

關於中國銀行(香港)有限公司  
公司管治、貸款審批程序、  
風險管理及內部監控機制的

## 專責委員會調查報告

**Report of the Special Committee**  
on the Corporate Governance, Credit Approval Process,  
Risk Management and Internal Control Mechanisms of  
Bank of China (Hong Kong) Limited

二〇〇三年九月  
**September 2003**



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



## Briefing notes

These notes accompany oral briefing on key features of the Special Committee's Report. They should not be used as a substitute for the Report, and in any implied or real conflict of interpretation with the Report, the Report stands



## Limitations of the Report

- Not a public inquiry
- Bank bound by:
  - Law on client confidentiality
  - Personal Data (Privacy) Ordinance
  - Need to protect information pertinent to its competitiveness



## Composition of Special Committee

- Mr Anthony Neoh, SC (convenor),  
*Senior Adviser to the Board of BOCHK and former Chairman of Hong Kong Securities & Futures Commission*
- Dr Victor K. Fung (member),  
*Chairman of Li & Fung Group, Chairman of Airport Authority Hong Kong, and INED and Audit Committee member of BOCHK*
- Mr Shan Weijian (member),  
*Managing Director of Newbridge Capital Limited, and INED and Audit Committee Chairman of BOCHK*
- Mr Richard Farrant (special adviser),  
*Non-executive Chairman of UK Banking Code Standards Board and former Managing Director of UK Financial Services Authority*



## Terms of Reference

- Based on the s. 59 Reviews and its own review, to make observations and recommendations to Board on:
  - credit approval process, credit risk management process and related internal control mechanisms for corporate lending;
  - compliance process and any weaknesses in the compliance process and its operation;
  - corporate governance of the Group;
- To submit such other observations and recommendations as they shall deem fit, including circumstances surrounding the New Nongkai loan



## Banking Ordinance S.59 Special Auditors

- KPMG appointed, with approval of HKMA, to review and report on BOCHK's systems, procedures and control relating to corporate governance, credit approval process, credit risk management and internal control mechanism, and their adequacy and compliance, as well as Board-level controls over these processes
- To avoid potential conflicts of interests, Moores Rowland appointed, with approval of HKMA, to review approval process for the New Nongkai loan
- In parallel, Bank's auditors, PwC, carried out full audit on interim results for half year to 30 June 2003



## State of the New Nongkai Loan

- HK\$1.03 billion of the HK\$1.77 Billion bridging loan repaid
- Outstanding amount – HK\$740 million
- As collateral, BOCHK has first legal charge over 75% of Shanghai Land shares
- Receivers appointed to Shanghai Land; HK\$1.2 billion in a deposit with the Bank in name of Receivers
- The Special Committee satisfied that active steps being taken for recovery of the loan
- Bank made specific provision of HK\$126 million; PwC concurs.



## Errors of judgment

- Loan granted according to procedures and delegated authorities then applicable
- Procedures followed but judgments faulty
- Risks identified but not addressed adequately:
  - Mr Chau Ching-ngai's net worth not known
  - Dependence on Mr Chau's good faith & honesty to obtain repayment against proceeds of injections of mainland properties into Shanghai Land.
  - Bank left with charge over shares as collateral, requiring complex and costly loan administration arrangements.
  - Bank's credit risk disproportionate to reward.
  - Bank's reputation risk not sufficiently considered





## Regulatory Issues

- Onus on Mr. Chau and Shanghai Land to comply with Listing Rules and Takeover Code
- Bank (through loan documentation) required Mr. Chau to observe all applicable laws and regulations, including listing rules and Takeover Code.
- Bank relied on Mr. Chau and his advisers to comply.



## Who Was Responsible

- No cause to believe officers involved were motivated by anything other than what they perceived as the Bank's best interests
- Two officers subject to criticism:
  - Mr Liu Jinbao (then Chief Executive, BOCHK)
  - Mr Or Man-ah (Deputy Chief Executive, Corporate Banking & Treasury, BOCHK)



## Mr Liu Jinbao

- Failed to intervene in the transaction although he knew there were serious reservations, which had not been satisfied
- Failed to appreciate that Mr Or's position as *de facto* Chairman of the Credit Committee would impede its effectiveness when dealing with a loan proposal that Mr Or advocated, despite being warned of this by former Chairman



## Mr Or Man-ah

- Advocated loan without having sufficient regard to
  - The risks inherent in the transaction
  - The concerns of the Risk Management Department



## Actions Taken or To Be Taken Immediately

- Regarding the two officers responsible, Special Committee recommends to Board:
  - That Board accept Mr Or's application for retirement, bearing in mind distinguished service record
  - That Board address a note of the Committee's findings to Bank of China on Mr Liu's role in the loan.
- The Credit Committee approval procedure being replaced by new procedure, better addressing balance between business generation and risk management



## Building Stronger Foundations

- Special Committee finds continuing integrity of Bank's credit approval, risk management and internal control processes, established since merger
- Agenda is incremental enhancement
- Opportunity to take stock of work done to date in improving those processes and Bank's corporate governance practices
- Work to do to eliminate shortfalls between practices and the Bank's own policies and HKMA guidelines on operational efficiency and effectiveness; not serious but must be done
- Management to consider, subject to Board oversight, further enhancements to risk management, credit approval and internal control processes recommended by KPMG (though HKMA standards already met).



## Recommendations to Enhance Management Structure

- To elevate importance of risk management, create new position of Director of Risk, ranking alongside present Deputy Chief Executives.
- To help Chief Executive co-ordinate many projects under way to deliver a comprehensive operational platform based on international best practice, create new position of Chief Operating Officer .
- Positions to be filled by world class candidates through open competition, to embed international best practice.
- Right human resource and compensation policies to ensure right people in right positions



## Recommendations to Enhance Corporate Governance

- Enhance experience in Board of change management, project management and banking-related risk management, from new appointments as INED's
- To improve efficiency and communication between Board and Management, consider need and feasibility of an Executive Committee, and appointment of more executive directors. Chief Executive to submit report to Board within 6 months.
- Board's Risk Management Committee to become responsible for compliance
- Chief Executive to lead assessment of KPMG's other suggestions and recommendations to improve Board's operational efficiency and effectiveness





## IT Projects in Progress

- Credit Risk System (CRS)
- Credit Workflow System (CWS)
- Enterprise Performance Management (EPM)
- Enterprise Data Warehouse (EDW)



## Conclusion: Reaching for Higher Standards

- Risk management values, principles and best practices already adopted need to be embedded further, in order to become a world-class international bank
- Key issue is a “people” issue. Critical priorities in effort to achieve best international practices:
  - appointment of proposed COO, Director of Risk and replacement of Deputy Chief Executive of Corporate Banking
  - Human resource and remuneration policies to ensure that Bank has and can retain right people in the right positions
  - Board leadership and full support to Chief Executive
- Episode, and its intense review, will help Bank, through joint effort of Board, management and staff, emerge as a stronger institution ready to reach for higher standards



## Forward-Looking Statement Disclaimer

**This presentation and subsequent discussions may contain forward-looking statements that involve risks and uncertainties. These statements are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may, will or may be expressed to be results of actions that may or are expected to occur in the future. You should not place undue reliance on these forward-looking statements, which reflect our belief only as of the date of this presentation. These forward-looking statements are based on our own information and on information from other sources we believe to be reliable. Our actual results may be materially less favorable than those expressed or implied by these forward-looking statements which could depress the market price of our ADSs and local shares.**