

# 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. It abides strictly by the relevant laws and regulations in Hong Kong, and observes the rules and guidelines issued by regulatory authorities including the 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. The Company 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 within one month after the end of the relevant quarter so that shareholders and investors can be kept up to date of the performance, financial positions and prospects of the Company on a timely basis.

BOCHK, the Company's wholly-owned and principal operating subsidiary, has followed the guidelines as set

out in the Supervisory Policy Manual module CG-1 entitled "Corporate Governance of Locally Incorporated Authorised Institutions" ("SPM CG-1") issued by the HKMA.

To further enhance corporate governance standard, the Company will revamp its corporate governance system and strengthen relevant measures by referencing to market trend as well as guidelines and requirements issued by regulatory authorities. 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 well-structured corporate governance framework directs and regulates the business ethical conduct of the Company, thereby protects and upholds the interests 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	<p>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 the Executive Directors, Non-executive Directors and Independent Non-executive Directors.</p> <p>Both the number and percentage of 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.</p>
Roles of the Chairman and the Chief Executive	In order to promote balance of power, the roles of the Chairman and the Chief Executive are segregated. The Company benefits 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	<p>During the year, the Board has established four standing Board Committees (originally five Board Committees as detailed below) which were delegated with different responsibilities to assist the Board in performing its duties. They are Audit Committee, Nomination and Remuneration Committee (previously the Nomination Committee and the Remuneration Committee before the re-organisation in October 2018), Risk Committee, as well as Strategy and Budget Committee. Most of them are composed of a majority of Independent Non-executive Directors.</p> <p>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.</p> <p>Other Board Committees like Independent Board Committee and Search Committee will be formed as and when required under the appropriate circumstances.</p>

### (2) Prudent Risk Management

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

## **(3) Fair Remuneration System**

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

## **(4) Effective Disclosure Mechanism**

The Board reviews and monitors from time to time the effectiveness of the Group's disclosure process for reports, announcements 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, propose a resolution at annual general meetings, nominate a person for election as a director, and make enquiries about the Company.

## **(6) Safeguarding Stakeholders' Interests**

The Board has a fiduciary duty to protect and serve, with due care and consideration of, the interest of all stakeholders of the Company including but not limited to employees, customers, business partners, suppliers, regulators and the community. All the interests of stakeholders of the Company are further safeguarded by strictly complying with applicable laws and regulations as well as governance policies.

## **(7) Sustainable Corporate Social Responsibility**

The Company attaches great importance to corporate social responsibility. The Board is committed to undertaking corporate social responsibility by strengthening relationship with its stakeholders with a view to contributing to the sustainable development of the economy, society and environment. The Company consistently supports and participates in activities that are beneficial to the community.

## **(8) Pursuit of "Good to Great"**

The Board encourages the pursuit of "Good to Great". With the assistance of the Nomination and Remuneration Committee, the Board ensures that each Board Committee shall conduct regular self-assessment of its effectiveness, and based on the evaluation results, the Board gives such feedback, directions and guidance as may be necessary to enhance its efficiency and effectiveness.

## **Policy Goal**

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



## Corporate Governance 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 strategies and monitoring the implementation thereof;
- reviewing and approving the annual business plans and financial budgets;
- approving the annual results, interim results and quarterly financial and business reviews;
- reviewing and monitoring the Group's risk management and internal control;
- ensuring good corporate governance of the Group and effective compliance; and
- monitoring the performance of the Management.

Six physical Board meetings were held during the year. Major agenda items reviewed and approved included important matters such as the Group's strategies, business plans, financial budget, disclosure of financial results, risk management and internal controls. Besides physical meetings, the Board also approved written resolutions on certain changes of senior management, and important work such as the commencement of assessment of individual Directors' performance pursuant to the HKMA's guideline on Empowerment of Independent Non-Executive Directors in the Banking Industry in Hong Kong.

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 of the Company are held by two different individuals. Their roles are distinct, clearly established and stipulated in the Board's Mandate.

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.

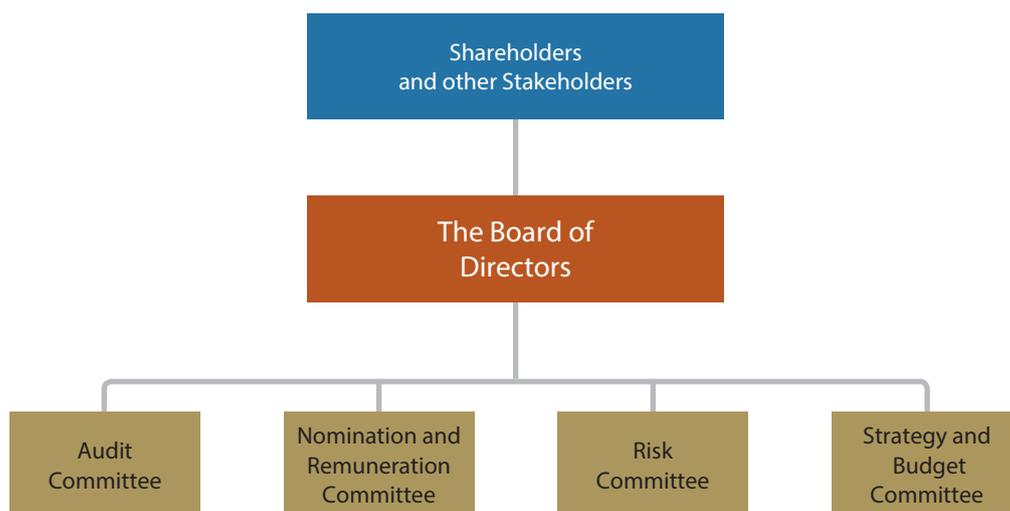
The Chief Executive is responsible for providing leadership for the whole management and implementing important policies and development strategies as adopted by the Board. Led by the Chief Executive, the Management Committee fulfils responsibilities including management of the Group's routine operation, implementation of business development strategies and realisation of the Group's long-term targets and strategies.

### Board Committees

Taking into consideration the latest regulatory requirements, guidelines as well as market practices and international best practices, the Board has established four standing Board Committees to assist in performing its responsibilities, namely the Audit Committee, the Nomination and Remuneration Committee, the Risk Committee, and the Strategy and Budget Committee. In addition, the Board will authorise an Independent Board Committee comprising all the 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.

# Corporate Governance

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. All Board Committees adopt the same governance process as the Board as far as possible and report regularly to the Board on their decisions and their recommendations. The Board and Board Committees will participate in the annual performance appraisal of those professional secretarial departments to warrant 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.



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](http://www.bochk.com).

## Board of Directors

### Composition and Terms of Office of the Board

As at the date of this Annual Report, the Board is composed of nine Directors, of whom one is Executive Director, three are Non-executive Directors and five are Independent Non-executive Directors. The Board maintains an appropriate level of checks and balances to ensure independence and objectivity of the decisions of the Board, as well as the impartial oversight 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.

Mr GAO Yingxin 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 effective from 1 January 2018, but remained as a member of the Strategy and Budget Committee. Mr REN Deqi resigned as Non-executive Director and ceased as Chairman of the Strategy and Budget Committee and a member of the Risk Committee with effect from 12 June 2018. Mr LIU Qiang was appointed as Non-executive Director, a member of each of the former Remuneration Committee and the Strategy and Budget Committee on 24 August 2018, and resigned such positions with effect from 18 September 2018. Mr LIN Jingzhen was appointed as Non-executive Director and a member of the Strategy and Budget Committee on 24 August 2018. Upon the re-organisation of the Nomination Committee and the Remuneration Committee into the Nomination and Remuneration Committee on 29 October 2018,



Dr CHOI Koon Shum was appointed as Chairman of the Nomination and Remuneration Committee, and other members are Mr CHEN Siqing, Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok. Mr LIU Liange was appointed as Vice Chairman and Non-executive Director with effect from 15 December 2018; and was appointed as Chairman of the Strategy and Budget Committee with effect from 17 December 2018. Mr LAW Yee Kwan Quinn was appointed as Independent Non-executive Director and a member of each of the Audit Committee and the Risk Committee with effect from 13 March 2019. Mr LI Jiuzhong resigned as Executive Director and Chief Risk Officer with effect from 15 March 2019. Save as disclosed above, there are 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 Non-executive Directors and Independent Non-executive Directors of the Company have been appointed for a fixed term of approximately three 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 provision A.4.2 of the Corporate Governance Code, the terms of office of Mdm CHENG Eva and Dr CHOI Koon Shum will expire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election. Further, pursuant to Article 102 of the Articles of Association, any Director appointed by the Board shall hold office only until the next following general meeting or the next following annual general meeting of the Company, and shall then be eligible for re-election at such meeting. Accordingly, the terms of office of Mr LIN Jingzhen, Mr LIU Liange and Mr LAW Yee Kwan Quinn, who were appointed on 24 August 2018, 15 December 2018 and 13 March 2019 respectively, will expire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Further details regarding the proposed re-election of Directors are set out in the section headed "Report of the Directors". In addition, the Company has also established a written and formal process for the appointment of the

Independent Non-executive Directors to ensure that the appointment procedures are standardised, thorough and transparent.

### Selection, Diversity and Independence of Board Members

The Company recognises the importance and benefits of board diversity. In order to promote the Board's effectiveness and standards of corporate governance, the Company has adopted the "Board Diversity Policy" which will be considered in identifying suitable and qualified candidates to be a Board member. The said policy provides that in designing the Board's composition, board diversity should be considered in a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, skills and knowledge, etc., to ensure an appropriate diversity of skills, backgrounds and viewpoints. 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. The various perspectives of Board diversity elements as mentioned above shall also be adequately considered during the selection process of new Board members.

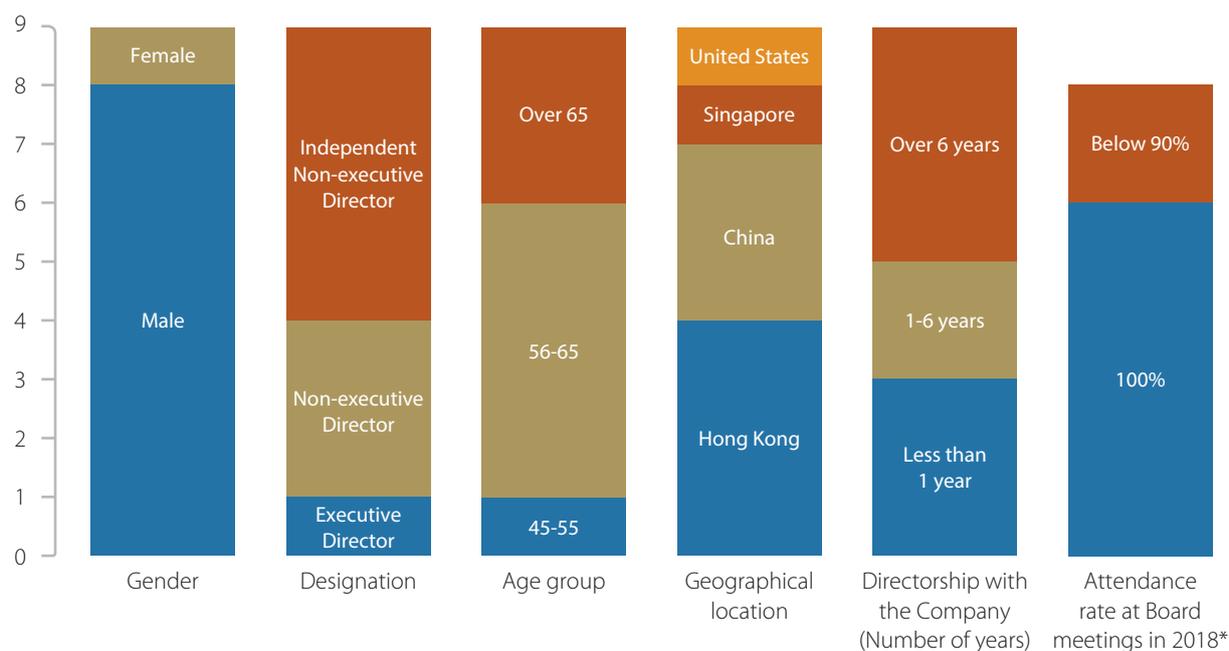
The Nomination and Remuneration Committee shall be responsible for the identification, nomination and selection of Directors. Potential candidates of Executive Directors could be sourced and selected amongst the senior management. Potential candidates of Independent Non-executive Directors could be recruited through global selection. Pursuant to the provisions of the Company's Articles of Association and relevant regulations, shareholders could also nominate a person other than a retiring Director for election as a Director (including Non-executive Director) at a general meeting. Where necessary, the Nomination and Remuneration Committee may appoint external advisors to assist in recruiting appropriate individuals. The appointment of Directors shall be eventually approved by the Board and/or shareholders at general meetings.

# Corporate Governance

Under the current board membership, all Directors possess extensive experience in banking and/or management. In addition, over one-third of them are Independent Non-executive Directors, of whom possess experience in banking and financial industry as well as expertise in strategic development and risk management. The Board has formulated the “Policy on Independence of Directors” which stipulates the criteria on independence of the 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 said independence policy. Based on the information available to the Company, it considers that all of the Independent Non-executive Directors are independent. Moreover, all Directors have disclosed to the Company their significant commitments and have undertaken and confirmed that they are able to devote sufficient time to the affairs of the Company. 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” and are available under the sub-section “Organisation” of the section headed “About Us” on the Company’s website at [www.bochk.com](http://www.bochk.com).

An analysis of the Board’s composition as at the date of this Annual Report is set out below:

Number of Directors



\* Mr LAW Yee Kwan Quinn was appointed as Independent Non-executive Director with effect from 13 March 2019. Accordingly, attendance rate at Board meetings in 2018 is not applicable to him.

Mr CHEN Siqing, Mr LIU Liange and Mr LIN Jingzhen are Executive Directors of BOC. Mr GAO Yingxin was former Executive Director of BOC (he resigned such position with effect from 24 January 2018). During the year, Mr REN Deqi and Mr LIU Qiang were Executive Vice Presidents of BOC (they resigned such positions with effect from 12 June 2018 and 18 September 2018 respectively). 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 the 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.



## Self-evaluation of the Board

During the year, the Board conducted annual self-evaluation pursuant to the “Regulations on Self-Evaluation of the Board and Individual Evaluation of the Directors”. With the endorsement of the former Nomination Committee, the annual self-evaluation questionnaire was distributed to Directors for completion. Based on the completed questionnaire, the Company analysed the results and a report delineated the results and recommendation has been submitted to the Board for review and consideration.

## Review of Effectiveness of the Individual Directors

During the year, the Company has also engaged an external professional consultant to conduct independent review of the effectiveness of the individual Directors. A questionnaire was distributed to all Directors for their completion and included Directors’ self-assessment in areas such as their time commitment and participation, interaction and communication with senior management, as well as evaluation of other members of the Board and Board Committees, and other factors that impact director effectiveness. Based on the completed questionnaire and other available information, the external consultant assessed the effectiveness of individual Directors and prepared a report setting out its observations and recommendations, which has been submitted to the Board for review and follow up actions.

## Directors’ Training and Professional Development

To ensure the newly appointed Directors 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 has established a set of written policies specifying guidelines on Directors’ induction and training upon appointment.

The Company arranges appropriate Directors induction through the use of induction handbook, face to face meetings and other means, and in accordance with the needs of individual Directors. Topics include but not limited to:

- governance structure;
- standing agenda of the Board;

- regulatory requirements on corporate governance;
- focus of concern of regulators; and
- business operation, development plan and focus of internal control.

The Company also provides regular updates to Board members on material changes to regulatory requirements applicable to the Directors and the Group on a timely basis; and the Company arranges regular meetings with the Management to facilitate the understanding of its latest business development. 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 provision A.6.5 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules. In 2018, the Company invited expert to conduct seminar to the Directors and senior management with regard to cyber security.

Furthermore, each of the Directors has received a series of training locally or overseas as he/she thought fit, hosted or attended briefings, meetings, seminars, forums and conferences organised by the Company or regulatory authorities, including conference for independent non-executive directors organised by the HKMA which covered bank culture and technology impact; and regulator’s dialogue on recent developments in supervision of anti-money laundering and counter terrorist financing. Areas of relevant training included, among others:

- risk management and internal control;
- business conduct, anti-corruption and ethical standards;
- independent directors’ role in corporate governance;
- anti-money laundering;
- corporate governance and bank culture transformation;
- developments of technology;
- regulatory updates; and
- banking industry development trend, etc.

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The Directors' records of annual training information have been entered in the register of directors' training records maintained and updated by the Company from time to time. As at year end, the participation of all Directors on continuous professional development is summarised as follows:

Directors <sup>Note</sup>	Business Conduct, Anti-Corruption and Ethical Standards/Corporate Governance	Risk Management and Internal Control/ Regulatory Updates	Banking Industry Development Trend
<b>Non-executive Directors</b>			
Mr CHEN Siqing	✓	✓	✓
Mr LIU Liange <i>(appointment effective from 15 December 2018)</i>	✓	✓	✓
Mr LIN Jingzhen <i>(appointment effective from 24 August 2018)</i>	✓	✓	✓
<b>Independent Non-executive Directors</b>			
Mdm CHENG Eva	✓	✓	✓
Dr CHOI Koon Shum	✓	✓	✓
Mr KOH Beng Seng	✓	✓	✓
Mr TUNG Savio Wai-Hok	✓	✓	✓
<b>Executive Directors</b>			
Mr GAO Yingxin <i>(re-designation from Non-executive Director to Executive Director effective from 1 January 2018)</i>	✓	✓	✓
Mr LI Jiuzhong <i>(resignation effective from 15 March 2019)</i>	✓	✓	✓

Note: The training records for those Directors who have resigned during the year and appointed after year end are not included herein. 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 Meeting

Six Board meetings were held during 2018 with an average attendance rate of 96%. Regular meeting schedule for the year was prepared and approved by the Board in the preceding year. Formal notices of regular Board meetings were sent to all Directors at least 14 days before the date of the scheduled meetings and Board agenda and meeting materials were despatched to all Board members for review at least 7 days prior to the scheduled meetings. Board agendas were approved by the Chairman following consultation with other Board members and the senior management.

In addition, in order to facilitate open discussion with all the Non-executive Directors and on their requests, the Chairman met with all the Non-executive Directors (including the Independent Non-executive Directors) in the absence of the Executive Directors and the senior management, during the discussion session after 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 and annual general meeting in 2018 are set out as follows:

Directors <sup>Note</sup>	Number of meetings attended/Number of meetings convened during Directors' term of office							
	Board	Board Committees						General Meeting
		Audit Committee	Nomination Committee	Remuneration Committee	Nomination and Remuneration Committee	Risk Committee	Strategy and Budget Committee	Annual General Meeting
<b>Number of meetings held during the year</b>	6	5	2	1	1	5	5	1
<b>Non-executive Directors</b>								
CHEN Siqing ( <i>Chairman</i> )	5/6	–	1/2	0/1	1/1	–	–	1/1
LIU Liange ( <i>Vice Chairman</i> ) ( <i>appointed with effect from 15 December 2018</i> )	1/1	–	–	–	–	–	–	–
LIN Jingzhen ( <i>appointed with effect from 24 August 2018</i> )	3/3	–	–	–	–	–	0/3	–
LIU Qiang ( <i>appointed with effect from 24 August 2018, resigned effective from 18 September 2018</i> )	1/1	–	–	–	–	–	0/1	–
REN Deqi ( <i>resigned effective from 12 June 2018</i> )	2/2	–	–	–	–	0/1	0/1	–
<b>Independent Non-executive Directors</b>								
CHENG Eva	6/6	5/5	–	–	–	–	5/5	1/1
CHOI Koon Shum	5/6	2/5	2/2	1/1	1/1	–	–	0/1
KOH Beng Seng	6/6	5/5	2/2	1/1	1/1	5/5	–	1/1
TUNG Savio Wai-Hok	6/6	5/5	2/2	1/1	1/1	5/5	5/5	1/1
<b>Executive Directors</b>								
GAO Yingxin ( <i>re-designated as Executive Director and appointed as Vice Chairman and Chief Executive effective from 1 January 2018</i> )	6/6	–	–	–	–	–	5/5	1/1
LI Jiuzhong ( <i>resigned effective from 15 March 2019</i> )	6/6	–	–	–	–	–	–	1/1
<b>Average Attendance Rate</b>	96%	85%	88%	75%	100%	93%	77%	86%

Note: The attendance record for Director who has been appointed after year end is not included herein. 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.

Apart from formal Board meetings and annual general meeting, the Company has set up a system of pre-communication meeting for the Independent Non-executive Directors, where major agenda items have been presented to the Independent Non-executive Directors before each Board meeting, and their comments have been timely conveyed to the Management for follow up actions so as to enhance the effectiveness of deliberation at Board meetings.

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Moreover, the Company has arranged, on a regular basis, other informal events for the Board members and the senior management to facilitate their communication and interactions. For example, the Company has organised working meals from time to time, Board members and the senior management have been invited to join and share insights on the Company's business and strategic issues. In consideration of the schedule of Directors (in particular the Independent Non-executive Directors), a board retreat will be held to enhance communication between the Board and the senior management.

## Board Committees

### Audit Committee

The Audit Committee comprised 4 members at the end of the year, all of whom are Independent Non-executive Directors. Its composition, main duties and major works performed during the year are as follows:

#### Composition

Mr TUNG Savio Wai-Hok (Chairman)  
Mdm CHENG Eva  
Dr CHOI Koon Shum  
Mr KOH Beng Seng

#### Main duties

- integrity of financial statements and financial reporting process
- monitoring of risk management and internal control systems
- effectiveness of internal audit function and performance appraisal of the General Manager of Group Audit
- appointment of external auditor and assessment of its qualification, independence and performance and, with authorisation of the Board and shareholders at general meeting, 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

#### Major works performed during the year (included the review and, where applicable, approval of)

- the Company's financial statements for the year ended 31 December 2017 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 2018 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 2018 and 30 September 2018 that were recommended to the Board for approval
- the audit reports and report on internal control recommendations submitted by external auditor, the audit reports submitted by internal audit, and the on-site examination reports issued by regulators
- the proposed 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 organisation structure, deployment of human resources and pay level of the Internal Audit, its budget for next year
- annual review of the effectiveness of the internal audit function
- the 2017 performance appraisal and key performance indicators for the General Manager of Group Audit and the Group Audit for next year
- the annual review of the effectiveness of the Group's risk control and internal control systems
- annual review of the "Policy on External Auditor Management", the "Policy on Staff Reporting of Irregularities" and the "Internal Audit Charter"



## Nomination and Remuneration Committee

The Nomination Committee and the Remuneration Committee have been re-organised into Nomination and Remuneration Committee with effect from 29 October 2018 (the "Re-organisation"), which comprised 4 members at the end of the year, including 1 Non-executive Director and 3 Independent Non-executive Directors. Immediately before the Re-organisation, each of the Nomination Committee and the Remuneration Committee comprised 4 members, including 1 Non-executive Director and 3 Independent Non-executive Directors.

The composition, main duties and major works of the Nomination Committee, the Remuneration Committee and the Nomination and Remuneration Committee performed during the year are as follows:

### Composition

Dr CHOI Koon Shum<sup>1</sup> (Chairman)  
 Mr CHEN Siqing<sup>2</sup>  
 Mr KOH Beng Seng<sup>3</sup>  
 Mr TUNG Savio Wai-Hok<sup>3</sup>

### Main duties

#### *Main duties of the Nomination Committee before the Re-organisation*

- review of overall human resources strategies of the Group
- selection and nomination of Directors, Board Committee members and Senior Management
- regular monitoring and review of 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
- review of the effectiveness of the Board and Board Committees
- ensuring the participation in training and continuous professional development of Directors and Senior Management

#### *Main duties of the Remuneration Committee before the Re-organisation*

- review and recommendation of remuneration strategy and incentive framework of the Group
- setting of the remuneration of Directors, Board Committee members, Senior Management and Key Personnel
- oversight of corporate culture of the Group
- regular review of code of conduct applicable to employees

#### *Main duties of the Nomination and Remuneration Committee*

- All the duties of the Nomination Committee and the Remuneration Committee have been assigned to the Nomination and Remuneration Committee upon the Re-organisation

## Nomination and Remuneration Committee (continued)

### **Major works performed during the year (included the approval, review and proposal to the Board)**

#### *Performed by the Nomination Committee before the Re-organisation*

- formulation, review and amendment on the major human resources policies
- consideration of the matters related to the appointment of directors
- consideration of the matters relating to the appointment and dismissal of Senior Management
- consideration of the re-organisation of the Nomination Committee and the Remuneration Committee
- set the tenure limit for the members of Board committees
- coordination and oversight of the annual self-evaluation of the Board and individual evaluation of the directors
- annual review on the "Policy on Independence of Directors"

#### *Performed by the Remuneration Committee before the Re-organisation*

- formulation, review and amendment on the major remuneration policies
- performance appraisal result of the Executive Director and Senior Management for year 2017
- proposal on staff bonus for year 2017 and salary adjustment for year 2018 for the Group, including Senior Management
- annual review on the "Policy on Directors' Remuneration"
- annual review on the "Staff Code of Conduct"
- implementation of the HKMA bank culture reform

#### *Performed by the Nomination and Remuneration Committee*

- formulation, review and amendment on the major human resources and remuneration policies
- consideration of the matters related to the appointment of directors
- consideration of the matters relating to the appointment and remuneration of Senior Management
- key performance indicators of the Group and the Senior Management for year 2019
- proposal on human resources budget of the Group for year 2019

#### Notes:

1. Independent Non-executive Director, Chairman of the former Remuneration Committee and a member of the former Nomination Committee, appointed as Chairman of the Nomination and Remuneration Committee with effect from 29 October 2018
2. Non-executive Director, Chairman of the former Nomination Committee and a member of the former Remuneration Committee, a member of the Nomination and Remuneration Committee with effect from 29 October 2018
3. Independent Non-executive Director, member of the former Nomination Committee and former Remuneration Committee, member of the Nomination and Remuneration Committee with effect from 29 October 2018



## Risk Committee

The Risk Committee comprised 2 members at the end of the year, both of whom are Independent Non-executive Directors. Its composition, main duties and major works performed during the year are as follows:

### Composition

Mr KOH Beng Seng (Chairman)  
Mr TUNG Savio Wai-Hok

### 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, systems and internal controls
- 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 risk management policies, systems and internal controls, 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 tasks performed during the year

- review and approval of key risk management policies of the Group, including the risk appetite, the "Operating Principles", the "Risk Management Policy Statement", the "Capital Management Policy", the "Financial Instruments Valuation Policy", the "Risk Data Aggregation and Risk Reporting Policy", the "Policy for Validating Internal Rating Systems", the "Anti-Money Laundering and Counter-Terrorist Financing Policy", the "Product Development and Risk Monitoring Management Policy", the "Connected Transactions Management Policy", the "Sharing and Use of Credit Data Management Policy", the "Data Management Policy", the "Stress Test Policy" and stress test scenarios, and a range of risk management policies covering credit risk, market risk, liquidity risk, interest rate risk, operational risk, technology risk, legal, compliance and reputation risk, strategic risk, etc.
- review and approval of the proposal for the annual review of the Group's recovery plan, the proposal for the annual review of the market risk stressed VaR model parameter, the risk adjustment method for group bonus funding mechanics and the approval of the results of risk adjustment of the Group for 2017
- review and approval of the Group's operating plans, including the Group's target balance sheets, the banking book investment plans and portfolio key risk indicators, medium term capital planning, as well as risk management limits
- review and monitoring of Basel Accord implementation, including review of model validation reports, model performance reports, and receiving the status reports of the allocation of risk-weighted assets and update
- review of various risk management reports, including the Group's risk management reports, reports on assessment of the impact of market volatility on the Bank's business and its credit risk, market risk, interest rate risk and liquidity risk, the report on comparison of the expected credit loss under the HKFRS 9 and the collective/individual impairment under HKAS 39, the report on the "Guidelines on Risk Management, Compliance and Internal Control of ASEAN entities" and its implementation status and the 2017 institutional money laundering/terrorist financing risk assessment report, etc.

# Corporate Governance

## Strategy and Budget Committee

The Strategy and Budget Committee comprised 5 members at the end of the year, including 2 Non-executive Directors, 2 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 LIU Liange<sup>1</sup>  
Mr GAO Yingxin<sup>2</sup>  
Mr LIN Jingzhen<sup>3</sup>  
Mdm CHENG Eva<sup>4</sup>  
Mr TUNG Savio Wai-Hok<sup>4</sup>

### Main duties

- review the Group's medium to long-term strategic plan for Board approval
- monitor the Group's implementation of medium to long-term strategy, provide guidance on strategy direction for management
- review of major investments, capital expenditure and strategic commitments of the Group, and make recommendations to the Board
- review and monitoring of the Group's regular/periodic (including annual) business plan
- review of budget for Board's approval and monitoring of performance against budgeted targets

### Major works performed during the year

- review of the Group's capital injection to Southeast Asian entities for Board's approval
- review of the Group's acquisition of certain Southeast Asian branches of BOC and setting up the Southeast Asian business operation centre for Board's approval
- review of the proposals for fintech projects and capital injection in order to promote the Group's digital development for Board's approval
- received and discussed on the Group's medium and long-term development strategy plan
- received and discussed on the strategic positioning, deployments and key measures determined by the Group around the Guangdong-Hong Kong-Macao Greater Bay Area Plan
- review of the Group's proposal of property redevelopment and adjustment of the cap on charitable donations for Board's approval
- review and monitoring of the implementation of 2018 Financial Budget and Business Plan of the Group, and also review and endorsement of the Financial Budget and Business Plan of the Group submitted by the Management for the year 2019 and recommendation of the same to the Board

#### Notes:

1. Non-executive Director and appointed as Chairman of Strategy and Budget Committee with effect from 17 December 2018
2. Executive Director
3. Non-executive Director
4. Independent Non-executive Director



## 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 and its subsidiary, BOC Aviation Limited, which have been listed on the Stock Exchange of Hong Kong since June 2006 and June 2016 respectively.

Upon specific enquiry by the Company, all Directors confirmed that they have strictly complied with the provisions as set out in both the Company's Code and the said Model Code throughout year 2018.

## Directors' Remuneration

Pursuant to the "Policy on Directors' Remuneration" adopted by the Company, when recommendation of the remuneration of Directors is made, the Nomination and Remuneration Committee should benchmark against companies of comparable business type or scale, the role (chairmanship or membership) they played, 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. The remuneration of Directors is subject to regular review based on market practices, regulatory requirements and inflation, etc. No individual Director is allowed to participate in the procedures for deciding his/her individual remuneration package. The remuneration of the Independent Non-executive Directors is not linked with the performance of the Company. Information relating to the remuneration of each Director for 2018 is set out in Note 21

to the Financial Statements. The present scale of Director's fees, including additional fees for membership of Board Committees, is given below:

Board of Directors:	
All Directors	HK\$400,000 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 2018, all Non-executive Directors (excluding Independent Non-executive Directors) have not received their Directors' fees as mentioned above and Executive Directors did not receive any fees for being members of the Board and its Committees.

The Nomination and Remuneration Committee also has the delegated responsibility from the Board to determine the remuneration packages of the Executive Directors and the 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.

# Corporate Governance

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 entities in and out of Hong Kong).

- **"Senior Management" and "Key Personnel"**

The Remuneration and Incentive Policy of the Group defines "Senior Management" and "Key Personnel" as follows:

- "Senior Management": The senior executives designated by the Board who are responsible for oversight of the firm-wide strategy or material business lines, including the Chief Executive, Deputy Chief Executives, Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, Board Secretary and General Manager 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, senior executives of Southeast Asian entities, head of trading, as well as heads of risk control functions.

- **Determination of the Remuneration Policy**

To fulfil the above-mentioned principles and to facilitate effective risk management within the framework of the Remuneration Policy of the Group, the Remuneration Policy of the Group is initiated by Human Resources Department with consultation of the risk control units including risk management, financial management and compliance in order to balance the needs for staff motivations, sound remuneration and prudent risk management. After the proposed Remuneration Policy is cleared by the Management Committee, it will be submitted to the Nomination and Remuneration Committee for review and thereafter to the Board for approval. The Nomination and Remuneration Committee

and the Board will seek opinions from other Board Committees (e.g. Risk Committee, Audit Committee, etc.) where they consider necessary under the circumstances.

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

1. *Performance Management Mechanism*

To reflect the "performance-driven" corporate culture, the Group has put in place a performance management mechanism to formalise the performance management at the levels of the Group, units and individuals. The annual targets of the Group will be cascaded down under the framework of balanced scorecard whereby the performance of the "Senior Management" and different units (including business units, risk control units and other units) would be assessed from the perspectives of financial, customer, building blocks/key tasks, human capital, risk management and compliance. For individual staff at different levels, annual targets of the Group will be tied to their job requirements through the performance management mechanism. Performance of individuals will be appraised on their achievement against targets, their contribution towards performance of their units, fulfilment of risk management duties and compliance and adherence to the Group's corporate culture, etc. Not only is target accomplishment taken into account, but also the values-based behaviours and sufficient risk management during the course of work, ensuring prudent operation and sustainable development 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 BOCHK 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 bonus 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 bonus 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 “BOCHK Group Bonus Funding Policy”, the size of the bonus 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 bonus 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 bonus 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. The allocation of variable remuneration to staff should also consider individual behaviour comprehensively. For behaviour which is positive and adhering to the Group’s corporate culture, the variable remuneration should be tilted forward; for misconduct or behaviour which is negative and not adhering to the Group’s corporate culture, the variable remuneration should be forfeited or reduced.

### **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 and 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, significant incident and economic loss incurred by improper management, etc., the unvested portion of the deferred variable remuneration of the relevant staff would be forfeited.

# Corporate Governance

- **Annual Review of Remuneration Policy**

The Remuneration Policy of the Group is subject to annual review with reference to changes on external regulatory requirements, market conditions, organisational structure and risk management requirements, etc. Due to changes in organisational structure and job establishment, the Group reviewed the position lists of “Senior Management”, “Key Personnel” etc. as delineated in the “BOCHK Group Remuneration and Incentive Policy”.

- **External Remuneration Consultant**

To ensure the suitability and competitiveness of the remuneration and incentive mechanism, the Group appointed Willis Towers Watson for independent consultation in areas of pay management of the Independent Non-executive Directors, Senior Management and key positions, regional remuneration management mechanics and market remuneration data, etc.

- **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 2019 annual general meeting. Subject to shareholders’ authorisation, the Board will authorise the Audit Committee to determine the remuneration of Ernst & Young. For 2018, the fee paid or payable by the Group to Ernst & Young was HK\$51 million (2017: HK\$39 million), of which HK\$28 million (2017: HK\$28 million) related to audit services and HK\$23 million (2017: HK\$11 million) related to other services (mainly including tax-related and advisory services). The Audit Committee was satisfied that the non-audit services in 2018 did not affect the independence of Ernst & Young.

## Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group’s strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees the Management in the design, implementation and monitoring of the risk management and internal control systems. According to the Board’s scope of delegation, the Management is responsible for the day-to-day operations and risk management, and the Management needs to provide a confirmation to the Board on the effectiveness of these systems.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute 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 risk management and 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, financial reporting and internal audit functions. The review is coordinated by the Group’s internal audit which, after the Management and various business departments have performed their self-assessment and the Management has confirmed the effectiveness of the relevant systems, then carries out an independent examination and other post-assessment work on the review process and results. The results of the 2018 review, which have been reported to the



Audit Committee and the Board, revealed that the Group's risk management and internal control systems were effective and adequate.

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

- a rational organisational structure with appropriate personnel is developed and whose responsibility, authority, and accountability are clearly delineated. The Group has formulated policies and procedures to ensure reasonable checks and balances for all the operating units, reasonable safeguard for the Group's assets 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 handling reputation, strategic, legal, compliance, credit, market, operational, liquidity and interest rate risks. There are also procedures and internal controls for the handling and dissemination of inside information. The Group has set up mechanisms to identify, evaluate and manage all the major risks, and has established corresponding internal control procedures as well as processes for resolving internal control defects. (The Group's risk management is given on pages 48 to 53);
- 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 risk management and internal control. The Group's internal audit follows up on the same to ensure timely implementation of the recommendations, and also periodically reports the status of the implementation to the Management and the Audit Committee.

The Group is committed to upholding good corporate governance practices and the internal control system of all subsidiaries are reviewed regularly. During the year of 2018, 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 2018, areas for improvement have been identified and appropriate measures have been implemented.

# Corporate Governance

## 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 CHEN Siqing (Chairman of the Company and the former Nomination Committee), Mr TUNG Savio Wai-Hok (Chairman of the Audit Committee), and Mr KOH Beng Seng (Chairman of the Risk Committee), were present at the Company's 2018 annual general meeting held on 27 June 2018 at Grand Ballroom, The Lobby Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wan Chai, Hong Kong, as well as Ernst & Young, the auditor, were also present at the Company's 2018 annual general meeting to respond to enquiries raised by shareholders. Dr CHOI Koon Shum (Chairman of the former Remuneration Committee) was unable to attend the meeting due to other business engagements. Save as disclosed above, all other Directors including Mr GAO Yingxin, Mr LI Jiuzhong and Mdm CHENG Eva were also present at the meeting.

Summary of the resolutions passed at the Company's 2018 annual general meeting and the percentage of votes cast in favour are as follows:

Resolutions	Percentage Voted For
Approval of audited financial statements and the Reports of Directors and of the Auditor	99.96%
Declaration of final dividend	99.99%
Re-election of Directors	99.26% to 99.99%
Re-appointment of Auditor	99.65%
Grant of general mandate to issue shares	84.93%
Grant of general mandate to buy back shares	99.99%
Extension of the general mandate to issue shares by adding the number of shares bought back	85.86%

Further details of the 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](http://www.bochk.com).

As disclosed in the 2017 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 total number of shares in issue 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 2018 annual general meeting. The Board would also recommend the threshold of up to 5% of the total 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 2019 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 share buy-backs will be made on the Stock Exchange. However, if it is expected that the size of the share buy-backs may lead to a disorderly market for the Company's shares, then the Board will consider making

the share 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 bought back will not be higher than the fair value of the shares of the Company.

All the resolutions to be proposed at the Company's 2019 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 2019 annual general meeting and to encourage their active participation so that exchange of views and communication can be further enhanced, the Company will provide detailed information on the 2019 annual general meeting in a circular to shareholders which will include 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 2019 annual general meeting in the form of "Frequently Asked Questions".

## Shareholders' Rights

Shareholders are entitled to convene an extraordinary general meeting, propose a resolution at an annual general meeting, 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 request, duly signed by the shareholder(s) concerned, must clearly state the general nature of the business to be dealt with at the meeting and may include the text of the proposed resolution. Such request must be deposited at the registered office of the Company, 24th 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 sections 566 to 568 of the Hong Kong Companies Ordinance once a valid request is received.

- **the procedures for proposing a resolution at an annual general meeting:**

The following shareholders are entitled to request the Company to give notice of a resolution that may properly be moved at an annual 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 request identifying the proposed resolution, duly signed by the shareholders concerned, must be deposited at the registered office of the Company, 24th Floor, Bank of China Tower, 1 Garden Road, Hong Kong not less than six weeks before the annual general meeting, or if later, the time at which notice is given of that meeting. The Company would take appropriate

actions and make necessary arrangements in accordance with the requirements under sections 615 to 616 of the Hong Kong Companies Ordinance 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 (24th 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; (b) a notice signed by the proposed person indicating his/her willingness to be elected; and (c) a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

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 in accordance with the requirements under Article 99 of the Articles of Association of the Company once valid notices and the aforesaid sum are received.

Further shareholder information is set out in the section headed "Investor Relations". 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 24th Floor, Bank of China Tower, 1 Garden Road, Hong Kong or by way of email to [investor\\_relations@bochk.com](mailto: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 Group has established controlling measures for the oversight of business and corporate development of the Group to enable prompt identification and escalation of any inside information by all departments/units. The Management Committee reviews relevant information submitted and assess its possible impact, and reports the result to the Board. The Board will assess and determine whether it is inside information, and whether it is appropriate to disclose the inside information after consideration of relevant circumstances and regulatory requirements.

The Information Disclosure Policy requires that heads of relevant departments/units should restrict access to the inside information to a limited number of employees on a need-to-know basis during the escalation process and maintain a list of insider employees for management's inspection from time to time. The Group provides regular refreshment courses on the Information Disclosure Policy to employees to ensure those employees are fully conversant of their obligations under the said policy.

Details of the Information Disclosure Policy has been posted on the Company's website at [www.bochk.com](http://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. 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, 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.