liabilities								
Hong Kong SAR currency notes in circulation	90,770	-	-	-	-	-	-	90,770
Deposits and balances from banks and other financial institutions	203,379	23,419	6,277	2,705	-	-	-	235,780
Financial liabilities at fair value through profit or loss	-	3,428	4,643	3,190	483	516	-	12,260
Derivative financial instruments	6,976	3,029	2,455	4,500	2,532	1,295	-	20,787
Deposits from customers	793,425	338,722	209,587	122,979	15,396	-	-	1,480,109
Debt securities and certificates of deposit in issue								
- debt securities	-	2,316	2,811	1,106	5,668	-	-	11,901
Other accounts and provisions (including current and deferred tax liabilities)	29,145	14,175	4,294	7,054	8,148	-	-	62,816
Insurance contract liabilities	12,417	1,099	1,733	6,199	14,807	37,541	-	73,796
Subordinated liabilities	-	-	418	-	-	19,258	-	19,676
Total liabilities	1,136,112	386,188	232,218	147,733	47,034	58,610	-	2,007,895
Net liquidity gap	(578,203)	(241,157)	(85,760)	192,317	524,152	279,548	90,575	181,472

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

	2013							Total HK\$'m
	On demand HK\$'m	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	Indefinite HK\$'m	
Assets								
Cash and balances with banks and other financial institutions	246,366	94,800	-	-	-	-	12,575	353,741
Placements with banks and other financial institutions maturing between one and twelve months	-	-	33,801	12,893	-	-	-	46,694
Financial assets at fair value through profit or loss								
- held for trading								
- debt securities	-	2,118	6,166	6,210	6,754	4,967	-	26,215
- certificates of deposit	-	18	13	78	30	-	-	139
- designated at fair value through profit or loss								
- debt securities	-	146	53	2,673	9,788	1,945	-	14,605
- certificates of deposit	-	-	-	103	266	-	-	369
- fund and equity securities	-	-	-	-	-	-	2,165	2,165
Derivative financial instruments	13,672	2,127	1,287	2,789	1,833	3,640	-	25,348
Hong Kong SAR Government certificates of indebtedness	99,190	-	-	-	-	-	-	99,190
Advances and other accounts								
- advances to customers	82,371	29,710	55,130	143,186	317,087	224,648	1,965	854,097
- trade bills	6	16,254	19,003	35,583	-	-	-	70,846
Investment in securities								
- available-for-sale								
- debt securities	-	16,424	24,027	50,782	160,000	81,733	6	332,972
- certificates of deposit	-	10,419	13,950	36,657	16,836	215	-	78,077
- held-to-maturity								
- debt securities	-	632	196	4,049	5,987	6,451	45	17,360
- certificates of deposit	-	-	-	-	77	18	-	95
- loans and receivables								
- debt securities	-	1,660	2,931	3,354	-	-	-	7,945
- equity securities	-	-	-	-	-	-	4,271	4,271
Interests in associates and a joint venture	-	-	-	-	-	-	292	292
Investment properties	-	-	-	-	-	-	14,597	14,597
Properties, plant and equipment	-	-	-	-	-	-	52,358	52,358
Other assets (including deferred tax assets)	13,631	13,884	88	394	10,172	7,303	88	45,560
Total assets	455,236	188,192	156,645	298,751	528,830	330,920	88,362	2,046,936
Liabilities								
Hong Kong SAR currency notes in circulation	99,190	-	-	-	-	-	-	99,190
Deposits and balances from banks and other financial institutions	222,879	50,955	3,768	671	-	-	-	278,273
Financial liabilities at fair value through profit or loss	-	5,451	5,406	2,071	382	270	-	13,580
Derivative financial instruments	9,276	1,652	1,047	3,258	3,009	670	-	18,912
Deposits from customers	744,335	273,423	169,101	124,664	12,586	39	-	1,324,148
Debt securities and certificates of deposit in issue								
- debt securities	-	-	-	32	5,652	-	-	5,684
Other accounts and provisions (including current and deferred tax liabilities)	25,358	14,003	4,038	6,426	7,819	11	-	57,655
Insurance contract liabilities	8,531	460	427	7,678	21,009	28,532	-	66,637
Subordinated liabilities	-	-	418	-	-	19,431	-	19,849
Total liabilities	1,109,569	345,944	184,205	144,800	50,457	48,953	-	1,883,928
Net liquidity gap	(654,333)	(157,752)	(27,560)	153,951	478,373	281,967	88,362	163,008

Notes to the Financial Statements

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(B) Maturity analysis (continued)

The above maturity classifications have been prepared in accordance with relevant provisions under the Banking (Disclosure) Rules. The Group has reported assets such as advances and debt securities which have been overdue for not more than one month as "On demand". In the case of an asset that is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as "Indefinite". The above assets are stated after deduction of provisions, if any.

The analysis of debt securities by remaining period to maturity is disclosed in order to comply with relevant provisions under the Banking (Disclosure) Rules. The disclosure does not imply that the securities will be held to maturity.

The above analysis in respect of insurance contract liabilities represents the estimated timing of net cash outflows resulting from recognised insurance contract liabilities on the balance sheet as at 31 December.

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

(C) Analysis of undiscounted cash flows by contractual maturities

(a) Non-derivative cash flows

The tables below summarise the cash flows of the Group as at 31 December for non-derivative financial liabilities by remaining contractual maturities.

	2014					Total HK\$'m
	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	
Financial liabilities						
Hong Kong SAR currency notes in circulation	90,770	–	–	–	–	90,770
Deposits and balances from banks and other financial institutions	226,826	6,304	2,774	–	–	235,904
Financial liabilities at fair value through profit or loss	3,432	4,655	3,201	524	541	12,353
Deposits from customers	1,132,368	210,324	124,467	16,528	–	1,483,687
Debt securities and certificates of deposit in issue	2,317	2,816	1,297	6,098	–	12,528
Subordinated liabilities	–	538	538	4,305	19,926	25,307
Other financial liabilities	37,471	2,958	4,284	196	–	44,909
Total financial liabilities	1,493,184	227,595	136,561	27,651	20,467	1,905,458

	2013					Total HK\$'m
	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	
Financial liabilities						
Hong Kong SAR currency notes in circulation	99,190	–	–	–	–	99,190
Deposits and balances from banks and other financial institutions	273,850	3,795	674	–	–	278,319
Financial liabilities at fair value through profit or loss	5,457	5,419	2,079	406	304	13,665
Deposits from customers	1,017,914	169,662	126,314	13,781	52	1,327,723
Debt securities and certificates of deposit in issue	–	–	218	6,252	–	6,470
Subordinated liabilities	–	538	538	4,303	20,999	26,378
Other financial liabilities	33,495	2,843	4,396	412	11	41,157
Total financial liabilities	1,429,906	182,257	134,219	25,154	21,366	1,792,902

Notes to the Financial Statements

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

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

(b) Derivative cash flows

The tables below summarise the cash flows of the Group by remaining contractual maturities as at 31 December for derivative financial liabilities that will be settled on a net basis, together with all derivative financial instruments that will be settled on a gross basis regardless of whether the contract is in an asset or liability position. The amounts disclosed in the tables are the contractual undiscounted cash flows, except for certain derivatives which are disclosed at fair value.

The Group's derivative financial instruments that will be settled on a net basis mainly include interest rate swaps whereas derivative financial instruments that will be settled on a gross basis mainly include currency forwards and currency swaps.

	2014					Total HK\$'m
	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	
Derivative financial liabilities settled on a net basis	(7,132)	(407)	(1,145)	(1,445)	(45)	(10,174)
Derivative financial instruments settled on a gross basis						
Total inflow	501,184	277,927	503,082	92,900	2,811	1,377,904
Total outflow	(500,884)	(277,604)	(501,017)	(92,925)	(2,802)	(1,375,232)

	2013					Total HK\$'m
	Up to 1 month HK\$'m	1 to 3 months HK\$'m	3 to 12 months HK\$'m	1 to 5 years HK\$'m	Over 5 years HK\$'m	
Derivative financial liabilities settled on a net basis	(9,413)	(351)	(1,312)	(1,755)	(51)	(12,882)
Derivative financial instruments settled on a gross basis						
Total inflow	353,991	160,969	305,307	51,183	1,698	873,148
Total outflow	(353,496)	(160,768)	(305,611)	(51,339)	(1,699)	(872,913)

4. Financial risk management (continued)

4.3 Liquidity Risk (continued)

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

(c) Off-balance sheet items

Loan commitments

The contractual amounts of the Group's off-balance sheet financial instruments as at 31 December 2014 that the Group commits to extend credit to customers and other facilities amounted to HK\$488,524 million (2013: HK\$436,252 million). Those loan commitments can be drawn within one year.

Financial guarantees and other financial facilities

Financial guarantees and other financial facilities of the Group as at 31 December 2014 amounting to HK\$72,603 million (2013: HK\$86,753 million) are maturing no later than one year.

4.4 Insurance Risk

The Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. The Group manages these risks through the application of its underwriting policies and reinsurance arrangements.

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

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily on the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

For the in-force insurance contracts, most of the underlying insurance liabilities are related to endowment, whole life and unit-linked insurance products. For most of the insurance policies issued, the Group has a retention limit on any single life insured. The Group cedes the excess of the insured benefit over the limit to reinsurer under an excess of loss reinsurance arrangement. For some of the insurance liabilities, the Group has entered into reinsurance arrangements that reinsure most of insurance risk.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality, morbidity and persistency. The Group conducted relevant experience studies. The results of the studies are considered in determining the assumptions which include appropriate level of prudential margins.

Notes to the Financial Statements

4. Financial risk management (continued)

4.5 Capital Management

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

The Group has developed and maintained a sound framework of policies and controls on capital management to support the development of the Group's business and to meet the statutory capital adequacy ratio. The ALCO monitors the Group's capital adequacy. The Group has complied with all the statutory capital requirements of the HKMA for the reported periods in respect of banking operation as further elaborated below.

The Group has adopted the foundation internal ratings-based ("FIRB") approach to calculate the credit risk capital charge for the majority of its non-securitisation exposures and the internal ratings-based (securitisation) approach to calculate the credit risk capital charge for its securitisation exposures. A small residual credit exposures are remained under the standardised (credit risk) ("STC") approach. The Group has adopted the standardised credit valuation adjustment ("CVA") method to calculate the capital charge for the CVA risk of the counterparty.

The Group continues to adopt the internal models ("IMM") approach to calculate the general market risk capital charge for foreign exchange and interest rate exposures and, with the approval from HKMA, exclude its structural FX positions arising from NCB and Chiyu in the calculation of the market risk capital charge. The Group continues to adopt the standardised (market risk) ("STM") approach to calculate the market risk capital charge for the remaining exposures.

The Group continues to adopt standardised (operational risk) ("STO") approach to calculate the operational risk capital charge.

The Group has continued to adopt an internal capital adequacy assessment process ("ICAAP") to comply with the HKMA's requirements in the Supervisory Policy Manual "Supervisory Review Process" in 2014. Based on the HKMA's guidelines on Pillar II, ICAAP has been initiated to assess the extra capital needed to cover the material risks not captured or not adequately captured under Pillar I, and therefore minimum Common Equity Tier 1 capital ratio, minimum Tier 1 capital ratio and the minimum Total capital ratio are determined. Meanwhile, operating ranges for the aforementioned capital ratios have also been established which enable the flexibility for future business growth and efficiency of capital utilisation. The Group considers this ICAAP process as an on-going process for capital management and periodically reviews and adjusts its capital structure where appropriate in relation to the overall risk profile.

In addition, the capital plan of the Group is drawn up annually and then submitted to the Board for approval after endorsement of the ALCO. The plan is built up by assessing the implications of various factors upon capital adequacy such as the business strategies, return on equity, risk appetite, credit rating, as well as regulatory requirements. Hence, the future capital requirement is determined and capital sources are identified also. The plan is to ensure the Group maintains adequate capital and appropriate capital structure which align with its business development needs, thereby achieving an optimal balance among risk, return and capital adequacy.

4. Financial risk management (continued)

4.5 Capital Management (continued)

(A) Basis of regulatory consolidation

The consolidation basis for regulatory purposes comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with HKFRSs.

The Company, its subsidiaries of BOC Group Life Assurance Company Limited and BOCHK Asset Management (Cayman) Limited (including their subsidiaries), and certain subsidiaries of BOCHK are included within the accounting scope of consolidation but not included within the regulatory scope of consolidation.

The particulars of the above-mentioned subsidiaries of BOCHK are as follows:

Name	2014		2013	
	Total assets HK\$m	Total equity HK\$m	Total assets HK\$m	Total equity HK\$m
Bank of China (Hong Kong) Nominees Limited	-	-	-	-
Bank of China (Hong Kong) Trustees Limited	9	9	9	9
BOC Group Trustee Company Limited	200	200	200	200
BOC Travel Services Limited*	-	-	2	2
BOCHK Information Technology (Shenzhen) Co., Ltd.	214	186	193	172
BOCHK Information Technology Services (Shenzhen) Ltd.	303	260	281	241
BOCI-Prudential Trustee Limited	458	430	442	414
Che Hsing (Nominees) Limited	1	1	1	1
Chiyu Banking Corporation (Nominees) Limited	115	115	96	96
Grace Charter Limited	-	(11)	-	(11)
G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd.**	-	-	68	68
Kwong Li Nam Investment Agency Limited	4	4	4	4
Nanyang Commercial Bank (Nominees) Limited	1	1	1	1
Nanyang Commercial Bank Trustee Limited	16	16	17	17
Po Sang Financial Investment Services Company Limited	121	105	121	105
Po Sang Futures Limited	597	188	219	171
Seng Sun Development Company, Limited	40	40	40	37
Sin Chiao Enterprises Corporation, Limited	7	7	135	135
Sin Hua Trustee Limited	5	5	4	4
Sino Information Services Company Limited	20	20	21	20

* BOC Travel Services Limited was dissolved on 5 June 2014.

** G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd. completed winding up on 20 August 2014.

Notes to the Financial Statements

4. Financial risk management (continued)

4.5 Capital Management (continued)

(A) Basis of regulatory consolidation (continued)

There are no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 31 December 2014 (2013: Nil).

There are also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the methods of consolidation differ as at 31 December 2014 (2013: Nil).

The principal activities of the above subsidiaries are set out in "Appendix – Subsidiaries of the Company" on pages 292 to 293.

(B) Capital ratio

	2014	2013
CET1 capital ratio	12.30%	10.57%
Tier 1 capital ratio	12.38%	10.67%
Total capital ratio	17.51%	15.80%

4. Financial risk management (continued)

4.5 Capital Management (continued)

(C) Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital ratios as at 31 December and reported to the HKMA is analysed as follows:

	2014 HK\$m	2013 HK\$m
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments	43,043	43,043
Retained earnings	76,649	59,291
Disclosed reserves	47,803	43,025
Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	614	504
CET1 capital before regulatory deductions	168,109	145,863
CET1 capital: regulatory deductions		
Valuation adjustments	(19)	(21)
Deferred tax assets net of deferred tax liabilities	(167)	(164)
Gains and losses due to changes in own credit risk on fair valued liabilities	(160)	(81)
Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	(47,312)	(44,491)
Regulatory reserve for general banking risks	(10,011)	(8,994)
Total regulatory deductions to CET1 capital	(57,669)	(53,751)
CET1 capital	110,440	92,112
AT1 capital: instruments		
AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	733	894
AT1 capital	733	894
Tier 1 capital	111,173	93,006

Notes to the Financial Statements

4. Financial risk management (continued)

4.5 Capital Management (continued)

(C) Components of capital base after deductions (continued)

	2014 HK\$'m	2013 HK\$'m
Tier 2 capital: instruments and provisions		
Capital instruments subject to phase out arrangements from Tier 2 capital	19,294	19,294
Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	256	321
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	5,195	5,047
Tier 2 capital before regulatory deductions	24,745	24,662
Tier 2 capital: regulatory deductions		
Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	21,290	20,021
Total regulatory deductions to Tier 2 capital	21,290	20,021
Tier 2 capital	46,035	44,683
Total capital	157,208	137,689

To comply with the Banking (Disclosure) Rules, a section "Regulatory Disclosures" is available on the Company's website at www.bochk.com and includes the following consolidated information of BOCHK:

- A detailed breakdown of the capital base and regulatory deductions, using the standard template as specified by the HKMA.
- A reconciliation of capital components to the balance sheet, using the standard template as specified by the HKMA.
- A description of the main features and the full terms and conditions of the issued capital instruments.

5. Fair values of assets and liabilities

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as defined in HKFRS 13, "Fair value measurement". The categorisation are determined with reference to the observability and significance of the inputs used in the valuation methods and based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes listed equity securities on exchange, debt instruments issued by certain governments, certain exchange-traded derivative contracts and precious metals.
- Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly. This category includes majority of the over-the-counter ("OTC") derivative contracts, debt securities and certificates of deposit with quote from pricing services vendors and issued structured deposits. It also includes precious metals and properties with insignificant adjustments made to observable market inputs.
- Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investment and debt instruments with significant unobservable components. It also includes properties with significant adjustments made to observable market inputs.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

5.1 Financial instruments measured at fair value

The Group has an established governance structure and controls framework to ensure that fair values are either determined or validated by control units independent of the front offices. Control units have overall responsibility for independent verification of valuation results from front line businesses and all other significant fair value measurements. Specific controls include verification of observable pricing inputs; review and approval for new models and changes to models; calibration and back-testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; review of significant unobservable inputs and valuation adjustments. Significant valuation issues are reported to senior management, Risk Committee and Audit Committee.

The Group uses valuation techniques or broker/dealer quotations to determine the fair value of financial instruments when unable to obtain the open market quotation in active markets.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, counterparty credit spreads and others, which are mostly observable and obtainable from open market.

Notes to the Financial Statements

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

The technique used to calculate the fair value of the following financial instruments is as below:

Debt securities and certificates of deposit

The fair value of these instruments is determined by obtaining quoted market prices from exchange, dealer or independent pricing service vendors or using discounted cash flow technique. Discounted cash flow model is a valuation technique that measures present value using estimated expected future cash flows from the instruments and then discounts these flows using a discount rate or discount margin that reflects the credit spreads required by the market for instruments with similar risk. These inputs are observable or can be corroborated by observable or unobservable market data.

Asset backed securities

For this class of instruments, external prices are obtained from independent third parties. The valuation of these securities, depending on the nature of transaction, is estimated from market standard cash flow models with input parameter which include spreads to discount rates, default and recovery rates and prepayment rates that may be observable or compiled through matrix pricing for similar issues.

Derivatives

OTC derivative contracts include forward, swap and option contracts on foreign exchange, interest rate, equity, commodity or credit. The fair values of these contracts are mainly measured using valuation techniques such as discounted cash flow models and option pricing models. The inputs can be observable or unobservable market data. Observable inputs include interest rate, foreign exchange rates, equity and stock prices, commodity prices, credit default swap spreads and volatilities. Unobservable inputs such as volatility surface may be used for less commonly traded option products which are embedded in structured deposits. For certain complex derivatives contracts, the fair values are determined based on broker/dealer price quotations.

Credit valuation adjustments ("CVA") and debit valuation adjustments ("DVA") are applied to the Group's OTC derivatives. These adjustments reflect interest rates, expectations of counterparty creditworthiness and the Group's own credit spread respectively. They are determined for each counterparty and are dependent on expected future values of exposures, default probabilities and recovery rates.

Financial liabilities designated at fair value through profit or loss

This class of instruments includes certain deposits received from customers that are embedded with derivatives. The plain vanilla contracts are valued in the similar way described in previous debt securities section. The fair value of structured deposits is derived from the fair value of the underlying deposit by using discounted cash flow analysis taking the Group's own credit risk into account, and the fair value of the embedded derivatives determined as described in the paragraph above on derivatives.

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	2014			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
Financial assets				
Financial assets at fair value through profit or loss (Note 23)				
– Trading securities				
– Debt securities	189	35,433	–	35,622
– Certificates of deposit	–	1,428	–	1,428
– Equity securities	3	–	–	3
– Financial assets designated at fair value through profit or loss				
– Debt securities	78	12,922	1,080	14,080
– Certificates of deposit	–	264	–	264
– Fund	956	–	–	956
– Equity securities	1,641	–	–	1,641
Derivative financial instruments (Note 24)	10,885	22,468	–	33,353
Available-for-sale securities (Note 27)				
– Debt securities	8,374	286,062	676	295,112
– Certificates of deposit	–	58,117	231	58,348
– Equity securities	2,664	719	267	3,650
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 34)				
– Trading liabilities	–	9,145	–	9,145
– Financial liabilities designated at fair value through profit or loss	–	3,115	–	3,115
Derivative financial instruments (Note 24)	6,979	13,808	–	20,787

Notes to the Financial Statements

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(A) Fair value hierarchy (continued)

	2013			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
Financial assets				
Financial assets at fair value through profit or loss (Note 23)				
– Trading securities				
– Debt securities	–	26,215	–	26,215
– Certificates of deposit	–	139	–	139
– Equity securities	3	355	–	358
– Financial assets designated at fair value through profit or loss				
– Debt securities	343	13,877	385	14,605
– Certificates of deposit	–	369	–	369
– Fund	661	–	–	661
– Equity securities	1,146	–	–	1,146
Derivative financial instruments (Note 24)	13,685	11,663	–	25,348
Available-for-sale securities (Note 27)				
– Debt securities	8,422	323,771	779	332,972
– Certificates of deposit	–	72,609	5,468	78,077
– Equity securities	2,801	1,220	250	4,271
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 34)				
– Trading liabilities	–	9,748	–	9,748
– Financial liabilities designated at fair value through profit or loss	–	3,832	–	3,832
Derivative financial instruments (Note 24)	9,358	9,554	–	18,912

There were no financial asset and liability transfers between level 1 and level 2 for the Group during the year (2013: Nil).

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	2014			
	Financial assets			
	Financial assets designated at fair value through profit or loss	Available-for-sale securities		
		Debt securities HK\$'m	Debt securities HK\$'m	Certificates of deposit HK\$'m
At 1 January 2014	385	779	5,468	250
(Losses)/gains				
– Income statement				
– Net loss on financial instruments designated at fair value through profit or loss	(9)	–	–	–
– Other comprehensive income				
– Change in fair value of available-for-sale securities	–	19	3	17
Purchases	725	78	–	–
Sales	(21)	–	(3,410)	–
Transfers out of level 3	–	(200)	(1,830)	–
At 31 December 2014	1,080	676	231	267
Total unrealised loss for the year included in income statement for financial assets held as at 31 December 2014				
– Net loss on financial instruments designated at fair value through profit or loss	(9)	–	–	–

Notes to the Financial Statements

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	2013				Financial liabilities
	Financial assets				Financial liabilities designated at fair value through profit or loss
	Financial assets designated at fair value through profit or loss	Available-for-sale securities			
		Debt securities HK\$'m	Debt securities HK\$'m	Certificates of deposit HK\$'m	Equity securities HK\$'m
At 1 January 2013	333	1,449	1,188	205	(771)
Gains/(losses)					
– Income statement					
– Net gain on financial instruments designated at fair value through profit or loss	25	–	–	–	–
– Other comprehensive income					
– Change in fair value of available-for-sale securities	–	(43)	(1)	24	–
Purchases	192	–	4,947	21	–
Sales	–	–	(506)	–	–
Settlements	–	–	–	–	771
Transfers into level 3	–	–	160	–	–
Transfers out of level 3	(165)	(171)	(320)	–	–
Reclassification	–	(456)	–	–	–
At 31 December 2013	385	779	5,468	250	–
Total unrealised gain for the year included in income statement for financial assets and liabilities held as at 31 December 2013					
– Net gain on financial instruments designated at fair value through profit or loss	22	–	–	–	–

As at 31 December 2014 and 2013, financial instruments categorised as level 3 are mainly comprised of debt securities, certificates of deposit and unlisted equity shares.

5. Fair values of assets and liabilities (continued)

5.1 Financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

Debt securities and certificates of deposit were transferred into and out of level 3 in the year of 2014 and 2013 due to change of valuation observability. For certain illiquid debt securities and certificates of deposit, the Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. Therefore, these instruments have been classified by the Group as level 3. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The fair values of unlisted available-for-sale equity shares are determined with reference to multiples of comparable listed companies, such as average of the price/earning ratios of comparables or net asset value, if appropriate comparables are not available. The fair value is positively correlated to the price/earning ratios of appropriate comparables or net asset values. Had the net asset value of the underlying equity investments increased/decreased by 5%, the Group's other comprehensive income would have increased/decreased by HK\$13 million (2013: HK\$13 million).

5.2 Financial instruments not measured at fair value

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instrument as far as practicable.

Balances with/from banks and other financial institutions and trade bills

Substantially all the financial assets and liabilities mature within one year from the balance sheet date and their carrying value approximates fair value.

Advances to customers

Substantially all the advances to customers are on floating rate terms, bear interest at prevailing market interest rates and their carrying value approximates fair value.

Held-to-maturity securities

The fair value of held-to-maturity securities is determined by using the same approach as those debt securities and certificates of deposit and asset backed securities measured at fair value as described in Note 5.1.

Notes to the Financial Statements

5. Fair values of assets and liabilities (continued)

5.2 Financial instruments not measured at fair value (continued)

Loans and receivables

A discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Deposits from customers

Substantially all the deposits from customers mature within one year from the balance sheet date and their carrying value approximates fair value.

Debt securities and certificates of deposit in issue

The fair value of these instruments is determined by using the same approach as those debt securities and certificates of deposit and asset backed securities measured at fair value as described in Note 5.1.

Subordinated liabilities

Fair value for subordinated notes is based on market prices or broker/dealer price quotations.

The following tables set out the carrying values and fair values of the financial instruments not measured at fair value, except for the above with their carrying values being approximation of fair values.

	2014		2013	
	Carrying value HK\$'m	Fair value HK\$'m	Carrying value HK\$'m	Fair value HK\$'m
Financial assets				
Held-to-maturity securities (Note 27)				
– Debt securities	76,753	78,419	17,360	17,460
– Certificates of deposit	95	96	95	95
Loans and receivables (Note 27)	4,868	4,867	7,945	7,942
Financial liabilities				
Debt securities and certificates of deposit in issue (Note 36)				
– Debt securities	11,901	12,315	5,684	6,193
Subordinated liabilities (Note 41)	19,676	21,624	19,849	21,224

5. Fair values of assets and liabilities (continued)

5.2 Financial instruments not measured at fair value (continued)

The following tables show the fair value hierarchy for financial instruments with fair values disclosed.

	2014			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
Financial assets				
Held-to-maturity securities				
– Debt securities	412	78,007	–	78,419
– Certificates of deposit	–	96	–	96
Loans and receivables	–	4,867	–	4,867
Financial liabilities				
Debt securities and certificates of deposit in issue				
– Debt securities	–	12,315	–	12,315
Subordinated liabilities	–	21,624	–	21,624

	2013			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
Financial assets				
Held-to-maturity securities				
– Debt securities	–	17,308	152	17,460
– Certificates of deposit	–	18	77	95
Loans and receivables	–	7,942	–	7,942
Financial liabilities				
Debt securities and certificates of deposit in issue				
– Debt securities	–	6,193	–	6,193
Subordinated liabilities	–	21,224	–	21,224

Notes to the Financial Statements

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value

The Group uses valuation techniques or quoted market prices in active market to determine the fair value of non-financial instruments.

Investment properties and premises

The Group's properties can be divided into investment properties and premises. All of the Group's investment properties and premises were revalued as at year end. The valuations were carried out by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited, who have among their staff Fellow and Members of The Hong Kong Institute of Surveyors with recent experience in the locations and categories of properties being valued. The Group's Management had discussions with the surveyors on the valuation methods, valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date. There has been no change in valuation methods during the year.

Valuation methods and inputs used in Level 2 fair value measurements

The fair value of properties classified as Level 2 is determined using either the market comparison approach by reference to recent sales price of comparable properties or the income capitalisation approach by reference to market rent and capitalisation rate, with appropriate adjustments to reflect the differences between the comparable properties and the subject properties. These adjustments are considered as insignificant to the entire measurement.

The Group's properties are located in Hong Kong and major cities in the PRC where the property markets are considered active and transparent. Sales price, market rent and capitalisation rate of comparable properties are generally observable either directly or indirectly in these markets.

Information about Level 3 fair value measurements

The fair value of all of the Group's properties classified as Level 3, except for the bank vault, is determined using either the market comparison approach or the income capitalisation approach, adjusted for a premium or a discount specific to the features of the Group's properties compared to the comparable properties.

The fair value of the bank vault is determined using the depreciated replacement cost approach as no direct comparable is available given the specialised nature of the property. The major inputs are the market value of the existing land, the current cost of replacing the property and the depreciation rate. Appropriate adjustments are made to reflect the specialised nature of the property.

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

Investment properties and premises (continued)

Information about Level 3 fair value measurements (continued)

The valuation methods and significant unobservable inputs used in the fair value measurement of the Group's properties classified as Level 3 are as follows:

	Valuation method	Significant unobservable inputs	Weighted average	Relationship of unobservable inputs to fair value
Bank vault	Depreciated replacement cost approach	Depreciation rate	2% (2013: 2%) per year	The higher the depreciation rate, the lower the fair value.
		Premium on specialised nature of the property	+20% (2013: +20%) to building cost	The higher the premium, the higher the fair value.
Other properties	Market comparison approach or income capitalisation approach	Premium/(discount) on features of the property compared to comparable properties	-13% (2013: -19%)	The higher the premium, the higher the fair value. The higher the discount, the lower the fair value.

Premium/(discount) on features of the property are determined after taken into account various factors, such as time for market movement, location, accessibility, building age/condition, floor level, size, layout, etc., with reference to their differences in features with comparable properties.

Precious metals

The fair values of precious metals are determined by obtaining quoted market prices in active market or market quote with certain adjustments.

Notes to the Financial Statements

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

(A) Fair value hierarchy

	2014			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
Non-financial assets				
Investment properties (Note 30)	–	358	14,201	14,559
Properties, plant and equipment (Note 31)				
– Premises	–	2,855	49,784	52,639
Other assets (Note 32)				
– Precious metals	3,670	12	–	3,682

	2013			
	Level 1 HK\$'m	Level 2 HK\$'m	Level 3 HK\$'m	Total HK\$'m
Non-financial assets				
Investment properties (Note 30)	–	1,586	13,011	14,597
Properties, plant and equipment (Note 31)				
– Premises	–	7,972	41,819	49,791
Other assets (Note 32)				
– Precious metals	5,146	–	–	5,146

There were no non-financial asset transfers between level 1 and level 2 for the Group during the year (2013: Nil).

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items

	2014	
	Non-financial assets	
	Investment properties HK\$'m	Properties, plant and equipment Premises HK\$'m
At 1 January 2014	13,011	41,819
Gains		
– Income statement		
– Net gain from disposal of/fair value adjustments on investment properties	330	–
– Net gain from disposal/revaluation of properties, plant and equipment	–	2
– Other comprehensive income		
– Revaluation of premises	–	2,678
Depreciation	–	(879)
Additions	–	187
Transfer into level 3	1,244	7,149
Transfer out of level 3	–	(1,544)
Reclassification	(384)	384
Exchange difference	–	(12)
At 31 December 2014	14,201	49,784
Total unrealised gain for the year included in income statement for non-financial assets held as at 31 December 2014		
– Net gain from fair value adjustments on investment properties	330	–
– Net gain from revaluation of premises	–	2
	330	2

Notes to the Financial Statements

5. Fair values of assets and liabilities (continued)

5.3 Non-financial instruments measured at fair value (continued)

(B) Reconciliation of level 3 items (continued)

	2013	
	Non-financial assets	
	Investment properties HK\$m	Properties, plant and equipment Premises HK\$m
At 1 January 2013	12,888	38,904
Gains		
– Income statement		
– Net gain from disposal of/fair value adjustments on investment properties	152	–
– Net gain from disposal/revaluation of properties, plant and equipment	–	10
– Other comprehensive income		
– Revaluation of premises	–	3,316
Depreciation	–	(803)
Additions	2	347
Reclassification	(32)	32
Exchange difference	1	13
At 31 December 2013	13,011	41,819
Total unrealised gain for the year included in income statement for non-financial assets held as at 31 December 2013		
– Net gain from fair value adjustments on investment properties	152	–
– Net gain from revaluation of premises	–	10
	152	10

The transfer of properties into and out of level 3 is due to change in the premium/(discount) on features applied between the subject and comparable properties during the year. Premium/(discount) on features is determined with reference to differences in features between the subject properties and the comparable properties recently transacted in the market. As comparable properties that come from recent market transactions may be different in each year, the premium/(discount) on features applied between the subject and comparable properties would change from year to year accordingly. As a result, the significance of adjustments made to observable market inputs may vary and lead to the transfer of properties into and out of level 3.

6. Net interest income

	2014 HK\$'m	2013 HK\$'m
Interest income		
Due from banks and other financial institutions	13,783	8,586
Advances to customers	22,403	19,878
Listed investments	4,563	4,845
Unlisted investments	6,985	5,858
Others	218	212
	47,952	39,379
Interest expense		
Due to banks and other financial institutions	(1,653)	(1,039)
Deposits from customers	(13,493)	(9,840)
Debt securities and certificates of deposit in issue	(223)	(143)
Subordinated liabilities	(271)	(118)
Others	(393)	(323)
	(16,033)	(11,463)
Net interest income	31,919	27,916

Included within interest income is HK\$8 million (2013: HK\$6 million) of interest with respect to income accrued on advances classified as impaired for the year ended 31 December 2014. Interest income accrued on impaired investment in securities amounted to HK\$3 million (2013: HK\$5 million).

Included within interest income and interest expense are HK\$48,229 million (2013: HK\$39,595 million) and HK\$16,684 million (2013: HK\$12,081 million), before hedging effect, for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

Notes to the Financial Statements

7. Net fee and commission income

	2014 HK\$'m	2013 HK\$'m
Fee and commission income		
Credit card business	3,673	3,516
Securities brokerage	2,676	2,432
Loan commissions	2,185	1,900
Insurance	1,562	1,285
Funds distribution	1,035	821
Bills commissions	810	819
Payment services	604	665
Trust and custody services	450	387
Safe deposit box	264	244
Currency exchange	231	197
Others	515	450
	14,005	12,716
Fee and commission expense		
Credit card business	(2,690)	(2,677)
Securities brokerage	(305)	(295)
Insurance	(231)	(213)
Others	(657)	(566)
	(3,883)	(3,751)
Net fee and commission income	10,122	8,965
Of which arise from		
– financial assets or financial liabilities not at fair value through profit or loss		
– Fee and commission income	2,272	1,993
– Fee and commission expense	(19)	(10)
	2,253	1,983
– trust and other fiduciary activities		
– Fee and commission income	643	568
– Fee and commission expense	(26)	(34)
	617	534

8. Net trading gain

	2014 HK\$'m	2013 HK\$'m
Net gain/(loss) from:		
– foreign exchange and foreign exchange products	1,404	1,952
– interest rate instruments and items under fair value hedge	727	573
– commodities	60	91
– equity and credit derivative instruments	(29)	341
	2,162	2,957

9. Net gain on other financial assets

	2014 HK\$'m	2013 HK\$'m
Net gain on available-for-sale securities	813	116
Net gain on held-to-maturity securities	3	–
Others	30	(33)
	846	83

10. Other operating income

	2014 HK\$'m	2013 HK\$'m
Dividend income from investment in securities		
– listed investments	95	91
– unlisted investments	40	36
Gross rental income from investment properties	463	487
Less: Outgoings in respect of investment properties	(74)	(63)
Others	197	103
	721	654

Included in the “Outgoings in respect of investment properties” is HK\$8 million (2013: HK\$6 million) of direct operating expenses related to investment properties that were not let during the year.

Notes to the Financial Statements

11. Net insurance benefits and claims and movement in liabilities

	2014 HK\$'m	2013 HK\$'m
Gross insurance benefits and claims and movement in liabilities		
Claims, benefits and surrenders paid	(11,043)	(6,243)
Movement in liabilities	(8,103)	(12,034)
	(19,146)	(18,277)
Reinsurers' share of benefits and claims and movement in liabilities		
Reinsurers' share of claims, benefits and surrenders paid	805	249
Reinsurers' share of movement in liabilities	9,173	8,755
	9,978	9,004
Net insurance benefits and claims and movement in liabilities	(9,168)	(9,273)

12. Net charge of impairment allowances

	2014 HK\$'m	2013 HK\$'m
Advances to customers		
Individually assessed		
– new allowances	(1,078)	(418)
– releases	330	105
– recoveries	161	254
Net charge of individually assessed loan impairment allowances (Note 26)	(587)	(59)
Collectively assessed		
– new allowances	(566)	(709)
– releases	81	4
– recoveries	41	34
Net charge of collectively assessed loan impairment allowances (Note 26)	(444)	(671)
Net charge of loan impairment allowances	(1,031)	(730)
Held-to-maturity securities		
Net reversal of impairment allowances on held-to-maturity securities		
– Individually assessed (Note 27)	2	5
Others	(21)	(12)
Net charge of impairment allowances	(1,050)	(737)

13. Operating expenses

	2014 HK\$'m	2013 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	6,732	6,313
– pension cost	536	506
	7,268	6,819
Premises and equipment expenses (excluding depreciation)		
– rental of premises	826	792
– information technology	426	403
– others	427	381
	1,679	1,576
Depreciation (Note 31)	1,829	1,663
Auditor's remuneration		
– audit services	27	26
– non-audit services	12	8
Other operating expenses	2,157	1,991
	12,972	12,083

Contingent rent included in the "Rental of premises" amounted to HK\$15 million during the year (2013: HK\$10 million).

14. Net gain from disposal of/fair value adjustments on investment properties

	2014 HK\$'m	2013 HK\$'m
Net gain from fair value adjustments on investment properties (Note 30)	393	264

15. Net (loss)/gain from disposal/revaluation of properties, plant and equipment

	2014 HK\$'m	2013 HK\$'m
Net gain from disposal of premises	1	–
Net loss from disposal of other fixed assets	(27)	(13)
Net gain from revaluation of premises (Note 31)	2	14
	(24)	1

Notes to the Financial Statements

16. Taxation

Taxation in the income statement represents:

	2014 HK\$'m	2013 HK\$'m
Current tax		
Hong Kong profits tax		
– current year taxation	4,294	4,174
– over-provision in prior years	(62)	(13)
	4,232	4,161
Overseas taxation		
– current year taxation	1,214	711
– over-provision in prior years	–	(16)
	5,446	4,856
Deferred tax		
Origination and reversal of temporary differences (Note 39)	112	(138)
	5,558	4,718

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The taxation on the Group's profit before taxation that differs from the theoretical amount that would arise using the taxation rate of Hong Kong is as follows:

	2014 HK\$'m	2013 HK\$'m
Profit before taxation	30,663	27,793
Calculated at a taxation rate of 16.5% (2013: 16.5%)	5,060	4,586
Effect of different taxation rates in other countries	37	26
Income not subject to taxation	(70)	(188)
Expenses not deductible for taxation purposes	130	74
Utilisation of previously unrecognised tax losses	–	(121)
Over-provision in prior years	(62)	(29)
Foreign withholding tax	463	370
Taxation charge	5,558	4,718
Effective tax rate	18.1%	17.0%

17. Profit attributable to the equity holders of the Company

The consolidated profit attributable to the equity holders of the Company for the year ended 31 December 2014 includes a profit of HK\$6,128 million (2013: HK\$13,519 million) which has been dealt with in the financial statements of the Company.

18. Dividends

	2014		2013	
	Per share HK\$	Total HK\$'m	Per share HK\$	Total HK\$'m
Interim dividend paid	0.545	5,762	0.545	5,762
Proposed final dividend	0.575	6,080	0.465	4,917
	1.120	11,842	1.010	10,679

At a meeting held on 19 August 2014, the Board declared an interim dividend of HK\$0.545 per ordinary share for the first half of 2014 amounting to approximately HK\$5,762 million.

At a meeting held on 25 March 2015, the Board proposed to recommend to the Annual General Meeting on 16 June 2015 a final dividend of HK\$0.575 per ordinary share for the year ended 31 December 2014 amounting to approximately HK\$6,080 million. This proposed final dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2015.

19. Earnings per share for profit attributable to the equity holders of the Company

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the year ended 31 December 2014 of approximately HK\$24,577 million (2013: HK\$22,252 million) and on the ordinary shares in issue of 10,572,780,266 shares (2013: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the year ended 31 December 2014 (2013: Nil).

20. Retirement benefit costs

Defined contribution schemes for the Group's employees are ORSO schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon retirement, early retirement or termination of employment after completing 10 years of service. Employees with 3 to 9 years of service are entitled to receive the employer's contributions at a scale ranging from 30% to 90% upon termination of employment for other reasons other than summary dismissal. All employer's contributions received by employee are subject to MPF Schemes Ordinance.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also participates in the BOC-Prudential Easy Choice MPF Scheme, of which the trustee is BOCI-Prudential Trustee and the investment manager is BOCI-Prudential Manager, which are related parties of the Company.

The Group's total contributions made to the ORSO schemes for the year ended 31 December 2014 amounted to approximately HK\$359 million (2013: approximately HK\$352 million), after a deduction of forfeited contributions of approximately HK\$7 million (2013: approximately HK\$5 million). For the MPF Scheme, the Group contributed approximately HK\$71 million (2013: approximately HK\$64 million) for the year ended 31 December 2014.

Notes to the Financial Statements

21. Directors', senior management's and key personnel's emoluments

(a) Directors' and senior management's emoluments

(i) Directors' emoluments

Details of the emoluments paid to or receivable by the directors of the Company in respect of their services rendered for the Company and managing the subsidiaries within the Group during the year are as follows:

	2014			
	Directors' fee HK\$'000	Basic salaries, allowances and benefits in kind HK\$'000	Bonus HK\$'000	Total HK\$'000
Executive Directors				
HE Guangbei (Chief Executive)	100	8,754	4,492	13,346
GAO Yingxin	100	5,906	2,622	8,628
	200	14,660	7,114	21,974
Non-executive Directors				
TIAN Guoli	–	–	–	–
CHEN Siqing	–	–	–	–
LI Lihui ^{Note 2}	–	–	–	–
LI Zaohang	–	–	–	–
ZHU Shumin ^{Note 1}	–	–	–	–
YUE Yi ^{Note 1}	–	–	–	–
CHENG Eva* ^{Note 1}	52	–	–	52
KOH Beng Seng*	409	–	–	409
SHAN Weijian*	359	–	–	359
TUNG Savio Wai-Hok*	459	–	–	459
ZHOU Zaiqun ^{# Note 2}	1,047	–	–	1,047
FUNG Victor Kwok King* ^{Note 2}	133	–	–	133
NING Gaoning* ^{Note 2}	125	–	–	125
	2,584	–	–	2,584
	2,784	14,660	7,114	24,558

Note 1: Appointed during the year.

Note 2: Resigned/retired during the year.

21. Directors', senior management's and key personnel's emoluments (continued)

(a) Directors' and senior management's emoluments (continued)

(i) Directors' emoluments (continued)

	2013			
	Directors' fee HK\$'000	Basic salaries, allowances and benefits in kind HK\$'000	Bonus HK\$'000	Total HK\$'000
Executive Directors				
HE Guangbei (Chief Executive)	100	8,326	4,286	12,712
GAO Yingxin	100	5,741	2,570	8,411
	200	14,067	6,856	21,123
Non-executive Directors				
TIAN Guoli	-	-	-	-
XIAO Gang	-	-	-	-
CHEN Siqing	-	-	-	-
LI Lihui	-	-	-	-
LI Zaohang	-	-	-	-
KOH Beng Seng*	380	-	-	380
SHAN Weijian*	350	-	-	350
TUNG Savio Wai-Hok*	430	-	-	430
ZHOU Zaiqun [#]	4,136	-	-	4,136
FUNG Victor Kwok King*	300	-	-	300
NING Gaoning*	250	-	-	250
TUNG Chee Chen*	142	-	-	142
	5,988	-	-	5,988
	6,188	14,067	6,856	27,111

[#] Included fee as Chairman and Non-executive Director of Nanyang Commercial Bank, Limited

* Independent Non-executive Directors

For the year ended 31 December 2014, certain directors waived emoluments of HK\$2 million (2013: HK\$2 million), which include directors' fee from subsidiaries.

Notes to the Financial Statements

21. Directors', senior management's and key personnel's emoluments (continued)

(a) Directors' and senior management's emoluments (continued)

(ii) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2013: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2013: three) individuals during the year are as follows:

	2014 HK\$m	2013 HK\$m
Basic salaries and allowances	12	12
Bonus	6	6
Contributions to pension schemes	1	–
	19	18

Emoluments paid to or receivable by individuals during the year with reference to their tenure are within the following bands:

	Number of individuals	
	2014	2013
HK\$5,500,001 to HK\$6,000,000	1	1
HK\$6,000,001 to HK\$6,500,000	2	2

(iii) Senior management's emoluments

Emoluments paid to or receivable by individuals during the year with reference to their tenure as senior management are within the following bands:

	Number of individuals	
	2014	2013
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$4,500,001 to HK\$5,000,000	1	–
HK\$5,000,001 to HK\$5,500,000	1	2
HK\$5,500,001 to HK\$6,000,000	1	3
HK\$6,000,001 to HK\$6,500,000	2	1
HK\$8,000,001 to HK\$8,500,000	–	1
HK\$8,500,001 to HK\$9,000,000	1	–
HK\$12,500,001 to HK\$13,000,000	–	1
HK\$13,000,001 to HK\$13,500,000	1	–

21. Directors', senior management's and key personnel's emoluments (continued)

(b) Remuneration for Senior Management and Key Personnel under CG-5

Pursuant to CG-5 Guideline on a Sound Remuneration System issued by the HKMA, details of the remuneration for Senior Management and Key Personnel of the Group during the year are as follows:

(i) Remuneration awarded during the year

	2014					
	Senior Management			Key Personnel		
	Non-deferred HK\$m	Deferred HK\$m	Total HK\$m	Non-deferred HK\$m	Deferred HK\$m	Total HK\$m
Fixed remuneration						
Cash	46	–	46	55	–	55
Variable remuneration						
Cash	14	5	19	25	8	33
Total	60	5	65	80	8	88

	2013					
	Senior Management			Key Personnel		
	Non-deferred HK\$m	Deferred HK\$m	Total HK\$m	Non-deferred HK\$m	Deferred HK\$m	Total HK\$m
Fixed remuneration						
Cash	46	–	46	52	–	52
Variable remuneration						
Cash	14	5	19	24	7	31
Total	60	5	65	76	7	83

The remuneration above includes 12 (2013: 11) members of Senior Management and 19 (2013: 19) members of Key Personnel.

Notes to the Financial Statements

21. Directors', senior management's and key personnel's emoluments (continued)

(b) Remuneration for Senior Management and Key Personnel under CG-5 (continued)

(ii) Deferred remuneration

	2014		2013	
	Senior Management HK\$m	Key Personnel HK\$m	Senior Management HK\$m	Key Personnel HK\$m
Deferred remuneration				
Vested	6	7	6	4
Unvested	10	15	11	14
	16	22	17	18
At 1 January	11	14	12	11
Awarded	5	8	5	7
Paid out	(6)	(7)	(6)	(4)
Reduced through performance adjustments	-	-	-	-
At 31 December	10	15	11	14

For the purpose of disclosure, Senior Management and Key Personnel mentioned in this section are defined according to the HKMA's Guideline on a Sound Remuneration System.

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

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

22. Cash and balances with banks and other financial institutions

	2014 HK\$'m	2013 HK\$'m
Cash	9,749	9,456
Balances with central banks	104,317	139,022
Balances with banks and other financial institutions	224,498	110,463
Placements with banks and other financial institutions maturing within one month	60,109	94,800
	398,673	353,741

23. Financial assets at fair value through profit or loss

	Trading securities		Financial assets designated at fair value through profit or loss		Total	
	2014 HK\$'m	2013 HK\$'m	2014 HK\$'m	2013 HK\$'m	2014 HK\$'m	2013 HK\$'m
	At fair value					
Debt securities						
– Listed in Hong Kong	10,756	7,811	2,852	759	13,608	8,570
– Listed outside Hong Kong	5,448	5,007	5,419	7,009	10,867	12,016
	16,204	12,818	8,271	7,768	24,475	20,586
– Unlisted	19,418	13,397	5,809	6,837	25,227	20,234
	35,622	26,215	14,080	14,605	49,702	40,820
Certificates of deposit						
– Listed outside Hong Kong	119	–	–	–	119	–
– Unlisted	1,309	139	264	369	1,573	508
	1,428	139	264	369	1,692	508
Fund						
– Unlisted	–	–	956	661	956	661
Equity securities						
– Listed in Hong Kong	3	3	1,516	880	1,519	883
– Listed outside Hong Kong	–	–	125	266	125	266
	3	3	1,641	1,146	1,644	1,149
– Unlisted	–	355	–	–	–	355
	3	358	1,641	1,146	1,644	1,504
Total	37,053	26,712	16,941	16,781	53,994	43,493

Notes to the Financial Statements

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

Financial assets at fair value through profit or loss are analysed by type of issuer as follows:

	2014 HK\$'m	2013 HK\$'m
Sovereigns	19,375	17,966
Public sector entities*	465	172
Banks and other financial institutions	21,913	13,065
Corporate entities	12,241	12,290
	53,994	43,493

* Included financial assets at fair value through profit or loss of HK\$465 million (2013: HK\$156 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

Financial assets at fair value through profit or loss are analysed as follows:

	2014 HK\$'m	2013 HK\$'m
Treasury bills	11,990	9,895
Certificates of deposit	1,692	508
Others	40,312	33,090
	53,994	43,493

24. Derivative financial instruments and hedge accounting

The Group enters into the following exchange rate, interest rate, commodity and equity related derivative financial instrument contracts for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currency on a future date. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates or buy or sell interest rate financial instruments on a future date at an agreed price in the financial market under the administration of the stock exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contract rate of interest and the current market rate, based on a notional principal amount.

Currency, interest rate and precious metal swaps are commitments to exchange one set of cash flows or commodity for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or precious metals (for example, silver swaps) or a combination of all these (for example, cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate, precious metal and equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated over-the-counter ("OTC") between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock option).

24. Derivative financial instruments and hedge accounting (continued)

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the balance sheet. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates, market interest rates, metal prices or equity prices relative to their terms. The aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

(a) Derivative financial instruments

The Group trades derivative products (both exchange-traded or OTC) mainly for customer business. The Group strictly follows risk management policies and requirement in providing derivative products to our customers and in trading of derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions, and the maximum tenor of the deal is set. Every derivative transaction must be input into the relevant system for settlement, mark-to-market revaluation, reporting and control.

The following tables summarise the contract/notional amounts of each class of derivative financial instrument as at 31 December:

	2014			Total HK\$'m
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	
Exchange rate contracts				
Spot, forwards and futures	345,227	–	2,047	347,274
Swaps	1,118,201	644	14,098	1,132,943
Foreign currency options				
– Options purchased	35,101	–	–	35,101
– Options written	33,654	–	–	33,654
	1,532,183	644	16,145	1,548,972
Interest rate contracts				
Futures	4,156	–	–	4,156
Swaps	334,572	74,405	3,848	412,825
	338,728	74,405	3,848	416,981
Commodity contracts	6,547	–	–	6,547
Equity contracts	4,253	–	–	4,253
Credit derivative contracts	78	–	–	78
Total	1,881,789	75,049	19,993	1,976,831

Not qualified for hedge accounting: derivative contracts which do not qualify as hedges for accounting purposes but are managed in conjunction with the financial instruments designated at fair value through profit or loss are separately disclosed in compliance with the requirements set out in the Banking (Disclosure) Rules.

Notes to the Financial Statements

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

	2013			Total HK\$m
	Trading HK\$m	Hedging HK\$m	Not qualified for hedge accounting HK\$m	
Exchange rate contracts				
Spot, forwards and futures	302,252	–	641	302,893
Swaps	683,295	2,532	10,691	696,518
Foreign currency options				
– Options purchased	20,982	–	–	20,982
– Options written	23,457	–	–	23,457
	<u>1,029,986</u>	<u>2,532</u>	<u>11,332</u>	<u>1,043,850</u>
Interest rate contracts				
Futures	2,790	–	–	2,790
Swaps	267,140	86,803	4,177	358,120
	<u>269,930</u>	<u>86,803</u>	<u>4,177</u>	<u>360,910</u>
Commodity contracts	5,367	–	–	5,367
Equity contracts	2,099	–	–	2,099
Other contracts	59	–	–	59
Total	<u><u>1,307,441</u></u>	<u><u>89,335</u></u>	<u><u>15,509</u></u>	<u><u>1,412,285</u></u>

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 31 December:

	2014							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot, forwards and futures	12,208	-	-	12,208	(7,386)	-	(4)	(7,390)
Swaps	12,462	-	12	12,474	(9,823)	(1)	(21)	(9,845)
Foreign currency options								
- Options purchased	4,676	-	-	4,676	-	-	-	-
- Options written	-	-	-	-	(207)	-	-	(207)
	29,346	-	12	29,358	(17,416)	(1)	(25)	(17,442)
Interest rate contracts								
Futures	2	-	-	2	(3)	-	-	(3)
Swaps	1,311	2,270	2	3,583	(1,881)	(1,128)	(50)	(3,059)
	1,313	2,270	2	3,585	(1,884)	(1,128)	(50)	(3,062)
Commodity contracts	328	-	-	328	(202)	-	-	(202)
Equity contracts	82	-	-	82	(81)	-	-	(81)
Total	31,069	2,270	14	33,353	(19,583)	(1,129)	(75)	(20,787)

Notes to the Financial Statements

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

	2013							
	Fair value assets				Fair value liabilities			
	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Not qualified for hedge accounting HK\$'m	Total HK\$'m
Exchange rate contracts								
Spot, forwards and futures	14,208	-	-	14,208	(10,000)	-	(7)	(10,007)
Swaps	5,275	34	145	5,454	(4,953)	(43)	(167)	(5,163)
Foreign currency options								
- Options purchased	58	-	-	58	-	-	-	-
- Options written	-	-	-	-	(150)	-	-	(150)
	19,541	34	145	19,720	(15,103)	(43)	(174)	(15,320)
Interest rate contracts								
Futures	1	-	-	1	(1)	-	-	(1)
Swaps	1,767	3,359	5	5,131	(2,191)	(1,127)	(64)	(3,382)
	1,768	3,359	5	5,132	(2,192)	(1,127)	(64)	(3,383)
Commodity contracts	472	-	-	472	(185)	-	-	(185)
Equity contracts	24	-	-	24	(24)	-	-	(24)
Total	21,805	3,393	150	25,348	(17,504)	(1,170)	(238)	(18,912)

24. Derivative financial instruments and hedge accounting (continued)

(a) Derivative financial instruments (continued)

The table below gives the credit risk-weighted amounts of the above derivative financial instruments and is prepared with reference to the Completion Instructions for the HKMA return of capital adequacy ratio.

	2014 HK\$m	2013 HK\$m
Exchange rate contracts		
Forwards and futures	1,642	1,152
Swaps	4,956	4,129
Foreign currency options		
– Options purchased	1,569	144
	8,167	5,425
Interest rate contracts		
Futures	1	1
Swaps	728	1,541
	729	1,542
Commodity contracts	–	4
Equity contracts	208	144
Total	9,104	7,115

The credit risk-weighted amounts are calculated in accordance with the Banking (Capital) Rules. The amounts are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

The total fair values of derivatives subject to valid bilateral netting agreements for the Group amounted to HK\$10,928 million (2013: HK\$173 million) and the effect of valid bilateral netting agreements amounted to HK\$7,154 million (2013: HK\$154 million).

Notes to the Financial Statements

24. Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting

The fair values of derivative financial instruments designated as hedging instruments as at 31 December are as follows:

	2014		2013	
	Assets HK\$'m	Liabilities HK\$'m	Assets HK\$'m	Liabilities HK\$'m
Fair value hedges	2,270	(1,128)	3,359	(1,127)
Cash flow hedges	–	(1)	34	(43)
	2,270	(1,129)	3,393	(1,170)

(i) Fair value hedges

The Group uses interest rate swaps to hedge against change in fair value of financial assets and liabilities arising from movements in market interest rates.

Gains or losses on fair value hedges reflected in net trading gain for the year are as follows:

	2014		2013	
	Hedged assets HK\$'m	Hedged liabilities HK\$'m	Hedged assets HK\$'m	Hedged liabilities HK\$'m
Net (loss)/gain				
– hedging instruments	(1,708)	86	2,284	(1,467)
– hedged items	1,841	141	(2,284)	2,031
	133	227	–	564

(ii) Cash flow hedges

The Group hedges a portion of foreign exchange risks that it expects to assume as a result of cash flows from certain fixed income securities using cross-currency interest rate swaps.

There were no gains or losses on ineffective portion recognised in the income statement during the year (2013: Nil).

(iii) Hedges of net investments in foreign operations

As at 31 December 2014, a proportion of the Group's RMB-denominated deposits from customers of HK\$1,766 million (2013: HK\$1,888 million) were designated as a hedging instrument to hedge against the net investments in foreign operations.

There were no gains or losses on ineffective portion recognised in the income statement during the year (2013: Nil).

25. Advances and other accounts

	2014 HK\$'m	2013 HK\$'m
Personal loans and advances	284,007	254,545
Corporate loans and advances	676,982	603,787
Advances to customers*	960,989	858,332
Loan impairment allowances		
– Individually assessed	(1,096)	(840)
– Collectively assessed	(3,520)	(3,395)
	956,373	854,097
Trade bills	57,756	70,846
Total	1,014,129	924,943

As at 31 December 2014, advances to customers included accrued interest of HK\$1,570 million (2013: HK\$1,344 million).

As at 31 December 2014, no impairment allowance was made in respect of trade bills (2013: Nil).

* Included advances to customers denominated in HK dollars of HK\$606,590 million (2013: HK\$552,769 million) and US dollars equivalent to HK\$251,565 million (2013: HK\$217,702 million).

26. Loan impairment allowances

	2014		
	Individual assessment		
	Personal HK\$'m	Corporate HK\$'m	Total HK\$'m
At 1 January 2014	30	810	840
(Credited)/charged to income statement (Note 12)	(6)	593	587
Loans written off during the year as uncollectible	(8)	(464)	(472)
Recoveries	12	149	161
Unwind of discount on impairment allowances	(1)	(7)	(8)
Exchange difference	(1)	(11)	(12)
At 31 December 2014	26	1,070	1,096

Notes to the Financial Statements

26. Loan impairment allowances (continued)

	2014		
	Collective assessment		
	Personal HK\$'m	Corporate HK\$'m	Total HK\$'m
At 1 January 2014	315	3,080	3,395
Charged to income statement (Note 12)	343	101	444
Loans written off during the year as uncollectible	(339)	(3)	(342)
Recoveries	41	–	41
Exchange difference	–	(18)	(18)
At 31 December 2014	360	3,160	3,520

	2013		
	Individual assessment		
	Personal HK\$'m	Corporate HK\$'m	Total HK\$'m
At 1 January 2013	26	710	736
(Credited)/Charged to income statement (Note 12)	(4)	63	59
Loans written off during the year as uncollectible	(3)	(206)	(209)
Recoveries	11	243	254
Unwind of discount on impairment allowances	–	(6)	(6)
Exchange difference	–	6	6
At 31 December 2013	30	810	840

	2013		
	Collective assessment		
	Personal HK\$'m	Corporate HK\$'m	Total HK\$'m
At 1 January 2013	269	2,700	2,969
Charged to income statement (Note 12)	303	368	671
Loans written off during the year as uncollectible	(291)	(2)	(293)
Recoveries	34	–	34
Exchange difference	–	14	14
At 31 December 2013	315	3,080	3,395

27. Investment in securities

	2014 HK\$'m	2013 HK\$'m
The Group		
(a) Available-for-sale securities		
Debt securities, at fair value		
– Listed in Hong Kong	30,219	27,134
– Listed outside Hong Kong	98,508	123,369
	128,727	150,503
– Unlisted	166,385	182,469
	295,112	332,972
Certificates of deposit, at fair value		
– Listed in Hong Kong	501	502
– Listed outside Hong Kong	366	686
	867	1,188
– Unlisted	57,481	76,889
	58,348	78,077
Equity securities, at fair value		
– Listed in Hong Kong	2,664	2,801
– Unlisted	986	1,470
	3,650	4,271
	357,110	415,320
(b) Held-to-maturity securities		
Debt securities, at amortised cost		
– Listed in Hong Kong	5,050	710
– Listed outside Hong Kong	22,238	12,353
	27,288	13,063
– Unlisted	49,466	4,300
	76,754	17,363
Certificates of deposit, at amortised cost		
– Unlisted	95	95
	76,849	17,458
Impairment allowances	(1)	(3)
	76,848	17,455
(c) Loans and receivables		
Unlisted, at amortised cost	4,868	7,945
Total	438,826	440,720
Market value of listed held-to-maturity securities	27,697	13,132
The Company		
Available-for-sale securities		
Equity securities, at fair value		
– Listed in Hong Kong	2,664	2,801

Notes to the Financial Statements

27. Investment in securities (continued)

Investment in securities is analysed by type of issuer as follows:

	2014			
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m	Total HK\$'m
The Group				
Sovereigns	67,251	2,917	–	70,168
Public sector entities*	20,227	22,710	–	42,937
Banks and other financial institutions	191,867	31,775	2,793	226,435
Corporate entities	77,765	19,446	2,075	99,286
	357,110	76,848	4,868	438,826

	2013			
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m	Total HK\$'m
The Group				
Sovereigns	53,060	2,318	–	55,378
Public sector entities*	46,292	137	–	46,429
Banks and other financial institutions	243,746	7,227	7,112	258,085
Corporate entities	72,222	7,773	833	80,828
	415,320	17,455	7,945	440,720

* Included available-for-sale securities of HK\$18,567 million (2013: HK\$24,530 million) and held-to-maturity securities of HK\$2,762 million (2013: HK\$58 million) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

As at 31 December 2014 and 2013, all of the available-for-sale securities held by the Company were issued by banks and other financial institutions.

27. Investment in securities (continued)

The movements in investment in securities are summarised as follows:

	2014		
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m
The Group			
At 1 January 2014	415,320	17,455	7,945
Additions	339,767	15,358	8,482
Disposals, redemptions and maturity	(345,557)	(5,868)	(11,631)
Amortisation	(593)	936	82
Change in fair value	4,759	–	–
Net reversal of impairment allowances	–	2	–
Reclassification	(49,854)	49,854	–
Exchange difference	(6,732)	(889)	(10)
At 31 December 2014	357,110	76,848	4,868

	2013		
	Available-for-sale securities HK\$'m	Held-to-maturity securities HK\$'m	Loans and receivables HK\$'m
The Group			
At 1 January 2013	454,732	18,398	9,234
Additions	547,165	1,102	12,927
Disposals, redemptions and maturity	(553,997)	(8,590)	(14,321)
Amortisation	(157)	46	100
Change in fair value	(8,854)	–	–
Net reversal of impairment allowances	–	5	–
Reclassification	(6,797)	6,797	–
Exchange difference	(16,772)	(303)	5
At 31 December 2013	415,320	17,455	7,945

Notes to the Financial Statements

27. Investment in securities (continued)

	Available-for-sale securities	
	2014 HK\$'m	2013 HK\$'m
The Company		
At 1 January	2,801	2,528
Change in fair value	(137)	273
At 31 December	2,664	2,801

Available-for-sale and held-to-maturity securities are analysed as follows:

	Available-for-sale securities		Held-to-maturity securities	
	2014 HK\$'m	2013 HK\$'m	2014 HK\$'m	2013 HK\$'m
The Group				
Treasury bills	48,079	33,975	2,375	585
Certificates of deposit	58,348	78,077	95	95
Others	250,683	303,268	74,378	16,775
	357,110	415,320	76,848	17,455

The movements in impairment allowances on held-to-maturity securities are summarised as follows:

	2014 HK\$'m	2013 HK\$'m
The Group		
At 1 January	3	9
Credited to income statement (Note 12)	(2)	(5)
Disposals	–	(1)
At 31 December	1	3

The Group reclassified certain debt securities with fair value of HK\$49,854 million (2013: HK\$6,797 million) out of available-for-sale category into held-to-maturity category during the year. The Group had the intention and ability to hold these reclassified debt securities until maturity at the date of reclassification.

28. Investment in subsidiaries

	2014 HK\$'m	2013 HK\$'m
The Company		
Unlisted shares, at cost	54,834	54,834

The particulars of all direct and indirect subsidiaries of the Company are set out in the Appendix of this Annual Report, "Subsidiaries of the Company". The following is a list of principal subsidiaries as at 31 December 2014:

Name	Place of incorporation and operation	Issued share capital/ registered capital	Interest held	Principal activities
Bank of China (Hong Kong) Limited	Hong Kong	Ordinary shares HK\$43,042,840,858	*100%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong	Ordinary shares HK\$3,038,000,000	*51%	Life insurance business
Nanyang Commercial Bank, Limited	Hong Kong	Ordinary shares HK\$3,144,517,396	100%	Banking business
Chiyu Banking Corporation Limited	Hong Kong	Ordinary shares HK\$300,000,000	70.49%	Banking business
BOC Credit Card (International) Limited	Hong Kong	Ordinary shares HK\$480,000,000	100%	Credit card services
Po Sang Futures Limited	Hong Kong	Ordinary shares HK\$95,000,000	100%	Securities and futures brokerage
Nanyang Commercial Bank (China), Limited	PRC	Registered capital RMB6,500,000,000	100%	Banking business

* Shares held directly by the Company

The particulars of subsidiary with significant non-controlling interests are as follows:

BOC Group Life Assurance Company Limited

	2014	2013
Proportion of ownership interests and voting rights held by non-controlling interests	49%	49%

	2014 HK\$'m	2013 HK\$'m
Profit attributable to non-controlling interests	220	526
Accumulated non-controlling interests	2,668	2,158
Summarised financial information:		
– total assets	87,942	79,580
– total liabilities	82,496	75,176
– profit for the year	450	1,072
– total comprehensive income for the year	1,041	159

Notes to the Financial Statements

29. Interests in associates and a joint venture

	2014 HK\$'m	2013 HK\$'m
At 1 January	292	259
Share of results	49	42
Share of tax	(15)	(7)
Dividend received	(2)	(2)
At 31 December	324	292

The particulars of the Group's associates and joint venture, all of which are unlisted, are as follows:

Name	Place of incorporation and operation	Issued share capital/ registered capital	Interest held	Principal activities
Associates:				
BOC Services Company Limited	PRC	Registered capital RMB50,000,000	45.00%	Credit card back-end service support
BOC Expresspay Company Limited	PRC	Registered capital RMB450,000,000	25.33%	Prepay debit card services
Joint Venture:				
Joint Electronic Teller Services Limited	Hong Kong	Ordinary shares HK\$10,023,800	19.96%	Operation of a private inter-bank message switching network in respect of ATM services

	Associates		Joint venture	
	2014 HK\$'m	2013 HK\$'m	2014 HK\$'m	2013 HK\$'m
Interests in associates/joint venture	265	232	59	60
Share of profit/total comprehensive income for the year of associates/joint venture	33	33	1	2

30. Investment properties

	2014 HK\$'m	2013 HK\$'m
At 1 January	14,597	14,364
Additions	–	2
Fair value gains (Note 14)	393	264
Reclassification to properties, plant and equipment (Note 31)	(431)	(34)
Exchange difference	–	1
At 31 December	14,559	14,597

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	2014 HK\$'m	2013 HK\$'m
Held in Hong Kong		
On long-term lease (over 50 years)	3,622	2,893
On medium-term lease (10 to 50 years)	10,686	11,436
Held outside Hong Kong		
On medium-term lease (10 to 50 years)	231	248
On short-term lease (less than 10 years)	20	20
	14,559	14,597

As at 31 December 2014, investment properties are included in the balance sheet at valuation carried out at 31 December 2014 on the basis of their fair value by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited. The fair value represents the price that would be received to sell each investment property in an orderly transaction with market participants at the measurement date.

Notes to the Financial Statements

31. Properties, plant and equipment

	Premises HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Net book value at 1 January 2014	49,791	2,567	52,358
Additions	211	814	1,025
Disposals	(43)	(27)	(70)
Revaluation	3,311	–	3,311
Depreciation for the year (Note 13)	(1,050)	(779)	(1,829)
Reclassification from investment properties (Note 30)	431	–	431
Exchange difference	(12)	(7)	(19)
Net book value at 31 December 2014	52,639	2,568	55,207
At 31 December 2014			
Cost or valuation	52,639	8,308	60,947
Accumulated depreciation and impairment	–	(5,740)	(5,740)
Net book value at 31 December 2014	52,639	2,568	55,207
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2014			
At cost	–	8,308	8,308
At valuation	52,639	–	52,639
	52,639	8,308	60,947
Net book value at 1 January 2013	46,178	2,565	48,743
Additions	376	720	1,096
Disposals	(1)	(16)	(17)
Revaluation	4,143	–	4,143
Depreciation for the year (Note 13)	(953)	(710)	(1,663)
Reclassification from investment properties (Note 30)	34	–	34
Exchange difference	14	8	22
Net book value at 31 December 2013	49,791	2,567	52,358
At 31 December 2013			
Cost or valuation	49,791	8,275	58,066
Accumulated depreciation and impairment	–	(5,708)	(5,708)
Net book value at 31 December 2013	49,791	2,567	52,358
The analysis of cost or valuation of the above assets is as follows:			
At 31 December 2013			
At cost	–	8,275	8,275
At valuation	49,791	–	49,791
	49,791	8,275	58,066

31. Properties, plant and equipment (continued)

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

	2014 HK\$'m	2013 HK\$'m
Held in Hong Kong		
On long-term lease (over 50 years)	19,425	18,774
On medium-term lease (10 to 50 years)	32,430	30,250
Held outside Hong Kong		
On long-term lease (over 50 years)	81	74
On medium-term lease (10 to 50 years)	685	675
On short-term lease (less than 10 years)	18	18
	52,639	49,791

As at 31 December 2014, premises are included in the balance sheet at valuation carried out at 31 December 2014 on the basis of their fair value by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited. The fair value represents the price that would be received to sell each premises in an orderly transaction with market participants at the measurement date.

As a result of the above-mentioned revaluations, changes in value of the premises were recognised in the premises revaluation reserve, the income statement and non-controlling interests as follows:

	2014 HK\$'m	2013 HK\$'m
Increase in valuation credited to premises revaluation reserve	3,284	4,078
Increase in valuation credited to income statement (Note 15)	2	14
Increase in valuation credited to non-controlling interests	25	51
	3,311	4,143

As at 31 December 2014, the net book value of premises that would have been included in the Group's balance sheet had the premises been carried at cost less accumulated depreciation and impairment losses was HK\$8,331 million (2013: HK\$7,221 million).

Notes to the Financial Statements

32. Other assets

	2014 HK\$'m	2013 HK\$'m
Reposessed assets	18	64
Precious metals	3,682	5,146
Reinsurance assets	32,525	23,937
Accounts receivable and prepayments	15,704	16,109
	51,929	45,256

33. Hong Kong SAR currency notes in circulation

The Hong Kong SAR currency notes in circulation are secured by deposit of funds in respect of which the Hong Kong SAR Government certificates of indebtedness are held.

34. Financial liabilities at fair value through profit or loss

	2014 HK\$'m	2013 HK\$'m
Trading liabilities		
– Short positions in Exchange Fund Bills and Notes	9,145	9,748
Financial liabilities designated at fair value through profit or loss		
– Structured deposits (Note 35)	3,115	3,832
	12,260	13,580

The carrying amount of financial liabilities designated at fair value through profit or loss as at 31 December 2014 was less than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$4 million (2013: HK\$6 million). The amount of change in the fair values of financial liabilities at fair value through profit or loss, during the year and cumulatively, attributable to changes in own credit risk was insignificant.

35. Deposits from customers

	2014 HK\$'m	2013 HK\$'m
Current, savings and other deposit accounts (per balance sheet)	1,480,109	1,324,148
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 34)	3,115	3,832
	1,483,224	1,327,980
Analysed by:		
Demand deposits and current accounts		
– corporate	87,585	81,162
– personal	28,776	23,622
	116,361	104,784
Savings deposits		
– corporate	252,515	224,970
– personal	420,311	411,167
	672,826	636,137
Time, call and notice deposits		
– corporate	422,536	350,381
– personal	271,501	236,678
	694,037	587,059
	1,483,224	1,327,980

36. Debt securities and certificates of deposit in issue

	2014 HK\$'m	2013 HK\$'m
Debt securities, at amortised cost		
– Senior notes under the Medium Term Note Programme	5,636	5,684
– Other debt securities	6,265	–
	11,901	5,684

37. Other accounts and provisions

	2014 HK\$'m	2013 HK\$'m
Other accounts payable	51,603	47,803
Provisions	354	346
	51,957	48,149

Notes to the Financial Statements

38. Assets pledged as security

As at 31 December 2014, liabilities of the Group amounting to HK\$16,309 million (2013: HK\$11,529 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK\$5,860 million (2013: HK\$3,394 million) were secured by debt securities and bills related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK\$22,423 million (2013: HK\$15,031 million) mainly included in "Trading securities", "Available-for-sale securities" and "Trade bills".

39. Deferred taxation

Deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements in accordance with HKAS 12 "Income Taxes".

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements during the year are as follows:

	2014					Total HK\$m
	Accelerated tax depreciation HK\$m	Property revaluation HK\$m	Losses HK\$m	Impairment allowance HK\$m	Other temporary differences HK\$m	
At 1 January 2014	581	7,348	(92)	(594)	(603)	6,640
Charged/(credited) to income statement (Note 16)	26	60	92	(55)	(11)	112
Charged to other comprehensive income	-	451	-	-	706	1,157
Exchange difference	-	(1)	-	4	2	5
At 31 December 2014	607	7,858	-	(645)	94	7,914

	2013					Total HK\$m
	Accelerated tax depreciation HK\$m	Property revaluation HK\$m	Losses HK\$m	Impairment allowance HK\$m	Other temporary differences HK\$m	
At 1 January 2013	564	6,772	(144)	(492)	617	7,317
Charged/(credited) to income statement (Note 16)	17	(91)	52	(100)	(16)	(138)
Charged/(credited) to other comprehensive income	-	666	-	-	(1,203)	(537)
Exchange difference	-	1	-	(2)	(1)	(2)
At 31 December 2013	581	7,348	(92)	(594)	(603)	6,640

39. Deferred taxation (continued)

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2014 HK\$'m	2013 HK\$'m
Deferred tax assets	(167)	(304)
Deferred tax liabilities	8,081	6,944
	7,914	6,640

	2014 HK\$'m	2013 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(129)	(85)
Deferred tax liabilities to be settled after more than twelve months	7,928	7,391
	7,799	7,306

As at 31 December 2014, the Group has not recognised deferred tax assets in respect of tax losses amounting to HK\$10 million (2013: HK\$7 million). These tax losses do not expire under the current tax legislation.

40. Insurance contract liabilities

	2014 HK\$'m	2013 HK\$'m
At 1 January	66,637	53,937
Benefits paid	(10,795)	(5,798)
Claims incurred and movement in liabilities	17,954	18,498
At 31 December	73,796	66,637

The insurance contract liabilities that are covered by reinsurance arrangements amounted to HK\$32,320 million (2013: HK\$23,902 million) and the associated reinsurance assets of HK\$32,525 million (2013: HK\$23,937 million) are included in "Other assets" (Note 32).

Notes to the Financial Statements

41. Subordinated liabilities

	2014 HK\$'m	2013 HK\$'m
Subordinated notes, at amortised cost with fair value hedge adjustment		
USD2,500m*	19,676	19,849

In 2010, BOCHK issued listed subordinated notes with an aggregate amount of USD2,500 million.

Amounts qualified as Tier 2 capital instruments for regulatory purposes are shown in Note 4.5(C).

* Interest rate at 5.55% per annum payable semi-annually, due February 2020.

42. Share capital

	2014 HK\$'m	2013 HK\$'m
Authorised:		
Ordinary shares of HK\$5 each	–	100,000
Issued and fully paid:		
10,572,780,266 ordinary shares	52,864	52,864

Under the Hong Kong Companies Ordinance (Chapter 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists. In accordance with section 135, the Company's shares no longer have a par value. There is no impact on the number of shares in issue or the relative entitlement of any of the members of the Company as a result of this transition.

43. Reserves

The Group's and the Company's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity and statement of changes in equity respectively on pages 115 to 116 of the financial statements.

44. Notes to consolidated cash flow statement

(a) Reconciliation of operating profit to operating cash inflow before taxation

	2014 HK\$'m	2013 HK\$'m
Operating profit	30,260	27,493
Depreciation	1,829	1,663
Net charge of impairment allowances	1,050	737
Unwind of discount on impairment allowances	(8)	(6)
Advances written off net of recoveries	(612)	(214)
Change in subordinated liabilities	237	(1,744)
Change in balances with banks and other financial institutions with original maturity over three months	9,991	(3,896)
Change in placements with banks and other financial institutions with original maturity over three months	(2,290)	33,223
Change in financial assets at fair value through profit or loss	(10,306)	2,082
Change in derivative financial instruments	(6,130)	3,689
Change in advances and other accounts	(89,567)	(105,734)
Change in investment in securities	1,362	(6,023)
Change in other assets	(6,694)	(8,437)
Change in deposits and balances from banks and other financial institutions	(42,493)	99,067
Change in financial liabilities at fair value through profit or loss	(1,320)	(6,592)
Change in deposits from customers	155,961	97,858
Change in debt securities and certificates of deposit in issue	6,217	(239)
Change in other accounts and provisions	3,808	166
Change in insurance contract liabilities	7,159	12,700
Effect of changes in exchange rates	8,478	(570)
Operating cash inflow before taxation	66,932	145,223
Cash flows from operating activities included:		
– Interest received	45,618	38,611
– Interest paid	14,579	11,129
– Dividend received	135	127

(b) Analysis of the balances of cash and cash equivalents

	2014 HK\$'m	2013 HK\$'m
Cash and balances with banks and other financial institutions with original maturity within three months	385,331	330,408
Placements with banks and other financial institutions with original maturity within three months	10,496	22,044
Treasury bills with original maturity within three months	6,940	10,024
Certificates of deposit with original maturity within three months	1,061	725
	403,828	363,201

Notes to the Financial Statements

45. Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the aggregate credit risk-weighted amount and is prepared with reference to the Completion Instructions for the HKMA return of capital adequacy ratio.

	2014 HK\$'m	2013 HK\$'m
Direct credit substitutes	22,621	17,555
Transaction-related contingencies	9,225	12,929
Trade-related and other contingencies	40,757	56,269
Commitments that are unconditionally cancellable without prior notice	407,681	361,772
Other commitments with an original maturity of		
– up to one year	9,974	6,601
– over one year	70,869	67,879
	561,127	523,005
Credit risk-weighted amount	49,572	55,353

The credit risk-weighted amount is calculated in accordance with the Banking (Capital) Rules. The amount is dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

46. Capital commitments

The Group has the following outstanding capital commitments not provided for in the financial statements:

	2014 HK\$'m	2013 HK\$'m
Authorised and contracted for but not provided for	448	350
Authorised but not contracted for	4	11
	452	361

The above capital commitments mainly relate to commitments to purchase computer equipment and software, and to renovate the Group's premises.

47. Operating lease commitments

(a) The Group as lessee

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	2014 HK\$'m	2013 HK\$'m
Land and buildings		
– not later than one year	756	714
– later than one year but not later than five years	1,300	1,188
– later than five years	265	323
	2,321	2,225

Certain non-cancellable operating leases included in the table above were subject to renegotiation and rent adjustment with reference to market rates prevailing at specified agreed dates or according to the special conditions as stipulated in the leases.

(b) The Group as lessor

The Group has contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

	2014 HK\$'m	2013 HK\$'m
Land and buildings		
– not later than one year	404	402
– later than one year but not later than five years	421	416
	825	818

The Group leases its investment properties (Note 30) under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for rent adjustments according to the prevailing market conditions at the expiration of the lease.

48. Litigation

The Group has been served a number of claims and counterclaims by various independent parties. These claims and counterclaims are in relation to the normal commercial activities of the Group.

No material provision was made against these claims and counterclaims because the directors believe that the Group has meritorious defences against the claimants or the amounts involved in these claims are not expected to be material.

Notes to the Financial Statements

49. Segmental reporting

The Group manages the business mainly from a business segment perspective and over 90% of the Group's revenues, profits before tax and assets are derived from Hong Kong. Currently, four operating segments are identified: Personal Banking, Corporate Banking, Treasury and Insurance. The classification of the Group's operating segments is based on customer segment and product type, which is aligned with the RPC (relationship, product and channel) management model of the Group.

Both Personal Banking and Corporate Banking provide general banking services including various deposit products, overdrafts, loans, credit cards, trade related products and other credit facilities, investment and insurance products, and foreign currency and derivative products. Personal Banking mainly serves retail customers and small enterprises, while Corporate Banking mainly deals with corporate customers. Treasury manages the funding and liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. The Insurance segment represents business mainly relating to life insurance products, including individual life insurance and group life insurance products. "Others" mainly represents the Group's holdings of premises, investment properties, equity investments and interests in associates and a joint venture.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment funding is charged according to the internal funds transfer pricing mechanism of the Group, which is primarily based on market rates with the consideration of specific features of the product.

As the Group derives a majority of revenue from interest and the senior management relies primarily on net interest income in managing the business, interest income and expense for all reportable segments are presented on a net basis. Under the same consideration, insurance premium income and insurance benefits and claims are also presented on a net basis.

In 2014, liquidity term premium was introduced into inter-segment funding. No revision has been made to the comparative figures. However, if the same mechanism was applied last year, it is estimated that the net interest income of Personal Banking, Corporate Banking and Treasury would be HK\$7,334 million, HK\$11,135 million and HK\$8,025 million respectively.

49. Segmental reporting (continued)

	2014							
	Personal Banking HK\$'m	Corporate Banking HK\$'m	Treasury HK\$'m	Insurance HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Net interest income/(expense)								
– external	1,485	8,975	19,309	2,146	4	31,919	–	31,919
– inter-segment	6,632	3,125	(9,047)	16	(726)	–	–	–
	8,117	12,100	10,262	2,162	(722)	31,919	–	31,919
Net fee and commission income/(expense)	6,045	3,832	245	(14)	439	10,547	(425)	10,122
Net insurance premium income	–	–	–	7,671	–	7,671	(16)	7,655
Net trading gain/(loss)	502	303	1,435	(60)	(33)	2,147	15	2,162
Net (loss)/gain on financial instruments designated at fair value through profit or loss	–	–	(22)	47	–	25	–	25
Net gain on other financial assets	505	30	142	169	–	846	–	846
Other operating income	41	18	9	95	1,714	1,877	(1,156)	721
Total operating income	15,210	16,283	12,071	10,070	1,398	55,032	(1,582)	53,450
Net insurance benefits and claims and movement in liabilities	–	–	–	(9,168)	–	(9,168)	–	(9,168)
Net operating income before impairment allowances	15,210	16,283	12,071	902	1,398	45,864	(1,582)	44,282
Net charge of impairment allowances	(380)	(661)	(9)	–	–	(1,050)	–	(1,050)
Net operating income	14,830	15,622	12,062	902	1,398	44,814	(1,582)	43,232
Operating expenses	(6,792)	(3,687)	(1,233)	(289)	(2,553)	(14,554)	1,582	(12,972)
Operating profit/(loss)	8,038	11,935	10,829	613	(1,155)	30,260	–	30,260
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	393	393	–	393
Net loss from disposal/revaluation of properties, plant and equipment	(17)	(3)	–	–	(4)	(24)	–	(24)
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	34	34	–	34
Profit/(loss) before taxation	8,021	11,932	10,829	613	(732)	30,663	–	30,663
Assets								
Segment assets	319,722	718,063	1,002,485	87,942	72,827	2,201,039	(11,996)	2,189,043
Interests in associates and a joint venture	–	–	–	–	324	324	–	324
	319,722	718,063	1,002,485	87,942	73,151	2,201,363	(11,996)	2,189,367
Liabilities								
Segment liabilities	808,673	716,585	398,264	82,496	13,873	2,019,891	(11,996)	2,007,895
Other information								
Capital expenditure	29	4	–	9	983	1,025	–	1,025
Depreciation	347	146	66	10	1,260	1,829	–	1,829
Amortisation of securities	–	–	376	49	–	425	–	425

Notes to the Financial Statements

49. Segmental reporting (continued)

	2013							
	Personal Banking HK\$m	Corporate Banking HK\$m	Treasury HK\$m	Insurance HK\$m	Others HK\$m	Subtotal HK\$m	Eliminations HK\$m	Consolidated HK\$m
Net interest income/(expense)								
– external	1,836	9,630	14,547	1,900	3	27,916	–	27,916
– inter-segment	5,757	2,274	(7,550)	14	(495)	–	–	–
	7,593	11,904	6,997	1,914	(492)	27,916	–	27,916
Net fee and commission income/(expense)	5,324	3,576	144	(65)	385	9,364	(399)	8,965
Net insurance premium income	–	–	–	9,185	–	9,185	(15)	9,170
Net trading gain/(loss)	734	337	2,201	(169)	(161)	2,942	15	2,957
Net loss on financial instruments designated at fair value through profit or loss	–	–	(27)	(132)	–	(159)	–	(159)
Net gain/(loss) on other financial assets	–	21	179	(63)	(54)	83	–	83
Other operating income	48	4	3	7	1,646	1,708	(1,054)	654
Total operating income	13,699	15,842	9,497	10,677	1,324	51,039	(1,453)	49,586
Net insurance benefits and claims and movement in liabilities	–	–	–	(9,273)	–	(9,273)	–	(9,273)
Net operating income before impairment allowances	13,699	15,842	9,497	1,404	1,324	41,766	(1,453)	40,313
Net (charge)/reversal of impairment allowances	(289)	(453)	5	–	–	(737)	–	(737)
Net operating income	13,410	15,389	9,502	1,404	1,324	41,029	(1,453)	39,576
Operating expenses	(6,477)	(3,544)	(1,155)	(259)	(2,101)	(13,536)	1,453	(12,083)
Operating profit/(loss)	6,933	11,845	8,347	1,145	(777)	27,493	–	27,493
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	–	264	264	–	264
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	(7)	(1)	–	(1)	10	1	–	1
Share of profits less losses after tax of associates and a joint venture	–	–	–	–	35	35	–	35
Profit/(loss) before taxation	6,926	11,844	8,347	1,144	(468)	27,793	–	27,793
Assets								
Segment assets	286,067	662,806	962,077	79,580	70,050	2,060,580	(13,936)	2,046,644
Interests in associates and a joint venture	–	–	–	–	292	292	–	292
	286,067	662,806	962,077	79,580	70,342	2,060,872	(13,936)	2,046,936
Liabilities								
Segment liabilities	738,429	625,842	445,973	75,176	12,444	1,897,864	(13,936)	1,883,928
Other information								
Capital expenditure	28	4	–	6	1,060	1,098	–	1,098
Depreciation	341	188	77	10	1,047	1,663	–	1,663
Amortisation of securities	–	–	(156)	145	–	(11)	–	(11)

50. Offsetting financial instruments

The following tables present details of the Group's financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

	2014					
	Gross amounts of recognised financial assets HK\$m	Gross amounts of recognised financial liabilities set off in the balance sheet HK\$m	Net amounts of financial assets presented in the balance sheet HK\$m	Related amounts not set off in the balance sheet		Net amount HK\$m
				Financial instruments HK\$m	Cash collateral received HK\$m	
Assets						
Derivative financial instruments	21,769	-	21,769	(8,768)	(2,057)	10,944
Other assets	14,794	(11,586)	3,208	-	-	3,208
Total	36,563	(11,586)	24,977	(8,768)	(2,057)	14,152

	2014					
	Gross amounts of recognised financial liabilities HK\$m	Gross amounts of recognised financial assets set off in the balance sheet HK\$m	Net amounts of financial liabilities presented in the balance sheet HK\$m	Related amounts not set off in the balance sheet		Net amount HK\$m
				Financial instruments HK\$m	Cash collateral pledged HK\$m	
Liabilities						
Derivative financial instruments	13,668	-	13,668	(8,768)	(1,128)	3,772
Repurchase agreements	3,751	-	3,751	(3,751)	-	-
Other liabilities	11,867	(11,586)	281	-	-	281
Total	29,286	(11,586)	17,700	(12,519)	(1,128)	4,053

Notes to the Financial Statements

50. Offsetting financial instruments (continued)

	2013					
	Gross amounts of recognised financial assets HK\$m	Gross amounts of recognised financial liabilities set off in the balance sheet HK\$m	Net amounts of financial assets presented in the balance sheet HK\$m	Related amounts not set off in the balance sheet		Net amount HK\$m
				Financial instruments HK\$m	Cash collateral received HK\$m	
Assets						
Derivative financial instruments	11,450	–	11,450	(6,732)	(1,826)	2,892
Other assets	13,286	(8,532)	4,754	–	–	4,754
Total	24,736	(8,532)	16,204	(6,732)	(1,826)	7,646

	2013					
	Gross amounts of recognised financial liabilities HK\$m	Gross amounts of recognised financial assets set off in the balance sheet HK\$m	Net amounts of financial liabilities presented in the balance sheet HK\$m	Related amounts not set off in the balance sheet		Net amount HK\$m
				Financial instruments HK\$m	Cash collateral pledged HK\$m	
Liabilities						
Derivative financial instruments	9,263	–	9,263	(6,732)	–	2,531
Repurchase agreements	2,100	–	2,100	(2,100)	–	–
Other liabilities	8,784	(8,532)	252	–	–	252
Total	20,147	(8,532)	11,615	(8,832)	–	2,783

For master netting agreements of OTC derivative and sale and repurchase transactions entered into by the Group, related amounts with the same counterparty can be offset if an event of default or other predetermined events occur.

51. Transfers of financial assets

The transferred financial assets of the Group below that do not qualify for derecognition are debt securities held by counterparties as collateral under sale and repurchase agreements.

	2014		2013	
	Carrying amount of transferred assets HK\$'m	Carrying amount of associated liabilities HK\$'m	Carrying amount of transferred assets HK\$'m	Carrying amount of associated liabilities HK\$'m
Repurchase agreements	3,840	3,751	2,100	2,100

52. Loans to directors and officers

Particulars of advances made to directors and officers of the Company pursuant to section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Chapter 622) with reference to section 161B of the predecessor Hong Kong Companies Ordinance (Chapter 32) are as follows:

	2014 HK\$'m	2013 HK\$'m
Aggregate amount of relevant transactions outstanding at year end	2,783	3,790
Maximum aggregate amount of relevant transactions outstanding during the year	7,030	7,661

53. Significant related party transactions

The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation ("CIC"), its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests.

The significant related party transactions are defined according to HKAS 24 while the connected transactions are defined by Chapter 14A of the Listing Rules. The details of connected transactions are set out in "Connected transactions" on pages 288 to 289.

Notes to the Financial Statements

53. Significant related party transactions (continued)

(a) Transactions with the parent companies and the other companies controlled by the parent companies

General information of the parent companies:

The Group is controlled by BOC. Central Huijin is the controlling entity of BOC, and it is a wholly-owned subsidiary of CIC which is a wholly state-owned company engaging in foreign currency investment management.

Central Huijin has controlling equity interests in certain other entities in the PRC.

The Group enters into banking and other transactions with these entities in the normal course of business which include loans, investment securities, money market and reinsurance transactions.

The majority of transactions with BOC arise from money market activities. As at 31 December 2014, the related aggregate amounts due from and to BOC of the Group were HK\$157,501 million (2013: HK\$130,693 million) and HK\$61,844 million (2013: HK\$41,263 million) respectively. The aggregate amounts of income and expenses of the Group arising from these transactions with BOC for the year ended 31 December 2014 were HK\$5,564 million (2013: HK\$2,278 million) and HK\$400 million (2013: HK\$146 million) respectively. Transactions with other companies controlled by BOC are not considered material.

(b) Transactions with government authorities, agencies, affiliates and other state controlled entities

The Group is subject to the control of the State Council of the PRC Government through CIC and Central Huijin, which also directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities. The Group enters into banking transactions with government authorities, agencies, affiliates and other state controlled entities in the normal course of business at commercial terms.

These transactions include, but are not limited to, the following:

- lending, provision of credits and guarantees, and deposit taking;
- inter-bank balance taking and placing;
- sales, purchase, underwriting and redemption of bonds issued by other state controlled entities;
- rendering of foreign exchange, remittance and investment related services;
- provision of fiduciary activities; and
- purchase of utilities, transport, telecommunication and postage services.

53. Significant related party transactions (continued)

(c) Summary of transactions entered into during the ordinary course of business with associates, a joint venture and other related parties

The aggregate income/expenses and balances arising from related party transactions with associates, a joint venture and other related parties of the Group are summarised as follows:

	2014		2013	
	Associates and joint venture HK\$m	Other related parties HK\$m	Associates and joint venture HK\$m	Other related parties HK\$m
Income statement items:				
Administrative services fees received/receivable	–	9	–	9
Other operating expenses	59	–	49	–
Balance sheet items:				
Deposits from customers	1	–	22	–

(d) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, senior management and company secretary. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior years, no material transaction was conducted with key management personnel of the Company and its holding companies, as well as parties related to them.

The compensation of key management personnel for the year ended 31 December is detailed as follows:

	2014 HK\$m	2013 HK\$m
Salaries and other short-term employee benefits	61	66
Post-employment benefits	1	1
	62	67

Notes to the Financial Statements

54. Currency concentrations

The following is a summary of the Group's major foreign currency exposures arising from trading, non-trading and structural positions and is prepared with reference to the Completion Instructions for the prudential return "Foreign Currency Position of an Authorised Institution" issued by the HKMA. The net options position is calculated based on the basis of delta-weighted positions of all foreign exchange options contracts.

2014								
Equivalent in million of HK\$								
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	538,300	1,466	18,063	22,392	9,688	645,120	16,360	1,251,389
Spot liabilities	(429,963)	(5,518)	(15,050)	(22,256)	(11,715)	(547,552)	(16,883)	(1,048,937)
Forward purchases	729,002	67,974	57,895	41,806	32,445	329,654	38,306	1,297,082
Forward sales	(828,777)	(63,934)	(60,757)	(41,870)	(30,334)	(422,850)	(37,897)	(1,486,419)
Net options position	2,613	(1)	(4,463)	12	(4)	(2,625)	(31)	(4,499)
Net long/(short) position	11,175	(13)	(4,312)	84	80	1,747	(145)	8,616
Net structural position	277	-	-	-	-	9,308	-	9,585

2013								
Equivalent in million of HK\$								
	US Dollars	Japanese Yen	Euro	Australian Dollars	Pound Sterling	Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	537,034	1,093	11,963	22,583	1,447	589,995	16,566	1,180,681
Spot liabilities	(387,497)	(3,797)	(11,663)	(31,203)	(12,441)	(540,509)	(17,849)	(1,004,959)
Forward purchases	438,862	42,992	49,900	34,026	25,008	197,747	36,646	825,181
Forward sales	(581,245)	(40,424)	(50,197)	(25,635)	(14,046)	(239,842)	(35,547)	(986,936)
Net options position	2,416	-	(1)	(5)	4	(2,991)	(5)	(582)
Net long/(short) position	9,570	(136)	2	(234)	(28)	4,400	(189)	13,385
Net structural position	333	-	-	-	-	9,075	-	9,408

55. Cross-border claims

The below analysis is prepared with reference to the Completion Instructions for the HKMA return of cross-border claims. Cross-border claims are exposures to foreign counterparties on which the ultimate risk lies, and are derived according to the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, the risk will be transferred to the country of the guarantor. For a claim on an overseas branch of a bank whose head office is located in another country, the risk will be transferred to the country where its head office is located. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims of the Group are shown as follows:

	2014			
	Banks HK\$'m	Public sector entities* HK\$'m	Others HK\$'m	Total HK\$'m
Asia, other than Hong Kong				
– Mainland of China	404,218	91,881	209,542	705,641
– Others	52,517	8,055	38,786	99,358
Total	456,735	99,936	248,328	804,999

	2013			
	Banks HK\$'m	Public sector entities* HK\$'m	Others HK\$'m	Total HK\$'m
Asia, other than Hong Kong				
– Mainland of China	399,428	128,223	150,889	678,540
– Others	50,034	9,441	31,982	91,457
Total	449,462	137,664	182,871	769,997

* There are no exposures eligible to be classified as public sector entities under the Banking (Capital) Rules in the tables above.

Notes to the Financial Statements

56. Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures with reference to the Completion Instructions for the HKMA return of non-bank Mainland exposures, which includes the Mainland exposures extended by BOCHK and its banking subsidiaries.

	Items in HKMA return	2014		
		On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposure HK\$'m
Central government, central government-owned entities and their subsidiaries and joint ventures	1	271,241	32,428	303,669
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	68,812	11,438	80,250
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	86,029	36,298	122,327
Other entities of central government not reported in item 1 above	4	3,306	1,894	5,200
Other entities of local governments not reported in item 2 above	5	39	–	39
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	55,345	10,193	65,538
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	6,857	6	6,863
Total	8	491,629	92,257	583,886
Total assets after provision	9	2,121,908		
On-balance sheet exposures as percentage of total assets	10	23.17%		

56. Non-bank Mainland exposures (continued)

	Items in HKMA return	(Restated) 2013		Total exposure HK\$m
		On-balance sheet exposure HK\$m	Off-balance sheet exposure HK\$m	
Central government, central government-owned entities and their subsidiaries and joint ventures	1	217,969	30,387	248,356
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	61,166	17,592	78,758
PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures	3	90,521	35,223	125,744
Other entities of central government not reported in item 1 above	4	1,742	–	1,742
Other entities of local governments not reported in item 2 above	5	–	–	–
PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland	6	50,396	15,860	66,256
Other counterparties where the exposures are considered to be non-bank Mainland exposures	7	5,238	42	5,280
Total	8	427,032	99,104	526,136
Total assets after provision	9	1,995,700		
On-balance sheet exposures as percentage of total assets	10	21.40%		

The comparative amounts have been restated to conform with the current year's presentation.

57. Ultimate holding company

The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation, its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests.

58. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2015.

Unaudited Supplementary Financial Information

1. Regulatory capital for credit, market and operational risks

The bases of regulatory capital calculation for credit risk, market risk and operational risk are described in Note 4.5 to the Financial Statements.

Sections 1 to 9 of the supplementary financial information have been prepared on a consolidated basis for regulatory purposes. The basis of regulatory consolidation is set out in Note 4.5(A) to the Financial Statements.

The table below summarises the regulatory capital computed on the same consolidation basis for credit, market, and operational risks.

	2014 HK\$'m	2013 HK\$'m
Credit risk	66,708	65,327
Market risk	1,546	1,329
Operational risk	5,664	5,038
	73,918	71,694

For details of capital management and capital ratios of the Group, please refer to Note 4.5 to the Financial Statements.

2. Capital requirements for credit risk

The tables below show the capital requirements for each class and subclass of credit risk exposures as specified in the Banking (Capital) Rules.

	2014 HK\$'m	2013 HK\$'m
Capital required for exposures under the IRB approach		
Corporate		
Specialised lending under supervisory slotting criteria approach		
– Project finance	120	76
Small-and-medium sized corporates	4,080	3,946
Other corporates	31,703	33,669
Bank		
Banks	17,873	16,179
Securities firms	37	77
Retail		
Residential mortgages		
– Individuals	1,617	985
– Property-holding shell companies	59	46
Qualifying revolving retail	974	866
Other retail to individuals	645	502
Small business retail	86	70
Others		
Cash items	–	–
Other items	6,354	6,084
Securitisation	5	8
Credit valuation adjustment	407	515
Total capital requirements for exposures under the IRB approach	63,960	63,023
Capital required for exposures under the standardised (credit risk) approach		
On-balance sheet exposures		
Sovereigns	34	82
Public sector entities	63	63
Banks	117	18
Corporates	903	726
Regulatory retail	607	526
Residential mortgage loans	448	342
Other exposures which are not past due	308	288
Past due exposures	10	4
Off-balance sheet exposures		
Off-balance sheet exposures other than securities financing transactions and derivative contracts	232	233
Securities financing transactions and derivative contracts	26	22
Securitisation	–	–
Total capital requirements for exposures under the standardised (credit risk) approach	2,748	2,304
Total capital requirements for credit risk exposures	66,708	65,327

Unaudited Supplementary Financial Information

3. Credit risk under the internal ratings-based approach

3.1 The internal rating systems and risk components

The Group adopts the FIRB approach to calculate the regulatory capital requirements for most of the corporate and bank exposures, and adopts the supervisory slotting criteria approach to project finance exposures under “specialised lending”. The Group adopts retail IRB approach for retail exposures to individuals and small business. The following is the table showing the Group’s different capital calculation approaches to each asset class and sub-classes of exposures (other than securitisation exposures).

Asset class	Exposure sub-class	Capital calculation approach
Corporate exposures	Specialised lending under supervisory slotting criteria approach (project finance)	Supervisory Slotting Criteria Approach
	Small-and-medium sized corporates	FIRB Approach
	Other corporates	
Sovereign exposures	Sovereigns	Standardised (credit risk) Approach
	Sovereign foreign public sector entities	
	Multilateral development banks	
Bank exposures	Banks	FIRB Approach
	Securities firms	
	Public sector entities (excluding sovereign foreign public sector entities)	Standardised (credit risk) Approach
Retail exposures	Residential mortgages to individuals	Retail IRB Approach
	Residential mortgages to property-holding shell companies	
	Qualifying revolving retail	
	Other retail to individuals	
	Small business retail	
Equity exposures	–	Standardised (credit risk) Approach
Other exposures	Cash items	Specific Risk-weight Approach
	Other items	

3. Credit risk under the internal ratings-based approach (continued)

3.1 The internal rating systems and risk components (continued)

(A) The structure of internal rating systems and the relationship between internal ratings and external ratings

The Group's internal rating system is a two dimensional rating system that provides separate assessment of borrower and transaction characteristics. For corporate and bank portfolios, the obligor rating dimension reflects exclusively the risk of borrower default and the facility rating dimension reflects transaction specific factors that affect the loss severity in the case of borrower default.

The Group developed statistical models to provide own estimated probability of default ("PD") for its corporate, bank and retail borrowers, and loss given default ("LGD") and exposure at default ("EAD") for retail exposures under retail IRB approach.

The Group uses internal rating system to assess the borrower's likelihood of default for all IRB portfolios. PD estimates the risk of borrower default over a one-year period. A borrower credit grade means a grouping of similar credit-worthiness to which borrowers are assigned on the basis of specified and distinct set of rating criteria, from which the average PD are derived for RWA calculation.

In the process of obligor rating assignment, variables of latest financial performance, management quality, industry risks, group connection and negative warning signals of each obligor are assessed as critical factors to predict borrower's ability and willingness to meet with the contractual obligations under different economic conditions.

The obligors for corporate and bank, and retail PD pools are assigned into eight broad obligor ratings including seven grades for non-defaulted obligors with sub-divisions into 26 minor credit grades and one for defaulted obligors. In the supervisory slotting criteria approach for the project finance exposures, there are four grades for non-defaulted borrowers and one for defaulted borrowers in accordance with the HKMA guidance. The estimates for retail IRB portfolios are pooled by nature of obligors, facility types, collateral types and delinquency status into different PD, EAD and LGD pools. This pooling process provides the basis of accurate and consistent estimation for PD, LGD and EAD at the pool level for exposures arising from residential mortgages to both individuals and property-holding shell companies, qualifying revolving retail exposures and other retail exposures to individuals and small business retail exposures. All credit transactions for corporates and banks are assigned facility ratings (in terms of LGD) in accordance with the HKMA guidance. LGD estimates multiplied by the PD estimates produce the expected loss ("EL") estimates, which are used to assess credit risk quantitatively.

Unaudited Supplementary Financial Information

3. Credit risk under the internal ratings-based approach (continued)

3.1 The internal rating systems and risk components (continued)

(A) The structure of internal rating systems and the relationship between internal ratings and external ratings (continued)

For each internal rating, the equivalent external rating in terms of default risk is as below:

Internal Credit Grades	Definition of Internal Ratings	Standard & Poor's Equivalent
1	The obligors in grades "1" and "2" have extremely low default risk.	AAA
2	The obligor's capacity to meet its financial commitment on the obligation is extremely strong.	AA+
		AA
		AA-
3	The obligors in grade "3" have low default risk but are somewhat susceptible to the adverse effects of changes in circumstances and economic conditions. However, the obligor's capacity to meet its financial commitment on the obligation is very strong.	A+
		A
		A-
4	The obligors in grade "4" have relatively low default risk and are currently under adequate protection. However, adverse economic conditions or changing circumstances are likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.	BBB+
		BBB
		BBB-
5	The obligors in grade "5" have medium default risk which are less vulnerable to nonpayment than other speculative obligors. However, they face major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.	BB+
		BB
		BB-
6	The obligors in grade "6" have significant to very high default risk and are vulnerable to nonpayment. The obligors currently and in the near term have the capacity to meet its financial commitment on the obligation but adverse business, financial, or economic conditions will very likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.	B+
		B
		B-
7	The obligors in grade "7" have very high default risk and are currently quite vulnerable to nonpayment. The obligors' ability to meet their financial commitment and obligation are dependent upon favorable business, financial, and economic conditions. In the event of adverse business, financial, or economic conditions, these obligors are not likely to have the capacity to meet its financial commitment on the obligation.	CCC
		CC
		C
8	Obligors rated "8" are in payment default.	D

3. Credit risk under the internal ratings-based approach (continued)

3.1 The internal rating systems and risk components (continued)

(B) Use of internal estimates

Besides using PD estimates for regulatory capital calculation in corporate and bank exposures, the Group uses the PD together with the LGD and EAD estimates in the credit approval, credit monitoring, reporting and analysis of credit risk information, etc., for the purpose of strengthening the daily management on all credit related matters.

(C) Process of managing and recognising credit risk mitigation

For collateral recognised under capital management, the Group has well-defined policies and procedures for collateral valuation and management which are compliant with the operational requirements for recognised collateral of credit risk mitigation as stated in the Banking (Capital) Rules.

For the credit exposures adopting FIRB approach for capital calculation purpose, the recognised eligible guarantees include the guarantees provided by banks, corporates and securities firms with a lower risk weights than the counterparty. The Group takes into account the credit risk mitigation effect of recognised collateral through its determination of the net credit exposures and the effective LGD.

For retail IRB approach, the effect of the credit risk mitigation is incorporated into the internal risk parameters of PD or LGD depending on the nature of the guarantees and collateral for calculating the risk exposures.

The credit and market risk concentrations within the credit risk mitigation (recognised collateral and guarantees for capital calculation) used by the Group are under a low level.

Up to the date of report, for capital calculation, except OTC derivative transactions cleared by central counterparties and derivatives subject to valid bilateral netting agreements, the Group has not used any other on-balance sheet or off-balance sheet recognised netting for credit risk mitigation. The Group also has not used any recognised credit derivative contracts for credit risk mitigation.

(D) The control mechanisms used for internal rating systems

The Group has established a comprehensive control mechanism to ensure the integrity, accuracy and consistency of the rating systems including the processes for using the risk components in the day-to-day business to assess credit risk.

All of IRB risk models are approved by the RC of the Board on the recommendation of the Group's Basel Steering Committee ("SC"). The Basel SC supervises the use of these internal rating models for risk identification and assessments in the Group's credit decisions.

In order to achieve reasonably accurate risk ratings assignment, the Group has established a rating approval process which is independent of the sales and marketing units. Since internal rating is one of the key inputs to credit decision making, a control mechanism is put in place to ensure the integrity, accuracy and consistency of the rating assignment. For the wholesale (corporate and bank) credit portfolio, internal ratings are normally approved by credit officers who are functionally separated from the sales and marketing units. In some cases where the transactions are in small amount and of very low credit risk, the credit ratings can be assigned and approved by staff within the sales and marketing units, subject to the periodic post-approval review of ratings by RMD and other credit monitoring units.

3. Credit risk under the internal ratings-based approach (continued)

3.1 The internal rating systems and risk components (continued)

(D) The control mechanisms used for internal rating systems (continued)

The rating assignment and risk quantification process of retail portfolio are highly automated. As an integral part of the daily credit assessment process, the accuracy and completeness of data input for automatic rating assignment are verified by units independent from business development function.

The obligor rating is reviewed at least annually as required by the Group's credit risk policy. When credit events occur to the obligor, rating review is triggered promptly in accordance with the Group's credit risk policy.

Rating override is designed to allow the credit analyst to include any other relevant credit information that has not yet been captured in the rating models. For reasons of conservatism and prudential considerations, overrides are unlimited in terms of downgrades but more restricted for upgrades. All upgrades will be limited to a maximum of two sub-grades supported by a very narrowly pre-defined list of appropriate reasons. All overrides need to be signed off by a higher level of credit approval authority. The internal rating policy sets a trigger point of 10% overrides on rating cases. The use of overrides and override reasons are analysed as part of performance review on IRB rating models.

The performance of internal rating system is put under ongoing periodic monitoring. The senior management periodically reviews the performance and predictive ability of the internal rating system. The effectiveness of the internal rating system and processes are reviewed by independent control functions. The model maintenance unit conducts assessment on the discriminatory power, accuracy and stability of the rating systems while the validation unit performs comprehensive review of the internal rating system. Internal audit reviews the internal rating system and the operations of the related credit risk control units. The results of the review are reported to the Board and senior management regularly.

A model validation team which is independent from the model development unit and rating assignment units, conducts periodic model validations using both qualitative and quantitative analysis. Model acceptance standards are established to ensure the discriminatory power, accuracy and stability of the rating systems meet regulatory and management requirements. Review of a rating model will be triggered if the performance of the model deteriorates materially against pre-determined tolerance limits.

(E) Approach for determining provisions

The approach in determining provisions is in line with the Group's accounting policies. For details, please refer to Note 2.14 "Impairment of financial assets" to the Financial Statements.

3. Credit risk under the internal ratings-based approach (continued)

3.2 Exposures by IRB calculation approach

The tables below show the Group's exposures other than securitisation exposures (including the EAD of on-balance sheet exposures and off-balance sheet exposures) by each IRB calculation approach.

	2014				
	Foundation IRB Approach HK\$'m	Supervisory Slotting Criteria Approach HK\$'m	Retail IRB Approach HK\$'m	Specific Risk-weight Approach HK\$'m	Total exposures HK\$'m
Corporate	800,429	1,544	–	–	801,973
Bank	627,768	–	–	–	627,768
Retail					
Residential mortgages to individuals and property-holding shell companies	–	–	223,642	–	223,642
Qualifying revolving retail	–	–	63,730	–	63,730
Other retail to individuals	–	–	34,470	–	34,470
Small business retail	–	–	8,943	–	8,943
Others	–	–	–	188,596	188,596
Total	1,428,197	1,544	330,785	188,596	1,949,122

	2013				
	Foundation IRB Approach HK\$'m	Supervisory Slotting Criteria Approach HK\$'m	Retail IRB Approach HK\$'m	Specific Risk-weight Approach HK\$'m	Total exposures HK\$'m
Corporate	741,926	851	–	–	742,777
Bank	565,535	–	–	–	565,535
Retail					
Residential mortgages to individuals and property-holding shell companies	–	–	211,727	–	211,727
Qualifying revolving retail	–	–	57,868	–	57,868
Other retail to individuals	–	–	27,942	–	27,942
Small business retail	–	–	9,168	–	9,168
Others	–	–	–	196,371	196,371
Total	1,307,461	851	306,705	196,371	1,811,388

Unaudited Supplementary Financial Information

3. Credit risk under the internal ratings-based approach (continued)

3.3 Exposures subject to supervisory estimates under the IRB approach

The table below shows the total EAD of the Group's exposures subject to supervisory estimates under the use of IRB approach (including the specialised lending subject to the supervisory slotting criteria approach).

	2014 HK\$'m	2013 HK\$'m
Corporate	801,973	742,777
Bank	627,768	565,535
Others	188,596	196,371
	1,618,337	1,504,683

3.4 Exposures covered by credit risk mitigation used

(A) Exposures covered by recognised collateral

The table below shows the Group's exposures under the use of FIRB approach (after the effect of any on-balance sheet or off-balance sheet recognised netting) which are covered by recognised collateral after the application of haircuts required under the Banking (Capital) Rules. These exposures exclude securities financing transactions and derivative contracts.

	2014 HK\$'m	2013 HK\$'m
Corporate	121,573	107,841
Bank	767	1,889
	122,340	109,730

(B) Exposures covered by recognised guarantees

The table below shows the Group's exposures (after the effect of any on-balance sheet or off-balance sheet recognised netting) which are covered by recognised guarantees after the application of haircuts required under the Banking (Capital) Rules. These exposures exclude securities financing transactions and derivative contracts.

	2014 HK\$'m	2013 HK\$'m
Corporate	208,630	142,723
Bank	31,102	17,406
	239,732	160,129

3. Credit risk under the internal ratings-based approach (continued)

3.5 Risk assessment for corporate and bank exposures under IRB approach

The tables below detail the Group's total EAD of corporate and bank exposures by exposure-weighted average risk-weight and exposure-weighted average PD for each obligor grade as at 31 December.

The EAD and PD disclosed below in respect of corporate and bank exposures have taken into account the effect of recognised collateral, recognised netting and recognised guarantees. The Group did not have any recognised credit derivative contracts.

For definition of each obligor grade, please refer to page 266.

(A) Corporate exposures (other than specialised lending under supervisory slotting criteria approach)

Internal Credit Grades	2014		
	Exposure at default HK\$m	Exposure-weighted average risk-weight %	Exposure-weighted average PD %
Grade 1	–	–	–
Grade 2	26,578	20.37	0.04
Grade 3	219,636	25.95	0.07
Grade 4	280,591	44.02	0.23
Grade 5	207,055	78.06	1.07
Grade 6	60,994	113.16	4.40
Grade 7	3,443	73.00	22.47
Grade 8/Default	2,132	132.96	100.00
	800,429		

Internal Credit Grades	2013		
	Exposure at default HK\$m	Exposure-weighted average risk-weight %	Exposure-weighted average PD %
Grade 1	–	–	–
Grade 2	20,498	20.38	0.03
Grade 3	177,400	26.72	0.08
Grade 4	254,284	44.08	0.23
Grade 5	193,997	78.28	1.07
Grade 6	92,999	132.60	5.54
Grade 7	492	211.60	22.51
Grade 8/Default	2,256	162.90	100.00
	741,926		

Unaudited Supplementary Financial Information

3. Credit risk under the internal ratings-based approach (continued)

3.5 Risk assessment for corporate and bank exposures under IRB approach (continued)

(B) Corporate exposures (specialised lending under supervisory slotting criteria approach)

Supervisory Rating Grades	2014		2013	
	Exposure at default HK\$m	Exposure-weighted average risk-weight %	Exposure at default HK\$m	Exposure-weighted average risk-weight %
Strong	506	60.17	171	70.00
Good	312	86.96	–	–
Satisfactory	726	115.00	680	115.00
Weak	–	–	–	–
Default	–	–	–	–
	1,544		851	

The supervisory rating grades and risk-weights of specialised lending are determined in accordance with section 158 of the Banking (Capital) Rules.

(C) Bank exposures

Internal Credit Grades	2014		
	Exposure at default HK\$m	Exposure-weighted average risk-weight %	Exposure-weighted average PD %
Grade 1	–	–	–
Grade 2	76,217	21.62	0.04
Grade 3	439,499	29.52	0.06
Grade 4	105,085	57.12	0.22
Grade 5	6,908	70.52	0.74
Grade 6	59	133.77	5.84
Grade 7	–	–	–
Grade 8/Default	–	–	–
	627,768		

3. Credit risk under the internal ratings-based approach (continued)

3.5 Risk assessment for corporate and bank exposures under IRB approach (continued)

(C) Bank exposures (continued)

Internal Credit Grades	2013		
	Exposure at default HK\$m	Exposure-weighted average risk-weight %	Exposure-weighted average PD %
Grade 1	–	–	–
Grade 2	63,883	22.22	0.04
Grade 3	388,691	29.85	0.06
Grade 4	106,471	52.82	0.19
Grade 5	6,446	80.23	0.68
Grade 6	44	132.12	2.78
Grade 7	–	–	–
Grade 8/Default	–	–	–
	<u>565,535</u>		

3.6 Risk assessment for retail exposures under IRB approach

The tables below show breakdown of retail exposures on a pool basis by expected loss percentage (EL%) range as at 31 December.

Residential mortgages

	2014 HK\$m	2013 HK\$m
Up to 1%	222,319	210,430
>1%	1,218	1,199
Default	105	98
	<u>223,642</u>	<u>211,727</u>

Qualifying revolving retail

	2014 HK\$m	2013 HK\$m
Up to 10%	63,055	57,269
>10%	644	575
Default	31	24
	<u>63,730</u>	<u>57,868</u>

Unaudited Supplementary Financial Information

3. Credit risk under the internal ratings-based approach (continued)

3.6 Risk assessment for retail exposures under IRB approach (continued)

Other retail to individuals

	2014 HK\$'m	2013 HK\$'m
Up to 2%	34,055	27,513
>2%	323	348
Default	92	81
	34,470	27,942

Small business retail

	2014 HK\$'m	2013 HK\$'m
Up to 1%	8,591	8,936
>1%	290	175
Default	62	57
	8,943	9,168

3.7 Analysis of actual loss and estimates

The table below shows the actual losses broken down by class of risk exposure, which represent the net charges (including write-offs and individually assessed impairment allowances) made by each class of exposures under the internal ratings-based approach for the year.

	2014 HK\$'m	2013 HK\$'m
Corporate	723	285
Bank	–	–
Residential mortgages to individuals and property-holding shell companies	1	–
Qualifying revolving retail	177	159
Other retail to individuals	7	12
Small business retail	19	21
	927	477

Increase in the loan impairment charge of corporate exposures was mainly due to the increase in the amount of new classified or impaired loans in 2014.

3. Credit risk under the internal ratings-based approach (continued)

3.7 Analysis of actual loss and estimates (continued)

The table below shows the expected loss broken down by class of risk exposure, which is the estimated loss likely to be incurred arising from the potential default of the obligors in respect of the exposure over a one-year period.

	Expected loss at 31 December 2013 HK\$'m	Expected loss at 31 December 2012 HK\$'m
Corporate	4,121	4,428
Bank	226	164
Residential mortgages to individuals and property-holding shell companies	110	98
Qualifying revolving retail	334	329
Other retail to individuals	96	84
Small business retail	46	31
	4,933	5,134

The tables below set out the actual default rate compared against the estimated PD of the respective portfolio.

	Actual default rate during 2014 %	Estimated PD at 31 December 2013 %
Corporate	0.56	1.82
Bank	–	0.45
Residential mortgages to individuals and property-holding shell companies	0.05	0.60
Qualifying revolving retail	0.17	0.54
Other retail to individuals	0.51	1.53
Small business retail	0.53	1.23

	Actual default rate during 2013 %	Estimated PD at 31 December 2012 %
Corporate	0.33	1.88
Bank	–	0.48
Residential mortgages to individuals and property-holding shell companies	0.04	0.62
Qualifying revolving retail	0.17	0.60
Other retail to individuals	0.61	1.70
Small business retail	0.69	1.35

Unaudited Supplementary Financial Information

3. Credit risk under the internal ratings-based approach (continued)

3.7 Analysis of actual loss and estimates (continued)

It should be noted that expected loss and actual loss are measured and calculated using different methodologies compliant with relevant regulatory and accounting standards, which therefore may not be directly comparable. The limitation arises mainly from the fundamental differences in the definition of "loss". The expected loss under Basel Accord which estimates the economic loss arising from the potential default of the obligor by taking into account the time value of money and including the direct and indirect costs associated with the recoveries on the credit exposures during the workout process, while actual loss is the net charge of individually assessed impairment allowances and write-offs made during the year in accordance with the accounting standards.

The actual default rate is measured by using the number of obligors (for wholesale exposures) or number of accounts (for retail exposures) defaulted whereas the estimated probability of default is an estimate of the long run average default rate over an economic cycle and is the estimated one-year forward-looking PD from the date of rating assignment.

Hence, actual default rate in a particular year ("point-in-time") will typically differ from the estimated probability of default which is the "through-the-cycle" estimates as economies move above or below the cyclical norms.

The estimated probability of default is more conservative than the actual default rate for all asset classes.

4. Credit risk under the standardised (credit risk) approach

4.1 Use of ratings from External Credit Assessment Institutions ("ECAI")

The Group continues to adopt STC approach based on external credit rating to determine the risk weight of the small residual credit exposures that was approved by HKMA to be exempted from FIRB approach and the following asset classes of exposures:

- Sovereign
- Public sector entity
- Multilateral development bank

The Group performs the ECAI issuer ratings mapping to its exposures in banking book in accordance with Part 4 of the Banking (Capital) Rules. The ECAIs recognised by the Group include Standard & Poor's, Moody's and Fitch.

4.2 Credit risk mitigation

For credit exposures adopting STC approach, the main types of recognised collateral include cash deposits, debt securities and equities for non-past due exposures. In addition, real estate collateral is also recognised for past due exposures. The treatment of recognised collateral is compliant with the comprehensive approach for credit risk mitigation as mentioned in the Banking (Capital) Rules. For credit exposures under STC approach, the recognised guarantees for capital calculation include the guarantees given by sovereigns, public sector entities, multilateral development banks, or banks and those corporates with ECAI issuer ratings both exempted from FIRB approach for credit exposures, that have lower risk weights than the counterparty. Besides, the recognised netting for credit risk mitigation includes derivatives subject to valid bilateral netting agreements.

4. Credit risk under the standardised (credit risk) approach (continued)

4.3 Credit risk exposures other than securitisation exposures under the standardised (credit risk) approach

	2014						
	Total exposures HK\$'m	Exposures after CRM*		Risk-weighted amount		Total exposures covered by recognised collateral HK\$'m	Total exposures covered by recognised guarantees HK\$'m
		Rated HK\$'m	Unrated HK\$'m	Rated HK\$'m	Unrated HK\$'m		
On-balance sheet exposures							
Sovereigns	175,401	175,594	-	427	-	-	-
Public sector entities	23,255	23,262	-	790	-	-	193
Multilateral development banks	19,026	19,026	-	-	-	-	-
Banks	6,732	532	6,200	107	1,352	-	-
Securities firms	1	-	1	-	-	-	-
Corporates	16,508	317	11,131	159	11,131	5,059	1
Regulatory retail	10,388	-	10,113	-	7,586	275	-
Residential mortgage loans	11,404	-	11,205	-	5,602	-	199
Other exposures which are not past due	8,037	-	3,009	-	3,849	5,028	-
Past due exposures	87	-	87	-	123	13	-
Total for on-balance sheet exposures	270,839	218,731	41,746	1,483	29,643	10,375	393
Off-balance sheet exposures							
Off-balance sheet exposures other than securities financing transactions and derivative contracts	4,250	1,515	2,735	219	2,679	-	460
Securities financing transactions and derivative contracts	399	26	373	2	324	11	-
Total for off-balance sheet exposures	4,649	1,541	3,108	221	3,003	11	460
Total for non-securitisation exposures	275,488	220,272	44,854	1,704	32,646	10,386	853
Exposures that are risk-weighted at 1,250%	-	-	-	-	-	-	-

Unaudited Supplementary Financial Information

4. Credit risk under the standardised (credit risk) approach (continued)

4.3 Credit risk exposures other than securitisation exposures under the standardised (credit risk) approach (continued)

	2013						
	Total exposures HK\$'m	Exposures after CRM*		Risk-weighted amount		Total exposures covered by recognised collateral HK\$'m	Total exposures covered by recognised guarantees HK\$'m
		Rated HK\$'m	Unrated HK\$'m	Rated HK\$'m	Unrated HK\$'m		
On-balance sheet exposures							
Sovereigns	193,015	194,586	–	1,026	–	–	–
Public sector entities	26,605	26,530	–	784	–	–	191
Multilateral development banks	21,096	21,096	–	–	–	–	–
Banks	508	362	146	74	146	–	–
Corporates	11,424	1,572	8,241	844	8,241	231	1,380
Cash items	1	–	1	–	–	–	–
Regulatory retail	8,987	–	8,762	–	6,572	225	–
Residential mortgage loans	8,665	–	8,549	–	4,274	–	116
Other exposures which are not past due	3,335	–	2,826	–	3,600	509	–
Past due exposures	47	–	47	–	55	30	–
Total for on-balance sheet exposures	273,683	244,146	28,572	2,728	22,888	995	1,687
Off-balance sheet exposures							
Off-balance sheet exposures other than securities financing transactions and derivative contracts	4,425	1,847	2,578	424	2,489	–	355
Securities financing transactions and derivative contracts	404	13	391	1	268	39	–
Total for off-balance sheet exposures	4,829	1,860	2,969	425	2,757	39	355
Total for non-securitisation exposures	278,512	246,006	31,541	3,153	25,645	1,034	2,042
Exposures that are risk-weighted at 1,250%	–	–	–	–	–	–	–

* Recognised credit risk mitigation satisfying the requirements and conditions set out in the Banking (Capital) Rules.

5. Counterparty credit risk-related exposures

The Group's counterparty credit risk arising from derivative contracts and securities financing transactions both in trading and banking book is subject to the same risk management framework as mentioned in Note 4 to the Financial Statements. The Group establishes credit limit through formal credit approval procedures to control the pre-settlement credit risk arising from derivative transactions and settlement limit to control the settlement risk arising from foreign exchange-related transactions for counterparties in both the trading book and banking book. The Group monitors the risk exposure due to fluctuations in the market by using the current exposure and the potential exposure value of the transactions. Exceptions or excesses are timely and closely identified and monitored by RMD.

Credit equivalent amount and capital charge for the relevant counterparty credit exposures are determined following the regulatory capital requirements. Currently, the Group has adopted the Current Exposure Method to measure the relevant credit equivalent amount, which comprises current exposures and potential future exposures. The relevant counterparty default risk capital charge is calculated under the FIRB/STC approach. In addition, the Group has adopted standardised credit valuation adjustment ("CVA") method to calculate the relevant counterparty CVA capital charge.

The Group establishes prudent eligibility criteria and haircut policy of debt securities being pledged as collateral for securities financing transactions.

The Group formulates policy for classification of credit assets according to the PD of counterparties and the period of overdue. If there is objective evidence that an impairment loss has been incurred, impairment allowance will be provided according to HKFRS and regulatory requirements.

In controlling and monitoring of wrong-way risk (risk of existence of positive correlation between the PD of a counterparty and credit exposures driven by mark-to-market value of the underlying transactions), specific wrong-way risk transactions are generally not allowed and monitoring measures have been formulated for those counterparties identified by stress testing that would be exposed to potential general wrong-way risk.

Unaudited Supplementary Financial Information

5. Counterparty credit risk-related exposures (continued)

5.1 Counterparty credit risk exposures under the internal ratings-based approach

The following table summarises the Group's exposures to counterparty credit risk arising from securities financing transactions and derivative contracts calculated using the Current Exposure Method. There is no effect of valid cross-product netting agreements on these exposures.

	2014		2013	
	Securities financing transactions HK\$'m	Derivative contracts HK\$'m	Securities financing transactions HK\$'m	Derivative contracts HK\$'m
Gross total positive fair value		19,433		11,078
Default risk exposures after the effect of valid bilateral netting agreements	6,604	29,482	4,220	22,719
Less: Value of recognised collateral				
– debt securities	–	–	(314)	–
– others	(5,813)	(2,167)	(3,362)	(2,117)
Default risk exposures after the effect of valid bilateral netting agreements net of recognised collateral	791	27,315	544	20,602
Default risk exposures by counterparty type				
Corporate	–	1,306	–	1,135
Bank	6,604	28,176	4,220	21,584
	6,604	29,482	4,220	22,719
Risk-weighted amounts by counterparty type				
Corporate	–	1,106	–	917
Bank	300	7,313	265	5,760
	300	8,419	265	6,677
Notional amounts of recognised credit derivative contracts that provide credit protection	–	–	–	–

5. Counterparty credit risk-related exposures (continued)

5.2 Counterparty credit risk exposures under the standardised (credit risk) approach

The following table summarises the Group's exposures to counterparty credit risk arising from derivative contracts calculated using the Current Exposure Method. There is no effect of valid cross-product netting agreements on these exposures.

	2014		2013	
	Securities financing transactions HK\$'m	Derivative contracts HK\$'m	Securities financing transactions HK\$'m	Derivative contracts HK\$'m
Gross total positive fair value		13,926		118
Default risk exposures after the effect of valid bilateral netting agreements	–	399	–	404
Less: Value of recognised collateral				
– debt securities	–	–	–	–
– others	–	–	–	(39)
Default risk exposures after the effect of valid bilateral netting agreements net of recognised collateral	–	399	–	365
Default risk exposures by counterparty type				
Sovereigns	–	29	–	73
Public sector entities	–	–	–	3
Corporates	–	85	–	213
Regulatory retail	–	190	–	113
Other exposures which are not past due	–	95	–	2
Past due exposures	–	–	–	–
	–	399	–	404
Risk-weighted amounts by counterparty type				
Sovereigns	–	2	–	8
Public sector entities	–	–	–	1
Corporates	–	86	–	173
Regulatory retail	–	142	–	85
Other exposures which are not past due	–	95	–	2
Past due exposures	–	1	–	–
	–	326	–	269
Notional amounts of recognised credit derivative contracts that provide credit protection	–	–	–	–

Unaudited Supplementary Financial Information

5. Counterparty credit risk-related exposures (continued)

5.3 Credit derivative contracts which create exposures to counterparty credit risk

The notional amounts of credit derivative contracts which create exposures to counterparty credit risk are shown as follows:

	2014 HK\$m	2013 HK\$m
Used for credit portfolio		
Credit default swaps		
Protection bought	–	–
Protection sold	78	–
	<hr/>	<hr/>

6. Assets securitisation

The Group continues to adopt the ratings-based method under IRB approach to calculate the credit risk for both securitisation and re-securitisation exposures as an investing institution in the year 2014. Since this approach employs mapping of external credit ratings for risk weights calculations, the Group adopts the three ECAs (Standard & Poor's, Moody's and Fitch) recognised by HKMA for this purpose.

The Group monitors the risks inherent in its securitisation assets and re-securitisation assets on an ongoing basis. The external credit ratings, assessment of the underlying assets and market prices are used for managing credit risk associated with the investment. For interest rate risk in its banking book, control measures for asset backed securities and mortgage backed securities include, but not limited to AFS EV and PVBP.

The Group has no outstanding exposures that are held with the intention of transferring exposures booked in the banking book and trading book into securitisation transactions as at 31 December 2014 (2013: Nil).

Securitisation exposures arising from the Group's investing activities are analysed as follows:

6.1 Securitisation exposures

	2014		2013	
	Banking book HK\$m	Trading book HK\$m	Banking book HK\$m	Trading book HK\$m
On-balance sheet exposures				
Residential mortgage loans	394	–	703	–
Student loans	19	–	79	–
	413	–	782	–
Off-balance sheet exposures	–	–	–	–

Reduction in securitisation exposures was due to repayments of principal.

There were no securitisation transactions in trading book subject to the IMM approach as at 31 December 2014 (2013: Nil).

There were no securitisation exposures that the Group has allocated a risk-weight of 1,250% as at 31 December 2014 (2013: Nil).

The Group did not have credit risk mitigations which are treated as part of securitisation and re-securitisation transactions as at 31 December 2014 (2013: Nil).

Unaudited Supplementary Financial Information

6. Assets securitisation (continued)

6.2 Breakdown by risk-weights of the securitisation exposures (excluding re-securitisation exposures) under internal ratings-based (securitisation) approach

	2014		2013	
	Securitisation exposures HK\$'m	Capital requirements HK\$'m	Securitisation exposures HK\$'m	Capital requirements HK\$'m
7%	244	1	576	4
8%	32	–	27	–
10%	11	–	16	–
12%	67	1	87	1
15%	–	–	–	–
18%	–	–	–	–
20%	–	–	–	–
25%	–	–	–	–
35%	18	1	27	1
50%	–	–	–	–
60%	29	1	34	2
75%	–	–	–	–
100%	12	1	15	1
250%	–	–	–	–
425%	–	–	–	–
650%	–	–	–	–
Deducted from capital	–	–	–	–
	413	5	782	9

Reduction in securitisation exposures and capital requirements were due to repayments of principal.

6. Assets securitisation (continued)

6.3 Breakdown by risk-weights of the re-securitisation exposures under internal ratings-based (securitisation) approach

	2014		2013	
	Securitisation exposures HK\$'m	Capital requirements HK\$'m	Securitisation exposures HK\$'m	Capital requirements HK\$'m
20%	-	-	-	-
25%	-	-	-	-
30%	-	-	-	-
35%	-	-	-	-
40%	-	-	-	-
50%	-	-	-	-
60%	-	-	-	-
65%	-	-	-	-
100%	-	-	-	-
150%	-	-	-	-
200%	-	-	-	-
225%	-	-	-	-
300%	-	-	-	-
500%	-	-	-	-
650%	-	-	-	-
750%	-	-	-	-
850%	-	-	-	-
Deducted from capital	-	-	-	-
	-	-	-	-

6.4 Summary of accounting policies for securitisation exposures

The Group held certain securitised debt securities at the end of the reporting period. They are classified and measured for accounting purpose in accordance with the Group's accounting policies as outlined in Note 2.8 "Financial assets", 2.11 "Recognition and derecognition of financial instruments", 2.12 "Fair value measurement" and 2.14 "Impairment of financial assets" to the Financial Statements. For those investments measured at fair value, further details on their valuation are outlined in Note 5.1 "Financial instruments measured at fair value" to the Financial Statements.

Unaudited Supplementary Financial Information

7. Capital charge for market risk

	2014 HK\$'m	2013 HK\$'m
Under the standardised (market risk) approach		
Foreign exchange exposures (net)	–	–
Interest rate exposures		
– non-securitisation exposure	191	50
Commodity exposures	7	6
Equity exposures	1	57
Under the internal models approach		
General foreign exchange and interest rate exposures	1,347	1,216
Capital charge for market risk	1,546	1,329

Market risk regulatory capital charge is calculated under the Banking (Capital) (Amendment) Rules 2011 to incorporate capital charge for stressed VAR. The following table sets out the IMM VAR and stressed VAR¹ for the general market risk exposure calculated under the IMM approach of the Group.

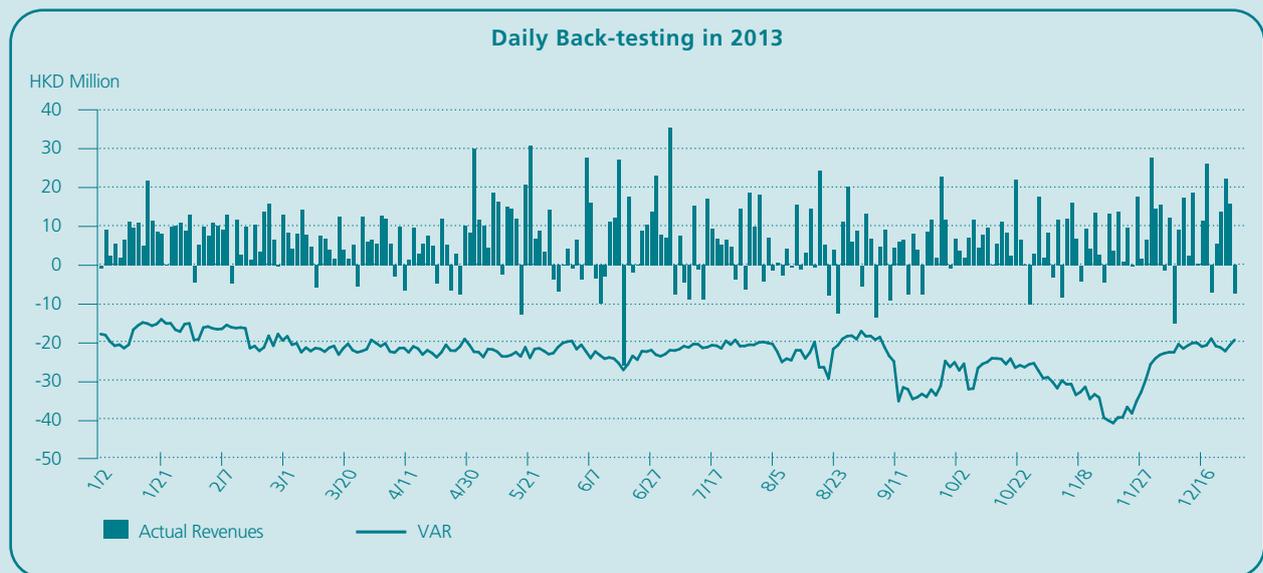
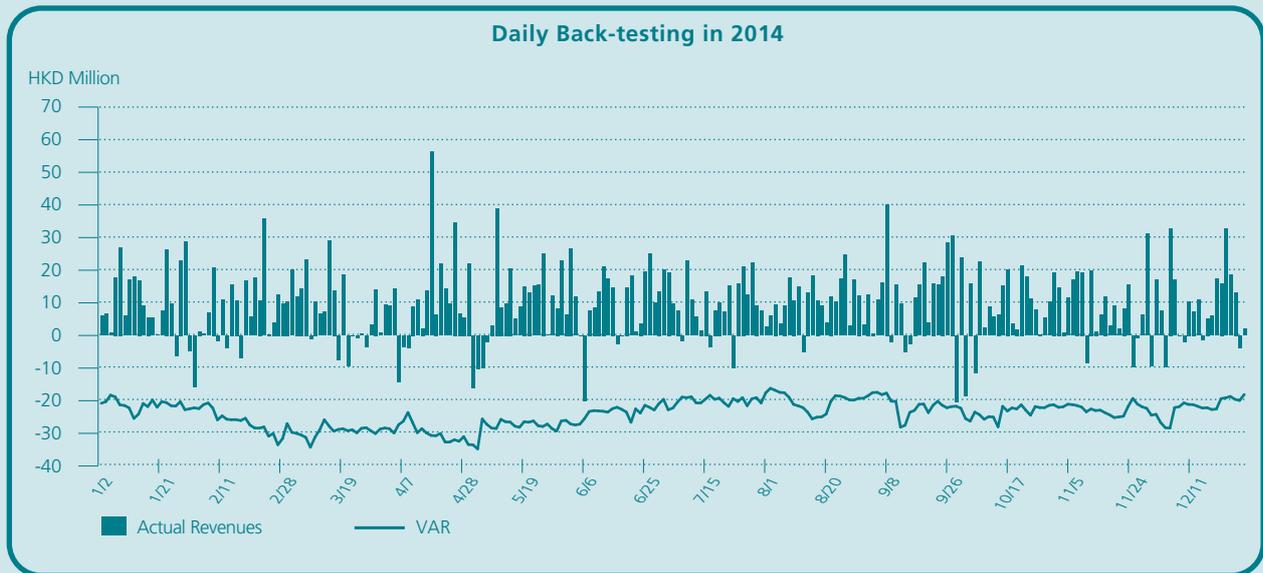
	Year	At 31 December HK\$'m	Minimum for the year HK\$'m	Maximum for the year HK\$'m	Average for the year HK\$'m
IMM VAR for foreign exchange and interest rate risk	2014	95.8	48.8	122.4	81.3
	2013	80.8	33.2	113.8	61.2
IMM VAR for foreign exchange risk	2014	30.0	23.2	69.2	39.4
	2013	59.2	17.8	71.7	40.3
IMM VAR for interest rate risk	2014	94.5	50.6	117.1	82.7
	2013	88.7	23.1	135.1	61.9
Stressed VAR for foreign exchange and interest rate risk	2014	298.8	154.6	491.2	327.0
	2013	246.6	203.7	489.4	338.7
Stressed VAR for foreign exchange risk	2014	70.6	50.5	222.8	99.1
	2013	171.9	27.2	195.9	77.4
Stressed VAR for interest rate risk	2014	274.5	176.4	441.7	336.5
	2013	379.3	190.7	531.9	371.6

Note:

1. IMM VAR and stressed VAR measures used for market risk regulatory capital purposes are calculated to a 99% confidence level and use a 10-day holding period. The stressed VAR uses the same methodology as the VAR model and is generated with inputs calibrated to the historical market data from a continuous 12-month period of significant financial stress relevant to the Group's portfolio.

7. Capital charge for market risk (continued)

The graph below shows the regulatory back-testing result of the Group's market risk under IMM approach.



There was no actual loss exceeding the VAR for the Group as shown in the back-testing results.

Unaudited Supplementary Financial Information

8. Capital charge for operational risk

	2014 HK\$'m	2013 HK\$'m
Capital charge for operational risk	5,664	5,038

The Group uses the standardised (operational risk) approach to calculate its operational risk capital charge.

9. Equity exposures in banking book

Equity holdings in other entities are accounted for in accordance with the underlying intentions of holdings at the inception of acquisition. The classifications for equity holdings taken for relationship and strategic purposes will be separated from those taken for other purposes (including capital appreciation). Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in associates, joint venture or subsidiaries, are classified as available-for-sale securities and are reported in the balance sheet as "Investment in securities".

For equity exposures in banking book other than associates, joint venture or subsidiaries, the Group applies the same accounting treatment and valuation methodologies as detailed in the Notes 2.8(4), 2.11, 2.12 and 2.14 to the Financial Statements, further details on their valuation are outlined in Note 5.1 "Financial instruments measured at fair value" to the Financial Statements. If additional investment is made subsequently such that an investee becomes an associate, joint venture or subsidiary, then the investment is reclassified in accordance with the Group's accounting policies.

Gains or losses related to equity exposures are summarised below:

	2014 HK\$'m	2013 HK\$'m
Realised gains from sales	531	–
Unrealised gains on revaluation recognised in reserves but not through income statement	778	1,179

10. Connected transactions

In 2014, BOCHK, a wholly-owned subsidiary of the Company, and its subsidiaries engaged on a regular basis in the usual course of their business in numerous transactions with BOC and its Associates. As BOC is the Company's controlling shareholder and therefore a connected person of the Company, all such transactions constituted connected transactions for the purposes of the Listing Rules. The Group is subject to the control of the State Council of the PRC Government through China Investment Corporation ("CIC"), its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), and BOC in which Central Huijin has controlling equity interests. Central Huijin is the ultimate controlling shareholder of the Company. Central Huijin has accepted PRC Government's authorisation in carrying out equity investment in core financial enterprises. For the purposes of this report, therefore, Central Huijin and its Associates have not been treated as connected persons to the Company.

10. Connected transactions (continued)

The transactions fell into the following two categories:

- exempted transactions entered into in the ordinary and usual course of business and under normal commercial terms or better. Such transactions were (1) fully exempted from shareholders' approval, annual review and all disclosure requirements and/or (2) exempted from shareholders' approval requirement by virtue of Rules 14A.76 and 14A.87 to 14A.101 of the Listing Rules;
- certain continuing connected transactions conducted pursuant to the Services and Relationship Agreement entered into among, inter alia, the Company and BOC dated 6 July 2002 (as amended and supplemented from time to time, which has been amended for a period of three years commencing 1 January 2014), whereas BOC has agreed to, and agreed to procure its Associates to, enter into all future arrangements with the Group on an arm's length basis, on normal commercial terms and at rates no less favourable than those offered to independent third parties, in relation to certain areas including, among others, information technology services, training services, physical bullion agency services, correspondent banking arrangements, treasury transactions, provision of insurance and syndicated loans, and the Company has agreed to, and agreed to procure its subsidiaries to, enter into all future arrangements on the same basis, provided that the rates offered by the Group to BOC and its Associates will be no more favourable than those offered to independent third parties. The Services and Relationship Agreement is also amended to allow (i) for the provision of call center services, cash management services and card services and other related business between BOC or its Associates and the Group; and (ii) the Group to provide and receive various information technology services to and from BOC's worldwide branches and subsidiaries. On 10 December 2013 the Company made an announcement (the "Announcement") in accordance with Rule 14A.47 (1 July 2014 revised to 14A.35 and 14A.64) of the Listing Rules, and has got the approval from the independent shareholders on 11 June 2014. The Announcement listed those continuing connected transactions that exceeded the de minimus threshold and set out caps in respect of such transactions for the three years 2014-2016. These transactions were conducted in the ordinary and usual course of its business and on normal commercial terms or better. Details of these continuing connected transactions are set out below and are described in the announcements which may be viewed at the Company's website. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Type of Transaction	2014 Cap (HK\$'m)	2014 Actual Amount (HK\$'m)
Information Technology Services	1,000	54
Property Transactions	1,000	161
Bank-note Delivery	1,000	174
Provision of Insurance Cover	1,000	134
Card Services	1,000	90
Custody Business	1,000	60
Call Center Services	1,000	59
Securities Transactions	4,500	245
Fund Distribution Transactions	4,500	54
Insurance Agency	4,500	761
Foreign Exchange Transactions	4,500	292
Derivatives Transactions	4,500	(139)
Trading of Financial Assets	150,000	16,441
Inter-bank Capital Markets	150,000	7,874

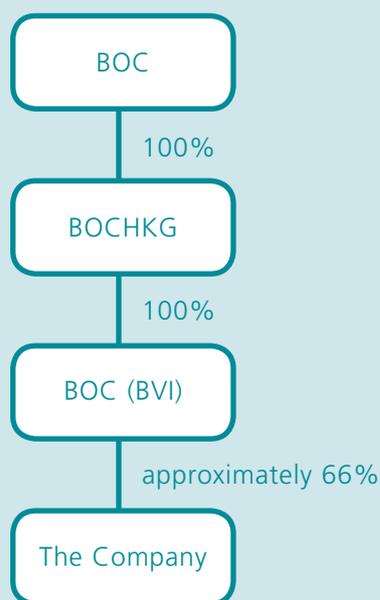
Unaudited Supplementary Financial Information

11. Reconciliation between HKFRSs vs IFRS/CAS

The Company understands that BOC, an intermediate holding company as well as controlling shareholder of the Company, will prepare and disclose consolidated financial information in accordance with IFRS and CAS for which the Company and its subsidiaries will form part of the consolidated financial statements. CAS is the new set of PRC accounting standards that has been effective for annual periods beginning on or after 1 January 2007 for companies publicly listed in PRC. The requirements of CAS have substantially converged with HKFRSs and IFRS.

The consolidated financial information of “BOC Hong Kong Group” for the periods disclosed by BOC in its consolidated financial statements is not the same as the consolidated financial information of the Group for the periods published by the Company pursuant to applicable laws and regulations in Hong Kong. There are two reasons for this.

First, the definitions of “BOC Hong Kong Group” (as adopted by BOC for the purpose of its own financial disclosure) and “Group” (as adopted by the Company in preparing and presenting its consolidated financial information) are different: “BOC Hong Kong Group” refers to BOCHKG and its subsidiaries, whereas “Group” refers to the Company and its subsidiaries (see the below organisation chart). Though there is difference in definitions between “BOC Hong Kong Group” and “Group”, their financial results for the periods presented are substantially the same. This is because BOCHKG and BOC (BVI) are holding companies only and have no substantive operations of their own.



Second, the Group has prepared its consolidated financial statements in accordance with HKFRSs; whereas the consolidated financial information reported to BOC is prepared in accordance with IFRS and CAS respectively. There is a difference in the election of subsequent measurement basis of bank premises by the Group and by BOC respectively.

The Board considers that the best way to ensure that shareholders and the investing public understand the material differences between the consolidated financial information of the Group published by the Company on the one hand, and the consolidated financial information of BOC Hong Kong Group disclosed by BOC in its consolidated financial statements on the other hand, is to present reconciliations of the profit after tax/net assets of the Group prepared under HKFRSs to the profit after tax/net assets of the Group prepared under IFRS and CAS respectively for the periods presented.

11. Reconciliation between HKFRSs vs IFRS/CAS (continued)

The major differences which arise from the difference in measurement basis relate to the following:

- restatement of carrying value of bank premises; and
- deferred taxation impact arising from the above different measurement basis.

(a) Restatement of carrying value of bank premises

The Company has elected for a revaluation model rather than cost model to account for bank premises and investment properties under HKFRSs. On the contrary, BOC has elected for the cost model for bank premises and revaluation model for investment properties under IFRS and CAS. Therefore, adjustments have been made to the carrying value of bank premises as well as to re-calculate the depreciation charge and disposal gain/loss under IFRS and CAS.

(b) Deferred tax adjustments

These represent the deferred tax effect of the aforesaid adjustments.

Profit after tax/net assets reconciliation

HKFRSs vs IFRS/CAS

	Profit after tax		Net assets	
	2014 HK\$'m	2013 HK\$'m	2014 HK\$'m	2013 HK\$'m
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under HKFRSs	25,105	23,075	181,472	163,008
Add: IFRS/CAS adjustments				
Restatement of carrying value of bank premises	844	719	(40,388)	(38,515)
Deferred tax adjustments	(91)	(78)	6,732	6,383
Profit after tax/net assets of BOC Hong Kong (Holdings) Limited prepared under IFRS/CAS	25,858	23,716	147,816	130,876

Appendix

Subsidiaries of the Company

The particulars of our subsidiaries are as follows:

Name	Place and date of incorporation/operation	Issued and fully paid up share capital/registered capital	Interest held	Principal activities
Directly held:				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	Ordinary shares HK\$43,042,840,858	100.00%	Banking business
BOC Group Life Assurance Company Limited	Hong Kong 12 March 1997	Ordinary shares HK\$3,038,000,000	51.00%	Life insurance business
BOCHK Asset Management (Cayman) Limited	Cayman Islands 7 October 2010	Ordinary shares HK\$50,000,000	100.00%	Investment holding
Indirectly held:				
Nanyang Commercial Bank, Limited	Hong Kong 2 February 1948	Ordinary shares HK\$3,144,517,396	100.00%	Banking business
Chiyu Banking Corporation Limited	Hong Kong 24 April 1947	Ordinary shares HK\$300,000,000	70.49%	Banking business
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	Ordinary shares HK\$480,000,000	100.00%	Credit card services
Bank of China (Hong Kong) Nominees Limited	Hong Kong 1 October 1985	Ordinary shares HK\$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited	Hong Kong 6 November 1987	Ordinary shares HK\$3,000,000	100.00%	Trustee and agency services
BOC Group Trustee Company Limited	Hong Kong 1 December 1997	Ordinary shares HK\$200,000,000	64.20%	Trustee services
BOCHK Asset Management Limited	Hong Kong 28 October 2010	Ordinary shares HK\$39,500,000	100.00%	Asset management
BOCHK Financial Products (Cayman) Limited	Cayman Islands 10 November 2006	Ordinary shares US\$50,000	100.00%	Issuing structured notes
BOCHK Information Technology (Shenzhen) Co., Ltd.	PRC 16 April 1990	Registered capital HK\$70,000,000	100.00%	Property holding and investment
BOCHK Information Technology Services (Shenzhen) Ltd.	PRC 26 May 1993	Registered capital HK\$40,000,000	100.00%	Information technology services
BOCI-Prudential Trustee Limited	Hong Kong 11 October 1999	Ordinary shares HK\$300,000,000	41.10%	Trustee services
Che Hsing (Nominees) Limited	Hong Kong 23 April 1980	Ordinary shares HK\$10,000	100.00%	Nominee services
Chiyu Banking Corporation (Nominees) Limited	Hong Kong 3 November 1981	Ordinary shares HK\$100,000	70.49%	Investment holding
Grace Charter Limited	Hong Kong 4 May 2001	Ordinary shares HK\$2	70.49%	Investment holding
Kwong Li Nam Investment Agency Limited	Hong Kong 25 May 1984	Ordinary shares HK\$3,050,000	100.00%	Investment agency

Subsidiaries of the Company (continued)

Name	Place and date of incorporation/operation	Issued and fully paid up share capital/registered capital	Interest held	Principal activities
Nanyang Commercial Bank (China), Limited	PRC 14 December 2007	Registered capital RMB6,500,000,000	100.00%	Banking business
Nanyang Commercial Bank (Nominees) Limited	Hong Kong 22 August 1980	Ordinary shares HK\$50,000	100.00%	Nominee services
Nanyang Commercial Bank Trustee Limited	Hong Kong 22 October 1976	Ordinary shares HK\$3,000,000	100.00%	Trustee services
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	Ordinary shares HK\$95,000,000	100.00%	Gold trading and investment holding
Po Sang Futures Limited	Hong Kong 19 October 1993	Ordinary shares HK\$95,000,000	100.00%	Securities and futures brokerage
Seng Sun Development Company, Limited	Hong Kong 11 December 1961	Ordinary shares HK\$2,800,000	70.49%	Investment holding
Sin Chiao Enterprises Corporation, Limited	Hong Kong 13 September 1961	Ordinary shares HK\$3,000,000	100.00%	Property holding and investment
Sin Hua Trustee Limited	Hong Kong 27 October 1978	Ordinary shares HK\$3,000,000	100.00%	Trustee services
Sino Information Services Company Limited	Hong Kong 11 February 1993	Ordinary shares HK\$7,000,000	100.00%	Information services

BOC Travel Services Limited was dissolved on 5 June 2014.

BNPP Flexi III China Fund was fully redeemed on 18 August 2014.

G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd. completed winding up on 20 August 2014.

Pursuant to the Hong Kong Companies Ordinance (Chapter 622) which has commenced operation on 3 March 2014, all shares issued by a company incorporated in Hong Kong before, on and after that commencement date shall have no par value and the relevant concept of authorised share capital is abolished, the balance of Nanyang Commercial Bank, Limited's share premium account as at 3 March 2014 has been transferred to share capital.

Definitions

In this Annual Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Terms	Meanings
"ABS"	Asset-backed Securities
"ADR"	American Depositary Receipt
"ADS(s)"	American Depositary Share(s)
"ALCO"	the Asset and Liability Management Committee
"AT1"	Additional Tier 1
"ATM"	Automated Teller Machine
"Associates"	has the meaning ascribed to "associates" in the Listing Rules
"BOC"	Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
"BOC (BVI)"	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of BOCHK
"BOCCC"	BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK
"BOCG Insurance"	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK Charitable Foundation"	Bank of China (Hong Kong) Limited Charitable Foundation (formerly known as the "Bank of China Group Charitable Foundation"), a charitable foundation being established in July 1994
"BOCHKG"	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCHK" or "the Bank"	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
"BOCI"	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOC
"BOCI-Prudential Manager"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly-owned subsidiary of BOC International Holdings Limited, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
"BOCG Life"	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
"Board" or "Board of Directors"	the Board of Directors of the Company
"CAS"	China Accounting Standards for Business Enterprises
"CE"	Chief Executive
"CET1"	Common Equity Tier 1
"CFO"	Chief Financial Officer
"CIC"	China Investment Corporation
"CRM"	Credit Risk Mitigation

Terms	Meanings
"CRO"	Chief Risk Officer
"CVA"	Credit Valuation Adjustment
"Central Huijin"	Central Huijin Investment Ltd.
"Chiyu"	Chiyu Banking Corporation Limited, a company incorporated under the laws of Hong Kong, in which BOCHK holds an equity interest of 70.49%
"DCE"	Deputy Chief Executive
"DVA"	Debit Valuation Adjustment
"EAD"	Exposure at Default
"ECAI(s)"	External Credit Assessment Institution(s)
"EL"	Expected Loss
"ETF"	Exchange Traded Fund
"EV"	Economic Value Sensitivity Ratio
"FIRB"	Foundation Internal Ratings-based
"Fitch"	Fitch Ratings
"GDP"	Gross Domestic Product
"HIBOR"	Hong Kong Interbank Offered Rate
"HKAS(s)"	Hong Kong Accounting Standard(s)
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HK(IFRIC)-Int"	Hong Kong (IFRIC) Interpretation
"HKMA"	Hong Kong Monetary Authority
"Hong Kong" or "Hong Kong SAR" or "HKSAR"	Hong Kong Special Administrative Region
"ICAAP"	Internal Capital Adequacy Assessment Process
"IFRS"	International Financial Reporting Standards
"IMM"	Internal Models
"IRB"	Internal Ratings-based
"IT"	Information Technology
"LGD"	Loss Given Default
"LIBOR"	London Interbank Offered Rate
"LSC"	Legal Services Centre
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MBS"	Mortgage-backed Securities
"MC"	the Management Committee
"MPF"	Mandatory Provident Fund
"MPF Schemes Ordinance"	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended
"Mainland" or "Mainland of China"	the mainland of the PRC
"Medium Term Note Programme"	the medium term note programme was established by BOCHK on 2 September 2011

Definitions

Terms	Meanings
"Moody's"	Moody's Investors Service
"NCB"	Nanyang Commercial Bank, Limited, a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK
"NCB (China)"	Nanyang Commercial Bank (China), Limited, a company incorporated under the laws of the PRC and a wholly-owned subsidiary of NCB
"OR&CD"	the Operational Risk & Compliance Department
"ORSO schemes"	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
"OTC"	Over-the-counter
"PD"	Probability of Default
"PRC"	the People's Republic of China
"PVBP"	Price Value of a Basis Point
"QDII"	Qualified Domestic Institutional Investors
"RC"	the Risk Committee
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RMD"	the Risk Management Department
"RQFII"	Renminbi Qualified Foreign Institutional Investors
"RWA"	Risk-weighted Assets
"SC"	Steering Committee
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SME(s)"	Small and Medium-sized Enterprise(s)
"STC"	Standardised (Credit Risk)
"STM"	Standardised (Market Risk)
"STO"	Standardised (Operational Risk)
"Standard & Poor's"	Standard & Poor's Ratings Services
"Stock Exchange" or "Hong Kong Stock Exchange" or "Stock Exchange of Hong Kong"	The Stock Exchange of Hong Kong Limited
"the Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong
"the Group"	the Company and its subsidiaries collectively referred as the Group
"US"	the United States of America
"VAR"	Value at Risk

Branch Network & Corporate Banking Centres

Bank of China (Hong Kong) – Branch Network Hong Kong Island

Branch	Address	Telephone
Central & Western District		
Bank of China Tower Branch	1 Garden Road, Hong Kong	2826 6888
Sheung Wan Branch	252 Des Voeux Road Central, Hong Kong	2541 1601
Queen's Road West (Sheung Wan) Branch	2-12 Queen's Road West, Sheung Wan, Hong Kong	2815 6888
Connaught Road Central Branch	13-14 Connaught Road Central, Hong Kong	2841 0410
Central District Branch	2A Des Voeux Road Central, Hong Kong	2160 8888
Central District (Wing On House) Branch	71 Des Voeux Road Central, Hong Kong	2843 6111
Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui, Hong Kong	2819 7277
Western District Branch	386-388 Des Voeux Road West, Hong Kong	2549 9828
Shun Tak Centre Branch	Shop 225, 2/F, Shun Tak Centre, 200 Connaught Road Central, Hong Kong	2291 6081
Queen's Road Central Branch	81-83 Queen's Road Central, Hong Kong	2588 1288
Bonham Road Branch	63 Bonham Road, Hong Kong	2517 7066
Kennedy Town Branch	Harbour View Garden, 2-2F Catchick Street, Kennedy Town, Hong Kong	2818 6162
Caine Road Branch	57 Caine Road, Hong Kong	2521 3318
First Street Branch	55A First Street, Sai Ying Pun, Hong Kong	2517 3399
United Centre Branch	Shop 1021, United Centre, 95 Queensway, Hong Kong	2861 1889
Wyndham Street Branch	1-3 Wyndham Street, Central, Hong Kong	2843 2888
Des Voeux Road West Branch	111-119 Des Voeux Road West, Hong Kong	2546 1134
Gilman Street Branch	136 Des Voeux Road Central, Hong Kong	2135 1123
Wan Chai District		
409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai, Hong Kong	2835 6118
Johnston Road Branch	152-158 Johnston Road, Wan Chai, Hong Kong	2574 8257
Harbour Road Branch	Shop 4, G/F, Causeway Centre, 28 Harbour Road, Wan Chai, Hong Kong	2827 8407
Jardine's Bazaar Branch	G/F, Siki Centre, No.23 Jardine's Bazaar, Causeway Bay, Hong Kong	2882 1383
Happy Valley Wealth Management Centre	Nos. 49-51A, Sing Woo Road, Happy Valley, Hong Kong	3982 8270
Happy Valley Branch	11 King Kwong Street, Happy Valley, Hong Kong	2838 6668
Causeway Bay Branch	505 Hennessy Road, Causeway Bay, Hong Kong	3982 8068
Percival Street Branch	18 Percival Street, Causeway Bay, Hong Kong	2572 4273
Wan Chai (China Overseas Building) Branch	139 Hennessy Road, Wan Chai, Hong Kong	2529 0866
Wan Chai (Wu Chung House) Branch	213 Queen's Road East, Wan Chai, Hong Kong	2892 0909
Eastern District		
Siu Sai Wan Branch	Shop 19, Cheerful Garden, Siu Sai Wan, Hong Kong	2505 2399
Taikoo Shing Branch	Shop P1025-1026, Chi Sing Mansion, Taikoo Shing, Hong Kong	2967 9128
Taikoo Shing Branch Safe Box Service Centre	Shop G1006, Hoi Shing Mansion, Taikoo Shing, Hong Kong	2885 4582
North Point Branch	Shop B & C, G/F, King's Towers, 480 King's Road, North Point, Hong Kong	2811 8880
North Point (King's Centre) Branch	193-209 King's Road, North Point, Hong Kong	2286 2000
North Point (Hang Ying Building) Branch	Shop B1, 318-328 King's Road, North Point, Hong Kong	2887 1199
Sai Wan Ho Branch	142-146 Shau Kei Wan Road, Sai Wan Ho, Hong Kong	2886 3344
Lee Chung Street Branch	29-31 Lee Chung Street, Chai Wan, Hong Kong	2557 3283
Heng Fa Chuen Branch	Shop 205-208, East Wing Shopping Centre, Heng Fa Chuen, Chai Wan, Hong Kong	2897 1131
Kam Wa Street Branch	3 Kam Wa Street, Shau Kei Wan, Hong Kong	2885 9311
City Garden Branch	233 Electric Road, North Point, Hong Kong	2571 2878
King's Road Branch	131-133 King's Road, North Point, Hong Kong	2887 0282
Chai Wan Branch	Block B, Walton Estate, 341-343 Chai Wan Road, Chai Wan, Hong Kong	2558 6433
Chai Wan Branch Safe Box Service Centre	27 Gold Mine Building, 345 Chai Wan Road, Chai Wan, Hong Kong	2557 0248
Healthy Village Branch	Shop 1&2, Healthy Village Phase II, 668 King's Road, North Point, Hong Kong	2563 2278
Sheung On Street Branch	77 Sheung On Street, Chai Wan, Hong Kong	2897 0923
Aldrich Garden Branch	Shop 58, Aldrich Garden, Shau Kei Wan, Hong Kong	3196 4956
Quarry Bay Branch	Parkvale, 1060 King's Road, Quarry Bay, Hong Kong	2564 0333
Shau Kei Wan (Po Man Building) Branch	260-262 Shau Kei Wan Road, Shau Kei Wan, Hong Kong	3550 5000
North Point Wealth Management Centre	Shop 5B, G/F, Roca Centre, 460-470 King's Road, North Point, Hong Kong	2160 7988

Branch	Address	Telephone
Southern District		
Tin Wan Branch	2-12 Ka Wo Street, Tin Wan, Hong Kong	2553 0135
Aberdeen Branch	25 Wu Pak Street, Aberdeen, Hong Kong	2553 4165
South Horizons Branch	G13 & G15, G/F West Centre Marina Square, South Horizons, Ap Lei Chau, Hong Kong	2580 0345
South Horizons Branch Safe Box Service Centre	Shop 118, Marina Square East Centre, Ap Lei Chau, Hong Kong	2555 7477
Wah Kwai Estate Branch	Shop 17, Shopping Centre, Wah Kwai Estate, Hong Kong	2550 2298
Chi Fu Landmark Branch	Shop 510, Chi Fu Landmark, Pok Fu Lam, Hong Kong	2551 2282
Ap Lei Chau Branch	13-15 Wai Fung Street, Ap Lei Chau, Hong Kong	2554 6487
Stanley Branch	Shop No.301B, Stanley Plaza, Hong Kong	3982 8188

Kowloon

Branch	Address	Telephone
Kowloon City District		
Prince Edward Road (Kowloon City) Branch	382-384 Prince Edward Road, Kowloon City, Kowloon	2926 6038
To Kwa Wan Branch	80N To Kwa Wan Road, To Kwa Wan, Kowloon	2364 4344
Pak Tai Street Branch	4-6 Pak Tai Street, To Kwa Wan, Kowloon	2760 7773
Hung Hom Wealth Management Centre	37-39 Ma Tau Wai Road, Hung Hom, Kowloon	2170 0888
Hung Hom (Eldex Industrial Building) Branch	21 Ma Tau Wai Road, Hung Hom, Kowloon	2764 8363
OUHK Branch	The Open University of Hong Kong, 30 Good Shepherd Street, Ho Man Tin, Kowloon	2760 9099
Ma Tau Kok Road Branch	39-45 Ma Tau Kok Road, To Kwa Wan, Kowloon	2714 9118
Ma Tau Wai Road Branch	47-49 Ma Tau Wai Road, Hung Hom, Kowloon	2926 5123
Site 11 Whampoa Garden Branch	Shop G6, Site 11 Whampoa Garden, Hung Hom, Kowloon	2363 3982
Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom, Kowloon	2764 7233
Nga Tsin Wai Road Branch	25 Nga Tsin Wai Road, Kowloon City, Kowloon	2383 2316
Waterloo Road Branch	Shop A2, Man Kee Mansion, 86 Waterloo Road, Kowloon	2363 9231
Wong Tai Sin District		
Tai Yau Street Branch	35 Tai Yau Street, San Po Kong, Kowloon	2328 0087
Chuk Yuen Estate Branch	Shop S1, Chuk Yuen Shopping Centre, Chuk Yuen South Estate, Kowloon	2325 5261
Choi Hung Branch	19 Clear Water Bay Road, Ngau Chi Wan, Kowloon	2327 0271
Choi Hung Road Branch	58-68 Choi Hung Road, San Po Kong, Kowloon	2927 6111
Choi Wan Estate Branch	Shop Nos. A317 and A318, 3/F, Choi Wan Shopping Centre Phase II, No. 45 Clear Water Bay Road, Ngau Chi Wan, Kowloon	2754 5911
Wong Tai Sin Branch	Shop G13, Wong Tai Sin Plaza, Wong Tai Sin, Kowloon	2327 8147
Yuk Wah Street Branch	46-48 Yuk Wah Street, Tsz Wan Shan, Kowloon	2927 6655
Lok Fu Branch	Shop 2, Lok Fu Plaza II, Lok Fu, Kowloon	2337 0271
Tseuk Luk Street Wealth Management Centre	86 Tseuk Luk Street, San Po Kong, Kowloon	2326 2883
Diamond Hill Branch	G107 Plaza Hollywood, Diamond Hill, Kowloon	2955 5088
Kwun Tong District		
169 Ngau Tau Kok Road Branch	169 Ngau Tau Kok Road, Ngau Tau Kok, Kowloon	2750 7311
177 Ngau Tau Kok Road Branch	177 Ngau Tau Kok Road, Ngau Tau Kok, Kowloon	2927 4321
Sau Mau Ping Branch	Shop 214, Sau Mau Ping Shopping Centre, Sau Mau Ping, Kowloon	2772 0028
Hip Wo Street Branch	195-197 Hip Wo Street, Kwun Tong, Kowloon	2345 0102
Yau Tong Branch	Shop G1-G27, Ka Fu Arcade, Yau Tong Centre, Kowloon	2349 9191
Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong, Kowloon	2763 2127
Tsui Ping Estate Branch	Shop 116, 1/F Shopping Circuit, Tsui Ping Estate, Kwun Tong, Kowloon	2345 3238
26 Fu Yan Street Branch	26-32 Fu Yan Street, Kwun Tong, Kowloon	2342 5262
Telford Gardens Wealth Management Centre	Shop P8A, Telford Gardens, Kowloon Bay, Kowloon	2758 3987
Telford Gardens Branch	Shop P2, Telford Gardens, Kowloon Bay, Kowloon	2796 1551
Lam Tin Branch	Shop 12, 49 Kai Tin Road, Lam Tin, Kowloon	2347 1456
Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong, Kowloon	2344 4116
Ngau Tau Kok Road (Kwun Tong) Branch	327 Ngau Tau Kok Road, Kwun Tong, Kowloon	2389 3301

Branch Network & Corporate Banking Centres

Bank of China (Hong Kong) – Branch Network (continued)

Branch	Address	Telephone
Kwun Tong Plaza Branch	G1 Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong, Kowloon	2342 4295
Kowloon Bay Branch	Shop 2, Telford House, 16 Wang Hoi Road, Kowloon Bay, Kowloon	2759 9339
Yau Tsim Mong District		
Tai Kok Tsui Branch	73-77 Tai Kok Tsui Road, Tai Kok Tsui, Kowloon	2395 3269
China Hong Kong City Branch	Shop 28, UG/F, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon	2367 6164
Shanghai Street (Prince Edward) Branch	689-693 Shanghai Street, Mong Kok, Kowloon	2391 0502
Prince Edward Branch	774 Nathan Road, Kowloon	2399 3000
Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui, Kowloon	2721 6242
Tsim Sha Tsui East Branch	Shop 3, LG/F, Hilton Towers, 96 Granville Road, Tsim Sha Tsui East, Kowloon	2739 0308
Jordan Branch	328-330 Nathan Road, Kowloon	2928 6111
Jordan Road Branch	1/F, Sino Cheer Plaza, 23-29 Jordan Road, Kowloon	2730 0883
Shanghai Street (Mong Kok) Branch	611-617 Shanghai Street, Mong Kok, Kowloon	2394 4181
Mong Kok Branch	589 Nathan Road, Mong Kok, Kowloon	2332 0111
Prince Edward Road West (Mong Kok) Branch	116-118 Prince Edward Road West, Mong Kok, Kowloon	2928 4138
Mong Kok Road Branch	50-52 Mong Kok Road, Mong Kok, Kowloon	2395 3263
Mong Kok (Silvercorp Int'l Tower) Branch	Shop B, 707-713 Nathan Road, Mong Kok, Kowloon	2391 6677
Mong Kok (President Commercial Centre) Branch	608 Nathan Road, Mong Kok, Kowloon	2384 7191
Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei, Kowloon	2780 2307
Cameron Road Wealth Management Centre	30 Cameron Road, Tsim Sha Tsui, Kowloon	2312 0010
Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui, Kowloon	2311 3822
Olympian City Branch	Shop 133, 1/F, Olympian City 2, 18 Hoi Ting Road, Kowloon	2749 2110
Fuk Tsun Street Branch	32-40 Fuk Tsun Street, Tai Kok Tsui, Kowloon	2391 8468
Canton Road Wealth Management Centre	60 Canton Road, Tsim Sha Tsui, Kowloon	2730 0688
Sham Shui Po District		
Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road, Kowloon	2370 8928
Festival Walk Branch	Unit LG256, Festival Walk, Kowloon Tong, Kowloon	2265 7288
Yu Chau Street Branch	42-46 Yu Chau Street, Sham Shui Po, Kowloon	2397 1123
Dragon Centre Branch	Shop 206A, Dragon Centre, 37K Yen Chow Street, Sham Shui Po, Kowloon	2788 3238
Lei Cheng Uk Estate Branch	Shop 108, Lei Cheng Uk Commercial Centre, Lei Cheng Uk Estate, Kowloon	2729 8251
Castle Peak Road (Cheung Sha Wan) Branch	365-371 Castle Peak Road, Cheung Sha Wan, Kowloon	2728 3311
194 Cheung Sha Wan Road Branch	194-196 Cheung Sha Wan Road, Sham Shui Po, Kowloon	2728 9389
Cheung Sha Wan Plaza Branch	Shop G08, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road, Kowloon	2745 7088
223 Nam Cheong Street Branch	223 Nam Cheong Street, Sham Shui Po, Kowloon	2928 2088
Stage 2 Mei Foo Sun Chuen Branch	19 Glee Path, Mei Foo Sun Chuen, Kowloon	2370 8382
Mei Foo Wealth Management Centre	Shop N47-49, Mount Sterling Mall, Mei Foo Sun Chuen, Kowloon	2742 8003
Mei Foo Mount Sterling Mall Branch	17-B Mount Sterling Mall, Mei Foo Sun Chuen, Kowloon	2742 6611
Sham Shui Po Branch	207-211 Nam Cheong Street, Sham Shui Po, Kowloon	2777 0171
Sham Shui Po (On Ning Building) Branch	147-149 Castle Peak Road, Sham Shui Po, Kowloon	2708 3678

New Territories & Outlying Islands

Branch	Address	Telephone
Sha Tin District		
41 Tai Wai Road Branch	41-45 Tai Wai Road, Sha Tin, New Territories	2929 4288
74 Tai Wai Road Branch	74-76 Tai Wai Road, Sha Tin, New Territories	2699 9523
Fo Tan Branch	No 2, 1/F Shatin Galleria, 18-24 Shan Mei Street, Fo Tan, New Territories	2691 7193

Branch	Address	Telephone
Sha Tin Branch	Lucky Plaza, Wang Pok Street, Sha Tin, New Territories	2605 6556
Sha Tin Wealth Management Centre	Shop 18, L1, Shatin Plaza, Sha Tin, New Territories	2688 7668
Sha Kok Estate Branch	Shop 39, Sha Kok Shopping Centre, Sha Kok Estate, Sha Tin, New Territories	2648 0302
Heng On Estate Branch	Shop 203, Commercial Centre, Heng On Estate, Ma On Shan, New Territories	2642 0111
Ma On Shan Plaza Branch	Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan, New Territories	2631 0063
Lung Hang Estate Branch	103 Lung Hang Commercial Centre, Sha Tin, New Territories	2605 8618
New Town Plaza Branch	Shop 608, Level 6 Phase One, New Town Plaza, Sha Tin, New Territories	2606 6163
Lek Yuen Branch	No 1, Fook Hoi House, Lek Yuen Estate, Sha Tin, New Territories	2605 3021
City One Sha Tin Branch	Shop Nos.24-25, G/F, Fortune City One Plus, No.2 Ngan Shing Street, Shatin, New Territories	2648 8083
Tai Po District		
Tai Po Branch	68-70 Po Heung Street, Tai Po Market, New Territories	2657 2121
Tai Po Plaza Branch	Unit 4, Level 1 Tai Po Plaza, 1 On Tai Road, Tai Po, New Territories	2665 5890
On Chee Road Branch	Shop 10-11, Jade Plaza, 3 On Chee Road, Tai Po, New Territories	2665 1966
Fu Heng Estate Branch	Shop 1-2, Fu Heng Shopping Centre, Tai Po, New Territories	2661 6278
Fu Shin Estate Branch	Shop G11, Fu Shin Shopping Centre, Tai Po, New Territories	2663 2788
Kwong Fuk Road Branch	40-50 Kwong Fuk Road, Tai Po Market, New Territories	2658 2268
Sai Kung District		
East Point City Branch	Shop 101, East Point City, Tseung Kwan O, New Territories	2628 7238
HKUST Branch	The Hong Kong University of Science & Technology, Clear Water Bay Road, New Territories	2358 2345
Tseung Kwan O Plaza Branch	Shop 112-125, Level 1, Tseung Kwan O Plaza, Tseung Kwan O, New Territories	2702 0282
Metro City Branch	Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O, New Territories	2701 4962
Hau Tak Estate Branch Securities Services Centre	Shop 15, Hau Tak Shopping Centre, Tseung Kwan O, New Territories	2703 5749
Sai Kung Branch	Shop No. 56 & 58, Sai Kung Town Centre, 22-40 Fuk Man Road, Sai Kung, New Territories	2792 1465
Tsuen Wan District		
Clague Garden Branch	Shop 1-3, Commercial Complex, Clague Garden Estate, 24 Hoi Shing Road, Tsuen Wan, New Territories	2412 2202
Citywalk Branch	Shop 65, G/F, Citywalk, 1 Yeung Uk Road, Tsuen Wan, New Territories	2920 3211
Tsuen Wan Branch	297-299 Sha Tsui Road, Tsuen Wan, New Territories	2411 1321
Castle Peak Road (Tsuen Wan) Branch	201-207 Castle Peak Road, Tsuen Wan, New Territories	2416 6577
Sham Tseng Branch	Shop G1 & G2, Rhine Garden, Sham Tseng, New Territories	2491 0038
Texaco Road Branch	Shop A112, East Asia Gardens, 36 Texaco Road, Tsuen Wan, New Territories	2414 4287
Castle Peak Road (Tsuen Wan) Branch Securities Services Centre	167 Castle Peak Road, Tsuen Wan, New Territories	2406 1746
Kwai Tsing District		
Ha Kwai Chung Branch	192-194 Hing Fong Road, Kwai Chung, New Territories	2424 9823
Sheung Kwai Chung Branch	7-11 Shek Yi Road, Sheung Kwai Chung, New Territories	2480 6161
Cheung Fat Estate Branch	Shop 317, Cheung Fat Shopping Centre, Tsing Yi Island, New Territories	2433 1689
Cheung Hong Estate Commercial Centre Branch	2 G/F, Commercial Centre, Cheung Hong Estate, Tsing Yi Island, New Territories	2497 0325
Maritime Square Branch	Shop 115, Maritime Square, Tsing Yi Island, New Territories	2436 9298
Lei Muk Shue Branch	Shop 22, Lei Muk Shue Shopping Centre, Kwai Chung, New Territories	2428 5731
Metroplaza Branch	Shop 260-265, Metroplaza, 223 Hing Fong Road, Kwai Chung, New Territories	2420 2686
Kwai Cheong Road Branch	40 Kwai Cheong Road, Kwai Chung, New Territories	2480 3311
Kwai Chung Road Branch	1009 Kwai Chung Road, Kwai Chung, New Territories	2424 3021
Kwai Chung Plaza Branch	A18-20, G/F Kwai Chung Plaza, 7-11 Kwai Foo Road, Kwai Chung, New Territories	2920 2468

Bank of China (Hong Kong) – Branch Network (continued)

Branch	Address	Telephone
Tuen Mun District		
Tuen Mun Wealth Management Centre	Shop 5, Level 1, North Wing, Trend Plaza, Tuen Mun, New Territories	2404 9777
Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza phase II, Tuen Mun, New Territories	2450 8877
Tuen Mun Fa Yuen Branch	Shop G & H, 6 Tsing Hoi Circuit, Tuen Mun, New Territories	2458 1033
Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun, New Territories	2457 3501
Kin Wing Street Branch	24-30 Kin Wing Street, Tuen Mun, New Territories	2465 2212
Venice Gardens Branch	Shop 13-15, G/F Venice Gardens, Leung Tak Street, Tuen Mun, New Territories	2455 1288
Butterfly Estate Branch	Shop Nos. L187-195, Level 1, Butterfly Plaza, Tuen Mun, New Territories	2920 5188
Leung King Estate Branch	Shop No. L221 and L222, Level 2, Leung King Plaza, Leung King Estate, 31 Tin King Road, Tuen Mun, New Territories	2463 3855
Yuen Long District		
Tai Tong Road Branch	Shop A135, 1/F Hop Yick Plaza, 23 Tai Tong Road, Yuen Long, New Territories	2479 2113
Yuen Long Branch	102-108 Castle Peak Road, Yuen Long, New Territories	2474 2211
Castle Peak Road (Yuen Long) Branch	162 Castle Peak Road, Yuen Long, New Territories	2476 2193
Yuen Long (Hang Fat Mansion) Branch	8-18 Castle Peak Road, Yuen Long, New Territories	2475 3777
Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long, New Territories	2473 2833
Kingswood Villas Branch	A189 Kingswood Richly Plaza, Tin Shui Wai, New Territories	2448 3313
Fortune Kingswood Branch	Shop G65, G/F, Ph 1 Fortune Kingswood, 18 Tin Yan Road, Tin Shui Wai, NT	2616 4233
Tin Shui Estate Branch	Shop No.G30, Tin Shui Shopping Centre, Tin Shui Wai, New Territories	2445 8728
North District		
Sheung Shui Centre Branch	Shop 1007-1009, Level 1, Sheung Shui Centre, Sheung Shui, New Territories	2670 3131
Sheung Shui Branch	61 San Fung Avenue, Sheung Shui, New Territories	2671 0155
Sha Tau Kok Branch	Block 16-18, Sha Tau Kok Chuen, Sha Tau Kok, New Territories	2674 4011
Flora Plaza Branch	Shop 28, Flora Plaza, 88 Pak Wo Road, Fanling, New Territories	2675 6683
Fanling Centre Branch	Shop 2D-E & H, Fanling Centre, Fanling, New Territories	2669 7899
Luen Wo Market Branch	17-19 Wo Fung Street, Luen Wo Market, Fanling, New Territories	2675 5113
Luen Wo Market Branch Safe Box Service Centre	Shop B, 10-16 Luen Shing Street, Luen Wo Market, Fanling, New Territories	2683 1662
Sheung Shui Branch Securities Services Centre	136 San Fung Avenue, Sheung Shui, New Territories	2672 3738
Choi Yuen Plaza Branch	Shop 3, 3/F, Choi Yuen Plaza, Sheung Shui, New Territories	2671 6783
Outlying Island District		
Cheung Chau Branch	53-55 Tai Sun Street, Cheung Chau, New Territories	2981 0021
Hong Kong International Airport Branch	Unit T7075, Passenger Terminal Building, Hong Kong International Airport	2326 1883

Corporate Banking Centres

Network & Centres	Address	Telephone
Corporate Finance	10/F, Bank of China Tower, 1 Garden Road, Hong Kong	3982 7078
Corporate Business I	10/F, Bank of China Tower, 1 Garden Road, Hong Kong	2826 6889
Corporate Business II	9/F, Bank of China Tower, 1 Garden Road, Hong Kong	3982 6509
Commercial Business I	Unit 701-706, The Gateway Tower 3 (Prudential Tower), 21 Canton Road, Tsim Sha Tsui, Kowloon	3982 7300
Commercial Business II	9/F, Bank of China Tower, 1 Garden Road, Hong Kong	3982 6555
Hong Kong Central and West Commercial Centre	24/F, Bank of China Tower, 1 Garden Road, Hong Kong	3982 6513
Hong Kong East Commercial Centre	13/F, Cambridge House, Taikoo Place, 981 King's Road, Island East, Hong Kong	3982 7398
Kowloon East Commercial Centre	25/F, Millennium City 5, 418 Kwun Tong Road, Kwun Tong, Kowloon	3982 7600
Kowloon West Commercial Centre	9/F, BOC Mongkok Commercial Centre, 589 Nathan Road, Mongkok, Kowloon	3982 7700

Network & Centres	Address	Telephone
New Territories East Commercial Centre	4/F, 68-70 Po Heung Street, Tai Po Market, New Territories	3982 7888
New Territories West Commercial Centre	Unit 1316-1325, Level 13, Metroplaza Tower 1, 223 Hing Fong Road, Kwai Chung, New Territories	3982 7900
Financial Institutions (Bank)	33/F, Bank of China Tower, 1 Garden Road, Hong Kong	2903 6666
Non-Bank Financial Institutions & Public Sector Trade Product	33/F, Bank of China Tower, 1 Garden Road, Hong Kong	2903 6666
	5/F, Bank of China Centre, Olympian City, 11 Hoi Fai Road, West Kowloon	3198 3544

Nanyang Commercial Bank – Branch Network

Branch	Address	Telephone
Main Branch	151 Des Voeux Road, Central, Hong Kong	2852 0888
Hong Kong Island		
Western Branch	1/F & 2/F, 359-361 Queen's Road Central, Hong Kong	3982 9973
Causeway Bay Branch	472 Hennessy Road, Causeway Bay, Hong Kong	3982 9974
Happy Valley Branch	29 Wong Nei Chung Road, Happy Valley, Hong Kong	3982 9975
Kennedy Town Branch	86 Belcher's Street, Kennedy Town, Hong Kong	3982 9976
Quarry Bay Branch	1014 King's Road, Quarry Bay, Hong Kong	3982 9980
Des Voeux Road West Branch	334 Des Voeux Road West, Hong Kong	3982 9984
Aberdeen Branch	Shop A, 171 Aberdeen Main Road, Aberdeen, Hong Kong	3982 9993
North Point Branch	351 King's Road, North Point, Hong Kong	3982 9996
Sai Wan Ho Branch	63 Shaukeiwan Road, Sai Wan Ho, Hong Kong	3982 9999
Wanchai Branch	123 Johnston Road, Wanchai, Hong Kong	3982 9903
Causeway Centre Branch	Shop Nos 9-10, Ground Floor, Causeway Centre, 28 Harbour Road, Wanchai, Hong Kong	3982 9908
Central District Branch	2/F Century Square, 1-13 D'Aguilar Street, Central, Hong Kong	3982 9909
Sunning Road Branch	8 Sunning Road, Causeway Bay, Hong Kong	3982 9914
Kowloon		
Mongkok Branch	727 Nathan Road, Mongkok, Kowloon	3982 9977
Yaumati Branch	309 Nathan Road, Yaumati, Kowloon	3982 9978
Ferry Point Branch	Offices B-D, 10/F and Shops D-F, G/F, Best-O-Best Commercial Centre, 32-36 Ferry Street, Yaumati, Kowloon	3982 9979
Homantin Branch	G/F-2/F, 67B Waterloo Road, Kowloon	3982 9981
Nathan Road Branch	570 Nathan Road, Mongkok, Kowloon	3982 9982
Laichikok Road Branch	236 Laichikok Road, Shamshuipo, Kowloon	3982 9983
Jordan Road Branch	20 Jordan Road, Yaumati, Kowloon	3982 9985
Tokwawan Branch	62 Tokwawan Road, Kowloon	3982 9987
Kwun Tong Branch	G/F Shop 1, 1/F Shop 2, 410 Kwun Tong Road, Kowloon	3982 9988
Tsimshatsui Branch	G/F, Cheong Hing Building, 72 Nathan Road, Tsim Sha Tsui, Kowloon	3982 9990
Hungghom Branch	69A Wuhu Street, Hungghom, Kowloon	3982 9998
Shamshuipo Branch	198-200 Tai Po Road, Shamshuipo, Kowloon	3982 9900
Yee On Street Branch	Shops 4-6, G/F, Yee On Centre, 45 Hong Ning Road, Kowloon	3982 9902
Peninsula Centre Branch	Shop G48 Peninsula Centre, 67 Mody Road, Tsimshatsui, Kowloon	3982 9904
San Po Kong Branch	41-45, Yin Hing Street, San Po Kong, Kowloon	3982 9907
Kowloon City Branch	86 Nga Tsin Wai Road, Kowloon City, Kowloon	3982 9911
Cheung Sha Wan Branch	G/F, 792-794 Cheung Sha Wan Road, Kowloon	3982 9912
Kowloon Bay Branch	Shop 2, G/F, Shun Fat Industrial Building, 17 Wang Hoi Road, Kowloon Bay, Kowloon	3982 9917
New Territories		
Kwai Chung Branch	100 Lei Muk Road, Kwai Chung, New Territories	3982 9986
Tai Po Branch	Shop No. 11, G/F, Treasure Garden, 1 On Chee Road, Tai Po, New Territories	3982 9989
Yuen Long Branch	G/F, Tung Yik Building, Tai Tong Road, Yuen Long, New Territories	3982 9991
Ha Kwai Chung Branch	180 Hing Fong Road, Kwai Chung, New Territories	3982 9992
Tsuen Wan Branch	78 Chung On Street, Tsuen Wan, New Territories	3982 9994
Sheung Shui Branch	31 Fu Hing Street, Sheung Shui, New Territories	3982 9995
Tuen Mun Branch	G/F, Forward Mansion, Yan Ching Circuit, Tuen Mun, New Territories	3982 9905
Shatin Branch	Shop 7-8, Lucky Plaza, Shatin, New Territories	3982 9906
Tsuen Wan Market Street Branch	Shops A&B, G/F, 21-25 Tsuen Wan Market Street, Tsuen Wan, New Territories	3982 9910
Sai Kung Branch	Shop 11-12 Sai Kung Garden, Man Nin Street, New Territories	3982 9913
Offshore		
San Francisco Branch	505 Montgomery Street, Suite 1200, San Francisco, CA94111, USA	(1-415) 398 8866

Branch Network & Corporate Banking Centres

Chiyu Banking Corporation – Branch Network

Branch	Address	Telephone
Hong Kong Island		
Central Branch	No. 78 Des Voeux Road Central, Central, Hong Kong	2843 0187
North Point Branch	G/F, No. 390-394 King's Road, North Point, Hong Kong	2570 6381
Wanchai Branch	Shop C & D, G/F, No. 323-331 Hennessy Road, Wanchai, Hong Kong	2572 2823
Sheung Wan Branch	Shop 3, G/F, No. 315-319 Queen's Road Central, Sheung Wan, Hong Kong	2544 1678
Western Branch	Shop 13, G/F, No. 443-445 Queen's Road West, Western District, Hong Kong	2548 2298
Quarry Bay Branch	G/F, No. 967-967A King's Road, Quarry Bay, Hong Kong	2811 3131
Aberdeen Branch	G/F, No. 138-140 Aberdeen Main Road, Aberdeen, Hong Kong	2553 0603
Kowloon		
Hung Hom Branch	G/F, No. 23-25 Gillies Avenue South, Hung Hom, Kowloon	2362 0051
Kwun Tong Branch	Unit A, G/F, No. 398-402 Kwun Tong Road, Kowloon	2343 4174
Sham Shui Po Branch	G/F, No. 235-237 Laichikok Road, Sham Shui Po, Kowloon	2789 8668
San Po Kong Branch	G/F, No. 61-63 Hong Keung Street, San Po Kong, Kowloon	2328 5691
Yau Ma Tei Branch	G/F, No. 117-119 Shanghai Street, Yau Ma Tei, Kowloon	2332 2533
Castle Peak Road Branch	G/F, No. 226-228 Castle Peak Road, Sham Shui Po, Kowloon	2720 5187
Kowloon Bay Branch	Shop 10 & 10A, G/F, Kai Lok House, Kai Yip Estate, Kowloon Bay, Kowloon	2796 8968
Tokwawan Branch	Shop 11-13, G/F, No. 78-80W To Kwa Wan Road, Kowloon	2765 6118
Tsz Wan Shan Branch	Shop 703A, 7/F, Tsz Wan Shan Shopping Centre, Kowloon	2322 3313
New Territories		
Tuen Mun Branch	Shop N-125, Level 1, Zone N, H.A.N.D.S., On Ting Estate, Tuen Mun, New Territories	3988 9508
Kwai Hing Estate Branch	Shop 1, G/F, Hing Yat House, Kwai Hing Estate, Kwai Chung, New Territories	2487 3332
Tai Wo Estate Branch	Shop 112-114, G/F, On Wo House, Tai Wo Estate, Tai Po, New Territories	2656 3386
Belvedere Garden Branch	Shop 5A, G/F, Belvedere Square, Belvedere Garden Phase 3, Tsuen Wan, New Territories	2411 6789
Tsuen Wan Branch	G/F, No. 131-135 Sha Tsui Road, Tsuen Wan, New Territories	3988 9518
Sui Wo Court Branch	Shop F7, 1/F, Commercial Centre, Sui Wo Court, Shatin, New Territories	2601 5888
Ma On Shan Branch	Shop 313, Level 3, Ma On Shan Plaza, Bayshore Towers, Ma On Shan, New Territories	2640 0733
Sheung Tak Estate Branch	Shop 238, 2/F, Sheung Tak Shopping Centre, Sheung Tak Estate, Tseung Kwan O, New Territories	2178 2278
The Mainland of China		
Fuzhou Branch	1/F, International Building, No. 210 Wusi Road, Fuzhou, Fujian Province, China	(86-591) 8781 0078
Xiamen Branch	Unit 111-113, 1/F, No. 861 Xiahe Road, Xiamen, Fujian Province, China	(86-592) 585 7690
Xiamen Jimeli Sub-Branch	No.68-71 Lehai Bei Li, Jimeli District, Xiamen, Fujian Province, China	(86-592) 619 3302
Xiamen Guanyinshan Sub-Branch	Unit 1702E & 1703A, 17/F, No. 9 Building, No. 170 Tapu East Road, Siming District, Xiamen, Fujian Province, China	(86-592) 599 0520

Nanyang Commercial Bank (China) – Branch Network

Branch	Address	Telephone
The Mainland of China		
Head Office	Nanyang Commercial Bank Building, No.800 Century Avenue, Pudong District, Shanghai, China	(86-21) 3856 6666
Shenzhen Branch	L140-142, Tower 4, Excellence Century Center, Fuhua 3rd Road, Futian District, Shenzhen, China	(86-755) 8233 0230
Shenzhen Shekou Sub-Branch	G/F, Finance Centre, No.22, Taizi Road, Shekou, Nanshan District, Shenzhen, China	(86-755) 2682 8788
Shenzhen Luohu Sub-Branch	G/F, The Kwangtung Provincial Bank Building, No.1013, South Ren Min Road, Luohu District, Shenzhen, China	(86-755) 2515 6333
Shenzhen Futian Sub-Branch	1/F, Shen Ye Garden Club House, Caitian Road, Futian District, Shenzhen, China	(86-755) 8294 2929
Shenzhen Qianhai Sub-Branch	Unit 108 Xushida Garden, Xin An Si Road, Baoan District 34-2, Shenzhen, China	(86-755) 2785 3302

Branch	Address	Telephone
Shenzhen Jiabin Sub-Branch	1/F, Block C, Nanyang Mansion, No. 2002 Jianshe Road, Luohu District, Shenzhen, China	(86-755) 8220 9955
Shenzhen Houhai Sub-Branch	L184-185, Tiley Central Plaza II, Central Area, Nanshan District, Shenzhen, China	(86-755) 8663 6200
Dongguan Sub-Branch	No. C-112, C-204, Dingfeng International Plaza, No.19 Dongguan Avenue, Dongcheng District, Dongguan, China	(86-769) 2662 6888
Haikou Branch	1/F, Time Square, No.2, Guomao Road, Haikou, Hainan, China	(86-898) 6650 0038
Guangzhou Branch	Room 402 & R03-04, Skygalleria CITIC Plaza, No. 233 North Tianhe Road, Tianhe District, Guangzhou, China	(86-20) 3891 2668
Guangzhou Panyu Sub-Branch	C001-C008 & C101-C106, No.2 West Fuhua Road, Shiqiao, Panyu District, Guangzhou, China	(86-20) 3451 0228
Guangzhou Yuexiu Sub-Branch	Room 01, Huayitai Plaza, No.418 Dong Feng Zhong Road, Yuexiu District Guangzhou, China	(86-20) 8378 2668
Foshan Sub-Branch	Room 403-405 and Ground Floor P5/P6, Jinhai Plaza, No.21 Jihua Wu Road Chan Cheng District, Foshan, Guangdong, China	(86-757) 8290 3368
Dalian Branch	1/F, Anho Building, No.87 Renmin Road, Dalian, China	(86-411) 3984 8888
Beijing Branch	1/F A, B, C, D Areas and 2F, Tower B, Jiacheng Plaza, 18 Xiaguangli, North Dongsanhuan Road, Chaoyang District, Beijing, China	(86-10) 5839 0888
Beijing Jianguomen Sub-Branch	Level 1A, No.88, Jianguomen Wai Da jie, Chaoyang District, Beijing, China	(86-10) 6568 4728
Beijing Zhongguancun Sub-Branch	Room 105 & 106, Ground Floor, No.8 North Haidian Second Street, Haidian District, Beijing, China	(86-10) 5971 8565
Beijing Wuluju Sub-Branch	No.106, 2nd Area, West Fourth Ring Road 160th, Haidian District, Beijing, China	(86-10) 8854 6868
Shanghai Branch	1/F, 2/F & M/F, Nanyang Commercial Bank Building, No.800 Century Avenue, Pudong District, Shanghai, China	(86-21) 2033 7500
Shanghai Xuhui Sub-Branch	Huafucheng Mansion, No.2 Lane 498 Tianyaoqiao Road, Xuhui District Shanghai, China	(86-21) 6468 1999
Shanghai Zhabei Sub-Branch	Unit 102, Block 7, Daning Central Square, No.700 Wanrong Road, Zhabei District, Shanghai, China	(86-21) 5308 8888
Shanghai Hongqiao Sub-Branch	Unit 105-106, No.107 Zunyi Road, Changning District, Shanghai, China	(86-21) 6237 5000
Shanghai Huangpu Sub-Branch	Room 1A, Area F West Block, No.666 East Beijing Road, Huangpu District, Shanghai, China	(86-21) 6375 5858
Shanghai FTZ Sub-Branch	Zone C, 3/F, Tangchen Tower, No.1 Jilong Road, Pudong District, Shanghai, China	(86-21) 5019 8270
Hangzhou Branch	Room 101-201, Building 2, Tong Ce Square, No.3688 Jiang Nan Avenue, Binjiang District, Hangzhou, China	(86-571) 8778 6000
Hangzhou Chengzhong Sub-Branch	1-2/F Guo Mao Building, No.195-1 Qingchun Road, Hangzhou, China	(86-571) 8703 8080
Nanning Branch	1/F, Kings Wealth CBD Modern Town, No.63 Jinhu Road, Nanning, China	(86-771) 555 8333
Shantou Branch	1-2/F No.4-6 BLDG 7 And No.1-5 BLDG 8 Fenghua Garden, No.192 Jinsha Road, Shantou, China	(86-754) 8826 8266
Qingdao Branch	South Door, No. 66 Nanjing Road, Qingdao, China	(86-532) 6670 7676
Qingdao Economic and Technical Development Zone Sub-Branch	No.218 Middle Changjiang Road, Economic & Technical Development Zone, Qingdao, Shandong, China	(86-532) 6805 5618
Qingdao Qianling Road Sub-Branch	1-2/F, Unit 12-13, Jinling Century Garden, Xianxialing Road, Laoshan District, Qingdao, China	(86-532) 8395 0878
Qingdao Chengyang Road Sub-Branch	No.192-1, Zhengyang Middle Road, Chengyang Zone, Qingdao, China	(86-532) 6776 2929
Chengdu Branch	M/F, 1/F, Dong Du INTL, 70 Section 2, Middle Renmin Road, Chengdu, China	(86-28) 8628 2777
Chengdu Chuangye Road Sub-Branch	No.7-9, 10-12, 13-16, 1 F, 4 Building, No.49 Chuangye Road, Hi-tech Zone, Chengdu, China	(86-28) 6155 8822
Wuxi Branch	Vanke Homes, No.28 North Changjiang Road, Wuxi New District, Wuxi, China	(86-510) 8119 1666
Jiangyin Sub-Branch	Building A, Kaiyue International Financial Center, 25 North Huancheng Road, Jiangyin, China	(86-510) 8187 5588
Hefei Branch	1/F, Unit 101-103 & 108-110 and 10/F Unit 1001-1002, Land Square Baiyue Center Building 2, No.288 Huaining Road, Zhengwu District, Hefei, Anhui, China	(86-551) 6275 0900
Suzhou Branch	Building 2, No.88 Huachi Road, Suzhou Industrial Park, Jiangsu, China	(86-512) 6986 2222

Be environmentally friendly for our better future

As a good corporate citizen, we do not use lamination as normally adopted by the industry in this report. Instead, we use varnishing, an environmentally friendly technique. The whole report is also printed on recyclable and elemental chlorine free paper. This demonstrates our efforts in working for the betterment of our future generations.



52/F Bank of China Tower, 1 Garden Road, Hong Kong
www.bochk.com

